## Front Pages

# Athens Journal of Business & Economics

*Published by the Athens Institute for Education and Research (ATINER)*

**\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\***

*ATINER is an Athens-based World Association of Academics and Researchers based in Athens. ATINER is an independent and non-profit Association with a Mission to become a forum where Academics and Researchers from all over the world can meet in Athens, exchange ideas on their research and discuss future developments in their disciplines, as well as engage with professionals from other fields. Athens was chosen because of its long history of academic gatherings, which go back thousands of years to Plato's Academy and Aristotle's Lyceum. Both these historic places are within walking distance from ATINER's downtown offices. Since antiquity, Athens was an open city. In the words of Pericles, Athens"…is open to the world, we never expel a foreigner from learning or seeing". ("Pericles' Funeral Oration", in Thucydides, The History of the Peloponnesian War). It is ATINER's mission to revive the glory of Ancient Athens by inviting the World Academic Community to the city, to learn from each other in an environment of freedom and respect for other people's opinions and beliefs. After all, the free expression of one's opinion formed the basis for the development of democracy, and Athens was its cradle. As it turned out, the Golden Age of Athens was in fact, the Golden Age of the Western Civilization. Education and (Re)searching for the 'truth' are the pillars of any free (democratic) society. This is the reason why Education and Research are the two core words in ATINER's name.*
\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

The **Athens Journal of Business & Economics (AJBE)** is an Open Access quarterly double-blind peer reviewed journal and considers papers from all areas of business and economics, including papers on accounting, finance, management, marketing, organization etc. The AJBE welcomes theoretical (including methodological), empirical (including case-studies) and policy (i.e., descriptive and non-analytical) papers. Given the mission of ATINER, the AJBE will also consider papers which emphasize country-related studies both at the business and the national economy level as well as economic history, history of economic thought and philosophy of economics papers. All papers are subject to ATINER's Publication Ethical Policy and Statement.

# Athens Journal of Business & Economics
# Editorial and Reviewers' Board

# President's Message

All ATINER's publications including its e-journals are open access without any costs (submission, processing, publishing, open access paid by authors, open access paid by readers etc.) and is independent of presentations at any of the many small events (conferences, symposiums, forums, colloquiums, courses, roundtable discussions) organized by ATINER throughout the year and entail significant costs of participating. The intellectual property rights of the submitting papers remain with the author. Before you submit, please make sure your paper meets the basic academic standards, which includes proper English. Some articles will be selected from the numerous papers that have been presented at the various annual international academic conferences organized by the different divisions and units of the Athens Institute for Education and Research. The plethora of papers presented every year will enable the editorial board of each journal to select the best, and in so doing produce a top-quality academic journal. In addition to papers presented, ATINER will encourage the independent submission of papers to be evaluated for publication.

The current issue is the first of the ninth volume of the *Athens Journal of Business & Economics (AJBE), published by the Business & Law Division and the Economics Unit of ATINER.*

Gregory T. Papanikos
President
ATINER

# Athens Institute for Education and Research
## *A World Association of Academics and Researchers*

### 18thAnnual International Symposium on Economic Theory, Policy and Applications 26-29 June 2023, Athens, Greece

The Economics Unit of ATINER, will hold its **17thAnnual International Symposium on Economic Theory, Policy and Applications, 26-29 June 2023, Athens, Greece** sponsored by the Athens Journal of Business & Economics. The aim of the conference is to bring together academics and researchers of all areas of economics and other related disciplines. You may participate as panel organizer, presenter of one paper, chair a session or observer. Please submit a proposal using the form available (https://www.atiner.gr/2023/FORM-ECO.doc).

### Academic Members Responsible for the Conference

- Dr. Gregory T. Papanikos, President, ATINER & Honorary Professor, University of Stirling, UK.
- Dr. Henry Thompson, Head, Economics Unit, ATINER & Emeritus Professor, Auburn University, USA.
- Dr. Chris Sakellariou, Head, Economics Unit & Associate Professor of Economics, Nanyang Technological University, Singapore.

### Important Dates

- Abstract Submission: **28 March 2023**
- Acceptance of Abstract: 4 Weeks after Submission
- Submission of Paper: **29 May 2023**

### Social and Educational Program

The Social Program Emphasizes the Educational Aspect of the Academic Meetings of Atiner.

- Greek Night Entertainment (This is the official dinner of the conference)
- Athens Sightseeing: Old and New-An Educational Urban Walk
- Social Dinner
- Mycenae Visit
- Exploration of the Aegean Islands
- Delphi Visit
- Ancient Corinth and Cape Sounion

### Conference Fees

Conference fees vary from 400€ to 2000€
Details can be found at: https://www.atiner.gr/fees

# Athens Institute for Education and Research
## *A World Association of Academics and Researchers*

---

### 10th Annual International Conference on Business, Law & Economics
### 1-4 May 2023, Athens, Greece

The Business, Economics and Law Division (BLRD) of ATINER is organizing its **10th Annual International Conference on Business, Law & Economics, 1-4 May 2023, Athens, Greece,** sponsored by the Athens Journal of Business & Economics and the Athens Journal of Law. In the past, the six units of BLRD have organized more than 50 annual international conferences on accounting, finance, management, marketing, law and economics. This annual international conference offers an opportunity for cross disciplinary presentations on all aspects of business, law and economics. This annual international conference offers an opportunity for cross disciplinary presentations on all aspects of business, law and economics. Please submit an abstract (email only) to: atiner@atiner.gr, using the abstract submission form (https://www.atiner.gr/2023/FORM-BLE.doc)

---

### Important Dates
- Abstract Submission: **31 January 2023**
- Acceptance of Abstract: 4 Weeks after Submission
- Submission of Paper: **3 April 2023**

---

### Academic Member Responsible for the Conference
- **Dr. Gregory T. Papanikos**, President, ATINER.
- **Dr. Michael P. Malloy**, Director, Business, Economics and Law Division, ATINER & Distinguished Professor & Scholar, University of the Pacific, USA.
- **Dr. David A. Frenkel**, LL.D., Head, Law Research Unit, ATINER & Emeritus Professor, Law Area, Guilford Glazer Faculty of Business and Management, Ben-Gurion University of the Negev, Beer-Sheva, Israel.

---

### Social and Educational Program
The Social Program Emphasizes the Educational Aspect of the Academic Meetings of Atiner.
- Greek Night Entertainment (This is the official dinner of the conference)
- Athens Sightseeing: Old and New-An Educational Urban Walk
- Social Dinner
- Mycenae Visit
- Exploration of the Aegean Islands
- Delphi Visit
- Ancient Corinth and Cape Sounion
  More information can be found here: https://www.atiner.gr/social-program

---

### Conference Fees
Conference fees vary from 400€ to 2000€
Details can be found at: https://www.atiner.gr/fees

# Macroeconomics and the Construction Sector: Evidence from Portugal

*By Leonida Correia[*] & Maria João Ribeiro[±]*

*Construction activity is considered one of the primary indicators of a country's global economic evolution. This article aims to study the cyclical fluctuations of construction production and its relationship with the aggregate business cycles in Portugal over the last six decades. We started by analysing the evolution of an indicator set inherent to the functioning of the construction sector. Then, we extracted the construction output cycles and examined their association with the Portuguese business cycles since the 1960s, focusing on crisis periods. The results demonstrate that the construction sector contributes significantly to the Portuguese economy and the cyclical construction activity fluctuations correlate strongly with the aggregate fluctuations, albeit with greater instability. Finally, we discuss the current problems the construction sector faces and the COVID-19 pandemic effects.*

**Keywords:** *construction sector, business cycles, volatility, synchronisation, crisis*

## Introduction

The construction sector mobilises significant material and human resources, making it a human activity with substantial economic and social importance. In many countries, construction output is considered a primary indicator of global economic activity evolution, usually accounting for 5-10% of the overall gross domestic product (GDP) (Park et al. 2012). According to the European Construction Sector Observatory (ECSO), the broad construction sector has a vital role in the European Union (EU) economy, representing approximately 9% of the GDP, 18 million direct jobs and 3 million enterprises[1].

The construction industry is also a vital component of national output in Portugal. This sector provides the private and public infrastructures with the products needed for various activities and services, such as trade and other industries (Baganha et al. 2002). It is a sector with specificities that distinguish it from other sectors, including an extensive value chain and vast network of inputs. Consequently, the construction industry provides positive externalities to other activities and generates significant multiplier effects (Nunes 2001).

Construction output is an integral part of national output, and it is possible that, in most cases, a shock in construction output will eventually affect the

aggregate economy (Tse and Ganesan 1997). On the other hand, it is well accepted that construction activity is procyclical but more volatile than the aggregate economy, experiencing more pronounced expansions in growth phases and deeper recessions during periods of crisis (Baganha et al. 2002, Dell'Ariccia et al. 2020). The procyclicality and pronounced volatility of construction output imply that crises could negatively influence this sector. This effect was apparent in the Portuguese construction market during the last global financial crisis, which spread to the EU after 2008.

Notwithstanding the interest of this issue, few empirical studies have investigated the cyclical associations between the construction sector and the aggregate economy. Specifically, to the authors' knowledge, no published empirical study has explicitly discussed the cyclicality of the Portuguese construction sector. In this sense, the main objective of this study is to analyse the cyclical fluctuations of construction production and evaluate their degree of association with the aggregate business cycles in Portugal over the last six decades.

To achieve this goal, after reviewing the relevant literature, we employed a set of indicators inherent to construction activity that allowed us to make a succinct characterisation of the construction industry and visualise the sector's evolution. We then used statistical methods to extract the cycles and calculate the standard deviations to measure the cyclical volatility and correlation coefficients to investigate the contemporaneous and lead-lag associations between the cycles of construction output and aggregate output business cycles, paying particular attention to the periods of economic crisis. After analysing the volatility and correlation results, we expose some concluding remarks, including a discussion about the construction sector' problems, emphasising the effects of the current COVID-19 pandemic.

## Literature Review

The construction sector accounts for a significant proportion of most countries' GDP. It includes a combination of diverse types of activities and creates the facilities needed for the production and trade of several sectors. Given its close inter-linkages with other sectors, it is well recognised that the construction industry has a relevant impact on the output and employment of the entire economy.

The relationship between construction output and economic growth has received significant attention from researchers. The majority of the studies reported a positive association between GDP growth and various construction output measures (Hosein and Lewis 2005, Sun et al. 2013). Since the construction industry involves the supply of capital infrastructure, a critical factor for long term growth, it can positively impact economic growth. It also generates substantial employment opportunities, creating further investment in other sectors of the economy through a multiplier effect. Since construction is labour-intensive, large segments of the nation's work force are active when the sector is favourable. On the contrary, given the association mentioned above, weakened construction activity would negatively impact economic activity and employment. Thus,

construction is often considered a barometer of economic conditions (Sun et al. 2013), but it does not necessarily mean that it drives economic growth. Some authors (Yiu et al. 2004, Lopes et al. 2011) reported the contrary, this is, that construction activity follows economic growth.

Construction activity is also considered one of the primary sources of development and modernisation processes. The complexities of the relationship between a country's level of construction activity and its state of development have been the subject of investigation over the years (Ruddock and Lopes 2006). Given the enormous backward and forward linkages with the economy, it has been concluded that there is a close correlation between the state of development of the construction sector and the social and economic development of a country (Luchko et al. 2020). Moreover, it is agreed that construction activity should be regarded as a significant component of investment programmes, particularly for developing economies where per capita incomes are low.

The relationship between construction, economic growth and development can be analysed in the context of the role of investment in economic growth[2]. As Papanikos (1988) stated for Greece, this relationship is not necessarily regarded as positive in the literature. In theory, we can have two diametrical explanations for the role of investment in construction, with significant implications for the design of government investment policies. For example, on the one hand, investment in construction may restrict the funds available for other more productive investments, such as machinery and equipment, not promoting economic growth and development (Petras 1984). On the other hand, investment in construction may increase other types of investment, including investment in industry, promoting economic growth and industrial development (Skouras 1985). By using the investment data of Greece for the postwar period, Papanikos tested both assertions empirically and found evidence in favour of Skouras's argument, that is, the investment in construction does not decrease the funds available for other types of investment, such as for industry, and that has played a significant role in Greece's economic development.

Whereas the evidence for the relationship between economic growth and development is substantial, literature exploring the cyclical development of the construction sector is scarce. This observation is not surprising if we consider that the concept of business cycles is a relatively modern phenomenon. Specifically, for the construction sector the best-known cycle was identified in 1930 by Simon Kuznets. The Kuznets cycle, a long swing of economic activity lasting 15-20 years, is attributed to housing and building construction investment. Over time, some authors have examined if the economic evolution of countries is well described by Kuznets' construction cycle. For example, Fenoaltea (1988) found that construction in Italy displayed clear cyclical movements, following the characteristic Kuznets cycle.

---

[2]As demonstrated since Solow (1956), the economic growth results from the increase of capital and labour inputs, and technological progress as measured by total factor productivity (TFP). There have been quite numerous studies on TFP of construction industry, but it goes beyond the scope of this study.

Other authors showed that most of the cyclical patterns in construction are similar to the business-cycle characteristics of investment in the macro-economic literature. Stock and Watson (1998) performed a comprehensive study of numerous post-war US time series and found that investment in structure, especially residential structure, is highly volatile and procyclical. The same authors also demonstrated that employment in construction is more than twice as volatile as the cyclical component of real GDP. Sun et al. (2013) also found that construction is highly procyclical using a dataset for 23 advanced economies (including Portugal) and 25 emerging economies from 1990-2011. The authors based this analysis on the construction share dynamics, or in other words, the added value of the construction industry as a share of the GDP.

It is also agreed that a significant reason for the procyclical nature of construction activity is its sensitivity to credit conditions. This result is not unexpected since construction activity is a type of investment and, as demonstrated by literature, is typically driven by factors such as general economic conditions, stock market performance, and credit conditions (Sun et al. 2013). Dell'Ariccia et al. (2020), using industry-level data on output and employment for 55 countries between 1970 and 2014, investigated which industries benefit and suffer during credit booms. They reported that sectors that are less tradable, more labour-intensive, and more dependent on external finance are more sensitive to the credit cycle. In particular, construction and finance (a distant second) were identified as the sectors that benefited the most during booms and experienced a more severe slowdown during busts. The authors confirmed the procyclicality of the construction sector and highlighted that it is the industry that displays most robust acceleration/deceleration in both value-added and employment growth during booms/busts. Moreover, they demonstrated that construction is the only sector consistently displaying significant asymmetry between good and bad booms.

Given such characteristics (e.g., procyclicality and significant construction activity volatility), it is expected that economic recessions will have adverse effects on this sector worldwide. This proposal was apparent in the Portuguese construction sector during the last global financial crisis, which spread to the EU after 2008, strongly impacting the Portuguese economy. Besides the 2008 Great Recession, Portugal has experienced a sovereign debt crisis since 2011 that required subsequent fiscal consolidation measures in the form of Economic and Financial Assistance Programmes provided by the International Monetary Fund, European Commission and European Central Bank from 2011-2014 (Correia 2016, Correia and Martins 2019). As a result, Portugal had to apply several austerity measures, which led to a reduction in public infrastructure and private investment due to the increasing difficulty of getting credit for investors and the general public. Since the Portuguese construction sector is strongly dependent on access to financing, it has declined significantly during this crisis, relative to other European countries and in absolute terms (Reis 2013). This reduction led to severe unemployment and bankruptcy of many construction firms, particularly those excessively dependent on domestic markets (Cruz et al. 2019).

Despite the undeniable influence of the crisis, some authors point out that the decrease in construction activity occurred before the economic crisis. According to

Reis (2013), the explanation for the Portugal's slump in growth was the misallocation of substantial capital inflows received after 2000 through an underdeveloped banking sector. The argument is that these European funds, received after Portugal joined the European Monetary Union in 1999, have financed fewer productive firms in the nontradable sector, drawing resources away from more productive tradable firms, thus generating a slump in productivity and growth. The evolution in nontradables was uneven across sectors, with the expansion in employment and value added concentrated in wholesale and retail trade and community and other services (e.g., education, health care, and social work), while construction intensely contracted. This vision is shared by Cruz et al. (2019), who stated that deserting large infrastructure development projects has led to a fall in the revenue of most enterprises in a sector that is highly dependent on public infrastructure.

The relevance of European funds for the Portuguese economy dates back to the country joining the European Economic Community (EEC) in 1986. Portugal's construction sector benefited from substantial funds to build roads, schools, transports, hospitals, water and energy supply systems and other infrastructure to overcome its infrastructure gap during the 1990s. Thus, the construction sector and the whole economy experienced an excellent phase in this decade. However, due to several factors, including the excess subcontracting, low degree of specialisation and know-how of the workers and small internationalisation of firms, in the early 2000s, the sector was confronted with difficulties that became worse after the 2008 crisis (Cruz et al. 2019). As the present study demonstrates in the next section, based on a succinct analysis of some relevant indicators, it was in this overall context of financial, economic and sovereign debt crises that the Portuguese construction sector declined sharply, in terms of employment, the number of enterprises, gross value added and respective share in GDP from 2008-2014.

## The Portuguese Construction Sector: Analysis of Some Relevant Indicators

To provide a succinct characterisation of the evolution of the construction sector in Portugal, we analysed some relevant indicators, including enterprises, employment and GDP percentages. The National Institute of Statistics (INE - Instituto Nacional de Estatística), published by the Database of Contemporary Portugal (PORDATA - Base de Dados Portugal Contemporâneo), was the primary source of the original data used in this section[3]. The definition adopted throughout the compilation of the data corresponds to a narrow definition of the construction sector, which refers to sector "F – Construction" as defined by the most recent revision, Rev.2, of the NACE - European Classification of Economic Activities (European Commission 2008)[4]. According to NACE-Rev.2, the construction sector includes: developing and constructing residential and non-residential

---

[3]https://www.pordata.pt/en/Portugal, accessed in May 2021.
[4]NACE is the acronym for "Nomenclature statistique des activités économiques dans la Communauté européenne".

buildings, roads, railways, utility projects, demolition and site preparation, electrical plumbing, and other installation and specialised construction activities.

*Enterprises*

As mentioned in the previous section, after acception to the EEC in 1986, Portugal received substantial European funds that contributed to a remarkable transformation in the construction sector over the last decades. As shown in Figure 1, the number of enterprises in the Portuguese construction sector more than quadruplicated from 1990-2019. However, the evolution over time was not characterised by a continuous growth trend. The sector experienced overall growth (479%) from 1990 to 2007, with more intense growth observed from 2001-2004, reaching a maximum of 128,832 firms in 2004. According to Cruz et al. (2019), the boom during the 1990s was not structured, meaning there was an evident fragmentation in the existing productive structure, leading to a high degree of subcontracting in the construction sector.

The number of firms was drastically reduced from 2007 to 2014 due to the global crisis that spread to Europe and strongly affected the Portuguese economy. In fact, in 2014, there were only 77,844 Portuguese construction firms, 38% below the 2007 level. As the country's economic situation recovered after 2014, many enterprises experienced gradual growth, reaching 90,430 firms in 2019.

**Figure 1.** *Number of Enterprises in the Portuguese Construction Sector, 1990-2019*
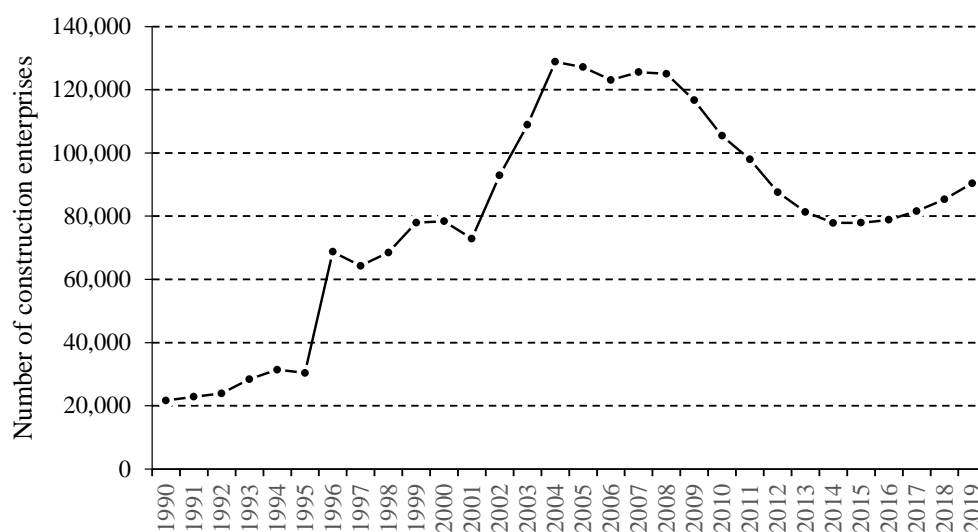


*Source:* INE/PORDATA Database [Accessed May 2021].

Explicitly analysing the evolution between 2008 and 2014 (Figure 2), corresponding to the financial and economic crisis period, we observed that the crisis significantly impacted the number of construction enterprises, as evidenced by a 38% decrease. As pointed out by the literature review above, there were severe difficulties in obtaining credit in the Portuguese economy during the crisis. Dell'Ariccia et al. (2020) demonstrated that this strongly affected the construction

sector, which is particularly sensitive to credit conditions. Thus, this reduction in the number of construction firms was primarily due to difficulties in obtaining credit by the public and private investors. Furthermore, Delloite (2018) showed that larger construction companies acquired small and medium-sized firms, expanding services or realising vertical integration.

**Figure 2.** *Number of Enterprises in Portugal, Total and the Construction Sector, 2008, 2014 and 2019*
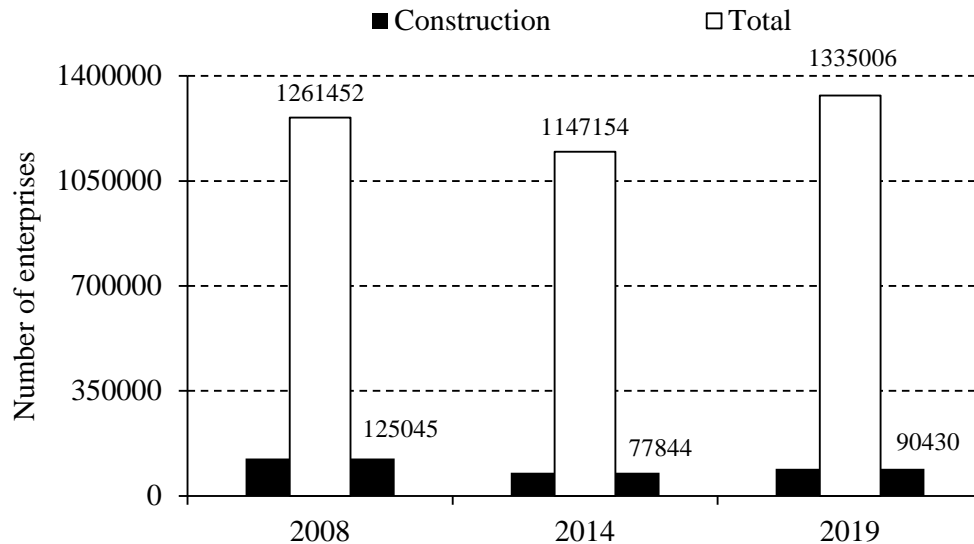


*Source:* INE/PORDATA Database [Accessed May 2021]

As the aggregate economic activity recovered in 2014, the total number of firms and the construction sector grew by 16% from 2014-2019 (Figure 2). However, these numbers failed to reach pre-crisis levels.

The Portuguese construction sector is mainly composed of small and medium-sized enterprises (SMEs). According to the most recent numbers by European Commission (2020), SMEs employed 87% of the total work force in the Portuguese broad construction sector in 2017, showing their importance in this sector's employment. Comparing the average size of construction sector enterprises (i.e., personnel) and the entire economy, we see that this sector follows the evolution of the entire economy over time (Figure 3). In other words, as the average size of firms in Portugal goes up or down, the same occurs in the construction sector.

**Figure 3.** *Average Size of Enterprises in Portugal, Total and the Construction Sector, 1990-2019*
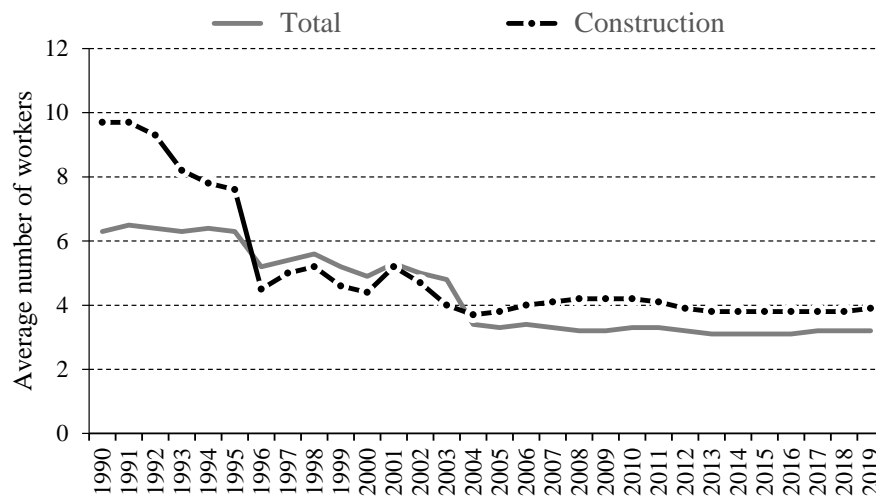
From 1990-1996 and 2001-2004, the construction sector's average enterprise size was significantly attenuated from 9.7 to 4.5 and 5.2 to 3.7 workers on average, respectively. After 2004, the average size of enterprises remained constant, with no significant changes (about four workers) and slightly above the average size nationally (about three workers). Thus, this feature was not affected during the crisis period.

*Employment*

Construction is a nontradable and labour-intensive industry (Dell'Ariccia et al. 2020), and Portugal is no exception. Figure 4 shows the evolution of the number of workers employed in the construction sector and the total number of workers employed in Portugal from 1990-2019.

**Figure 4.** *Employees in Portugal, Total and the Construction Sector, 1990-2019*
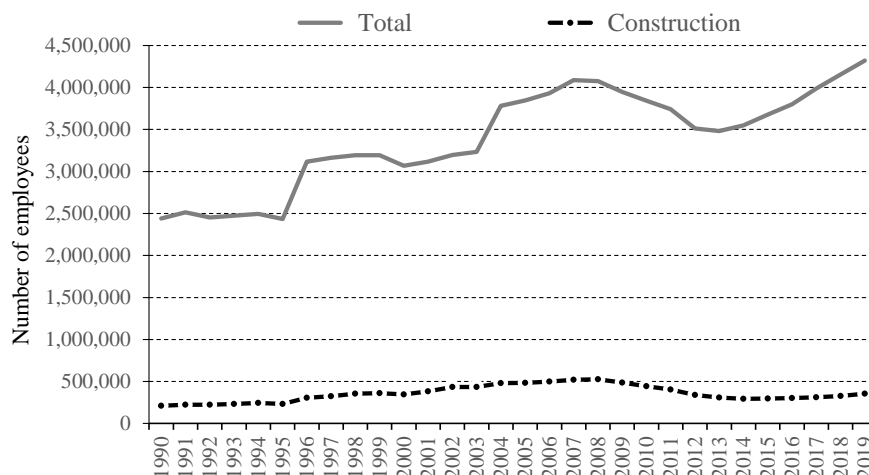
In line with the overall economy, construction employment continued to grow until the 2008 Great Recession. As explained above in the previous section, during the crisis, the lack of funds, drop in prices and reduced work for construction enterprises resulted in many firms closing and laying off employees, consequently reducing construction employment by 44% over the 2008-2014 period. This observed decrease was much more pronounced than at the national level, where the total number of employees decreased by only 13% in the same period. After 2015, construction employment improved after the aggregate economic recuperation and grew by 19% up to 2019 with notable growth in 2019 (8%). A similar rise in total employment growth (18%) was also observed.

Therefore, and contrary to what happened with total employment, the growth from 2015-2019 was not robust enough to re-establish the number of workers employed in the construction sector in 2008 (525.5 thousand and 353.4 thousand in 2008 and 2019, respectively) or back to the levels reported two decades previously.

*Share in GDP*

Next, we calculated the share of Gross Value Added (GVA) of the construction sector according to the total GVA[5], at 2016 constant prices in millions of euros, to analyse the importance of the construction sector to the Portuguese GDP. As shown in Figure 5, plotting these variables allows us to visualise the evolution of the construction output from 1960-2019.

**Figure 5.** *Portuguese Construction Output, Millions of Euros, 1960-2019*
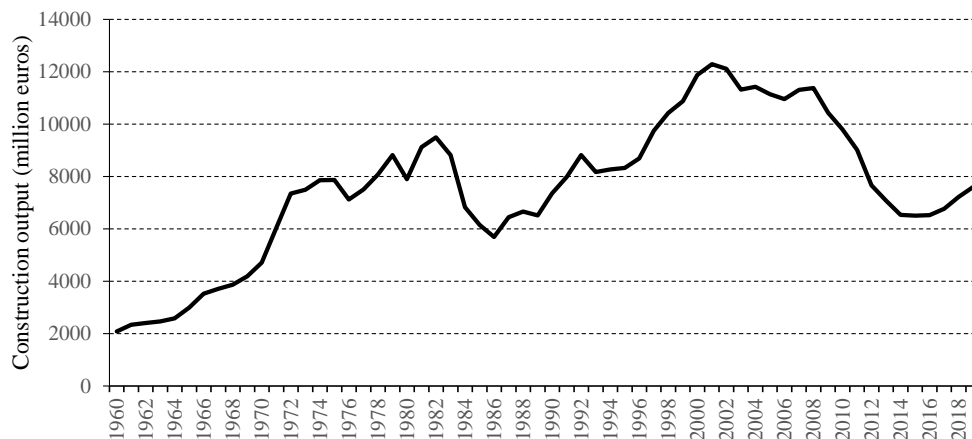


*Source:* INE/PORDATA Database [Accessed May 2021]

Between 1960 and 2002, construction production tended to grow, despite a significant reduction during the 1983-1986 period. After the entrance of Portugal into the EEC in 1986, as previously mentioned, the country benefited from substantial structural funds, that promoted infrastructure development and

---

[5]We computed the share of the GVA of narrow construction sector in the total GVA at basic prices (GDP at basic prices) and not at market prices (GDP at market prices) since market prices also includes taxes and excludes subsidies.

stimulated construction sector development, especially during the 1990s. With the deepening of the European integration process and incorporation of new countries into the EU, Portuguese construction enterprises broadened their horizons, expanding within the national territory and throughout EU member states. However, this evolution progressively decreased up to 2008. Over the 2008-2014 period, the Portuguese construction sector experienced a drastic decline in construction activity, falling by about 43% and around a 15% decrease in 2012. However, the construction GVA started to evolve positively in 2016, growing by 0.3%. From 2016 until 2019, as the Portuguese economy improved, the sector also showed evidence of a growth phase due to the increased demand for construction-related services. In 2019, the growth rate was around 5%.

As shown in Figure 6, the Portuguese share of the construction GVA in the GDP oscillated over time, as was observed for other European countries (Sun et al. 2013).

**Figure 6.** *Share of the Portuguese Construction Output in GDP (% of Total), 1960-2019*
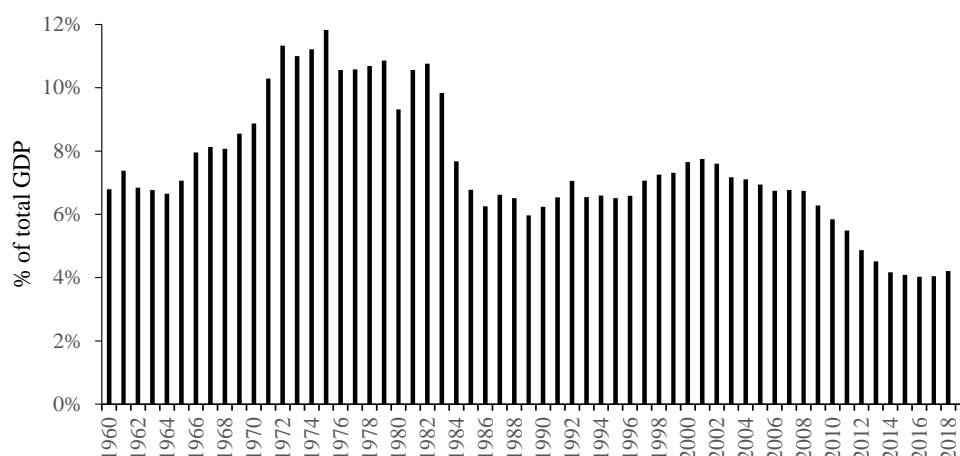


*Source:* INE/PORDATA Database [Accessed May 2021].

There was a positive evolution in the share between 1960 and 1975, after which it fell from 12% in 1975 to 7% in 1996. The observed increase in the construction sector's share of the GDP during the last half of the 1990s was mainly due to significant growth in public investment and demand for construction for large-scale projects, such as EXPO 98. After obtaining an 8% share of the GDP at the beginning of the 2000s, the construction sector progressively contributed less to the GDP, a decrease that became more accentuated after 2008. As mentioned previously, this behaviour was driven mainly by the financial, economic and sovereign debt crises that affected the Portuguese economy between 2008 and 2014 and, albeit to a lesser extent, the development of other sectors. According to the most recent figures in 2019, the construction output was about 4% of the total GDP.

**Cycles of the Construction Sector: Volatility and Synchronisation with the Portuguese Business Cycles**

This section analyses the cyclical fluctuations of the construction sector over the 1960-2019 period and compares the volatility and the co-movements with the Portuguese business cycles.

*Data and Methods*

The annual time series of the GVA of this sector to measure the construction production cycles and the total national GVA (GDP at basic prices) was used to obtain the Portuguese business cycles, both at 2016 constant prices, in millions of euros in the 1960-2019 period. Data are obtained from the PORDATA database (pordata.pt/en/Portugal). Table A.1 in the Appendix contains the descriptive statistics for the time series used.

We used two of the more popular trend-cycle decompositions methods to extract the cyclical component of both variables: The Hodrick-Prescott (HP) filter (Hodrick and Prescott 1997) and the Baxter-King band-pass (BK) filter (Baxter and King 1999). As the results obtained are qualitatively similar and because the BK filter is preferable from a theoretical point of view (Stock and Watson 1998), for simplicity, we will only present the outputs generated using the BK filter[6]. This filter was configured to extract cycles with a periodicity of between 1.5 and 8 years, corresponding to a typical business cycle duration[7].

The standard deviation of construction production and aggregate business cycles was utilised to evaluate volatility. We assessed the degree of synchronisation between these variables by calculating Spearman correlation coefficients, contemporaneous, with leads and lags. We choose to compute Spearman's rank correlation because it has the advantage of being insensitive to the possible asymmetry of the distribution of the variables or the presence of outliers, thus not requiring the data to be normally distributed.

Spearman's rank correlation coefficients indicate the strength of association between two variables, with values ranging from -1 to +1. Strong positive correlation values are indicative of the procyclical behaviour between the two cycles. On the other hand, negative correlation values indicate counter-cyclical behaviour. Alternatively, correlation values close to zero point to acyclical behaviour (Sørensen and Whitta-Jacobsen 2010).

More specifically, we computed the contemporaneous bivariate correlations and the lagged and forward two-year correlations of the construction GVA cycle with the Portuguese business cycles (as measured by GDP). Among those five correlations, we chose the highest figure (maximum correlation). Hence, we defined corr $(y_{t+i}, x_t)$ as the correlation between the construction production cycle $(y_{t+i})$, with $-2 \leq i \leq 2$, and the business cycle $(x_t)$. If the maximum correlation

---

[6]For the HP filter, we set $\lambda = 6.25$ which is the customary value for annual data (Ravn and Uhlig 2002). The results obtained from the application of HP filter are available upon request.
[7]To obtain the cycles, we worked with the natural logarithm of both variables because changes in the logarithm approximate its percentage changes.

obtained is i = 0, the cycles are contemporaneously correlated, a negative i value means that the construction production cycle leads the aggregate business cycle by i years and a positive value for i signifies that the construction production cycle lags the aggregate business cycle by i years.

The whole period (1960-2019) was considered and, to obtain a more detailed analysis, we divided the total sample into four identical sub-periods: (1) 1960-1974, (2) 1975-1989, (3) 1990-2004 and (4) 2005-2019. Some of the relevant historical milestones for the Portuguese economy that occurred in these sub-periods include: (a) the time before the April 25th Revolution (sub-period 1960–1974), (b) the opening of the economy to the outside world that follows the April revolution and the process of preparing for Portugal's entrance into the EEC in 1986 (sub-period 1975-1989), (c) the inception in Economic Monetary Union in 1999 and the euro circulation in 2002 (sub-period 1990-2004) and (d) Portugal being struck by the financial and economic crisis in 2008, the sovereign debt crisis in 2011 and the presence of the Troika from 2011-2014 (sub-period 2005-2019).

*Empirical Results*

In general, visual inspection of the graphs of the cyclical GDP components and construction production (Figure 7) reveals a positive relationship between the two variables in the 1960-2019 period. This result suggests that the Portuguese construction industry exhibits procyclical behaviour. Concerning the construction output cycles, the most positive point (i.e., the highest peak, marking the transition from a good to bad phase) was in 1982, while the most negative point (i.e., the lowest valley marking a transition from a bad to good phase) was in 1986, coinciding with Portugal's entry into the EEC. Notably, the oscillations of the construction production tend to have greater amplitudes (ranging from -12% to 12%) than of the Portuguese GDP (ranging from -4% to 4%), demonstrating that the construction sector is more volatile than the aggregate economy, a result consistent with previous studies. We also observed lower dispersion in these amplitude ranges after the 1990s.

**Figure 7.** *Construction and Business Cycles in Portugal, BK Filtered, 1960-2019 (%)*
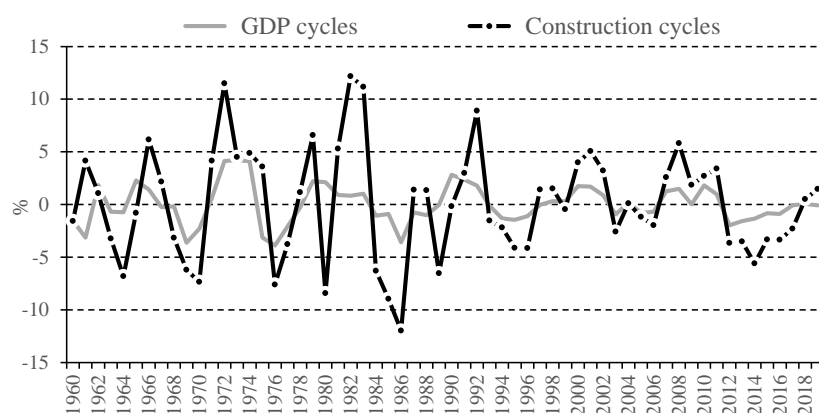


*Source:* authors' calculations.

The standard deviation results in Table 1 reveal that the construction activity cycles exhibit much higher volatility than the national level for the entire period and the four sub-periods analysed. Concerning the entire period (i.e., 1960-2019), the relative standard deviation (standard deviation of construction cycles relative to standard deviation of GDP cycles) is 2.8, corresponding to amplitude fluctuations about three times greater than the GDP. The results across periods show that the cyclical volatility of construction output is about two-fold greater than that of the national output in the 1960-1974 sub-period and almost four-fold greater from 1975-1989. A significant reduction in cyclical volatility was detected after the 1990s in the construction and aggregate activities, especially during the 2005-2019 sub-period. This data suggests that construction activity became more stabilised after the 1990s; however, the relative standard deviation remained high (near 3).

**Table 1.** *Standard Deviation of the GDP and the Construction Cycles in Portugal (%)*

|  | **Whole period** | **Sub-periods** | | | |
|---|---|---|---|---|---|
|  | **1960-2019** | **1960-1974** | **1975-1989** | **1990-2004** | **2005-2019** |
| GDP cycles | **1.84** | 2.56 | 1.92 | 1.37 | 1.15 |
| Construction cycles | **5.17** | 5.42 | 7.58 | 3.61 | 3.30 |

Source: authors' calculations.

At first glance, the data presented in Figure 7 indicate that the construction GVA displays a procyclical behaviour, meaning that as economic activity increases, this sector also improves and vice-versa. However, the graphical representation does not quantify the degree of association between the cycles of the two variables or identify the possible existence of leads or lags. Therefore, we calculated the correlation coefficients for the entire period and the four sub-periods (Table 2).

**Table 2.** *Correlation Coefficients for the Whole Sample and the Sub-Periods*

|  | **-2** | **-1** | **0** | **1** | **2** |
|---|---|---|---|---|---|
| **1960-2019** | -0.09 | 0.30** | **0.65***** | 0.49*** | 0.11 |
| (1)       1960-1974 | -0.15 | 0.48* | **0.68***** | 0.49* | -0.19 |
| (2)       1975-1989 | -0.10 | 0.19 | **0.48*** | 0.24 | 0.22 |
| (3)       1990-2004 | -0.25 | 0.10 | **0.79***** | 0.58** | 0.26 |
| (4)       2005-2019 | 0.23 | 0.41 | **0.93***** | 0.70*** | 0.30 |

*Source:* authors' calculations.
Note: *, ** and *** indicates statistical significance at the 10%, 5% and 1% level.

Overall, the results support a procyclical behaviour of construction production for all the periods analysed. We did not detect annual leads or lags with the Portuguese business cycle. All the correlation coefficients are statistically significant, indicating strong or very strong degrees of association. Additionally, after the 1990s, the degree of association between the two cycles experienced a considerable increase, with the highest value being attained in the 2005-2019 last sub-period (0.9). Since the 2005-2019 sub-period is plagued by Portuguese

economic crises, starting in 2008, this almost perfect association between the construction and business cycles demonstrates that the construction sector reacts to crises like the overall economy. This observation may be related to the challenge of obtaining credit for construction-related activity under difficult financial circumstances.

## Concluding Remarks

The succinct characterisation of some indicators provided in this study for Portugal demonstrate relevant dynamics for the Portuguese construction sector after the 1990s, namely: (1) the number of enterprises had a systematic increase until 2007, suffering its most remarkable fall between 2008 and 2014, followed by a positive evolution; (2) the sector is mainly composed by SMEs and microenterprises; the average size decreased sharply until 2004 (from 10 to four workers), remaining relatively constant until 2019; (3) employment was gradually increased until the 2008 crisis, decreased sharply during the crisis period and then recovered and improved in parallel with the aggregate economic recuperation.

Another conclusion is the importance the construction sector has had on the national economy. The share of GDP throughout the period analysed (1960-2019) demonstrates that the construction sector greatly influences the Portuguese economy, consistently accounting for greater than 4% of the GDP. Its contribution to the national economy was significant even during the crisis in the 2008-2014 period. However, there has been a progressive loss of importance over time that was more accentuated after 2008.

Analysing the cyclical volatility of construction output in the last six decades (1960-2019), we observed more substantial amplitude fluctuations than in the national business cycle for the whole period and the four sub-periods considered. The calculation of correlations, leads and lags, both for the whole period and the four sub-periods, demonstrated that construction output had a procyclical behaviour, exhibiting a considerable degree of association with the national business cycles. Therefore, the positive and negative shocks that hit the Portuguese economy also pushed the construction sector in the same direction.

Overall, these results prove that, although construction output exhibits much greater instability, there was a strong association between cyclical fluctuations of construction and aggregate activities, in the past. For example, after the 2008 Great Recession, the behaviour suggests a similar reaction of the construction sector and overall economy in times of economic crisis. In this context, a question that naturally emerges is how the recent COVID-19 pandemic, which has highly constrained the Portuguese economy, has affected construction activity.

Official 2020 estimates indicate a 7.6% drop in the Portuguese GDP, above the 6.8% estimated for the euro area (Bank of Portugal 2021). Since the sanitary crisis due to COVID-19 has substantially decreased the purchasing power and investments, the construction sector is expected to experience an adverse reaction, considering its procyclicality. However, the construction sector's GVA increased by 3.2%, while its share in the total GVA remained practically unchanged at about

4%. Surprisingly, these figures point to an exceptionally resilient construction sector, a feature opposite to what was observed in previous recessions. According to the Bank of Portugal (2021), the dynamism of construction activity is due to the flow of new projects, primarily residential real estate and major infrastructure works, as long as containment measures do not suspend construction projects and there is a sustained international demand in the residential component. The European Commission (2018, 2020) emphasised the positive impact of government policies supported by EU funds, to explain this favourable evolution of construction sector demand. For example, the government launched initiatives for urban rehabilitation and revitalisation or investment in the energy, infrastructure, and environmental areas, thus stimulating construction activity.

Notwithstanding these positive signs, the Portuguese construction sector currently continues struggling with issues that constrain its expansion, including the small size of most enterprises, the lack of skilled workers in some areas (bricklayers and electricians), the low salaries as compared to other countries, a complex tax system and limited liquidity (European Commission 2020). Thus, at the moment, we only have a partial view of the impact of the COVID-19 pandemic on the construction sector. The full extent of this crisis remains to be seen since it is still characterised by great uncertainty. Moreover, concerning the long-term development of the construction sector, the challenge of sustainable development (economic, environmental and social) creates additional pressure on the digitalisation of the sector, increases of its productivity and reductions of its environmental impact (Cruz et al. 2019).

Finally, we have to point out that the importance of the construction sector justifies ongoing and future research using more data and apllying more sophisticated econometric methods to improve our understanding of this sector's dynamics. As longer time series become available, a straightforward application could employ vector autoregressive models to deeply analyse and shed more light on the importance of the construction sector's contribution to the business cycle of the Portuguese economy and to understand how the GDP reacts to shocks to the construction sector and for how long.

# References

Baganha MI, Marques, JC Góis P (2002) *O sector da construção civil e obras públicas em Portugal: 1990-2000* (The construction and public works sector in Portugal: 1990-2000). Oficina 173. Coimbra: Centro de Estudos Sociais.

Bank of Portugal (2021) *The Portuguese economy in 2020.* Economic Bulletin.

Baxter M, King R (1999) Measuring business cycles: approximate band-pass filters for economic time series. *The Review of Economics and Statistics* 81(4): 575–593.

Correia L (2016) The European crisis: repercussions on the Portuguese economy. *Athens Journal of Mediterranean Studie*s 2(2): 129–144.

Correia L, Martins P (2019) The European crisis: analysis of the macroeconomic imbalances in the rescued euro area countries. *Journal of International Studies* 12(2): 22–45.

Cruz CO, Gaspar P, Brito J (2019) On the concept of sustainable sustainability: an application to the Portuguese construction sector. *Journal of Building Engineering* 25(1): 100836.

Dell'Ariccia G, Ebrahimy E, Igan D, Puy D (2020) *Discerning good from bad credit booms: the role of construction.* IMF Staff Discussion Note SDN/20/02. International Monetary Fund.

Deloitte (2018) *European construction monitor 2017-2018: a looming new construction crisis?* Real Estate Department. The Netherlands: Deloitte.

European Commission (2008) *NACE Rev. 2 – Statistical classification of economic activites in the European Community.* Luxembourg: Office for Official Publications of the European Communities.

European Commission (2018) *European construction sector observatory - Country profile Portugal.* European Commission.

European Commission (2020) *European construction sector observatory - Country profile Portugal.* European Commission.

Fenoaltea S (1988) International resource flows and construction movements in the Atlantic economy: The Kuznets cycle in Italy, 1861-1913. *The Journal of Economic History* 48(3): 605–637.

Hodrick R, Prescott E (1997) Postwar U.S. business cycles: an empirical investigation. *Journal of Money, Credit and Banking* 29(1): 1–16.

Hosein R, Lewis TM (2005) Quantifying the relationship between aggregate GDP and construction value added in a small petroleum rich economy – A case study of Trinidad and Tobago. *Construction Management and Economics* 23(2): 185–197.

Lopes J, Nunes A, Balsa C (2011) The long-run relationship between the construction sector and the national economy in Cape Verde. *International Journal of Strategic Property Management* 15(1): 48–59.

Luchko M, Szmitka S, Pynda Y, Kuts L (2020) Expert analysis and impact assessment of the construction sector enterprises on the economy: the experience of Ukraine. *Regional Science Inquiry* 12(2): 133–144.

Nunes C (2001) *Construção: o desafio da especialização* (Construction: the specialization challenge). GEPE - Gabinete de Estudos e Prospectiva Económica. Lisboa: Ministério da Economia.

Papanikos GT (1988) Investment in construction and postwar Greek economic growth: a correlation analysis. *Journal of the Hellenic Diaspora* 15(3–4): 75–86.

Park J, Ham S, Hong T (2012) Construction business cycle analysis using the regime switching model. *Journal of Management in Engineering* 28(4): 362–371.

Petras J (1984) Greek rentier capital: dynamic growth and industrial underdevelopment. *Journal of the Hellenic Diaspora* 11(2): 47–58.

Ravn MO, Uhlig H (2002) On adjusting the Hodrick-Prescott filter for the frequency of observations. *The Review of Economics and Statistics* 84(2): 371–380.

Reis R (2013) *The Portuguese slump and crash and the Euro crisis*. Brookings Papers on Economic Activity. Brookings Institution Press.

Ruddock L, Lopes J (2006) The construction sector and economic development: the Bon curve. *Construction Management and Economics* 24(7): 717–723.

Skouras A (1985) Rentier capital, industrial development, and the growth of the Greek economy in the Postwar period: a response to James Petras. *Journal of the Hellenic Diaspora* 12(1): 5–15.

Solow R (1956) A contribution to the theory of economic growth. *The Quarterly Journal of Economics* 70(1): 65–94.

Sørensen P, Whitta-Jacobsen H (2010) *Introducing advanced macroeconomics: growth and business cycles*. New York: McGraw-Hill Education.

Stock J, Watson M (1998) *Business cycle fluctuations in U. S. macroeconomics time series*. NBER 6528. National Bureau of Economic Research.

Sun Y, Mitra P, Simone A (2013) *The driving force behind the boom and bust in construction in Europe*. IMF Working Paper 13/181, International Monetary Fund.

Tse R, Ganesan S (1997) Causal relationship between construction flows and GDP: evidence from Hong Kong. *Construction, Management & Economics* 15(4): 371–376.

Yiu CY, Lu XH, Leung MY, Jin WX (2004) A longitudinal analysis on the relationship between construction output and GDP in Hong Kong. *Construction Management and Economics* 22(4): 339–345.

## Appendix

**Table A.1.** *Descriptive Statistics, 1960-2019, Millions of Euros*

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Aggregate production | 60 | 30562.40 | 176192.70 | 109451.31 | 47401.27 |
| Construction production | 60 | 2076.90 | 12282.70 | 7567.71 | 2709.65 |

*Source:* authors' calculations.

# Rapid Platform Exploration – A Sprint to Discover and Design Digital Platform Business Models

*By Patrick Brecht[\*], Jörn Faßbinder[±], Daniel Hendriks[°],*
*Anja Stroebele[♦] & Carsten H. Hahn[♠]*

*In recent years, the significance of digital platform business models has been increasing. This growth creates an increasing demand for tools that companies and startups can apply to find and develop sustainable platform business models. Today, various platform design tools are available to help companies and startups in the platform development. Previous research by Brecht et al. (2021) on the validation of platform business models has provided methods requiring, amongst others, a discovered and verified business model. However, there is a lack of research in establishing guidelines on how to reach this verified state. By applying the Google Sprint, a popular method to quickly generate insights into a variety of problems and enriching it with platform design tools, this research creates the Smart Platform Design Sprint (SPDS). The SPDS provides a solution to discover and obtain a verified business model. Its novelty lies in incurring the speed of the Google Sprint and incorporating the expertise of platform design tools. Through a series of expert interviews, the SPDS is improved, and its necessity verified. In future research, the SPDS awaits application in a practical setting showing its feasibility.*

**Keywords:** *platform design tools, business model, exploration, google sprint, smart platform experiment cycle*

## Introduction

In the last decades, radical technological progress led to the rise of innovative digital platform business models (Täuscher and Laudien 2018). While traditional pipeline business models focus on creating a product or service, digital platforms aim to orchestrate an infrastructure to facilitate interactions and exchange between external producers and consumers (Parker et al. 2016). The Interbrand Report 2020 highlighted the growing presence and relevance of digital platform business models: Apple, Amazon, Microsoft, and Google, four of the most valuable companies in the world, incorporate digital platforms in their business model (Interbrand 2020).

There are many reasons for the growing dominance of digital platform business models. For instance, they can be deployed quickly and are highly scalable due to

---

[\*]Research Associate, Karlsruhe University of Applied Sciences, Germany.
[±]Research Assistant, Karlsruhe University of Applied Sciences, Germany.
[°]Research Assistant, Karlsruhe University of Applied Sciences, Germany.
[♦]Research Assistant, Karlsruhe University of Applied Sciences, Germany.
[♠]Professor, Karlsruhe University of Applied Sciences, Germany.

the high amount of accessible potential customers over the internet. Additionally, offers and content can be individualized (Parker et al. 2016). On the downside, there is a high risk of platforms failing before reaching a relevant status (van Alstyne et al. 2016). In this light, previous research on the validation of platform business models suggested  investigating how digital platform business models can be designed and verified when no initial concepts exist. It is essential to generate and verify an initial concept before investing money to validate and scale the platform (Brecht et al. 2021). Practice has used frameworks such as the Google Sprint by the venture capital firm Google Ventures to prototype, test initial concepts, and verify them (Nashrulloh et al. 2019). The Google Sprint is a structured framework that can assist the user in generating an initial idea for a business model, including a first verification at the end of the five-day process (Knapp et al. 2016).

To date, the Google Sprint has been used and investigated in the scientific literature for specific purposes such as designing software products in startups, assessing innovation techniques in small and medium-sized companies, and in educational settings to enhance a user-centered design course for university students (Nashrulloh et al. 2019, Martins et al. 2020, Larusdottir et al. 2019). However, to the authors' knowledge, no research has been conducted to investigate the use of the Google Sprint for designing digital platform business models. This research builds on the Google Design Sprint 2.0 to create a new framework, which delivers a verified digital platform business model. Therefore, it focuses on the use case of designing a digital platform business model from scratch. It incorporates the unique features and characteristics of digital platform business models that differ in many aspects from the logic of traditional pipeline business models (Brecht et al. 2021). Consequently, this research is concerned with answering the following research question:

> RQ: To what extend can the Google Sprint be adjusted and used to discover and design digital platform business models?

This exploratory research proposes the Smart Platform Design Sprint for the specific use case of designing and verifying a digital platform business model. More precisely, the Google Design Sprint 2.0 is used as a basis and augmented with platform design tools. After designing the first iteration of the Smart Platform Design Sprint, it was verified through a series of expert interviews. With this feedback, the researchers created a new and improved version of the Smart Platform Design Sprint.

The qualitative research design generates actionable insights for practitioners to be more successful in designing a platform business model. Results suggest extending the Sprint to a five-day process to incorporate the activities more efficiently and to include an onboarding event to align the team's mindset. Furthermore, the moderator leading the team through the Sprint must be knowledgeable and skilled in transferring this knowledge to the team. Also, it is recommended to add the Minimal Viable Platform (MVP) Canvas to improve the categorization of platform assumptions. Lastly, reordering the sequence of specific activities improved the speed of the Smart Platform Design Sprint.

This paper is structured as follows. The next section explains relevant theoretical concepts to increase the understanding of the research context and derives the hypothesis of this research. The third section describes the methodology, including the research design choices, the expert interviews, and the qualitative content analysis. Section four present the results by showing how the Smart Platform Design Sprint is constructed and iteratively enriched with expert knowledge. In section five, a general discussion is given, followed by theoretical and practical implications. This section continues with insights into the limitations encountered during this research and suggestions for future research. Finally, this paper ends with concluding remarks.

## Literature Review

### Business Model Exploration

The notion of exploration in the (platform) business model setting is defined as the quest of transforming business ideas into value propositions relevant to customers, which are "embedded in scalable and profitable business models" (Osterwalder et al. 2020, p. 9). In essence, exploration is finding and creating comparative advantages over the company's competition (Thomke 2014).

Exploration comprises the steps (1) discovery and (2) validation. The goal of discovery is to gain insights and gather data to determine whether the general direction of the business model is correct (Aulet and Ursache 2017). Meeting this goal involves a range of activities such as applying theory, creating tools, or conducting experimentation (Kulkarni and Simon 1988). As discovery ensures that value is created for the customer (Bland and Osterwalder 2020), discovery activities run under the premise of verification. Verification ensures that the conditions imposed at the beginning of the development process are satisfied at every development stage (IEEE 1990). Therefore, verification occurs internally and determines whether the business model was designed correctly. Upon completing the discovery step, a verified business model is extracted, and investigated further in the second step of exploration, validation.

Generally, validation assesses whether the specified requirements are satisfied, and the output fulfills its purpose in the target environment (Engel 2010, Albers et al. 2010). Thus, validation occurs externally and can be done during or at the end of the development process (Engel 2010, IEEE, 1990). In business model exploration, validation entails a more advanced and robust gathering of evidence and further evaluates the findings of the discovery stage. The focus lies on conducting authentic and real experimentation investigating customer behavior (Bland and Osterwalder 2020). The findings will be used to confirm or redesign the business model and the value propositions (Osterwalder et al. 2020).

As an example, for the validation of a digital platform business model, Brecht et al. (2021) developed the Smart Platform Experiment Cycle (SPEC). It is a five-step process designed to validate digital platform business models through business experiments with customers. The SPEC aims to achieve validation by spending

limited time and money. Possible outcomes of the process are a (in)validated hypothesis about the platform business model that initiates either a new iteration of the SPEC or a decision to pivot or stop the activities subjected in the hypotheses (Brecht et al. 2021). However, a prerequisite to starting the SPEC is a verified platform business model.

*The Google Design Sprint 2.0*

The Google Design Sprint 2.0 is a four-day process that enables a team to answer vital questions by testing and prototyping initial ideas with customers (Knapp et al. 2016). The Google Design Sprint 2.0 is an advancement of the Google Sprint, created to tackle various problems. The problems solved by the Sprint ranged from the development of an online shop to software-specific issues (Knapp et al. 2016). For example, the original Google Sprint was used for the development of Google Hangouts.

The Google Design Sprint 2.0 requires several steps as preparation before the actual sprint. Sprints target primarily crucial problems to justify the resources the company invests into the sprint. Consequently, before running the Google Design Sprint 2.0, the problem should be well defined (Knapp et al. 2016). Up to seven or eight people are selected to form the sprint team, thereby a moderator and at least one decider are chosen (Sutton 2014, Knapp et al. 2016). The moderator leads the team through the planned exercises and is responsible for the organization of the sprint, including the location and materials necessary to complete the sprint (Knapp et al. 2016). The decider has the authority to make decisions during the sprint week (Knapp et al. 2016).

The sprint participants must understand the scope of decisions they make. It is essential when deciding how to monetize the platform since monetization affects a platform's network effects (Parker et al. 2016). Thus, one might consider the following hypothesis:

H1: *Before the sprint, the sprint team should participate in a Massive Open Online Course (MOOC) or some event to gain a basic understanding of platform business models. Alternatively, a platform expert could be part of the team to provide the necessary platform-specific knowledge in the team.*

One of the sprint's objectives is to be fast and efficient; time is limited during the sprint week. Therefore, the team should be familiar with the canvases before starting the sprint, resulting in saving time during the sprint week. This can be formulated as a second hypothesis:

H2: *There should be a workshop before the sprint week in which the participants get to know the canvases used in the sprint.*

On Monday, the sprint starts with an exercise called "Ask the Experts". The moderator asks the team a series of questions regarding, for example, a product description, the product users, and which problem the product is trying to solve. Answers are collected by all team members. The team categorizes all notes and

votes which categories are prioritized. The decider's opinion has additional weight (Courtney et al. 2021). After completing the interviews, the long-term goals and sprint questions are targeted. For this purpose, every team member anticipates the best possible outcome for the problem at hand and writes it down. As in the previous exercise "Ask the Experts", the answers are collected, and the team votes on a joint goal (Courtney et al. 2021). Next, the sprint questions are deduced from the long-term goal, with the team thinking about the most significant obstacles they must overcome to achieve the long-term goal determined previously. The collection and voting process from the previous exercises are applied again (Courtney et al. 2021). Afterward, a map is created to support the activities of the following days. It visualizes a process, for example, a customer journey (Knapp et al. 2016). With the creation of the map, the basis for the sprint is completed. Now, the team shifts its focus to finding solutions, starting with an exercise called "Lightning Demos". Team members receive time for researching and finding solutions, followed by a short presentation (Knapp et al. 2016). In the next step, all team members sketch eight variations of their best ideas in eight minutes (Knapp et al. 2016). In the last step of the solution sketching process, the team creates a solution sketch. Every team member keeps their sketch anonymous, gives it a title, and makes the sketch self-explanatory (Knapp et al. 2016).

On Tuesday, the team decides by vote which solution sketch is prototyped in a *User Test Flow*. To create the *User Test Flow*, the team members work individually on the definition of six action steps. One action step could be, for instance, an individual click (Courtney et al. 2021). After the results are presented, the team votes on the preferred *User Test Flow* (Courtney et al. 2021). Next, the storyboard is created building on the *User Test Flow*.

On Wednesday, prototypes are built. The key is to build the prototype as lean as possible without wasting time but to a sufficient extent to test the idea (Knapp et al. 2016). For prototyping, team members take on the roles of interviewer, makers, writer, asset collector, and stitcher. The interviewer prepares a script for the interviews, while the makers create the components of the prototype. The asset collector collects or provides the makers with necessary materials, like photos, logos. The stitcher combines the parts building the prototype and presents it to the interviewer (Knapp et al. 2016). The interviewer is the target for the trial run as the interviewer did not participate in the prototype's building process. Thus, it is most likely to spot any inconsistencies or flaws the team should fix before the user tests (Knapp et al. 2016).

On Thursday, the team conducts five user tests with customers, which are sufficient to identify 85% of usability problems (Nielsen 2000, Knapp et al. 2016). For the interviews, the team occupies two rooms. In the first room, the interviewer conducts the interviews with the users. The interviewer gives the customer open-ended tasks and asks questions (Knapp et al. 2016). In the second room, the rest of the team watches a live stream of the interview and takes notes regarding the customers' reactions while handling the prototype (Knapp et al. 2016). The team tries to identify patterns in the customers' reactions and determines whether these patterns are significant (Knapp et al. 2016). At the end of the sprint, the team refers to the goals set on Monday and decides how to follow up (Knapp et al. 2016).

*Platform Design Tools*

Platform Design Tools have been created to support the development of digital platforms. To provide platform-specific expertise, specific exercises from the Platform Design Toolkit 2.2 by Boundaryless S.r.l. (2019) are implemented. In the following, a set of canvases and tools used in this research are presented.

The following tools are used on Monday in the Platform Design Sprint: In the *Ecosystem Canvas*, stakeholders such as external stakeholders, peer consumers, peer producers, partners, and platform owners are identified with a focus on the entities participating in the interactions (Boundaryless S.r.l. 2019). In connection with this canvas, the *Ecosystem Entity-Role Portrait Canvas* is used to analyze each entity's assets, capabilities, performance pressures, current goals, and the gains the entity expects from its participation in the ecosystem (Boundaryless S.r.l. 2019). Since every platform starts with one core interaction between producers and consumers, this interaction forms the core relationship. Successful platforms scale by designing new interactions around a core interaction during the lifecycle of a platform (Parker et al. 2016). The main tool to consider for this decision is the *Ecosystem's Motivation Matrix*. It displays the current and future potential of the identified entities to exchange value comprised in a matrix (Boundaryless S.r.l. 2019). Additionally, the team determines a core entity, which is one entity of the core relationship. This core entity has priority when designing the platform (Boundaryless S.r.l. 2019). These tools support the team's understanding of the platform's ecosystem. Thus, the following hypothesis is derived:

> H3: *The canvases implemented on Monday afternoon provide a good basis to understand the platform's ecosystem. This knowledge enables the team to find the fitting platform solution.*

The *Transaction Board* is a tool to list transactions and interactions between the entities of the core relationship. The goal is to establish an understanding of existing transactions and channels, assess how they need to be improved, and what additional components must be created to facilitate their scaling potential (Boundaryless S.r.l. 2019). The *Learning Engine Canvas* allows the team to understand the challenges different entities face on the platform in different phases of their customer journey. It is done by stating these challenges and highlighting available tools to solve these challenges (Boundaryless S.r.l. 2019).

In the Platform Design Toolkit 2.2, the *Ecosystem Entity-Role Portrait* is the consecutive exercise after the entities in the ecosystem were identified. According to this order, the *Ecosystem Entity-Role Portrait* is applied to every entity. However, since one of the main characteristics of the Google Sprints is speed and efficiency, doing the *Ecosystem Entity-Role Portrait* for every entity is not feasible in a sprint. Thus, the order of the exercises is change to maintain the sprint's efficiency. The *Ecosystem Entity-Role Portrait* is the exercise done after the core relationship has been chosen. This reordering reduces the workload from creating one canvas for every entity to just one or two canvases. The final number of canvases depends on whether the team does the *Ecosystem Entity-Role Portrait* only for the core entity or both entities forming the core relationship. Therefore, H4 states*:*

> *The canvas portraying the Ecosystem Entity-Role in detail should be postponed until the core relationship and core entity have been defined.*

The MVP Canvas splits the designed platform business model into three elements: desirability, feasibility, and viability. Achieving an appropriate balance of these elements is crucial as only a balance creates long-term sustainability (Brown and Katz 2019, Digital Ahead UG 2021). The three major sections for desirability, feasibility, and viability are further divided into key assumptions and hypotheses. They show how each is tested and what criteria are used to determine whether an assumption is (dis)proven (Digital Ahead UG 2021). Thus, H5 claims:

> *The MVP Canvas used on Wednesday shows a split into desirability, feasibility, and viability. Categorizing the assumptions about the platform into these three categories is advantageous for testing the prototype.*

Figure 1 shows how the sprint process aims to cover the steps necessary for the discovery of a business model before its validation with the SPEC (Brecht et al. 2021). Furthermore, the tools used for the creation of the design sprint for platforms are displayed, namely the Google Design Sprint 2.0 and the chosen tools for digital platform design.

**Figure 1.** *Overview of the Discovery Concepts and the Validation Process of Digital Platform Business Models*
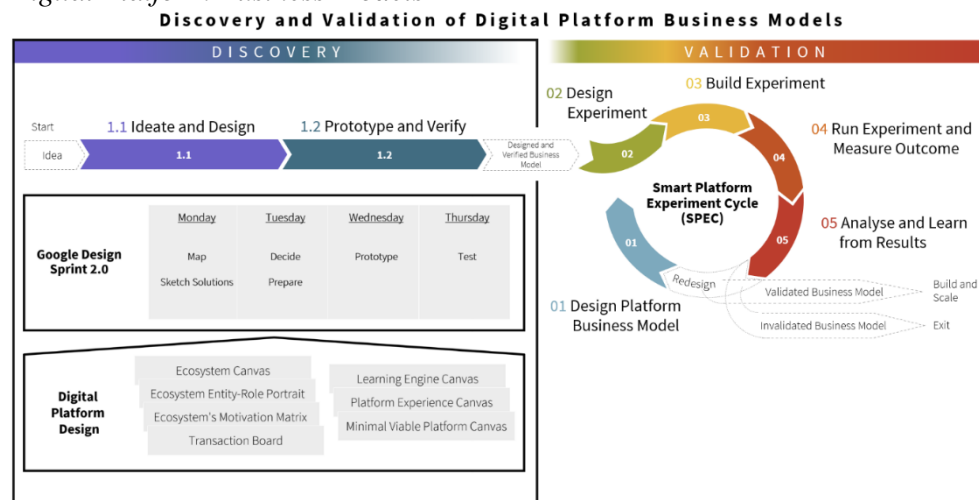


*Source:* Based on Brecht et al. (2021).

**Methodology**

The exploratory nature of this research focused on the specific use case of digital platform business model design with the framework of a Google Sprint. Therefore, a qualitative research design was selected as mostly non-numeric data was collected (Creswell and Creswell 2018). A qualitative research design can help gain a deep understanding of the problem at hand and allow the researchers to gather contextual data and understand decisions and actions (Myers 2019, Jamshed 2014). Additionally, this qualitative research design led to more flexibility in collecting data and provided an improved basis for conclusions grounded in the experience of practitioners (Lowder 2009).

To create the sprint for platform business models, the researchers designed a first process iteration, combining the Google Design Sprint 2.0 with platform design tools. Based on assumptions made during the design phase of the sprint, the hypotheses were formulated. Five semi-structured expert interviews were conducted to verifty the process and to corroborate or refute the formulated hypotheses. Each of the interviews included a set of nine questions. After the expert interviews a qualitative content analysis investigated the hypotheses. Furthermore, additional feedback from the experts was collected, categorized, and then prioritized. With the information gathered from the expert interviews, an improved sprint iteration was created.

The purpose of this research is to generate findings, which support practitioners in designing platform business models. Hence, industry experts with experience in designing platform business models were selected for the interviews. Three out of five experts had a background in innovation coaching or worked in innovation labs of different companies. A fourth expert was a consultant specializing in digital transformation. The last expert worked in an innovation-focused research facility. The interviews were designed as semi-structured interviews to allow the experts to state their opinion on the presented hypotheses as freely as possible. With the COVID-19 pandemic and contact restrictions in place, interviews could not take palce in person. Therefore, the interviews were held through video calls with one expert at a time. The interviewer presented a series of PowerPoint slides to the expert explaining the designed process. At the corresponding time, the questions noted in the interview guideline were posed to the interviewee. The questions were open-ended and close-ended, depending on the topic. While sometimes a quick "yes" or "no" was deemed sufficient, other questions were designed to spark discussion and extract more of the experts' knowledge. The interviews took place from December 16, 2020, to January 4, 2021, lasting between 50 and 70 minutes.

For data analysis, the researcher conducted a qualitative content analysis according to Mayring (2014). The main characteristic of qualitative content analysis is that it only considers characters relevant to answering the posed questions (Mayring 2014). In the first step, the transcription software MAXQDA transcribed the interviews to create a first written draft of each interview. The transcription errors of the software were then corrected manually. The final transcriptions of the interviews were analyzed to extract the answers given to the questions from the interview guideline, aimed at answering the hypotheses formulated at the end of

the literature review. This analysis entailed creating a code in line with the formulated hypotheses and extended by feedback repeatedly given by the experts. The knowledge extracted from the interview transcriptions was prioritized according to how unanimous the expert answers were. Additionally, anecdotes were also categorized and prioritized according to the frequency of commenting on a specific topic and its valence (positive or negative). Topics adressed by only one expert were excluded from the analysis.

## Results

### Results Regarding the Hypotheses

Table 1 displays the answers given by the experts concerning the stated hypotheses. Some experts signaled indifference towards some of the hypotheses. These indifferent answers were not tallied in the table, as they did not add any value to corroborate or refute a hypothesis.

**Table 2.** *Overview of the Formulated Hypotheses and Responses from the Experts in the Interviews*

| Hypothesis | Subparts of the Hypothesis | Responses | |
|---|---|---|---|
| | | Positive | Negative |
| Before the sprint, the sprint team should participate in a MOOC or some event to gain a basic understanding of platform business models. Alternatively, a platform expert could be part of the team to provide the necessary platform specific knowledge in the team. | Necessity to teach | 4 | |
| | Teach in a workshop | 3 | |
| | Teach with a MOOC | | 1 |
| | Include a platform expert | | 1 |
| There should be a workshop before the sprint week in which the participants get. | | | 4 |
| The canvases implemented on Monday afternoon provide a good basis to understand the platform's ecosystem and this knowledge enables the team to find the fitting platform | | 5 | |
| The canvas portraying the Ecosystem Entity-Role in detail should be postponed until the core relationship and core entity have been defined. | | 4 | |
| The MVP Canvas used on Friday shows a split into desirability, feasibility, and viability. Categorizing the assumptions made about the platform into these three categories is advantageous for testing the prototype. | | 5 | |

*Source:* Interviews.

H1 concerned whether it was necessary for the team participating in the workshop to be taught the basics of platform business models before the sprint. The hypothesis further stated different options of how this knowledge was taught to the team. As can be seen in Table 1, the experts almost unanimously agreed on the necessity for the team to be taught the basics of platform business models. The options stated in the hypothesis for this knowledge transfer were to do a workshop, a Massive Open Online Course (MOOC), or include a platform expert in the sprint. Here, the MOOC and the inclusion of a platform expert received negative feedback, while the workshop format drew positive responses. The expert responding negatively to the inclusion of a platform expert argued a platform expert might destroy the team's dynamic. In contrast, the experts supporting the

knowledge transfer through a workshop stated this workshop offered an opportunity to onboard the team before the sprint started.

H2 questioned whether the team should be introduced to the incorporated canvases beforehand. The experts refuted this hypothesis by stating it would be sufficient if the moderator introduced the canvases in the corresponding exercises. However, this decision required that the moderator could explain the canvases in an adequate time and had the knowledge to answer any questions the team might have regarding the activities.

H3 stated that the platform design tools chosen for the Smart Platform Design Sprint comply with the requirements to provide the team with a profound understanding of the platform's ecosystem. Thus, it enables the team to find a fitting platform solution. The choice of platform design tools is an essential part of this research, and the interviewed experts unanimously support the tool choices as fitting for the stated requirements.

H4 corroborated through the expert interviews aimed to change the order of the exercises. This idea stemmed from a time-saving aspect, which was supported by four out of the five experts.

H5 assessed the choice of using the *MVP Canvas* from a different platform design tool. The *MVP Canvas* categorizes assumption into desirability, feasibility, and viability. The expert unanimously supoorted the use of the *MVP Canvas*.

*The Smart Platform Design Sprint*

The Smart Platform Design Sprint (SPDS)  discovers and verifies platform business models. It implies that the team already knows that the sprint result is a platform. The premise of knowing that the solution the team works towards is a platform solution was stressed by some experts. The platform-specific activities of the SPDS are implemented on Monday afternoon and Wednesday morning. Monday afternoon's exercises focus on understanding the platform's ecosystem, using the *Platform Ecosystem Canvas, Ecosystem Entity-Role Portrait, Motivation Matrix, Transaction Board,* and *Learning Engine*. On Wednesday, the team uses the *Platform Experience Canvas* and *Minimal Viable Platform Canvas* to elaborate on the chosen solution(s) or solutions and make them more tangible in addition to the storyboarding exercises.

**Figure 2.** *Activities Throughout the Smart Platform Design Sprint*
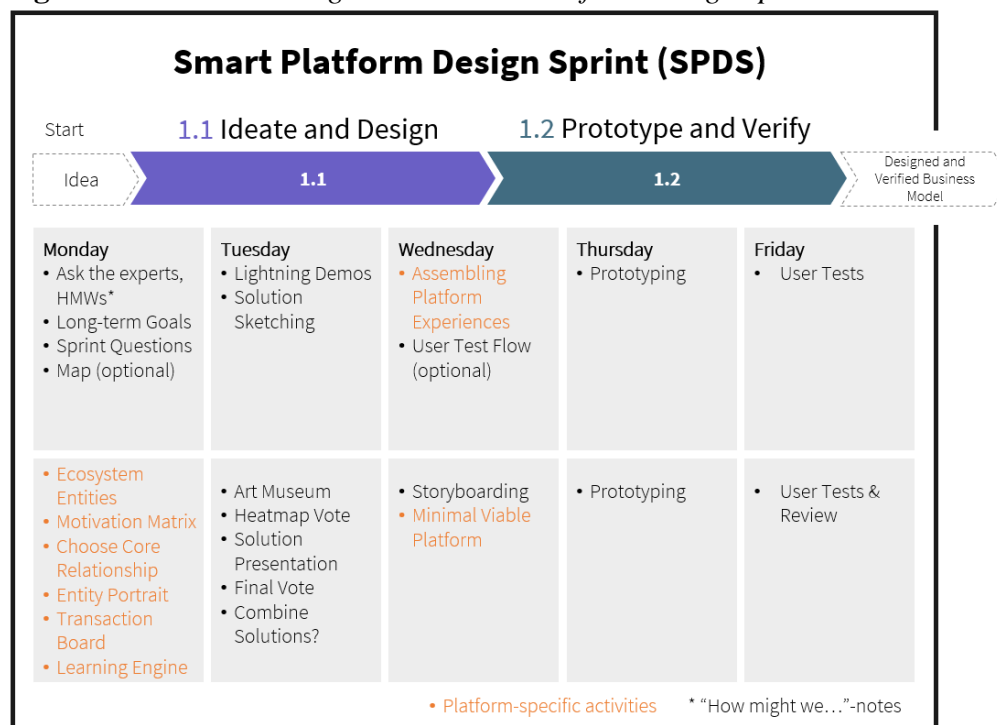


*Source:* Based on the Google Design Sprint 2.0.

Figure 2 shows an overview of the exercises and their order in the SPDS. The orange highlighted bullet points show the added platform-specific activities. Since executing these exercisesrequire one additional day, the SPDS was extended to a five-day process. The Google Design Sprint 2.0 is a four-day process.

Preparations

In addition to the preparations necessary for any design sprint, the SPDS includes an onboarding workshop before the sprint week. The onboarding workshop is a result of the experts' responses to H1. The goal of the onboarding workshop is to teach the team about the particularities of platform business models. Furthermore, the onboarding workshop provides room for any questions the team may have about the sprint week. According to the experts, enabling this interaction is essential if this is the first sprint run in a company. Adding this workshop might lower the resistance within the team to the SPDS.

Monday Afternoon: Understanding the Platform's Ecosystem

After defining the goals for the sprint, the team then moves on to exercises, which revolve around understanding the platform's ecosystem. Compared to the Google Design Sprint 2.0, it means the *Lightning Demos* and *Solution Sketching* are moved to Tuesday morning. Subsequent exercises are also done at a later point in time due to the inserted exercises on Monday afternoon.

The exercises are precisely structured that the team first identifies entities present in the ecosystem before becoming more detailed, focusing on only one or two entities by the end of Monday. This approach is consistent with the platform

architecture by Parker et al. (2016), who suggested focusing on a single core interaction when building a platform and then adding new interactions around this core interaction.

In the first step of understanding the platform's ecosystem, the team identifies the entities present in the ecosystem using the *Platform Ecosystem Canvas*. After identifying the entities present in the ecosystem, the team analyses how and what value is exchanged between the entities or within the same entity. The tool applied for this analysis is the *Motivation Matrix,* which displays the value exchanges on a single page. Following this exercise, the *Motivation Matrix* provides the information needed to decide  the platform's core interaction. Because the following exercises mainly revolve around the entities forming the core relationship of the platform, the team evaluates the motivation of these entities to participate in the ecosystem. It fosters a better understanding of the essential roles to consider when designing a platform.

In the next step, the team lists the different transactions already happening or could happen in the core relationship in the *Transaction Board*. The last exercise aims at understanding the platform's ecosystem and entails the creation of the *Learning Engine Canvas*. This exercise again includes all entities identified in the *Platform Ecosystem Canvas*.

With these exercises, the team has a general understanding of the entities in the platform's ecosystem and the entities forming the core relationship of the platform. This understanding allows the team to find a fitting platform solution on the following day.

Tuesday

Tuesday only changes due to the insertion of exercises on Monday afternoon. In the SPDS, the team does the *Lightning Demos* and S*olution Sketching* on Tuesday morning, followed by the selecting the best solution in the afternoon.

Wednesday

From the previous days, the team understands the platform's ecosystem and designs a winning sketch(es) for the platform solution. The next step is to consolidate the information from all previous exercises in one comprehensive knowledge point. This consolidation is done by creating the platform experience for the core entity, using the *Platform Experience Canvas*.

With the knowledge collected and displayed in a single canvas, the team shifts its mindset from finding a platform solution to prototyping and testing this solution. Thus, the team and the moderator might create a *User Test Flow* as a basis for the storyboard. The *User Test Flow* is optional as the *Platform Experience Canvas* might already display the information needed for creating the storyboard.

From the final storyboard, the team deducts all the information needed to build the prototype on Thursday efficiently. In the last exercise for Wednesday, the team also creates an *MVP Canvas*. While the storyboard shows how to build the prototype, the *MVP Canvas* displays what and how to test the elements of the prototype. The importance of defining measures before the user tests regarding the exact time to corroborate or refute assumptions comes from the team's tendency of

building an attachment to their prototype. This attachment results in continuing with the development of the product, even though, in some cases, it should not (Viki et al. 2019).

Thursday

The exercises on Thursday do not differ from the prototyping processes described in the original Google Sprint and Google Design Sprint 2.0. However, since new exercises are added to the process, the prototyping takes place on Thursday instead of Wednesday. Since the team builds a platform, the team can use software to create mockups, simulating clickable areas such as buttons. In the expert interviews, one question was whether the experts have used similar software, what it was, and whether they would recommend it. Four of the experts recommended the software Marvel for the creation of a mockup.

Friday

With the platform specific exercises added into the sprint, the sprint has a duration of five days. The process of testing the platform prototype remains unchanged and does not differ from the execution described in the Google Design Sprint 2.0.

**Figure 3.** *Overview of the Discovery and the Validation Process of Digital Platform Business Models*
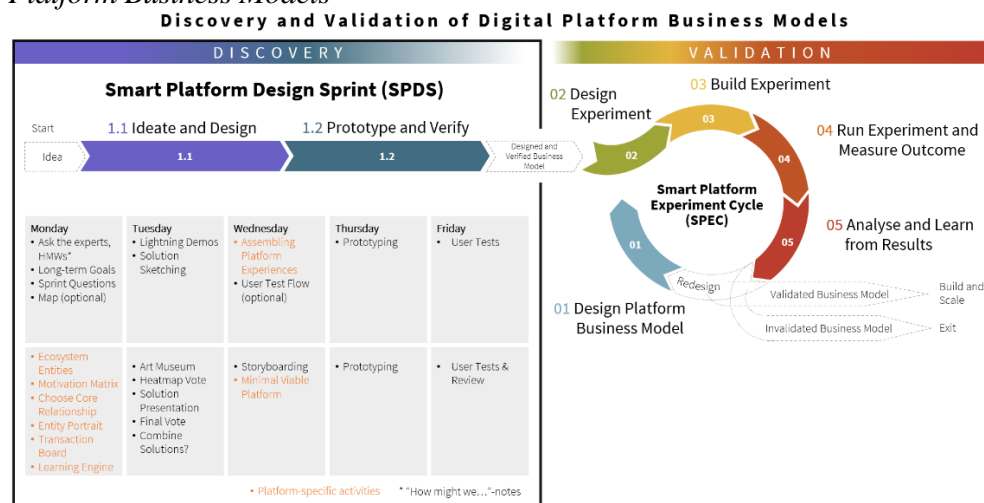


*Source:* Based on the Google Design Sprint 2.0 and Brecht et al. (2021).

Figure 3 shows how the Smart Platform Design Sprint (SPDS) and the Smart Platform Experiment Cycle (SPEC) combined can be used for the platform business model exploration. The SPDS shows the fast discovery of verified platform business models, while the SPEC is responsible for validating the discovered platform business model.

**Discussion**

This research was set out to design a process that advanced a rapid platform exploration intending to retrieve a verified platform business model. The solution was found in the Smart Platform Design Sprint. It is a process model that combines the steps of the Google Design Sprint 2.0 with the knowledge of platform design tools to discover and design a platform business model. The Google Design Sprint 2.0 is characterized as fast and efficient in the areas of ideation, designing, prototyping, and testing of the solution to an identified problem. The platform design tools are helpful components to consider in the creation of digital platform business models. Moreover, the results of expert interviews verified the SPDS itself.

The interviewed experts unanimously described the developed Platform Design Sprint as a tool that can be valuable to anyone looking to discover and design a platform business model, verifying the process. Another essential objective to fulfill when constructing the sprint was the duration. Knapp et al. (2016) indicate a loss of continuity when a sprint extends five days. One of a sprint's main characteristics is its speed and efficiency. Thus, with a loss of continuity comes a loss of efficiency. With the SPDS being a five-day process (including an onboarding workshop), the SPDS can retain the efficiency of the original Google Sprint. In addition, this research revealed  low costs and short commitment requirements for the sprint. The costs origintate from employees being kept from their day-to-day tasks and their salaries being paid. Salaries and opportunity costs are the main cost drivers of the SPDS. Additional costs only accrue for the required office supplies, catering, possibly the room for the sprint, and lastly, the software used to create the platform prototype. Since the main cost drivers are salaries and opportunity costs for lost business, the SPDS is attractive for start-ups. Salary costs are likely lower in a startup environment compared to a corporate setup. Even more so when the start-up is recently founded and still searches for a profitable business model to scale (Blank and Dorf 2012, p. 20).

Regarding the mechanisms of the SPDS, the first set of platform-specific exercises on inserted Monday afternoon. Here, the team aims to understand the platform's ecosystem using a variety of tools displayed in Figures 2 and 3. The solution sketching process moves to Tuesday morning, and subsequently, selecting the best solution to Tuesday afternoon. After Tuesday, the exercises remaining from the Google Design Sprint 2.0 revolve around the storyboard, the blueprint for the prototype. Since the prototype requires a whole day to be built, it must be moved to Thursday. It results in available time for additional exercises on Wednesday, which is used for the *Platform Experience Canvas* as the first exercise of the day and the *MVP Canvas* as the last exercise done on Wednesday.

Furthermore, some of the exercises are marked as optional, as displayed in Figures 2 and 3. The choice to define these exercises as optional is based on redundancy. Creating a map on Monday morning helps align the team's views and work towards the goal. However, the information displayed in the *Map* is likely to be depicted similarly to the *Platform Experience Canvas*, scheduled for Wednesday morning. Doing the *Map* helps the team to align their views but is still marked as

optional. A team might already be aligned about the challenge and could save time by skipping the exercise.

Similarly, the *User Test Flow* does most likely not display any information that the *Platform Experience Canvas* does not already show. However, the *User Test Flow* has been developed specifically to prepare the team for creating the *Storyboard*. Along the same lines explaining the *Map*, the team can skip this exercise if it feels all the information necessary for the *Storyboard* is included in the *Platform Experience Canvas*. Alternatively, if the team likes to prepare the information more precisely for the *Storyboard*, the team can do the *User Test Flow* before creating the *Storyboard*.

Moreover, the platform prototype is coherent with the platform architecture by Parker et al. (2016), who suggest establishing the platform for one core interaction and then adding interactions around this core interaction over time. For new platforms, the exercises for Monday afternoon guide the team from identifying the entities in the platform ecosystem to choosing a core relationship and a core entity within the core relationship to build the platform. However, if the team wants to add a new interaction to an existing platform, the SPDS can be used similarly. When choosing a core relationship on Monday afternoon, the team could select the new interaction and add it to the existing platform.

As an alternative to teaching the team fundamentals of platform business models during the onboarding workshop, the team could also do a MOOC on this topic. Free MOOCs are available on different platforms like edx.org, where people can enroll in the offered courses. With MOOCs, participants can flexibly choose when and where to study the course material (MOOC.org 2021). One of the experts refuted using a MOOC to teach the team the basics of platform business models. However, due to the additional flexibility, using a MOOC to educate the team is not ruled out for the SPDS. If the MOOC is chosen, there should be a time slot in the onboarding event for asking questions a Q&A concerning the MOOC learnings.

Additionally, two experts stressed the importance of a debriefing exercise at the end of each sprint day. Although debriefing is not explicitly mentioned in the Google Sprint methodologies, the experts expressed debriefing as an essential component for the moderator to cater the sprint to the team's needs.

According to the interviewed experts, the SPDS should incorporate a mechanism similar to the Scrum framework's "Sprint retrospective". These are meetings used to reflect on past sprint days, allowing the moderators to collect feedback to improve the sprint in the subsequent days and align the team. The two Scrum retrospective exercises the moderator can use are, for example, the "KALM, Keep, Add, Less, More"-retrospective or "Liked, Learned, Lacked, Longed for"-retrospective (Caroli 2021, Richterich 2021).

*Limitations*

Even though the design of the process is a overall success, as indicated by the positive feedback of the experts during the interviews, there are aspects of the SPDS that cannot be controlled by process design. The SPDS requires a competent

moderator to guide the team throughout the week. By using various canvases throughout the sprint week, the team relies on the moderator to introduce and explain the canvases appropriately. If the moderator lacks necessary competencies, the sprint might fail. The experts also emphasized the moderator's significance during the interviews.

Another limiting factor for the SPDS are cultural differences. The original Google Sprint was developed in the United States of America (USA) and thus, reflects the American culture. However, business is conducted differently in other countries and culture varies across companies. One expert addressed how cultural differences may limit the SPDS. While the original Google Sprint aims for a realistic prototype, one expert experienced that Germans, at times, provide unjustifiable positive feedback on prototypes. This behavior is based on the tester not wanting to give negative feedback on a prototype someone has spent a lot of time and effort developing.

Generally, it should be emphasized that the SPDS should only run if the team knows they are working towards a platform solution. If this is unknown before the sprint, a potentially better solution might be discarded. Furthermore, the SPDS has not been verified beyond the expert interviews. Multiple experts stated the importance of testing the Platform Design Sprint in practice. Including experience from applying the process will elevate the SPDS's status from being a verified theoretical concept to a validated process applicable by startups and companies in their business model exploration activities.

*Outlook*

The Smart Platform Design Sprint described in this paper applies the platform design tools. However, with new platform design tools being released in the future, there may be more suitable tools available to incorporate in the SPDS. An example of a new tool is the new iteration of the Platform Innovation Kit, the Platform Innovation Kit 5.0.

Other components to consider in future research are canvases featuring additional elements essential in the platform business model, such as filters. Filters can facilitate high value by enhancing the interaction between consumers and producers. Including an activity dedicated to a platform's filters would add further value to the SPDS.

Lastly, the SPDS has not been tested in practice yet. Applying the sprint in a real-world scenario would provide more valuable insights into its applicability in real-life settings. This experience will reveal whether the constructed process works as intended. With the knowledge gained from applying the SPDS in practice, an advanced iteration of the SPDS can be developed, incorporating learnings from applications.

## Conclusion

The Smart Platform Design Sprint is an innovative tool enabling a start-up or established company to design and verify a platform business model within one week. Combining the Google Sprint 2.0 with platform design tools, the SPDS inherits the speed and efficiency of the Google Sprint. The SPDS also transfers the necessary platform-specific expertise for the design and verification of a platform business model. The new process was developed iteratively and further enriched with expert knowledge. It results in a tool applicable in the digital business model exploration focusing on extracting a verified business model by completing the discovery step, which is required to enter the second validation step.

## References

Albers A, Behrendt M, Ott S (2010) Validation-central activity to ensure individual mobility. In *Proceedings of FISITA 2021 World Automotie Congress*. Budapest, Hungary.

Aulet B, Ursache M (2017) *Disciplined entrepreneurship workbook*. Published by Chris Snyder. Hoboken, New Jersey: Wiley.

Bland D, Osterwalder A (2020) *Testing business ideas*. Hoboken, New Jersey: John Wiley & Sons, Inc.

Blank SG, Dorf B (2012) *The startup owner's manual: the step-by-step guide for building a great company*. Pescadero, CA: K&S Ranch Press.

Boundaryless S.r.l. (2019) *Platform design toolkit 2.2: the user guide*. Boundaryless S.r.l. Retrieved from: https://stories.platformdesigntoolkit.com/releasing-platform-design-toolkit-2-2-b99b6a4c776d. [Accessed 12 November 2020]

Brecht P, Niever M, Kerres R, Ströbele A, Hahn C (2021) Smart platform experiment cycle (SPEC): a process to design, analyze, and validate digital platforms. *Artificial Intelligence for Engineering Design, Analysis and Manufacturing* 35(2): 209–225.

Brown T, Katz B (2019) *Change by design: how design thinking transforms organizations and inspires innovation*. Revised and Updated Edition. Harper Collins.

Caroli P (2021) *KALM – Keep, add, more, less*. Retrieved from: https://www.funretrospec tives.com/kalm-keep-add-more-less/. [Accessed 2 February 2021]

Courtney J, Scarano D, Knapp J (2021) *Design sprint masterclass by AJ &Smart*. Retrieved from: https://ajsmart.clickfunnels.com/home-page1963344716019121719 48. [Accessed 24 June 2021]

Creswell JW, Creswell JD (2018) *Research design: qualitative, quantitative, and mixed methods approaches*. 5th Edition. Los Angeles: SAGE Publications.

Digital Ahead UG (2021) Minimal viable platform canvas - Part of the platform innovation kit. Retrieved from: http://platforminnovationkit.com/pik4/#overviewkit. [Accessed 24 January 2021]

Engel A (2010) *Verification, validation, and testing of engineered systems*. Hoboken, NJ: Wiley.

IEEE (1990) *IEEE standard glossary of software engineering terminology: IEEE Std 610.12-1990*. IEEE Xplore. IEEE. Retrieved from: https://ieeexplore.ieee.org/stamp/stamp.jsp?tp=&arnumber=159342. [Accessed 28 January 2021]

Interbrand (2020) *Report on best global brands 2020*. Retrieved from: https://interbrand.com/best-global-brands/. [Accessed 21 November 2020]

Jamshed S (2014) Qualitative research method-interviewing and observation. *Journal of Basic and Clinical Pharmacy* 5(4): 87–88.

Knapp J, Zeratsky J, Kowitz B (2016) *Sprint: how to solve big problems and test new ideas in just five days.* First Simon & Schuster Hardcover Edition. Simon & Schuster.

Kulkarni D, Simon HA (1988) The processes of scientific discovery: the strategy of experimentation. *Cognitive Science* 12(Apr–Jun): 139–175.

Larusdottir M, Roto V, Stage J, Lucero A, Šmorgun I (2019) *Balance talking and doing! Using Google design sprint to enhance an intensive UCD course,* 95–113. Cham: Springer International Publishing.

Lowder BT (2009) Choosing a methodology for entrepreneurial research: a case for qualitative research in the study of entrepreneurial success factors. *SSRN Electronic Journal.*

Martins N, Silva S, Alvelos H, Barreto S, Chatterjee A, Santiago E, et al. (2020) Design of a digital platform for the preservation and dissemination of Portuguese handicraft products. In *2020 15th Iberian Conference on Information Systems and Technologies (CISTI)*, 1–5.

Mayring P (2014) *Qualitative content analysis: theoretical foundation, basic procedures and software solution.* Klagenfurt.

MOOC.org (2021) *Welcome to Mooc.org.* Retrieved from: https://www.mooc.org/. [Accessed 25 February 2021]

Myers MD (2019) *Qualitative research in business and management.* 3rd Edition. Thousand Oaks, CA: SAGE Publications.

Nashrulloh MR, Setiawan R, Heryanto D, Elsen R (2019) Designing software product with google ventures design sprint framework in startup. *Journal of Physics: Conference Series* 1402(Dec): 022084.

Nielsen J (2000) Why you only need to test with 5 users. Retrieved from: https://www.nngroup.com/articles/why-you-only-need-to-test-with-5-users/. [Accessed 17 February 2021]

Osterwalder A, Pigneur Y, Etiemble F (2020) *The invincible company.* Hoboken, New Jersey: John Wiley & Sons, Inc.

Parker G, van Alstyne M, Choudary SP (2016) *Platform revolution: how networked markets are transforming the economy - And how to make them work for you.* 1st Edition. W.W. Norton & Company.

Richterich J (2021) *Ziele der Retrospektive in SCRUM.* (Objectives of the retrospective in SCRUM). Retrieved from: https://www.online-projektmanagement.info/agiles-projektmanagement-scrummethode/ scrum-meetings/retrospektive/. [Accessed 2 February 2021]

Sutton B (2014) *Why big teams suck.* Retrieved from: https://www.linkedin.com/pulse/20140303152358-15893932-why-big-teams-suck/. [Accessed 17 February 2021]

Täuscher K, Laudien SM (2018) Understanding platform business models: a mixed methods study of marketplaces. *European Management Journal* 36(3): 319–29.

Thomke S (2014) Accelerating learning by experimentation. In O Gassmann, F Schweitzer (eds.), *Management of the Fuzzy Front End of Innovation*, 125–140. Springer International Publishing.

van Alstyne M, Parker G, Choudary SP (2016) *6 reasons platforms fail.* Harvard Business Review.

Viki T, Toma D, Gons E (2019) *The corporate startup: how established companies can develop successful innovation ecosystem.* GLOBAL PUBLISHER SERVICES.

# Working Capital Management and Systems Disruption during the COVID-19 Pandemic: Evidence from South Africa

## By Miemie Struwig[*] & Storm Watson[±]

*This study provides a critical analysis of working capital management (WCM) research in South Africa during the COVID-19 pandemic. The COVID-19 pandemic has disrupted every aspect of human life, from health to the economic system. Businesses need to respond swiftly to the extreme changes, and adopt a proactive approach to working capital, to ensure a greater chance of successfully overcoming the many challenges. This research uses five stages to investigate WCM research and critically analyses and proposes ways to deal with WCM during each stage. The first stage deals with the global recession of 2008 and thereafter. The second involves managing working capital during the pandemic; thirdly during extreme change; and fourthly post-pandemic. It concludes with managing working capital in the new economic order. Samples of research outputs for each stage were used for critical analysis through a systematic analysis process. The results show that research into WCM after the 2008 global recession mostly focused on how businesses could mitigate the impact of the crisis itself and buffer themselves against future crises. During pandemics, there are three key steps that should be considered by management teams who seek to stabilise their cash positions. When experiencing extreme changes, such as economic downturns and sudden demand or supply shocks, businesses need to cushion them. Post pandemic working capital research focus is on demand volatility and workforce safety. Finally, in a new economic order, digital transformation shifts as well as effective cash management necessary to alleviate volatile supply chains, are important. The global coronavirus pandemic has produced a humanitarian crisis unlike anything before, with sudden and dramatic disruptions across all industries and markets. This research produces some insight into how to manage the short-term finances of a business during these phases.*

**Keywords:** *working capital management, systematic review, COVID-19 pandemic, extreme change, new economic order*

## Introduction

The coronavirus disease of 2019 (COVID-19) pandemic has disrupted every aspect of human life, from health to the economic system. Businesses need to respond swiftly to the extreme changes and adopt a proactive approach to working capital to ensure a greater chance of successfully overcoming the many challenges. This study provides a critical analysis of working capital management (WCM)

---
[*]Professor, Nelson Mandela University, South Africa.
[±]Junior Lecturer, Nelson Mandela University, South Africa.

research in South Africa during the COVID-19 pandemic. Efficient WCM involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet short-term obligations, whilst also avoiding excessive investment in assets at the same time.

On the economic front, COVID-19 has acted as an accelerant of major trends already in progress. Policymakers can only make assumptions about the different paths that the future could take, based on the economic theories at their disposal (Kapoor and Dasher 2020).

The global coronavirus pandemic has produced a humanitarian crisis unlike anything experienced before, with sudden and dramatic disruptions across all industries and markets. Businesses must respond moment-to-moment as they receive insights with each news cycle. They must also be prepared to act swiftly and aggressively to counter each disruption and protect their most valuable assets, whilst anticipating unpredictable future changes.

To ensure business continuity during the economic downturn, businesses are looking to optimise their cash management and working capital processes. The purpose of this article is thus to critically analyse WCM research to identify ways in which business can manage their working capital during the pandemic.

## Literature Overview

Management of working capital is important for the success of any business (Louw et al. 2019, p. 3, Kwenda and Holden 2014, p. 569). The adequacy of current assets, together with their efficient handling, influence the survival of the business and, as such, they are vital to the effective running of the business (Ismail 2017, p. 12, Kasozi 2017, p. 337).

Working capital deals with the short-term financing of the business; that is current assets and current liabilities. It is thus a measure of the liquidity of the business. The goal of effective WCM is to ensure that a business has adequate and ready access to funds necessary for day-to-day operating expenses, whilst also ensuring that assets are invested in the most productive way (Norton et al. 2011).

There are five phases that have influenced WCM during the past decade, as demonstrated in Figure 1, and these are discussed in the following paragraphs.

**Figure 4.** *The Various Phases Influencing WCM*
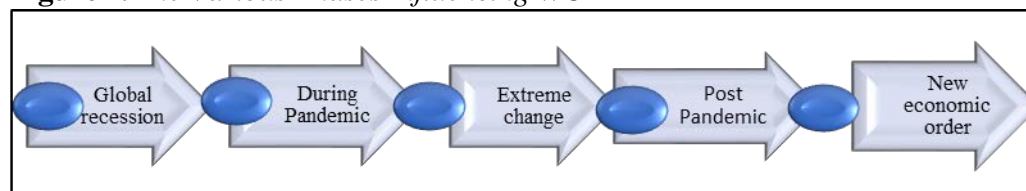


*Source:* Own compilation.

*Phase 1: The Global Recession*

The 2008 financial crisis was the worst economic disaster since the Great Depression of 1929 (Kosakowski 2017). The root cause of the financial crisis cannot be traced to one single event or reason. Rather, it resulted through a sequence of events, each with its own triggering mechanism that led to near collapse of the global banking system. The lack of efficient and effective WCM possibly played a role in nearly all of these events.

Van Wyk et al. (2015) found that the financial crisis of 2008 exposed critical failures in the analysis and understanding of the South African financial system. The crisis influenced global and local regulators and policymakers to focus on addressing the vulnerabilities in the financial system. Van Wyk et al. (2015) further found that the vulnerabilities stemmed from reliance on short-term wholesale funding, excessive leverage, liquidity traps, balance sheet mismatches, interconnectedness and opacity.

Madubeko (2010) argues that South Africa has been defined by many scholars as the economic powerhouse of Africa, leading the continent in terms of industrial output and mineral resource production. South Africa also boasts rich natural resources, well-developed commodities and a stock exchange that can compete with the best in the world (Madubeko 2010).

Akinsola (2016) identifies that the financial crisis affected the consumption and spending of consumers, which led to consumers being more dependent on loans and increasing debts. This led to an increase in non-performing loans, which are "loans that are a past debt that is unpaid in the present and unpaid for more than 90 days from date that debt or loan was incurred" (Akinsola 2016).

The critical failures exposed during the 2008 financial crisis caused a surge in research in the following years as scholars attempted to understand the financial system and to propose ideas on how to minimise the possibility of another financial crisis of this magnitude.

*Phase 2: During Pandemic*

Overall, the pandemic has caused a rethink of economic institutions and mankind's approach towards the environment. Hence, it has also propelled a reimagination of the role of the market and the State. Society may come out of this catastrophe with some positive changes, but it may also set in motion some negative practices (Zimon and Tarighi 2021, p. 2). The task for nations would be to navigate these opportunities and challenges, and this may herald the beginning of a new economic order.

The COVID-19 pandemic has highlighted ineffective ways in which businesses manage working capital. As a result, there were calls for a greater emphasis on the management of WCM during extreme changes (such as during pandemics), and in the new economic order which the World is facing.

*Phase 3: Extreme Change*

Goldsworthy and McFarland (2018) explain that the phrase "extreme change" refers to not only a disruptive change, but also to any form of one or more large scale, complex, change efforts that test the ability of the business to respond. Krell (2020) equates extreme change to occurrences such as economic downturns and sudden demand or supply shocks. Managing extreme change entails more than simply surviving change. It entails developing the ability to adapt to change over time as well as learning how to deal with an uncertain future (Goldsworthy and McFarland 2018).

*Phase 4: Post Pandemic*

COVID-19 has a clear short-term impact. Almost every aspect of commerce has been impacted, from global supply chains to financial markets. Finance functions have had to rapidly evolve in order to keep up with the rate of change (Fenton 2020). However, thriving beyond the "now" necessitates accepting the rapid speed with which this need to transform must be met.

While the impact on one nation's economy can have a resounding impact on other nations, the impact of the pandemic on each nation individually has had a manifold impact on the global economy at large. Therefore, no past financial crises can adequately guide and predict the post-pandemic economy (Kapoor and Dasher 2020). Nevertheless, financial crises in the past signalled a fundamental change in economic thinking. The post-World War 2 economic thinking was largely inspired by John Maynard Keynes' general theory (Kwenda 2014). Post-pandemic economic thinking will need to undergo a similar fundamental change.

*Phase 5: New Economic Order*

The new economic order seeks the restructuring of the pattern of international trade and the flow of capital and technology, among others, so that their benefits could be more equitably distributed to the developing countries (Chukwu 2018).

The COVID-19 pandemic has highlighted errors in the manner in which businesses managed working capital and, as a result, there were calls for a greater emphasis to be placed on the management of working capital management during extreme changes, during pandemics and in the new economic order with which the globe is being faced.

These phases as shown in Figure 1 will be used to critically analyse WCM research in South Africa.

**Methodology**

The aim of the study was to identify pointers for current businesses to manage their working capital.

Critical analysis of business research investigated WCM during five phases, namely:

- Global recession and thereafter.
- During the pandemic.
- Extreme change.
- Post Pandemic.
- New Economic order.

Business research articles during these five phases were critically analysed and reviewed. An inductive data analysis technique was used to show the purpose and main findings of during the different phases.

The following steps were followed in the research design.

- Identify research articles. Three online databases were searched to find relevant articles using specific search words and criteria.
- Selecting the research articles. From eighty articles extracted only fourteen were found to be useful to the study.
- Assessing the quality of the article. The quality of the studies was determined by analysing the abstracts and citations.
- Extracting the data from the article. Data relevant to the study was extracted in a structured and logical manner.

The steps outlined are illustrated in Figure 2.

**Figure 2.** *Steps in the Research Design*
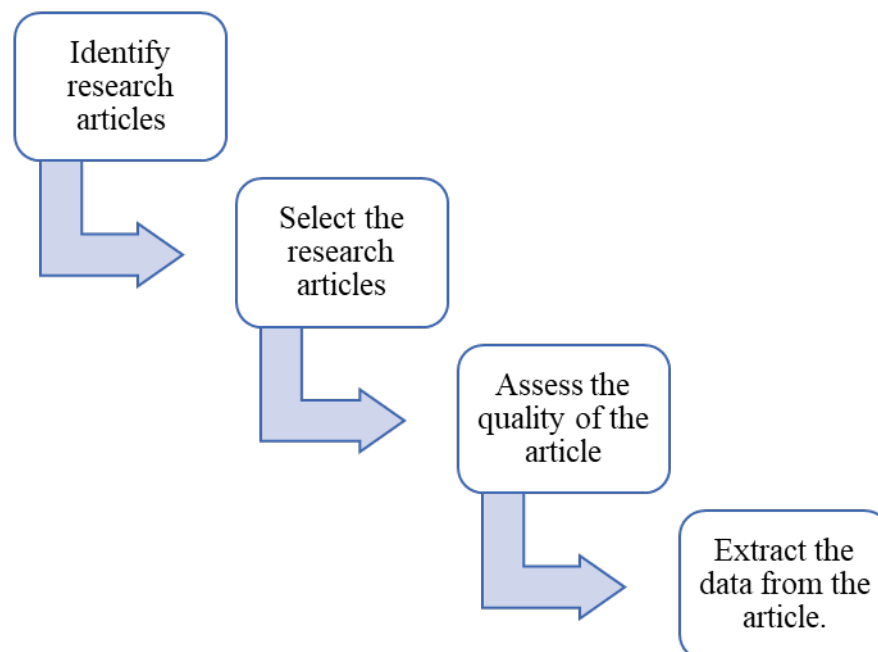


*Source*: Authors' own compilation.

Fourteen research outputs were used in the review and were sorted according to one of the five phases identified in literature. These were then critically analysed to produce the results. Table 1 outlines the number of research outputs that were critically analysed for each of the phases.

**Table 1.** *The Number of Research Outputs that Were Critically Analysed in Each of the Phases*

| Phase | Number of outputs critically analysed |
|---|---|
| Phase 1: Global recession | 4 |
| Phase 2: During Pandemic | 3 |
| Phase 3: Extreme change | 3 |
| Phase 4: Post Pandemic | 2 |
| Phase 5: New Economic order | 2 |
| **Total** | **14** |

*Source*: From results of the survey.

## Results

*Results of WCM During Global Recession and Thereafter*

Since the dawn of the 2008 global financial crisis and worldwide economic depression, research into WCM has increased substantially, involving involved debates between financial managers and academics in the field regarding the correct method of managing a business's working capital (Kayani et al. 2019, p. 353, Singh and Kumar 2013, p. 174).

In South Africa, financial managers have focused on reducing their investment in inventory and trade receivables to ensure that working capital levels reflected the new economic reality (Oseifuah 2018, p. 3). Various businesses such as Barloworld, New Clicks and AECI generated positive cash flows amounting to billions of Rands as a result of reducing their investment into working capital (Correia 2019, p. 11). During the economy recovery between 2010 and 2013, businesses increased their investment in working capital. However, between 2016 and 2018, as the South African economy experienced low economic growth and a difficult operating environment, businesses again put their focus on reducing investments in working capital in an attempt to curb the lower demand and generate positive cash flow (Correia 2019, p. 11).

Louw et al. (2016, p. 546) found that the impact of WCM on financial performance, specifically related to profitability and liquidity, has been the subject of numerous studies. Louw et al. (2016, p. 546) noted that the increase in competition amongst businesses has caused extraordinary pressure on profit margins in a time when business failures tend to increase, and this has resulted in the need for a new perspective on WCM in businesses.

Research into WCM after the 2008 global recession mostly focused on how businesses could mitigate the impact of the crisis itself and buffer themselves against future crises. Some of the most noteworthy research outputs, and Van Wyk et al.'s (2015) findings are outlined in Table 2.

**Table 2.** *Research Conducted into WCM After the 2008 Global Recession*

| Author/s | Purpose | Findings |
|---|---|---|
| Simon et al. (2017) | To evaluate investments in WCM during and after the financial crisis of 2007-2008 to examine the effect of financial crisis on WCM and the performance of firms in Nigeria. | Investment in WCM was significantly affected during the financial crisis, which consequently led to low performance. |
| Haron and Nomran (2016) | To evaluate the determinants of WCM before, during and after the global financial crisis of 2007-2008, using 57 Malaysian firms. | Profitability, debt, sales and firm size significantly affected WCM before and during the financial crisis of 2008. |
| Ramiah et al. (2014) | To document the measures taken by Australian corporate treasurers in the areas of cash, inventory, accounts receivable, accounts payable and risk management to survive the global financial crisis. | More than half of the participants in the survey altered their WCM practices during the crisis. Capital expenditure was curtailed, as they aimed at preserving their cash levels while reducing inventory levels. Credit worthiness of institutions became more important, and there was a general decline in credit availability. Australian working capital managers exhibited behavioural biases, particularly overconfidence. |
| Oseifuah (2018) | To analyse the effect of the 2008/2009 global financial crisis on the nexus in South Africa between WCM and its separate components (inventory conversion period (ICP), receivables conversion period (RCP) and payables deferral period (PDP) and profitability) of a sample of 75 non-financial firms listed on the JSE over the 10-year period (2003 to 2012). | A significant negative relationship existed between RCP and profitability during the financial crisis only. The relationships between profitability and cash conversion cycle, and profitability and ICP, were negative. The relationship between profitability and PDP was positive. However, none of these relationships were significant. |

*Source:* Author's own compilation.

*Results of WCM during a Pandemic*

According to the World Health Organisation (WHO 2020), a pandemic is defined as "an epidemic occurring worldwide, or over a very wide area, crossing international boundaries and usually affecting a large number of people."

The COVID-19 pandemic is different to the pandemics of the past, due to the level of interconnectedness of the global economy. This pandemic has triggered unprecedented restrictions not only on the movement of people, but also on a

range of economic activities, even leading to declarations of national emergencies in most countries in Europe, North America and Africa (Chang et al. 2020). This pandemic is disrupting global supply chains and international trade. More than hundred countries have closed their international borders during the months of March to August 2020, which has caused the movement of people and tourism to come to a stop (Chang et al. 2020). Millions of people in these countries are facing job loss. To avoid a sharp slowdown in their economies, governments around the world are considering and implementing massive stimulus programs, which could potentially plunge the global economy into a deep recession (Wojcik and Ioannou 2020).

The negative consequences of prolonged economic restrictions in developed countries would also spread to developing countries across trade and investment networks. Consumer spending in the European Union and the United States is expected to fall sharply, reducing imports of consumer goods from developing countries. Furthermore, global manufacturing output could decrease as a result of extended disruptions to global supply chains (United Nations 2020).

Bruna and Depoix (2020) indicated that businesses needed to adopt a proactive approach to working capital to ensure a greater chance of successfully overcoming the many challenges. Bruna and Depoix (2020) further propose that businesses need to focus on their cash availability and, as such, create an accounts payable and accounts receivables checklist. These checklists indicate that businesses need to extend payment terms, eradicate early payments, and shut down unnecessary supply to obtain quick account payable cash release benefits. These checklists also indicate that it is imperative to intensify invoicing, cash collection, and dispute management to accelerate the cash inflow, while enhancing credit risk management activities to secure client payments due. All the actions in these checklists are designed to create awareness amongst the employee base about the importance of a secured and stable cash inflow.

PwC (2020) identified that, based on network experience in working with businesses, governments and regulators during other worldwide pandemics including Ebola, MERS, SARS and the bird flu, that there are three key steps that should be considered by management teams who seek to stabilise their cash position. These steps include:

a) Rapidly understand the current financial situation: Depending on the severity of the situation, an assessment of available and trapped cash may need to be made in a matter of weeks or days as responding quickly is essential.

b) Take action to protect the position: Once clarity on the cash position has been obtained, the directors and management teams should take immediate action to ensure they can (at a minimum) maintain this position, alongside identifying opportunities to access new money, if required.

c) Manage internal and external stakeholders: Alongside steps 1 and 2, organisations will need to quickly understand who their key stakeholders are (internally and externally). Management of stakeholders can often be

challenging in a stressed scenario, particularly where interest is conflicting and there are significant demands for real-time information.

## *Results of WCM during Extreme Change*

Goldsworthy and McFarland (2018) explain that the phrase "extreme change" refers to not only to a disruptive change, but also to any form of large scale, complex, change effort (or a series of them) that challenge the ability of the business to respond. Managing extreme change means more than surviving change once. It means developing the ability to get better at change over time and learning how to get better at managing an uncertain future.

The rationale behind managing WCM during extreme change is to avoid potential financial difficulties. Poor WCM may lead to financial distress, which increases the risk of bankruptcy. When businesses are faced with extreme change, they may be in either inevitable distress or approaching bankruptcy. In this situation, WCM becomes of interest to banks and legal advisors (Ramiah et al. 2014). Banks tend to rely on working capital data to decide whether they can offer additional business loans, whereas legal advisors use it to determine whether a business is legally bankrupt. Working capital is a proportion of the shareholder's funds and is a common way to free-up cash when needed (Smart and Megginson 2009, p. 652). Therefore, effectively managing working capital during extreme change is of critical importance (Brigham and Daves 2010, p. 719).

Krell (2020) highlighted a study of WCM best practises, which identified several improvements businesses can consider in order to cushion the impact of extreme change. These include:

- Aligning WCM processes with corporate strategy.
- Cultivating cross-functional engagement.
- Identifying relevant drivers, and related metrics, for WCM value and risk.
- Deploying supporting technology to increase efficiency and support process improvements.
- Continuously improving capability.

## *Results of WCM Post COVID-19*

Schwartzkopf (2020) finds that businesses, both during and post COVID-19, will have to respond to the impacts of the global pandemic in an impassive way to ensure that they can emerge from it. Bruna and Depoix (2020) identify that businesses and individuals are experiencing demand volatility, with a clear example being the overdemand for food and household products that is affecting everyone worldwide. Additionally, businesses are hampered by revenue reductions, such as those imposed by government guidelines on store closures that severely affect all sectors of the economy, and in particular the retail sector. Businesses are additionally being faced with necessary investments to ensure workforce safety, to include increased cleaning services, hard to source hand sanitiser and cleaning

products, as well as major investment in communications technology to support the millions of employees working from home (Schwartzkopf 2020).

*Results of WCM in a New Economic Order*

Dorsman and Westerman (2019, p. 43) stated that working capital management is an "evergreen". However, it is not always understood as being that important for businesses, since it is concerned with "just" short-term financing issues. Nevertheless, working capital programmes are next to long-term asset and financing programmes crucial to a business's value creation. Other than the latter, their efficiency directly translates into business performance, especially in harsh economic times, such as those faced by many businesses during the financial crisis, pandemic and the new economic order (Zeidan and Shapir 2017).

The following are possible guidelines (adapted from PwC 2020) that businesses can follow to ensure that they succeed in the new economic order post COVID-19:

- Consider accelerating digital transformations as the shift to remote working reveals gaps in IT infrastructure, workforce planning and digital upskilling.
- Protect growth and profitability through actions such as scenario planning, more frequent financial modelling exercises to improve resiliency, and new models that incorporate economic impacts of past pandemics.
- Understand customers through longer-term considerations around shifts in core markets or business models as a result of the pandemic.
- Effectively manage cash taxes, obtain available refunds and consider local government and tax authority measures in response to COVID-19.
- Consider taking steps to stabilize supply chains when preparing for a volatile sales and profit mix in key markets.
- Assess the company resources to meet ongoing indirect and direct tax compliance requirements.
- Explore opportunities focused on becoming more flexible in responding to arising uncertainties.

**Discussion**

Considering the results of the critical analysis, if businesses would like to maximize working capital efficiency, they need to:

- Build a sense of cross-functional ownership by bringing teams together with a common objective and bring cash to the forefront of decision-making.
- Eliminate internal barriers of competing metrics that could be driving the wrong behaviours or taking focus away from cash.

- Get accurate information internally, and from suppliers and customers, as close to real-time as possible.
- Think about the financial health of the supply base and set the right payment terms for the right category of suppliers.
- Keep a tight hold on what payment term extensions the business is willing to negotiate. Be sure that finance can calculate the impact to avoid unfortunate surprises.
- During a time of incredible disruption, take the opportunity to reassess priorities.

## Limitations and Future Research

The search strategy for this study was limited to three databases and 14 academic outputs were used in the study. This search strategy limited the publications included in the dataset. However, these outputs provided valuable trends and directions. There is limited information on how business should protect their working capital during tough economic times. Future research on what financial managers can do to lessen the impact of change on business is needed. Research is also needed to assist in creating policy frameworks for the government on how they could support business to survive extreme changes whilst maintaining the integrity of the economy.

## Conclusion

Governments around the world are considering and rolling out large stimulus packages to avert the sharp downturn of their economies, which could potentially plunge the global economy into a deep recession. The adverse effects of prolonged restrictions on economic activities in developed countries are spilling over to developing countries via trade and investment channels.

The COVID-19 pandemic, and resulting economic crises, has left businesses grappling with the challenge of ensuring continuity while working remotely, accessing short-term liquidity, and supporting supply chains. In the absence of appropriate WCM practises, businesses often will fail. This statement implies that accurately managed WCM policies are essential for a business's survival. Therefore, as it is important to have a balance between profitability and liquidity, practitioners should scrutinise working capital if they want to avoid the likelihood of their businesses failing.

The COVID-19 pandemic, which reached its peak of the second wave in South Africa during this study, has highlighted aspects in the manner which businesses manage working capital. As a result, there have been calls for greater emphasis to be placed on the management of working capital during extreme changes, during pandemics and in the new economic order the World is facing.

## References

Akinsola FA (2016) *Implication of financial crises, financial regulation and business cycle for bank lending in South Africa.* Doctoral Thesis. Stellenbosch, South Africa: Stellenbosch University.

Brigham FE, Daves PR (2010) *Intermediate financial management.* 10th Edition. South Western: South-Western Western College.

Bruna E, Depoix T (2020) *Working capital trends in Europe: during COVID-19 and beyond.* Retrieved from: https://www.efficioconsulting.com/en-gb/resources/whi tepapers/working-capital-trends-in-europe-during-covid-19-and-beyond/. [Accessed June 2020]

Chang C, McAleer M, Wong W-K (2020) Risk and financial management of COVID-19 in business, economics and finance. *Journal of Risk and Financial Management,* 13(5): 102–109.

Chukwu OB (2018) Evaluation of the new international economic order: its possibilities and challenges. *Scholars International Journal of Law, Crime and Justice* 1(2): 39–45.

Correia C (2019) *Financial management.* 9th Edition. Cape Town: Juta.

Dorsman AB, Westerman W (2019) What drives working capital levels? *Hacettepe University Journal of Economics and Administrative Sciences* 37(1): 41–63.

Fenton P (2020) Finance in a post-COVID world. Retrieved from: https://home.Kpmg/xx /en/home/insights/2020/08/finance-in-a-post-covid-world.html. [Accessed September 2020]

Goldsworthy S, McFarland W (2018) *Managing extreme change.* Retrieved from: https://m360.sim.edu.sg/article/Pages/Managing-Extreme-Change.aspx/. [Accessed June 2020]

Haron R, Nomran NM (2016) Determinants of working capital management before, during, and after the global financial crisis of 2008: evidence from Malaysia. *The Journal of Developing Areas* 50(5): 461–468.

Ismail R (2017) Working capital – An effective business management tool. *International Journal of Humanities and Social Science Invention* 6(3): 12–23.

Kapoor A, Dasher R (2020) *View: future of global economic order.* Retrieved from: https://economictimes.indiatimes.com/news/economy/policy/view-future-of-global-economic-order/articleshow/76130647.cms?from=mdr/. [Accessed June 2020]

Kasozi J (2017) The effect of working capital management on profitability: a case of listed manufacturing. *Investment Management and Financial Innovations* 14(2): 336–346.

Kayani UM, De Silva T, Gan C (2019) A systematic literature review on working capital management: An identification of new avenues. *Qualitative Research in Financial Markets* 11(3): 352–366.

Kosakowski P (2017) *Investopedia.* Retrieved from: https://www.investopedia.com/artic les/economics/09/subprime-market-2008.asp/. [Accessed June 2020]

Krell E (2020) *Boosting working capital management in a downturn.* Retrieved from: https://www.treasuryandrisk.com/2020/03/31/boosting-working-capital-manageme nt-in-a-downturn/?slreturn=20201005141747/. [Accessed June 2020]

Kwenda F, Holden M (2014) Determinants of working capital investment in South Africa: evidence from selected JSE-listed firms. *Journal of Economics and Behavioral Studies* 6(7): 569–580.

Louw E, Hall JH, Brümmer LM (2016) Working capital management of South African retail firms. *Journal of Economic and Financial Sciences* 9(2): 545–560.

Louw E, Hall JH, Pradhan RP (2019) The relationship between working capital management and profitability: evidence from South African retail and construction firms. *Global Business Review* 1(1): 1–21.

Madubeko V (2010) The global financial crisis and its impact on the South African economy. Master's Dissertation. Alice, South Africa: University of Fort Hare.

Norton A, Parkinson KL, Drake PP (2011) Corporate finance and portfolio management. *CFA Program Curriculum* 4(157): 200–245.

Oseifuah O (2018) Global financial crisis, working capital management and profitability of non-financial firms listed on the Johannesburg stock exchange, South Africa. *Academy of Entrepreneurship Journal* 24(3): 1–12.

Pricewaterhouse Coopers – PwC (2020) The impact of trade-disrupting COVID-19 on South African business. Retrieved from: https://www.pwc.co.za/en/publications/impact-of-trade-disrupting-covid-19-on-sa-business.html [Accessed June 2020]

Ramiah V, Zhao Y, Moosa I (2014) Working capital management during the global financial crisis: the Australian experience. *Qualitative Research in Financial Markets* 6(3): 332–351.

Schwartzkopf J (2020) *COVID-19 and working capital: bringing working capital management together.* Retrieved from: https://www.abladvisor.com/articles/18581/covid-19-and-working-capital-bringing-working-capital-management-together. [Accessed May 2020]

Simon S, Sawandi N, Abdul-Hamid MA (2017) The quadratic relationship between working capital management and firm performance: evidence from the Nigerian economy. *Journal of Business and Retail Management Research* 12(1): 94–108.

Singh HP, Kumar S (2013) Working capital management: a literature review and research agenda. *Qualitative Research in Financial Markets* 6(2): 173–197.

Smart SB, Megginson WL (2009) *Financial management.* 2nd Edition. South-Western: Cengage.

United Nations (2020) *Coronavirus global health emergency.* Retrieved from: https://www.un.org/en/coronavirus/. [Accessed June 2020]

Van Wyk C, Botha Z, Goodspeed I (2015) *Understanding South African financial markets.* 5th Edition. Pretoria: Van Schaik Publishers.

Wojcik D, Ioannou S (2020) COVID-19 and finance: market developments so far and potential impacts on the financial sector and centres. *Tijdschrift voor Economische en Sociale Geografie* 111(3): 1–14.

World Health Organization – WHO (2020) *COVID-19 strategy update.* Retrieved from: https://www.who.int/docs/default-source/coronaviruse/covid-strategy-update-14april2020.pdf. [Accessed March 2021]

Zeidan R, Shapir O (2017) Cash conversion cycle and value-enhancing operations: theory and evidence for a free lunch. *Journal of Corporate Finance* 45(1): 201–219.

Zimon G, Tarighi H (2021) Effects of the COVID-19 global crisis on the working capital management policy: evidence from Poland. *Journal of Risk and Financial Management* 14(169): 1–17.

# A Review of the Leading Information Technology Companies' Modern Slavery Statements

## By Peter Jones[*] & Daphne Comfort[±]

*Modern slavery is an insidious problem in many sectors of the global economy, and it poses a challenge for the information technology industry. However, the issue of modern slavery in the information technology industry has received little or no attention in the business and management literature and this paper looks to provide an exploratory review of one of the ways in which the leading information and communication technology companies have addressed this issue, by reviewing their modern slavery statements. The findings reveal that five interlinked themes, namely, corporate commitment; risk assessments and due diligence in supply chains: codes of conduct; awareness, capability building, and training; and future plans and key performance indicators illustrated the spirit of the selected companies' modern slavery statements. Identifying and tackling the risk of modern slavery within supply chains presents the major challenges for the information technology companies, and the paper concludes that the leading technology companies' modern slavery statements can be best seen as a work in progress.*

**Keywords** *modern slavery, modern slavery statements, leading information technology companies, supply chains, auditing*

## Introduction

Modern Slavery, simply defined as "the severe exploitation of other people for personal or commercial gain" (Anti-Slavery International 2021a) is an insidious problem in many sectors of the global economy. More specifically, KnowTheChain (2018), a resource for businesses and investors who need to understand and address forced labor abuses within their supply chains, suggested that "the information and communications technology sector is at high risk of forced labor". While Caruana et al. (2020) argued that modern slavery offers "potential for innovative theoretical and empirical pathways to a range of business and management research questions", they suggested that the "development into what we might call a "field" of modern slavery research in business and management remains significantly, and disappointingly, underdeveloped".

The issue of modern slavery in the information technology industry has received little or no attention in the business and management literature and this paper looks to provide an exploratory review of one of the ways in which the leading information technology companies have addressed this issue by reviewing

---

[*]Associate Professor, School of Business, University of Gloucestershire, UK.
[±]Daphne Comfort was a Research Associate in the School of Business at the University of Gloucestershire when this paper was written, but sadly she died on August 5th 2021.

their modern slavery statements. As such, this paper looks to contribute to addressing a gap in the academic literature on modern slavery and will hopefully stimulate future research in the field. The paper includes an introduction to modern slavery and modern slavery statements, a brief discussion of the challenges for research on modern slavery and of some of the relevant academic literature in this field, a description of the frame of reference and method of enquiry, an exploratory review of the modern slavery statements developed by the world's leading information technology companies, some reflections on these statements.

## Modern Slavery and Modern Slavery Statements

There are many definitions of slavery and modern slavery and Allain and Bales (2012) argued "the very term slavery and its contours are contested". Mende (2019) argued that there "is no single definition of the scope and form of modern slavery", but that "a certain image of modern slavery" can be identified, and that "this image can be summarised by three denominators", namely "the control of a person over another", "an involuntary aspect in their relation", and "the element of exploitation". For Manzo (2006), "the constituent elements of modern slavery are identified as control without ownership; violence (or the threat of violence); coercion (loss of freedom and choice); and exploitation (of labour power through unpaid work)". Landman and Silverman (2019) drew attention to the "Bellagio-Harvard Guidelines on the Legal Parameters of Slavery" which emphasised "the notion of control and the lack of agency for victims of slavery, where different forms of coercion maintain power over individuals and prevent them from leaving the conditions of their enslavement".

Landman and Silverman (2019) suggested that "popular understandings of slavery often conjure up images of African slaves brought to the Caribbean, Brazil and the US, where such images typically include slave ships, slaves bound in chains and slaves auctioned at market", but that "such imagery tends to obscure current realities of slavery and relegate it as a problem of the past". However, far from being a relic of a bygone era, Landman and Silverman (2019) argued that "slavery is alive and well and that it has taken on new forms or updated old forms, comprising a variety of practices that include debt bondage, domestic servitude, forced prostitution, forced labour, forced marriage and human trafficking". Debt bondage, for example, perhaps the most widespread form of modern slavery, occurs where people trapped in poverty borrow money, and are forced into work to pay off the debt, and in so doing, lose control over their employment conditions, and the original debt. Human trafficking, involves the use of violence, threats, or coercion to transport, and often to recruit or harbour people, for labour, forced prostitution or marriage.

Bannerjee (2020) suggested that while slavery is a crime under international law, it remains "a viable and profitable management practice for business", and that "modern slavery, far from being an aberration, is a logical outcome of the way our political economic system is organized and its historical origins in the colonial system". Conservative estimates put the number of victims of modern slavery at

over 40 million (International Labour Office 2017), with the annual profits from modern slavery estimated to be some US$ 150 billion (International Labour Office 2014). Geographically, National Geographic (2016) suggested that India, China, Pakistan, Bangladesh and Uzbekistan have the largest number of slaves, while the percentage of the total population in slavery is highest in North Korea, Uzbekistan, Cambodia, India and Qatar.

A number of governments, as well as a wide range of national and international organisations, have been active in looking to tackle the issue of modern slavery. Some of the major political initiatives to tackle modern slavery have focused on urging large companies to address modern slavery both within large own operations, and arguably more importantly, in their supply chains. In 2015 the UK Government, for example, pioneered this approach in introducing the Modern Slavery Act, described as "the most far reaching global legislation on forced labour and human trafficking" (KnowTheChain 2018). This legislation required all organisations with an annual turnover in excess of £36 million, to produce an annual modern slavery statement, setting out the steps they had taken to prevent modern slavery in their businesses and supply chains. Here the challenge is for businesses is to take serious and effective steps to identify, and root out, modern slavery and all businesses were encouraged to be vigilant and to focus on continuous improvement. More recently a small number of other countries have also introduced legislation to tackle modern slavery within supply chains. In 2018 Australia, for example, introduced a Modern Slavery Bill, modelled in part on the UK legislation, which included prescribed criteria for corporate modern slavery statements.

More specifically, the UK's 2015 Modern Slavery Act gave law enforcement agencies a variety of provisions to tackle modern slavery including a maximum life sentence in prison for perpetrators and enhanced protection for victims. Under the terms of the 2015 legislation, while all organisations are not expected to guarantee that all of their operations and supply chains are free from slavery, their modern slavery statements must describe the steps the organisation has taken during the financial year in question to address modern slavery risks. The Government's statutory guidance recommended that modern slavery statements should include information on the organisation's structure and supply chains, its policies on slavery and human trafficking, risk assessment and due diligence processes, training, and key performance indicators. In July 2018, the UK Government commissioned an independent review of the 2015 legislation to examine if its provisions should be strengthened. Following this review, the Government announced it planned to iintroduce binding rules on the content, timing, and publication of modern slavery statements, and possibly to introduce a single enforcement body to oversee compliance.

## Research Challenges and Literature Review

To date, modern slavery in the information technology industry has attracted no attention in the academic business and management literature. In part, this may reflect a reluctance within the industry, and its supply chains, to permit researchers

access to documentation and decision makers to allow them to pursue research investigations into modern slavery. Denying access for such research may reflect commercial sensitivities and/or fears about essentially publicly unspoken corporate concerns about employee recruitment and labour practices within supply chains, and attendant fears of damaging publicity, and possibly criminal prosecution, if modern slavery practices are explicitly revealed. In part the lack of published research on modern slavery within the information technology industry may also reflect researchers' fears for their personal safety if looking to undertake research, in settings where illegal, and criminal activity may be commonplace, and then publish their research findings. Here covert approaches might seem to offer a way forward, but such approaches are unlikely to offer genuine security in an environment where anxiety, suspicion, and the threat of physical violence, may be rife.

While the issue of modern slavery in the information technology industry, has yet to receive attention in the business and management literature, three strands of literature, namely general approaches to modern slavery, modern slavery in large companies' supply chains, and theoretical approaches to the study of modern slavery, merit attention. While Crane (2014) recognised that "scant attention has been paid to the phenomenon of modern slavery in the management literature", he looked to "redresses this by identifying modern slavery as a management practice comprising exploiting/insulating capabilities and sustaining/shaping capabilities". Further, he presented a model which demonstrated "how these microorganization-level capabilities enable enterprises that deploy slavery to take advantage of the macroinstitutional conditions that permit the practice to flourish in the face of widespread illegality and illegitimacy".

Phung and Crane (2019) explored the role of a range of "business perspectives", including human resource management, organizational and strategic management and supply chain management, in illuminating the practice of modern slavery. In a similar vein, Caruana et al. (2020) outlined research on modern slavery within the business and management discipline. While the authors recognised that the supply chain management literature "had paid more attention to modern slavery than any other subdisciplines of business and management", Caruana et al. (2020), also identified work on modern slavery in a number of other fields including strategy, accounting, human resource management, strategic inventory management, and marketing. In focussing on marketing, for example, Caruana et al. (2020) outlined the role of marketing communications in leveraging consumer activism about modern slavery practices.

The most extensive work on modern slavery in the business and management literature has focused on supply chains. Stevenson and Cole (2018), for example, examined how organisations in the UK reported on the detection and remediation of modern slavery in their supply chains. Their work revealed many firms used the same practices to detect and remediate modern slavery as for other social issues, but that the hidden, criminal nature of modern slavery and the involvement of third-party labour agencies effectively demanded innovative investigative approaches. Gold et al. (2015) looked to draw attention to the challenges modern slavery posed for supply chain management and argued a lack of ineffective

indicators meant that new tools and indicator systems should be developed to consider the specific social, cultural and geographical context of supply regions. At the same time, Gold et al. (2015) suggested that once incidences of modern slavery had been detected, then "multi-stakeholder partnerships, community-centred approaches and supplier development appear to be effective responses".

Meehan and Pinnington (2021) looked to assess if transparency in companies' supply chain statements indicated that substantive action was being taken to tackle modern slavery in supply chains. This research suggested that companies were using ambiguity in their supply chain statements "as a highly strategic form of action to defend the status quo, reduce accountability and delay action for modern slavery within supply chains", and that this ambiguity, effectively "protects firms, rather than potential victims of modern slavery" (Meehan and Pinnington 2021). Benstead et al. (2020) investigated modern slavery detection and remediation in supply chains via an action research case study in the textiles and fashion industry.

On the conceptual side, Gold et al. (2015) called for new theory development to facilitate the understanding of modern slavery, and while Caruana et al. (2020) suggested that modern slavery presented many opportunities for novel theory building, they concluded that existing theories were limited in their ability to conceptualise modern slavery. That said, Bales (2006) looked to build a "theory of modern or contemporary slavery through a set of assertions concerning the impact of global demographic and economic change on the nature of the slavery relationship over the past fifty to sixty years". Manzo (2006) proposed an alternative approach to that adopted by Bales, which she classified as being drawn from "Marxian or neo-Marxian political economy". Here the key themes were commodity production and trade, labour costs within a hierarchical division of labour, unequal terms of trade, capitalist expansion vis commodification and economic liberalisation, and the varied and uneven effects of the worldwide expansion of capitalism.

At the corporate level, three sets of theoretical approaches, namely institutional theory, stakeholder theory and contingency theory, merit attention. Flynn and Walker (2020) employed institutional theory, to explore how large companies were responding to modern slavery risks in their supply chains. Institutional theory was selected because Flynn and Walker (2020) argued that the transparency provision in the 2015 UK legislation represented institutional, rather than market, pressure on companies. Stevenson and Cole (2018) suggested that stakeholder theory offered potential for future research on modern slavery. Here, Stevenson and Cole (2018) argued that stakeholder theory was valuable in that while the primary audiences for modern slavery statements were external stakeholders, it was important for companies to consider what their modern slavery statements revealed to their suppliers. Gold et al. (2015) argued that research questions about modern slavery could be fruitfully framed by contingency theory and institutional theory. The former was seen to help to achieve a deeper appreciation of the importance of culture, geography, legislation, and regulation, while the latter could help in investigations of how, and why, modern slavery traders can continuously resist pressures to adopt more legitimate forms of business.

However, while modern slavery within the information technology industry offers a potentially rich variety of research opportunities, it is important to recognise that it a very challenging research arena. While slavery is illegal in the vast majority of jurisdictions, it can also be a lucrative economic activity, and those individuals and organisations involved in modern slavery, human trafficking and bonded labour, will generally do all they can to hide, and maintain the secrecy of, their activities. Researchers who look to conduct primary research into modern slavery activities may be placing themselves, possibly their research colleagues, and those who participate in such research, in serious personal danger. Problems, and tactics designed to minimise such problems, are rarely addressed in the research literature but they may curtail many potentially promising modern slavery research agendas. At the same time, researchers may face a range of ethical issues, not least researchers' responsibility to those who participate in their research. More generally, there are some guidelines for social science researchers looking to pursue hidden activities (e.g., Ellard-Gray et al. 2015), but researching modern slavery within the information technology industry seems fraught with difficulties and dangers.

## Frame of Reference and Method of Enquiry

In looking to conduct a review of the leading information technology companies' modern slavery statements, the authors chose a simple method of enquiry, which they believe to be fit for purpose. The leading ten information technology companies, as listed by Alertify (2019), namely Microsoft, IBM, Oracle, Accenture, Hewlett Packard Enterprise, SAP, Tata Consultancy Services, Capgemini, Cognizant, and Infosys, were selected for investigation. In selecting these companies, to provide the framework for the review, the authors took the view that as leading players in the information technology industry, they might be seen to reflect good practice on modern slavery statements.

The vast majority of large companies post their policies on a wide range of issues on their corporate websites, so the authors undertook a series of Internet searches, using modern slavery statement and the name of each of the selected companies as key terms, on Google in June 2021. These searches revealed that all of the selected companies had published modern slavery statements, and the most recent modern slavery statements from the selected information technology companies provided the empirical material for this paper. As these statements are in the public domain on the selected companies' corporate websites, the authors took the view that they did not need to seek formal permission to use them. The modern slavery statements were relatively brief and clearly structured, and the authors felt that any form of content analysis would be unnecessary. Rather, the authors undertook a close reading of the statements and drew out the important themes. The paper draws extensively on selected quotations drawn from the selected companies' websites. The aim here, was to explore how the leading information technology companies publicly expressed, and evidenced, their approaches to tackling modern slavery. Here, the authors were of the opinion that an important

way of capturing such approaches was to cite the selected companies' own words, not least in that such citations could convey corporate authenticity and offer greater depth of understanding.

Microsoft is a US multinational company, which develops, manufactures, licenses, supports and sells computer software, consumer electronics and personal computers. IBM is a US multinational technology, and consulting company, founded in 1910, with operations in over 170 countries. Oracle is a US multinational corporation, which sells data base software and technology, cloud engineered systems and software products. Accenture is a multinational company headquartered in Ireland, and its business operations span strategy, consulting, technology software, and business process outsourcing. Hewlett Packard Enterprise is a US multinational information technology company, and its operations include financial technology, computer software, cloud computing, and artificial intelligence. SAP is a German multinational software corporation, with operations in over 180 countries. Tata Consultancy Services is an Indian multinational information technology services and consulting company. Capgemini is a French multinational corporation, which provides consulting, technology, professional, and outsourcing services. Cognizant is a US multinational corporation, which provides a range of digital, technology, operations, and consulting services. Infosys is an Indian multinational corporation, which provides business consulting, information technology and outsourcing services.

## Findings

The scope and content of the modern slavery statements posted by the leading information technology companies varied, but rather than looking to describe each statement in detail, the authors looked to identify, and draw out, a number of general themes. More specifically, the authors identified five interlinked themes, namely corporate commitment; risk assessments and due diligence in supply chains: codes of conduct; awareness, capability building and training; and future plans and key performance indicators; which illustrated the selected companies' approaches to their modern slavery statements.

The information technology companies' corporate commitments were expressed in a variety of ways. For some companies, such corporate commitment was expressed specifically and succinctly, while for others it is seen as part of a much wider set of corporate social responsibility and human rights policies. In his "Preface" to Accenture's (2020), "Modern Slavery Act Transparency Statement 2020", Oliver Benzecry, the company's UK Chairman and Managing Director, for example, claimed "Accenture maintains a long-standing commitment to respecting human rights including the elimination of slavery and human trafficking in our supply chains and business operations". In a similar vein, Hewlett Packard Enterprises (2020) emphasised the company "is committed to combatting the risk of modern slavery in our global operations and supply chain", while Tata Consultancy Services (2020) reported "we are fully committed to the prevention of all forms of slavery, forced labour or servitude, child labour and human

trafficking, both in our business and in our supply chains. We do not tolerate it". Infosys (2020) reported "we are committed to upholding human rights and the steps we have taken to ensure that slavery and human trafficking do not operate within our business and supply chain", while Cognizant (2019) claimed that the company "has a zero-tolerance approach to any form of modern slavery".

IBM's (2020) "Modern Slavery Act Transparency Statement 2020" was seen as part of the company's extensive approach to corporate social responsibility and corporate citizenship, though its statement included the commitment that "forced, bonded (including debt bondage) or indentured labour, involuntary or exploitative prison labour, slavery or trafficking of persons shall not be used". Microsoft's (2019) "Global Human Rights Statement" enshrined the company's commitment to a number of specific human rights instruments, which prohibit slavery, forced servitude and forced labour. More specifically Microsoft (2019) emphasised the company was "committed to our responsibilities to respect human rights across our operations and to minimise the risk of modern slavery and human trafficking in our business and supply chains".

Risk assessments offered some insights into the leading information technology companies' perceptions of the location and scale of modern slavery within their industry. Here, the companies' supply chains were seen as presenting the major risk of modern slavery. Oracle (2020), for example, reported its ongoing assessment of modern slavery risks within its supply chains and that its assessment procedures involved the identification of both Tier 1 suppliers, which sell their product directly to Oracle, and Tier 2 suppliers, which sell their product to a company that then sells the product to Oracle, and the identification of the risk factors related to all those suppliers. Further, Oracle (2020) reported commissioning both in house, and third-party, audits to assess "high risk suppliers" performances' on modern slavery concerns. Such audits were reported to include factory tours, meetings with management, on site interviews, document reviews and assessments of dormitories, cafeterias, and wastewater treatment facilities.

Accenture (2020) reported that it assessed its overall modern slavery risk profiles in relation to its suppliers by referencing several factors including the geographical location of the supplier and the industry in which their suppliers operate. Microsoft (2019) claimed that "preventing modern slavery and human trafficking in our business and supply chains requires the engagement of key business units where we have determined there is a potential risk of human trafficking and forced labour". More specifically, Microsoft suggested that US government advice was that the manufacture of electronics posed a risk for forced and child labour, and reported the company's focus was on minimising the risk of modern slavery in its supply chains was focussed on their business units that supply electronic devices and servers. Further, Microsoft (2019) reported that "third part audits are conducted to ensure supplier and sub-tier conformance', and that 'suppliers must correct any identified nonconformance or risk termination of our Microsoft business relationship".

Due diligence processes are reported as an important element of risk assessments in some of the selected information technology companies' modern slavery statements. Capgemini (2020), for example, claimed "we have committed

to conducting due diligence on all procurement policies to identify any area where Capgemini could be unintentionally putting pressure on our suppliers leading to modern slavery". SAP (2020) reported "we conduct strict due diligence measures to ensure that our suppliers are not guilty or participating in any offenses relating to modern slavery or human trafficking". Hewlett Packard Enterprise outlined its due diligence processes, which are an important element of its commitment to assessing and managing the risk of modern slavery. Here, Hewlett Packard Enterprise reported working to identify emerging risks of modern slavery in its supply chain at global, regional, and local levels, and as part of that process the company claimed to engage with a wide range of stakeholders, including employees at suppliers, industry bodies, governments and appropriate non-governmental organisations. Hewlett Packard Enterprise (2020) also reported that its "supplier risk evaluation", designed to "to analyse the potential for practices that can lead to forms of modern slavery", included "on-site social compliance audits".

A number of the selected companies outlined a variety of codes of conduct designed to identify and prevent the incidence of modern slavery within their businesses and supply chains. Accenture (2020), for example, reported that the company required all its suppliers to comply with its global "Supplier Standards of Conduct", which sets out the standards that "suppliers must adhere to particularly in relation to slavery and human trafficking". More generally, Hewlett Packard Enterprise (2020) claimed its broad commitment to human rights was enshrined in its supplier, and its contingent worker, codes of conduct. In a similar vein, Tata Consultancy Services (2020) reported that its "Transparent Supply Chain Code of Conduct" looked to ensure that all suppliers are committed to ensuring that there is "no slavery, forced labour, servitude, child labour or human trafficking" within their businesses.

Many of the leading information technology companies acknowledged the importance of awareness raising, capability building and training in looking to tackle modern slavery. In addressing "training on modern slavery and trafficking", Oracle (2020), for example, reported that "employees are trained on the risks and issues associated with human trafficking, including methods of mitigating risks within hardware supply chains", and that "to increase awareness of human trafficking and modern slavery risks, Oracle provides annual training to its sourcing teams". Accenture (2020) emphasised its commitment "to advocating awareness of slavery and human trafficking within our global ecosystem of Accenture suppliers", and Hewlett Packard Enterprise (2020) reported on its supplier training programme, first introduced in 2011, and designed to help suppliers understand the company's expectations on tackling modern slavery.

A number of the leading information technology companies reported on their future plans to continue their battles against modern slavery. Under the banner "Next Steps", Cognizant (2019), for example, reported "we will continue to monitor the effectiveness of our actions against modern slavery and human trafficking, ensuring measures support our zero-tolerance stance to modern slavery". More specifically, Cognizant suggested that its next steps might include the continued education of its employees on the issues and implications of modern slavery, the continued enhancement of its supplier and vendor due diligence

processes, and the auditing of supply chains on a regular basis. Capgemini (2020) listed a number of "future commitments", including developing specialised and focused training for specific groups, and introducing modern slavery awareness to all new employees.

A minority of the leading information technology companies reported developing key performance indicators in their battles to combat modern slavery. In addressing "our effectiveness in combating slavery and human trafficking", Infosys (2020) reported using a number of loosely defined "key performance indicators", including working with suppliers to acknowledge and socialise the company's supplier code of conduct, providing information to support staff, and conducting periodic internal audits and, where necessary, specifying remedial action. Capgemini (2020) reported on its development of a number of more tightly specified key performance indicators designed "to give transparency to our aspirations, actions and performance". These key performance indicators included 100% compliance with the company's standards in relation to modern slavery for all suppliers, the annual mapping of supply chain spend and the introduction of debt pondage detection measures on each payroll run.

**Reflections**

The leading information technology companies' modern slavery statements illustrated their public approach to what is a complex and challenging issue, but a number of wider issues merit reflection and discussion. The findings reported above suggested that while the selected companies were at their most emphatic in expressing their corporate opposition to modern slavery, their modern slavery statements can be best be described as a work in progress. Identifying, monitoring and tackling the risk of modern slavery within supply chains present major challenges for the information technology companies, and they are challenges that are at least one step removed from their direct corporate control.

That said, while many of the leading information technology companies claimed their approach in addressing modern slavery within their supply chains was effectively underwritten by auditing, concerns have been expressed about the efficacy of the audit process in safeguarding against modern slavery. The pressure group Anti-Slavery International (2021a), for example, argued that such approaches have their limitations, not least in that "the quality and scope of auditing may be questionable, or there may be practical difficulties such as auditors being unable to speak with workers in their own language". Anti-Slavery International (2021b) also argued that "forced labour is often hidden", that "it is often found in the informal sector, in the early stages of production, often some steps down the supply chain", and that "subcontracting can also hide forced labour as it adds layers between the company and the worker", which "are out of the scope of many audits".

Gold et al. (2015) used the term "audit fraud" to describe illegal activities hidden by the supplier from the auditing company. Gold et al. (2015) also suggested that "slave-holders skimming huge profits from their activities will not

be susceptible to change in response to premium-price incentives for social standards from the buying company", rather "they might instead take the premium and at the same time extend their existing profitable business model". In a similar vein, LeBaron et al. (2017) argued "the growing adoption of auditing as a governance tool is a puzzling trend, given two decades of evidence that audit programs generally fail to detect or correct labor and environmental problems in global supply chains". More positively, Benstead et al. (2020) argued that "a targeted audit", which investigates "the end-to-end recruitment process by using a parallel structure of management and worker interviews and documentation review", is "more likely to reveal key indicators of modern slavery".

Secondly, the concept of the modern slavery statement itself has attracted a number of criticisms. Simic and Blitz (2019) argued that modern slavery statements are "often perfunctory and are used to satisfy international agendas and country commitments, or to enhance the perception of the country and its position in the global outsourcing business". Further, Simic and Blitz (2019) also argued that the capacity of modern slavery statements "is often limited, especially as it regards remedying risks", and that "the quality, scope, depth, and regularity of reports are frequently compromised, especially since there are no meaningful sanctions for non-compliance". The issue of non-compliance is pressing, not least in that Monciardini et al. (2021) suggested that within the UK, for example, non-compliance with the 2015 legislation "is a common occurrence".

This, in turn, raises fundamental questions about the effectiveness of modern slavery statements in tackling, and ideally eradicating, modern slavery. New and Hsin (2021), for example, argued that while modern slavery statements "present interesting information about the management of working conditions in the firms' supply chains, they do little to address the problems of modern slavery per se". In posing the question "What are corporations, as responsible citizens doing to eliminate modern slavery", Bannerjee (2021) suggested "most corporations do very little apart from issuing public statements and commitments to eradicate forced labour". More critically, Bannerjee (2021) argued "there is a real danger that corporations involved in modern slavery can use the Modern Slavery Act to bolster their corporate social responsibility credentials, which then serve as a smokescreen to conceal practices of modern slavery".

This review of modern slavery statements published by the selected information technology companies also has some implications for the theoretical approaches mentioned earlier. On the one hand, other than highlighting the links between modern slavery and the information technology industry and the importance of global raw material supplies and cheap sources of international labour, the review of the selected companies' modern slavery statements provided little insights into the theories proposed by Bales (2006) and Manzo (2006). On the other hand, the review suggested that the selected information technology companies had responded positively to political pressure and legislation to introduce modern slavery statements, and these actions can be seen to be consistent with institutional theory.

At the same time, contingency theory helps to shed some light on how the leading information technology companies approached modern slavery, but

perhaps only in so far as it signals that some of the characteristics of the industry, namely its use of globally sourced raw materials and labour supplies, seem to make them susceptible to modern slavery. Stakeholder theory might be seen to be useful in informing how the leading information technology companies have developed their modern slavery statements, but stakeholder theory is generally seen to be based on open relationships, trust and shared goals, and these qualities are certainly not common to all the stakeholders involved in modern slavery.

**Conclusions**

Having identified modern slavery in the information technology industry as a gap in the management and business literature, this paper outlined some of the challenges for research on modern slavery and some of the relevant academic literature in this field, before reviewing the modern slavery statements adopted by the ten leading information technology companies. As such the paper makes an initial contribution to the literature on modern slavery in the information technology industry. Five interlinked themes namely, corporate commitment; risk assessments and due diligence in supply chains: codes of conduct; awareness, capability building and training; and future plans and key performance indicators; illustrated the selected companies' approaches to their modern slavery statements. The authors argued that Identifying and tackling the risk of modern slavery within supply chains posed the major challenge for the information technology companies and concluded that the leading technology companies' modern slavery statements can be best seen as a work in progress.

The authors recognise that the paper has a number of limitations. The empirical material for the review is drawn exclusively from the corporate websites of the selected information technology companies, and does not include any primary information supplied by, or obtained from, the companies' executives, managers or employees, or any information obtained from the companies' suppliers. However, the authors believe this approach is appropriate in what is an explanatory review, and that the paper makes a small contribution to an area that has received no attention in the business and management literature, and that it may provide a platform for future research into modern slavery in the information technology industry.

A number of potential research opportunities into corporate approaches to modern slavery within the information technology industry can be identified. Here, the ways in which the industry addresses the issue of modern slavery merits attention, and could include questionnaire surveys of, as well as personal interviews and focus groups with, senior company executives to learn how their companies have developed, and continually look to strengthen, their policies on modern slavery. Such research agendas may also explore if, and how, employees, customers, subcontractors, suppliers, governments, and law enforcement agencies are involved in the policy development process. In addition, research into modern slavery within the information technology industry may help both to test, and to illuminate, theoretical approaches to modern slavery

# References

Accenture (2020) *Modern slavery act transparency statement*. Retrieved from: https:// www.accenture.com/_acnmedia/PDF-119/Accenture-Modern-Slavery-Act-Stateme nt.pdf. [Accessed 21 June 2021]

Alertify (2019) *Top ten IT companies in the world 2018*. Retrieved from: https://aler tify.eu/top-10-it-companies/. [Accessed 16 June 2021]

Allain J, Bales K (2012) Slavery and its definition. *Global Dialogue* 14(2): 6–14.

Anti-Slavery International (2021a) *What is modern slavery?* Retrieved from: https:// www.antislavery.org/slavery-today/modern-slavery/#:~:text=Modern%20slavery %20is%20the%20severe,as%20cooks%2C%20cleaners%20or%20nannies. [Accessed 1 April 2021]

Anti-Slavery International (2021b) *Effective monitoring systems*. Retrieved from: https://www.antislavery.org/take-action/companies/monitoring-forced-labour/. [Accessed 1 April 2021]

Bales K (2006) *Testing a theory of modern slavery*. Retrieved from: https://docum entation.lastradainternational.org/lsidocs/bales_test_theory_0607.pdf. [Accessed 24 May 2021]

Banerjee B (2020) Modern slavery is an enabling condition of global neoliberal capitalism: commentary on modern slavery in business. *Business and Society* 60(2): 415–419.

Benstead AV, Hendry LC, Stevenson M (2020) Detecting and remediating modern slavery in supply chains: a targeted audit approach. *Production Planning and Control* 32(13): 1136–1157.

Capgemini (2020) *Transparency statement.* Capgemini UK.

Caruana R, Crane A, Gold S, LeBaron G (2020) Modern slavery in business: the sad and sorry state of a non-field. *Business in Society* 60(2): 251–287.

Cognizant (2019) *Statement on modern slavery 2019*. Retrieved from: https://www. cognizant.com/en-UK/pdf/modern-slavery-statement.pdf. [Accessed 21 June 2021]

Crane A (2014) Modern slavery as a management practice: exploring the capabilities and conditions for human exploitation. *Academy of Management Review* 38(1): 49–69.

Ellard-Gray A, Jeffrey NK, Choubak M, Crann SE (2015) Finding the hidden participant: solutions for recruiting hidden, hard-to-reach, and vulnerable populations. *International Journal of Qualitative Methods* 14(5): 1–10.

Flynn A, Walker H (2020) Corporate responses to modern slavery: an institutional theory perspective. *European Business Review* 3(2): 295–315.

Gold S, Trautrims A, Trodd Z (2015) Modern slavery challenges to supply chain management. *Supply Chain Management* 20(5): 485–494.

Hewlett Packard Enterprise (2020) *2020 modern slavery transparency statement*. Hewlett Packard Enterprise.

IBM (2020) *Modern slavery act transparency statement.* IBM.

Infosys (2020) *Modern slavery act statement*. Infosys.

International Labour Office (2014) *Profits and poverty: the economics of forced labour*. Retrieved from: https://www.ilo.org/global/topics/forced-labour/publications/WCM S_243391/lang--en/index.htm. [Accessed 28 May 2021]

International Labour Office (2017) *Global estimates of modern slavery: forced labour and forced marriage*. Retrieved from: https://www.ilo.org/wcmsp5/groups/public/--- dgreports/---dcomm/documents/publication/wcms_575479.pdf. [Accessed 28 May 2021]

KnowTheChain (2018) *Eradicating forced labour in electronics*. KnowTheChain.

Landman N, Silverman BW (2019) Globalization and modern slavery. *Politics and Governance* 7(4): 275–290.

LeBaron G, Lister J, Dauvergne P (2017) Governing global supply chain sustainability through the ethical audit regime. *Globalizations* 14(6): 958–975.

Manzo K (2006) Modern slavery, global capitalism and the deproletarianisation in West Africa. *Review of African Political Economy* 32(106): 521–534.

Meehan J, Pinnington BD (2021) Modern slavery in supply chains: insights through strategic ambiguity. *International Journal of Production and Operations Management* 41(2): 77–101.

Mende J (2019) The concept of modern slavery: definition, critique, and the human rights frame. *Human Rights Review* 20(1): 229–248.

Microsoft (2019) *Modern slavery and human trafficking statement.* Retrieved from: Microsoft-Modern-Slavery-Human-Trafficking-Statement-FY19 (2).pdf . [Accessed 21 June 2021]

Monciardini D, Bernaz N, Androv A (2021) The organizational dynamics of compliance with the UK modern slavery act in the food and tobacco sector. *Business and Society* 60(2): 288–340.

National Geographic (2016) *Where are the world's slaves.* National Geographic Education Blog.

New S, Hsin L (2021) Deconstructing modern slavery statements: a detailed analysis of Arcadia Group and Babcock International. Retrieved from: https://ssrn.com/abstract=3768495. [Accessed 3 April 2021]

Oracle (2020) 2020 *Oracle statement against modern slavery.* Retrieved from: https://www.oracle.com/uk/a/ocom/docs/slavery-policy-statement-uk-fy20.pdf. [Accessed 21 June 2021]

Phung K, Crane A (2019) The business of modern slavery: management and organisational perspectives. In JB Clark, S Poucki (eds.), 177–197. *The Sage Handbook of Human Trafficking and Modern Day Slavery.* London: SAGE Publications.

SAP (2020) *2019/20 modern slavery statement.* Retrieved from: https://www.sap.com/uk/documents/2020/12/54e4afd3-c07d-0010-87a3-c30de2ffd8ff.html. [Accessed 21 June 2021]

Simic A, Blitz BK (2019) The modern slavery regime: a critical evaluation. *Journal of the British Academy* 7(1): 1–34.

Stevenson M, Cole R (2018) Modern slavery in supply chains: a secondary data analysis of detection, remediation and disclosure. *Supply Chain Management* 12(3): 81–99.

Tata Consultancy Services (2020) *Modern slavery act statement.* Retrieved from: https://modernslaveryregister.gov.au/statements/file/698b6248-0bb7-414f-9a55-f03e6cf6e031/. [Accessed 21 June 2021]

# Defending Against Copycat Packaging:
# The Role of Design from a Consumer's Perspective

*By Ezgi Oguz[*] & Jamie Marsden[±]*

*Copycat packaging involves a type of imitation strategy in which the appearance of a market leader's packaging design is simulated by a low-cost alternative. Previous literature has focused on reactive strategies against copycat packaging, primarily involving litigation and packaging design changes; however, very little attention has been assigned to the role of packaging design as a proactive strategy for mitigating against copycat packaging. To address this issue, this study examined the role of design in mitigating copycat packaging from a consumers' perspective. We conducted an exploratory study of 37 semi-structured interviews to understand how consumers respond to the design components on visually similar packaging across a range of FMCG products. We found that packaging design cues have the greatest impact on purchasing decisions in cases where consumers have no familiarity with a brand, but less influence when consumers are already familiar with a brand. Consumers rank the importance of packaging design features differently depending on the product category. For high-cost items, consumers rank structural design as the most important feature, whereas colour is considered the most important for low-cost products. We end the paper by discussing the implications for brand managers and outline strategies for minimising the occurrence of copycat packaging.*

**Keywords:** *copycat, packaging design, similarity, packaging strategy, consumer evaluation*

## Introduction

Copycat packaging is a strategy where a lower cost brand attempts to mimic the appearance of a market leader's packaging design (Warlop and Alba 2004). By designing the components of the name, logo, colour, graphics, packaging shape and label shape in a visually similar way, copycat packaging attempts to exploit the positive associations related to a leader brand (Van Horen and Pieters 2012, Johnson et al. 2013). Such practices used to be isolated occurrences, with the first known case emerging in 1994 for Sainsbury's cola in the UK (Rafiq and Collins 1996). However, research shows that it is now a rapidly growing phenomenon (Johnson et al. 2013), with 42 per cent of all private label brands attempting to emulate the packaging design of the market leader (Vale and Matos 2015). Although copycats accounted for 2 per cent of the UK grocery market in 1998 (Johnson et al. 2013), the British Brand Group director said that currently, there is little to stop copycat in the UK (Masters 2013).

[*]PhD Candidate, School of Design, University of Leeds, UK.
[±]Lecturer, School of Design, University of Leeds, UK.

Whereas counterfeits – another type of imitation – is an exact copy of the original product and is an illegal practice, copycats are equally damaging but yet a legal practice (Brondoni 2013). Copycat packaging can mislead and confuse consumers into mistaken purchases due to the visual similarity of a leader brand's packaging (European Brands Association Trade Mark Committee 2010). Such practice leads to crucial business harm for brand owners, such as lowering innovation, wasted costs on changing packaging, loss of sales, loss of followers, dilution of brand equity and reputation, and loss of fair competition (Kapferer 1995, Lee and Zhou 2012, Johnson et al. 2013). The impact of the resulting trade loss was estimated in 2004 to be at $512 billion (Zaichkowsky 2006). As such, leader brands have little option but to defend against copycat packaging.

There are two types of strategies that brands can adopt to defend against copycat packaging: reactive strategy, which is based on responding to the copycat phenomena after it occurs, and proactive strategy, which focuses on minimising the copycat phenomena before it becomes a problem. Reactive strategies can involve tactics such as selling out, licensing and joint venture, negotiated settlements, legal action, and packaging changes; proactive strategies consist of legal protection and differentiation (Collins-Dodd and Zaichkowsky 1999, Schnaars 2002). However, these reactive and proactive strategies can be inadequate. Firstly, legal action is expensive (Doyle 1996) and time-consuming (Collins-Dodd and Zaichkowsky 1999), and may not result in favour of the leader brand because it is challenging to prove passing off and infringement claims in court (Rafiq and Collins 1996). Secondly, packaging changes can be costly for brand owners and are usually followed by other competitors (Johnson et al. 2013). Thirdly, when the owner of copycat packaging is confronted with a legal debate, they change its design slightly to protect themselves from enforcement. Finally, trademark infringement can be challenging to prove consumer confusion when some imitators copy only the most salient features of a design (Lopes and Casson 2012). Therefore, brand owners struggle to overcome copycat problems with these strategies.

Although the literature regarding imitation has predominantly investigated counterfeiting (Zaichkowsky 2006, Lai and Zaichkowsky 1999), previous research regarding copycat has addressed diverse topics such as consumers' similarity evaluation of copycat (Van Horen and Pieters 2012, Zaichkowsky 2006, Miceli and Pieters 2010), brand confusion caused by the similarity of the visual design (Kapferer 1995, Loken et al. 1986, Miceli and Pieters 2010, Warlop and Alba 2004, Satomura et al. 2014), copycat's effect on purchase behaviour (Vale and Matos 2015), the impact of product category on the brand evaluation of imitation (Le Roux et al. 2015) and potential business harm caused by copycat (Johnson et al. 2013).

With respect to defending against copycat packaging, previous literature has focused on reactive strategies, primarily involving legal action and packaging changes; however, very little attention has been assigned to the role of packaging design as a proactive strategy for mitigating against copycat packaging. Therefore, the aim of this study was to examine the role of design components in mitigating copycat packaging from a consumers' perspective, by exploring the following

research question: How do consumers respond to the design components of visually similar packaging? From our analysis of qualitative interview data, we found that packaging design cues have the greatest impact on purchasing decisions in instances where the consumers have no familiarity with a brand, either the leader brand or copycat brand; whereas their past experience has the greatest influence when they have familiarity. Moreover, we found that consumers respond to visually similar packaging differently depending on the product category. In other words, structural design was more influential for high-cost categories, whereas colour was more influential for low-cost categories. We expand on these results by suggesting that the impact of packaging's features can vary between different types of product, and that responses are influenced by brand recognition. We outline several practical recommendations for leader brands in their attempts at managing the challenge of copycat brands.

## Literature Review

*Packaging and Consumer's Purchase Decision*

Packaging is a silent salesman on the shelf where enables the communication between the brand and the consumer (Simms and Trott 2010). Packaging provides information, choice, and satisfaction for consumers; moreover, it enables firms to be differentiated, segmented and commercialised (Dobson and Yadav 2012). It helps to distinguish the product from its competitive products, which leads to gain a competitive advantage by breaking through the noise on the market (Rundh 2005). Packaging plays a critical role in different types of industries, but especially in the fast-moving consumer goods (FMCG), which are non-durable goods such as food, groceries, alcohol, and toiletries. FMCG products are characterised as being quickly purchased by consumers with low involvement, under limited time for products with a short shelf life (Dobson and Yadav 2012, Silayoi and Speece 2007). In this highly competitive context, brands attempt to attract the attention of consumers through packaging.

Packaging has a crucial role in shaping the purchase decision of the consumer at the point of sale. It is estimated that two-thirds of consumer product purchase decision is made with quick recognition and rapid perception at the point of sale (Satomura et al. 2014). Packaging plays a vital role not only in assisting the consumer at the point of sale by serving as a cue and a source of information, which allow them to recognise brands they are looking for, but also influencing their future purchasing decisions (Dobson and Yadav 2012). According to the cue utilisation theory, consumers use some cues to assess the quality of the product when they are not certain about the product (Olson and Jacoby 1972). Therefore, the role of packaging as an indirect cue (extrinsic cue) is a mode of brand communication (Olson and Jacoby 1972).

Packaging conveys messages about the product attributes to consumers through visual or verbal elements such as colour, brand name, shape, logotype and material (Dobson and Yadav 2012). In addition, packaging also communicates

brand identity and brand associations via its verbal and visual elements (Underwood 2003). Being one of the five elements of a brand, including brand name, the logo and graphic symbol, the personality and the slogans (Keller 1998), the packaging is the physical embodiment of the brand identity whose each feature of packaging contributes to the unique brand propositions and values (Southgate 1995, Kotler and Keller 2016). Similar to the brand name, which functions obviously as a sign and conveys meanings based on brand associations, specific design elements, which are brand's design cue, function with the same logic of embodying meanings (Karjalainen 2004). Therefore, the packaging is a source of information not only about the product but also the brand.

As well as packaging, there are other crucial elements that have an influence on consumer's purchase decision. The first one is the price that can be the only reason for buying a product (Hustic and Gregurec 2015). The second one is prior experience with a product that is ranked as the most important considerations in purchasing decisions (Johnson et al. 2013). If the consumer has a past experience with a product, (s)he is familiar with it. Furthermore, familiarity with one or both brands may affect the similarity judgement of the consumer. In other words, a consumer who is unfamiliar may perceive the brands as more similar, whereas a familiar consumer differentiates the brands (Murphy and Wright 1984). The last reason is involvement level with a product category. Depending on a consumer's experience and knowledge, while some consumers are able to make quick purchase decisions, other consumers need to get more information and be more involved to make a purchase (Silayoi and Speece 2007).

*Brand Differentiation through Packaging*

Packaging is a critical strategic element for brand differentiation (Underwood and Klein 2002), because it offers both short-term and long-term advantage for firms by helping to gain an advantage by combatting competitors at the point of purchase and sustain competitive advantage by building brand loyalty which is the source of brand equity (Dobson and Yadav 2012). There are two main packaging tactics; distinctive packaging, which is based on the innovative strategy, and copycat packaging, which is based on the imitative strategy.

Distinctive packaging is defined as packaging that deviates strongly from the packaging in a specific category (Dobson and Yadav 2012); therefore, they break through the visual clutter of the marketplace and become the pioneer of the category. Creating unique packaging is an effective route for new entrants because it attracts consumer attention and raises consumer curiosity, which can lead to making a purchase decision (Dobson and Yadav 2012). Examples of packaging that is considered as distinctive are: the Toblerone chocolate bar, the Coca-Cola bottle, the Absolut vodka bottle, the Grolsch bottle, the Jack Daniels bottle, the Marmite's jar, the Chanel perfume bottle, the Campbell's soup can and the Toilet Duck bottle. These packages have remained similar over the years, apart from subtle changes.

*Copycat Packaging*

Copycat is known as lookalikes, me-too, trade dress imitation and parasitic. Copycat packaging is defined as imitating the visual appearance such as the name, logo, colour, graphics, packaging shape and label shape of a leading brand, which is not descriptive, functional and commonplace (Warlop and Alba 2004, Van Horen and Pieters 2012, Johnson et al. 2013, European Brands Association Trade Mark Committee 2010). Copycat packaging has some advantages for the imitator. Firstly, copycat packaging is a less risky strategy than distinctive packaging since it evokes associations that consumers are familiar with the leader brand (Brown et al. 2010). Secondly, it is a cost-effective strategy because imitators do not need to spend money on research and development and the design process (Wierzbicki and Nowodzinski 2019). Thirdly, it can lead consumers to exclude other brands apart from the leader brand and copycat brand from their consideration set (Vale and Matos 2015). On the other hand, copycat packaging has some disadvantages for the leader brand who invests time, money and effort in developing a unique visual identity. It can cause business harm, including lowering innovation, wasted costs on changing packaging, loss of sales, loss of followers, dilution of brand equity and reputation, and loss of fair competition (Kapferer 1995, Lee and Zhou 2012, Johnson et al. 2013).

Copycat packaging appears across different product categories such as cereal, detergent, drugs, drinks, personal hygiene, dairy products, and groceries (Mansfield et al. 1981, Vale and Matos 2015). There are some well-known examples of copycat packaging (see Figure 2 in Appendix). Firstly, in the beverage category, the Classic Cola, which was launched by Sainsbury in 1994 in the UK, imitated the packaging of Coca-Cola through the typography, the layout of graphics and the colour combinations (Warlop and Alba 2004). The Sainsbury's Classic Cola had a red can with white labelling, including the 'classic' word like Coca-Cola. Secondly, in the condiment category, the Realemon juice mimicked the unique packaging of the Jif lemon juice, which was launched in plastic lemon-shaped squeezy packaging in 1955, in the UK, with respect to the lemon-shaped structural design, the colour and the placement of the label (Kuan 1990). Lastly, the Anti-Dandruff shampoo by Boots mimicked the distinctive packaging of the Head & Shoulders shampoo by using the curved structural shape, the graphic of water wave, and the colour combinations (Johnson et al. 2013).

*Consumer's Evaluation of Copycat Packaging*

One study has shown that copycat brands and leader brands are perceived to have a similar origin, similar quality and similar characteristics because of the mimicking of the visual cues (Johnson et al. 2013). The more similarly consumers perceive the copycat brand and the leader brand, the more likely they purchase. After buying a copycat brand, consumers may be dissatisfied with a copycat brand without realising that the product purchased was a copycat or they may be satisfied with a copycat brand which consumers are aware it is not original, which causes to switch brand preferences from the original brand to the copycat brand (Foxman et al. 1990).

Consumers evaluate copycat packaging critically depending on the degree of similarity and the presence of a leader brand (Van Horen and Pieters 2012, Van Horen and Pieters 2013). Firstly, in cognitive psychology, the similarity is assessed by a feature-matching process (Tversky 1977, Gati and Tversky 1984). According to this theory of similarity, the more common features that there are, the more similar the product is; however, the more distinctive features there are, the less similar the product is. Secondly, evaluation of the copycat brand is more positive in the case of the absence of the leader brand than the presence of the leader brand since consumers may interpret similarity in terms of substitutability (Van Horen and Pieters 2012).

Due to the visual similarities of the leader brand and copycat brand packaging, copycat packaging creates brand confusion. Typically, retailers place the copycat brand adjacent to the leader brand, adding to consumer confusion (Kumar and Steenkamp 2007). In contrast to high-cost packaging, low-cost packaging is more liable to confuse and mislead consumers (Balabanis and Craven 1997). It is reported that 38 per cent of consumers are confused or misled by similar packaging, and 33 per cent of consumers have mistakenly bought a copycat brand because of its similar packaging (Johnson et al. 2013, European Brands Association Trade Mark Committee 2010). Therefore, in UK law, the Consumer Protection from Unfair Trading Regulations aims to protect consumers against unfair commercial practices such as copycat packaging (The Consumer Protection from Unfair Trading Regulations 2008, 2008). In the context of copycat, unfair commercial practices can be constituted by containing false information or causing confusion by the imitation of the competitors' product or package (The Consumer Protection from Unfair Trading Regulations 2008).

*Defending Strategies against Copycat Packaging*

Firms use defensive strategies against copycat packaging because copycat packaging leads to crucial business harm for them. Reviewing the literature on defensive strategies, they can be categorised into two different types: reactive and proactive strategies. Reactive strategy is based on responding to the copycat phenomena after it occurs, while proactive strategy focuses on minimising the copycat phenomena before it becomes a problem. Reactive strategies are selling out, licensing and joint venture, negotiated settlements, legal action, and packaging change, and proactive strategies are legal protection and differentiation (Collins-Dodd and Zaichkowsky 1999, Schnaars 2002).

Firstly, in a growing market, a pioneer with a good reputation sells out for a high price to a firm (Schnaars 2002). Secondly, a pioneer agrees to license the technology with a strong partner (Schnaars 2002). Thirdly, negotiation is a commonly used strategy against a copycat brand because it guarantees the cessation of imitator's activity, and it is cheaper and quicker than other strategies (Lopes and Casson 2012). To illustrate, the Sainsbury's Classic Cola imitated the packaging of Coca-Cola through the typography, the layout of graphics, used 'classic' word as the product name and the red and white colour combinations. Coca-Cola and Sainsbury's negotiated that Sainsbury's change its packaging and

product name (Balabanis and Craven 1997). Fourthly, litigation is the most common way of defending against copycat packaging (Collins-Dodd and Zaichkowsky 1999). If an imitator has a blatant copy of the pioneer's packaging, the pioneer can stop the copycat packaging from selling through legal action. Many legal cases are resolved by packaging withdrawal or packaging redesign of the imitator brand (Shenkar 2014). Although taking legal action is a common way for combatting copycat, there are some reasons for not taking legal action to respond to imitation (Rafiq and Collins 1996). The first one is that it is challenging to prove passing off and infringement claims in court; therefore, not many cases win a legal debate, although there are many copycat brands in the market. However, many companies such as Coca-Cola, Unilever, Procter & Gamble and Kraft are often successful in pursuing trademark infringement and passing off in court (Kumar and Steenkamp 2007). The second one is that litigation is expensive, and the last one is that it is time-consuming (Collins-Dodd and Zaichkowsky 1999).

The first proactive strategy to defend against copycat packaging is legal protection. Packaging can be eligible for design, copyright, trademark protection and passing off or unfair competition. Packaging can be protected under design rights, which protects the features of a product such as lines, contours, colours, shape, and textures when it is novel and has an individual character (Registered Designs Act 1949 2021). However, design rights have some weaknesses in the context of copycat packaging, that is, enforcement problems. When the owner of copycat packaging confronts a debate, they change its design slightly to protect themselves from enforcement. As well as design rights, the packaging is eligible for copyright, which is an unregistered right. Still, the owners of copycat packaging can only claim copyright if it is an exact copy; therefore, copyright does not provide proper protection for the leader brand (Copyright, Designs and Patents Act 1988 2018).

Trademark is particularly crucial in marketing-based industries which are based on product design or image rather than on technology (Lopes and Casson 2012). A word, a logo, a shape (structural design), a colour, a pattern and a sound can be registered as a trademark if it has a distinctive character and is not functional (Trade Marks Act 1994 2021). For example, the Haig & Haig whiskey bottle is a registered trademark (Miaoulis and D'Amato 1978). Trademark law allows the owner to protect any words or design, which is distinctive from other competitors' goods, against unauthorised use such as copying and misrepresentation by third parties and gives the trademark owner monopoly rights (Trade Marks Act 1994 2021). Trademark protection provides the most prolonged period of protection than other protection types; it lasts indefinitely by renewing on payment of additional fees (Trade Marks Act 1994 2021). The trademark owner has the right to enforce when there is a likelihood of confusion; however, it can be challenging to prove the consumer confusion when some imitators copy only salient features of the design (Lopes and Casson 2012). Besides, 'trade dress', which is under trademark law, protects the total image and overall appearance of a product and its packaging and therefore includes size, shape, colour combinations, texture and graphics (Trade Marks Act 1994 2021, Lee and Sunder 2017).

'Passing off' in the UK, which is called unfair competition in other countries, has a broader scope than other intellectual property rights (Johnson et al. 2013). Unlike other rights, passing off is not a statute; it is based on case law. It gives a right to the brand owner to prevent competitors from misrepresenting their goods. In the context of copycat packaging, the scope of passing off is the imitation of the look and feel of the packaging, not only a direct copy. However, passing off in the UK requires proof of confusion, deception and damage, which are challenging to carry out; on the other hand, unfair competition in other countries does not need proof of confusion and deception (Burt and Davis 1999).

As the second proactive strategy, differentiation is crucial for keeping imitators out (Collins-Dodd and Zaichkowsky 1999). Design is a way of differentiation; however, competitors easily imitate the design of the leader brand. Therefore, design features which are hard to imitate, such as sophisticated printing, embossing, foil blocking, a unique logo or typeface and an unusual structural shape, have a crucial role in mitigating copycat packaging (Doyle 1996).

Copycat packaging is a significant problem for both consumers and brand owners. Defensive strategies against copycats can be inadequate mitigation tools for several reasons. Firstly, legal action as a reactive strategy may not result in favour of the leader brand because it can be difficult to prove passing off and infringement claims in court (Rafiq and Collins 1996, Lopes and Casson 2012). Secondly, constant changes of packaging – as a reactive strategy – becomes an ongoing expense to brand owners and is eventually imitated by other competitors (Johnson et al. 2013). Thirdly, legal protection as a proactive strategy can be inadequate because when the owner of copycat packaging is confronted with a legal challenge, they typically respond with a slightly modified packaging design to protect themselves from enforcement. With these aforementioned strategies, brand owners may not completely overcome a copycat problem. However, the role of packaging design has largely been overlooked as a potentially more optimum strategy for mitigating copycat packaging.

## Methods

The purpose of this study was to understand how consumers respond to the design components on visually similar packaging designs across a range of FMCG products. To achieve this aim, the study adopted a qualitative semi-structured interview approach along with photo-elicitation as a trigger for initiating responses. The 37 interviewees consisted of 25 females and 12 males, 22 of whom were students and 15 professionals. These British and International participants were selected based on the criterion that they had lived in the UK for at least one year to ensure familiarity with FMCG products in the UK market. Due to the COVID-19 restrictions, interviews were conducted online through Microsoft Teams, each interview lasting between 30 and 60 minutes. The participants were initially asked to imagine they were in a supermarket aisle to give a sense of the shopping environment and then asked to think-out-loud in response to seeing a series of visual stimuli. Participants were asked to respond to visually similar packaging in

a side-by-side orientation, as would be expected within the context of a supermarket shelf. During the interview, each interviewee was asked about six pairs of packaged examples (215 pair-packaged examples in total) consisting of one leader brand and one copycat brand that was visually similar to the leader brand. All packaging examples were currently available in the UK market at the time of the interviews. Product examples were drawn from a range of FMCG product categories, the sector in which copycat packaging is most prevalent. The product categories consisted of low-cost and high-cost products to ensure the sample contained a sufficiently different selection of items in terms of cost and utility (see Figure 3 in Appendix). Every interviewee was assigned a selection of examples from the product categories that the interviewee regularly purchased (learned prior to the interview via a screening questionnaire). The packaging image examples were presented in a similar way to how they would be displayed on the supermarket shelf, with a front view that included the price and quantity (or amount). All interviews were recorded and transcribed immediately by the researcher. The analysis focused on how the participants processed visual similarity, such as the identification of the key features, the order in which the features were raised, personal opinions on the features, how such features made them feel, and what considerations they might make if deciding upon purchase from the given category.

## Findings

The importance of each design element of the packaging depended on familiarity with the brand. We found that 70 per cent of the participants were familiar with one of the category brands, either the leader brand or copycat brand, with 30 per cent unfamiliar. From our analysis of the participant responses, we found that packaging design cues have the greatest impact on purchasing decisions in instances where the consumers have no familiarity or prior experience with a brand. It follows that with an absence of brand knowledge, consumers look to packaging (and price) for cues of product quality. In such instances, participants ranked colour as the most influential feature of packaging design, and the one feature that had the allure to influence the choice of customers (see Figure 1). The mimicking of established colour combinations was most impactful for copycat brands, particularly for its ability to mislead consumers into mistaken purchases. The two extracts below give a reflection of these themes.

> "Although there is some difference between the products [chocolate examples], I think the colour combinations is really the reason of the mistake which I made." Participant 1
> "The bright green and purple colour [breakfast cereal examples], which is high contrast, are eye-catching and drawn me quite to it." Participant 2

**Figure 1.** *The Importance of the Packaging Elements Ranked by the Consumers*
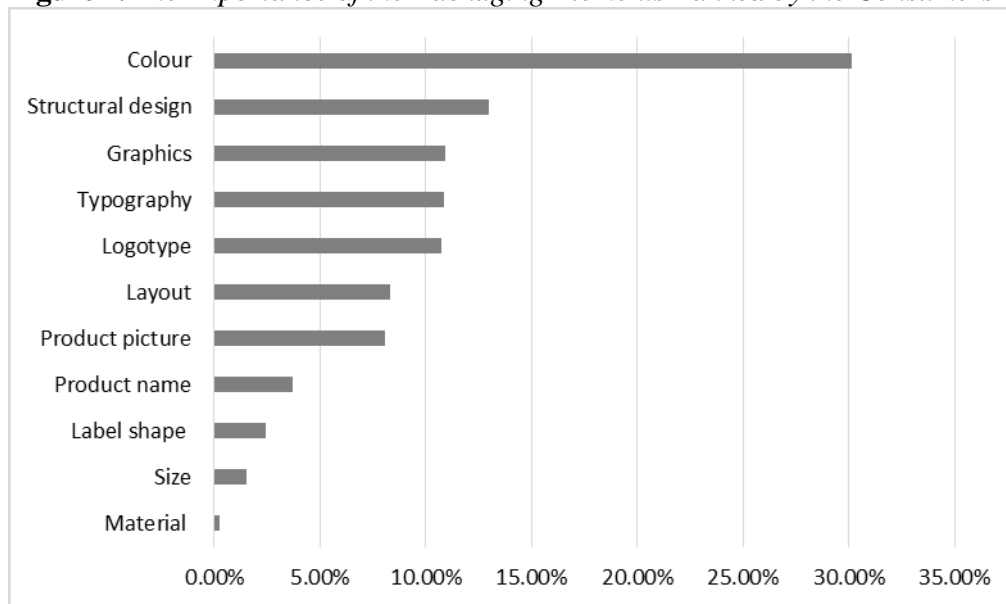


*Source:* Authors.

Furthermore, the participant's response to the importance of each design element of the packaging differed in response to low-cost products and high-cost products. That is if the product was high-cost, the participants ranked structural design as the most important element followed by colour; whereas for low-cost products the participants ranked colour as the most important element, followed by graphics. The results showed that 43 per cent of participants claimed to have mistakenly purchased visually similar items because they assign less attention to low involvement, low-cost product categories. The combination of lower consumer attention and copycat brands mimicking recognisable colour combinations increased the likelihood of purchase errors. Within the population of participants that had made purchasing errors, we found that 17 per cent related to high-cost products and 83 per cent related to low-cost products. This finding suggests that because the consumers are more attentive in the purchasing process of a high-cost product, there is less likelihood for misleading copycat purchases to occur within such product categories, which is consistent with Balabanis and Craven (1997).

For consumers with a familiarity of an existing brand, we found that graphics was ranked as the second most important feature. In such instances, consumers are relying on pre-existing awareness of graphical signals and therefore look to packaging design for recognition of graphical elements, such as the brand identity and combination of colour. However, when consumers have no familiarity with any of the brands on offer, we found that structural design – three-dimensional form – was the second most important feature behind colour. This was particularly pronounced for high-cost products where, in the absence of prior information, consumers look to packaging for cues of quality and the packaging's ability to visually reassure consumers that the product is likely to satisfy the purchaser's needs.

When consumers have familiarity with one of the category brands, either the

leader brand or copycat brand, their past experience has the greatest influence on their purchasing decisions, closely followed by the brand name. In such instances, packaging design has less influence on consumers because they are merely scanning the packaging for the most important information: the brand identity for brand recognition.

In situations where the brand leader's product was not available, 54 per cent of the participants stated they were willing to switch to another brand; however, 46 per cent said they would be unwilling to buy an alternative to their preferred brand. The interesting point in this finding was that, of the 54 per cent willing to try the copycat brand, participants considered the alternative item solely as a substitute of the "real thing". The visual similarity of copycat products led participants to perceive these items as substitutable and, therefore, less likely to generate brand loyal customers, which is consistent with the literature (Van Horen and Pieters 2012).

## Discussion

In this paper, we explored how copycat brands use packaging design features to imitate the packaging of market leader brands, in order to appeal to consumers. We examined previous concepts that advocated the use of reactive strategies, which primarily involved litigation activities and continuous updates of packaging design. From our analysis of interview data, this paper considered how leader brands could be more proactive in their approach to packaging design and adopt a number of measures that present a greater deterrent to copycat imitators. From this analysis, we draw together the key points of the findings and outline several practical recommendations for leader brands in their attempts at managing the challenge of copycat brands.

Our analysis revealed that the influence of packaging design is dependent on whether a consumer has familiarity with a brand, as prior experience has a greater influence than packaging. We know from earlier studies (Johnson et al. 2013) that prior experience plays an influential role in consumer decision-making; however, our findings expand on this point by specifying how packaging design cues can better optimise the decision-making process for consumers. The implication for leader brands is that they would be best served to focus their packaging designs on brand recognition – in other words, displaying the brand name prominently. This is particularly important for lower cost items where cost restrictions limit the ability to make packaging sufficiently distinctive. More importantly, brand identity features, such as brand names and logos, can be legally protectable as trademarks, and therefore are less likely to be directly imitated by legitimate companies that create copycat brands.

The second implication is that leader brands should focus their efforts on achieving differentiation of the overall appearance of packaging within the category, through the design of a unique combination of features. While certain features such as colour ranked highly with participants, colour is a feature of brand identities that can be difficult to protect alone (Cadbury's purple is an exception).

Indeed individual features are easier for copycats to imitate without necessarily infringing on a brand leader's intellectual property rights. However, it is the unique combination of packaging features, such as the structural shape, colour, and logo, that collectively offer a much stronger basis for establishing a distinctive appearance to packaging, and therefore a firmer basis for achieving legal protection. Leader brands would be best served to focus on prioritising structural form alongside the application of colour, as these were the most impactful features in higher cost items where the expectations (and margins) allow for more imaginative use of design. Our findings give further weight to the arguments forwarded by Collins-Dodd and Zaichkowsky (1999) and Doyle (1996) whereby it is the distinctive combinations of features that better facilitate legal protection under both design right if they are novel and individual in character, and trade dress (under trademark right), if they are sufficiently distinctive (Registered Designs Act 1949 2021, Trade Marks Act 1994 2021). Our findings suggest that there is a distinct hierarchy in how consumers rank the importance of the various packaging design features.

As the results showed, consumers with no familiarity of an available brand use visible and tactile design cues in product packaging as indicators of quality. While packaging design has a greater influence on this subset of consumers, the population of consumers with no familiarity of an available brand becomes a diminishing pool: brand unfamiliarity only exists at the point of the first purchase. Thereafter consumers have familiarity with a given brand, and past experience becomes more influential than packaging design. Nevertheless, the implication for leader brands, in higher cost segments, is that distinctive packaging that incorporates an interplay of structural form, colour and brand identity components, act as a deterrent to copycat brands from imitating their designs too closely in two ways. The first is that copycat brands typically have tighter margins available for packaging production, which means there is an intrinsic restriction to reproducing more expensively produced designs. Second, the creation of unusual and distinctive packaging better facilitates any subsequent legal argument for demonstrating direct imitation.

**Conclusion**

In this paper we approached the issue of copycat packaging by considering the role of packaging design as a mechanism for deterring copycat brands. Prior literature has attempted to address this issue through reactive tactics alone, most frequently advocating legal responses (Collins-Dodd and Zaichkowsky 1999, Schnaars 2002). While we acknowledge that such responses may be unavoidable, our findings indicate that packaging has an important role in deterring such imitating practices. Our findings extend earlier studies that stressed the importance of differentiated packaging (Underwood and Klein 2002, Collins-Dodd and Zaichkowsky 1999) by demonstrating that particular combinations of packaging features, such as sophisticated print-finishing techniques, distinctive use of structural form, emphasised trademarks along with striking colour combinations,

generate greater appeal among consumers. We further argued that by incorporating these principles, leader brands create product packaging that is more difficult for copycats to imitate, has a stronger influence on consumers in higher cost segments, and enhances the claim for distinctive brand assets in any subsequent legal case.

There are four limitations that need to be acknowledged. Firstly, this research was restricted to a limited number of product categories. To mitigate this limitation, we selected a range of product items that spanned a number of product classes. Second, packaging examples were limited to products currently available in the UK. While we anticipate that such consumer preferences may differ across different cultures, this research provides a starting point for further research within the FMCG copycat packaging arena. The third limitation is that our current findings are based on a minimal set of participants. We intend to extend the reach of the interviews and incorporate a broader sample of participants. The fourth limitation is that, due to the pandemic situation, the data gathering technique depended solely on two-dimensional representative imagery delivered via online interfaces. Therefore, such findings are based on consumers lacking a certain tactile and sensory experience when evaluating the structural forms of packaging. Although we have to acknowledge that this may seem a reduced and somewhat artificial consumer experience, we also recognise that consumption habits are rapidly changing and have been accelerated by the recent conditions. With the rise of online shopping, it could be argued that such consumption practices are likely to become the norm rather than the exception.

## Acknowledgments

## References

Balabanis G, Craven S (1997) Consumer confusion from own brand lookalikes: an exploratory investigation. *Journal of Marketing Management* 13(4): 299–313.

Brondoni SM (2013) Innovation and imitation for global competitive strategies. The corporation development models of US, Japan, Korea, and Taiwan. *Symphonya Emerging Issues in Management* 1(Jun): 12–27.

Brown D, Williams D, Abbott R, Wegrzyn N (2010) Do copycat brands reflect a lack of creativity in marketing? In *The Marketing Society Forum* 22.

Burt S, Davis S (1999) Follow my leader? Lookalike retailer brands in non-manufacturer-dominated product markets in the UK. *The International Review of Retail, Distribution and Consumer Research* 9(2): 163–185.

Chapman M (2015) *Why the cold war over 'copycat' branding may be set to heat up.* Campaign. Retrieved from: https://www.campaignlive.co.uk/article/why-cold-war-copycat-branding-may-set-heat/1177796. [Accessed 20 July 2021]

Collins-Dodd C, Zaichkowsky JL (1999) National brand responses to brand imitation: retailers versus other manufacturers. *The Journal of Product and Brand Management* 8(2): 96–105.

Copyright, Designs and Patents Act 1988 (as amended) (2018) Retrieved from: http://www.legislation.gov.uk/ukpga/1988/48/contents. [Accessed 20 July 2021]

Dobson P, Yadav A (2012) *Packaging in a market economy: the economic and commercial role of packaging communication*. Report. British Brands Group.

Doyle M (1996) *Packaging strategy: winning the consumer.* Lancaster: Technomic.

European Brands Association Trade Mark Committee (2010) *Parasitic copying: trading on the innovation and creativity of others*. Report. European Brands Association Trade Mark Committee.

Foxman ER, Muehling DD, Berger PW (1990) An investigation of factors contributing to consumer brand confusion. *Journal of Consumer Affairs* 24(1): 170–189.

Gati I, Tversky A (1984) Weighting common and distinctive features in perceptual and conceptual judgments. *Cognitive Psychology* 16(3): 341–370.

Hustic I, Gregurec I (2015) The influence of price on customer's purchase decision. In *Central European Conference on Information and Intelligent Systems* (2015). Faculty of Organization and Informatics Varazdin.

Johnson P, Gibson J, Freeman J (2013) *The impact of lookalikes: similar packaging and fast-moving consumer goods*. Report. Newport, UK: Intellectual Property Office.

Kapferer J (1995) Brand confusion: empirical study of a legal concept. *Psychology and Marketing* 12(6): 551–568.

Karjalainen T (2004) *Semantic transformation in design: communicating strategic brand identity through product design references*. Helsinki, Finland: University of Art and Design in Helsinki.

Keller K (1998) *Strategic brand management: building, measuring and managing brand equity.* Prentice Hall.

Kotler P, Keller KL (2016) *Marketing management.* 15th Edition. Essex: Pearson.

Kuan N (1990) Get-up of goods and the law of passing-off: case on lemons. *Malaya Law Review* 32(2): 333–345.

Kumar N, Steenkamp JBEM (2007) *Private label strategy: how to meet the store brand challenge*. Boston: Harvard Business School Press.

Lai KK, Zaichkowsky JL (1999) Brand imitation: do the Chinese have different views? *Asia Pacific Journal of Management* 16(2): 179–192.

Le Roux A, Thébault M, Bobrie F (2015) Typicality impact on brand imitations evaluation and categorisation. In *4th International Brand Relationships Conference* (2015).

Lee P, Sunder M (2017) The law of look and feel. *Southern California Law Review* 90: 529-591.

Lee RP, Zhou KZ (2012) Is product imitation good for firm performance? An examination of product imitation types and contingency factors. *Journal of International Marketing* 20(3): 1–16.

Loken B, Ross I, Hinkle RL (1986) Consumer "confusion" of origin and brand similarity perceptions. *Journal of Public Policy and Marketing* 5: 195–211.

Lopes TDS, Casson M (2012) Brand protection and the globalisation of British Business. *Business History Review* 86(2): 287–310.

Mansfield E, Schwartz M, Wagner S (1981) Imitation costs and patents: an empirical study. *The Economic Journal* 91(364): 907.

Masters S (2013, Apr 12) *Have a break, have a copycat: the supermarket misleader; Consumer groups say shoppers are being left confused by traders who imitate branded goods.* The Independent: London Edition.

Miaoulis G, D'Amato N (1978) Consumer confusion and trademark infringement. *Journal of Marketing* 42(2): 48–55.

Miceli GN, Pieters R (2010) Looking more or less alike: determinants of perceived visual

similarity between copycat and leading brands. *Journal of Business Research* 63(11): 1121−1128.

Murphy GL, Wright JC (1984) Changes in conceptual structure with expertise: differences between real-world experts and novices. *Journal of Experimental Psychology: Learning, Memory, and Cognition* 10(1): 144−155.

Olson JC, Jacoby J (1972) Cue utilisation in the quality perception process. In M Venkatesan (ed.), *Proceedings of the 3rd Annual Conference of the Association for Consumer Research, Association for Consumer Research,* 167−179. Iowa City, IA.

Pinterest (n.d.) Retrieved from: https://www.pinterest.co.uk/pin/4173570904 40400789/. [Accessed 20 July 2021]

Rafiq M, Collins R (1996) Lookalikes and customer confusion in the grocery sector: an exploratory survey. *International Review of Retail, Distribution and Consumer Research* 6(4): 329−350.

Registered Designs Act 1949 (as amended) (2021) Retrieved from: https://assets. publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/ 957357/Registered-Designs-Act-1949.pdf. [Accessed 20 July 2021]

Rundh B (2005) The multi-faceted dimension of packaging. *British Food Journal* 107(9): 670−684.

Satomura T, Wedel M, Pieters R (2014) Copy alert: a method and metric to detect visual copycat brands. *Journal of Marketing Research* 51(1): 1−13.

Schnaars SP (2002) *Managing imitation strategies: how later entrants seize markets from pioneers.* New York: The Free Press.

Shenkar O (2014) *Copycats: how smart companies use imitation to gain a strategic edge.* Boston: Harvard Business Review Press.

Silayoi P, Speece M (2007) The importance of packaging attributes: a conjoint analysis approach. *European Journal of Marketing* 41(11/12): 1495−1517.

Simms C, Trott P (2010) Packaging development: a conceptual framework for identifying new product opportunities. *Marketing Theory* 10(4): 397−415.

Southgate P (1995) *Total branding by design: how to make your brands packaging more effective*. London: Kogan Page.

Tedium (2017) *Lemon juice squeeze bottles: plastic's natural element.* Tedium. Retrieved from: https://tedium.co/2017/02/28/lemon-juice-squeeze-bottles-history/. [Accessed 20 July 2021]

The Consumer Protection from Unfair Trading Regulations 2008 (2008) Retrieved from: http://www.legislation.gov.uk/uksi/2008/1277/contents/made. [Accessed 20 July 2021]

Trade Marks Act 1994 (as amended) (2021) Retrieved from: https://assets.publishing.Se rvice.gov.uk/government/uploads/system/uploads/attachment_data/file/957352/unoffi cial-trade-marks-act-1994.pdf. [Accessed 20 July 2021]

Tversky A (1977) Features of similarity. *Psychological Review* 84(4): 327−352.

Underwood RL (2003) The communicative power of product packaging: creating brand identity via lived and mediated experience. *Journal of Marketing Theory and Practice* 11(1): 62−76.

Underwood RL, Klein NM (2002) Packaging as brand communication: effects of product pictures on consumer responses to the package and brand. *Journal of Marketing Theory and Practice* 10(4): 58−68.

Vale RC, Matos PV (2015) The impact of copycat packaging strategies on the adoption of private labels. *The Journal of Product and Brand Management* 24(6): 646−659.

Van Horen F, Pieters R (2012) When high-similarity copycats lose and moderate-similarity copycats gain: the impact of comparative evaluation. *Journal of Marketing Research*

49(1): 83–91.

Van Horen F, Pieters R (2013) Preference reversal for copycat brands: uncertainty makes imitation feel good. *Journal of Economic Psychology* 37(Aug): 54–64.

Warlop L, Alba JW (2004) Sincere flattery: trade-Dress imitation and consumer choice. *Journal of Consumer Psychology* 14(1&2): 21–27.

Wierzbicki M, Nowodzinski P (2019) Imitation and innovation in business environment. *Production Engineering Archives* 22(22): 36–40.

Zaichkowsky JL (2006) *The psychology behind trademark infringement and counterfeiting.* Mahwah, NJ: Lawrence Erlbaum.

**Appendix**

**Figure 2.** *Examples of Copycat Packaging*



*Source:* Pinterest (n.d.), Tedium (2017), and Chapman (2015).

**Figure 3.** *Pair-Packaged Examples from Different Product Categories*

| Butter and spreads | | Energy drinks | |
|---|---|---|---|
| Leader brand | Copycat brand | Leader brand | Copycat brand |
|  |  |  |  |
| **Alcohol drinks** | | **Shower gel** | |
| Leader brand | Copycat brand | Leader brand | Copycat brand |
|  |  |  |  |
| **Cleaning product** | | **Dishwashing** | |
| Leader brand | Copycat brand | Leader brand | Copycat brand |
|  |  |  |  |
| **Skin care** | | **Shampoo** | |
| Leader brand | Copycat brand | Leader brand | Copycat brand |
|  |  |  |  |

# Motivations and Challenges in Small Business Start-ups: A Glance at Vietnam's Public Relations Industry

## *By Tuong-Minh Ly-Le[*]*

*Purpose: This study focuses on entrepreneurship in Vietnam. It explores a founder's motivations, challenges, and growth strategies through concrete examples from public relations. Design/methodology/approach: This study adopts an inductive, grounded theory approach and collects data through a series of in-depth interviews. Findings: The results of this study show that most Vietnamese public relations industry founders are reluctant to make decisions based on their needs. At first, none of them had sufficient management skills or considered managerial tasks to be the most difficult. They are also less likely to make the changes their companies need to grow. They prefer to run small businesses because moderate growth is considered more sustainable and manageable. Originality: Despite the rising importance of entrepreneurship and public relations in Vietnam, there are only a few studies on Vietnam's public relations industry, and no previous work has explored why an entrepreneur decides to venture into public relations. Inadequate attention to the field calls for better understanding and research on this topic. Practical implications: This study expands the body of knowledge on Vietnamese entrepreneurship and provides practical implications and suggestions for businesspeople in Vietnam by providing insights into the founders' startup and management journey.*

**Keywords:** *entrepreneurship, entrepreneurial motivation, business growth, SME, public relations, Vietnam*

## Introduction

Small and medium enterprises (SMEs) are a central component in the development of an economy. They are a rapidly emerging force in the economic landscape of most countries. They play a pivotal role in economic development, employ the majority of industrial workforces, generate much of a sector's output (Hill, 2001). Besides, the alleviation of trade barriers, technological advancements, government supports have induced the growth of SMEs worldwide (Eravia et al., 2015). As a result, all economies, including those with high industrialization, rely on SMEs and entrepreneurship (Perry and Chu, 2012). SMEs are believed to be the main contributors to the development and the health of an economy (Perry and Chu, 2012; Tran, 2016). Asia is considered to be a hub of SMEs, where the number and the growth of SMEs proliferate. According to the Asian Development Bank, in Asia, SMEs account for 96% of companies and generate two-thirds of jobs (Yoshino and Taghizadeh-Hesary, 2018).

However, in contrast to their economic contribution and dynamic growth (in numbers), SMEs are believed to be the most vulnerable. At the industry level,

[*]Vice Dean, Faculty of Public Relations and Communication, Van Lang University, Vietnam.

SMEs have to face industry growth and maturity, increasing competition, lack of needed capital, cost and availability of resources, trends of strategic alliances, mergers and acquisitions, and an overall increasing level of complexity and uncertainty from a thriving business (Eravia et al., 2015; Ekstrom and Pallin, 2018). At the organizational level, SMEs usually have challenges in resource management and operational system as a result of growth (Ekstrom and Pallin, 2018). At the personal level, as their firms grow, entrepreneurs must overcome more responsibility at work, more challenges to their management capacity and more stress to strengthen their competitiveness (Eravia et al., 2015; Tran, 2016). In all levels combined, an entrepreneur needs to recognize the present and potential challenges, and to decide on a more effective form of management. Subsequently, although the number of SMEs in the market is high, the number of SMEs dissolved each year is also significant.

In the case of Vietnam, 98% of registered companies in Vietnam are SMEs, contributing 45% of the country's gross domestic product and creating more than 5 million jobs (Phung, 2019). The General Statistics Office of Vietnam revealed that there are more than 100,000 new companies registered each year, and the growth has been stable in the past five years (GSO Vietnam, 2019). Vietnam's government makes sure local SMEs receive full support measures with different tax and credit incentives, capital assistance, market and trade promotion, and vocational training (Phung, 2019). However, SMEs in Vietnam are very vulnerable. The ratio of dissolved SMEs to newly established SMEs has been more than 50% since 2017 (Minh Ngoc, 2019).

Given their importance and susceptibility to failure, SMEs deserve full attention from the government and the public. Business scholars also need to pay more attention to the SME topics to understand their motivations, challenges and their growth strategy to weather the uncertain future.

The focus of this study is the Vietnamese entrepreneurship and growth strategy, through concrete examples hailed from public relations, an industry that serves as a barometer to reflect significant transformational changes that have been taking place since the country's Reform Policy in the early 1990s. Most of these agencies are domestic agencies, with some remaining independent. At the same time, some were merged with an international agency (such as T&A Ogilvy is a joint-venture with U.S.-based Ogilvy & Mather, or AVC Edelman is a joint-venture with Edelman) (Van, 2013). All of the agencies found in the industry directories meet the small and medium enterprise criteria defined by Vietnamese law (Tap Chi Tai Chinh, 2018). Thus, it is safe to say that most public relations consultant agencies in Vietnam are relatively young, start-up agencies that are either in the launching stage or in the growth stage, which makes them a suitable population for the study.

This study is expected to shed light on the body of knowledge on Vietnamese startups and entrepreneurship, by exploring the founders' motivations, challenges and growth strategies. The study also provides practical implications and suggestions for businesspeople in Vietnam, or the entrepreneurial public relations practitioners in particular, as it gives insights into the founders' startup and management journey.

**Literature Review**

*Entrepreneurial Motivations*

An entrepreneurial founder, by definition, is a person who has founded his or her own firm (Begley and Boyd, 1987). There are many reasons behind a new business launch. Some entrepreneurs decide to become a firm founder to induce economic gain, financial reward and success. Others start their journey to fulfill their desires for control, social status, and development of a growing, sustainable enterprise. In business literature, the drive behind these founders is called with a wide array of terms, such as "drivers," "factors," "determinants," or "entrepreneurial intentions" (Eijdenberg et al., 2015). Nonetheless, the most frequently used term in the studies is, arguably, "entrepreneurial motivations" (Carsrud and Brännback, 2011; Eijdenberg et al., 2015), which is the term this current work uses.

The motivations are described and categorized differently in previous literature. Perri and Chu (2012) sorted motivations into the "pull" and "push" factors. They assessed that one type of entrepreneur is "pulled" into the founding journey by the ambition to be their own boss, improve wealth, or change the current lifestyle. The other type of entrepreneur is "pushed" to become a founder, most unwillingly, because of low pay, undesirable supervision, unemployment or retrenchment. Eijdenberg and colleagues' (2015) assessment of opportunity-based and necessity-based motivations is quite similar to the pull and push factors. Opportunity entrepreneurs are motivated by economic gain. They seize the opportunities to meet market needs and their capability to deliver, and actively seek entrepreneurship. In contrast, necessity-motivated entrepreneurs are "pushed" into entrepreneurship due to unfavorable financial circumstances.

*Firm Growth and Motivation for Growth*

In business literature, there are various definitions of firm growth. To describe how a business proceeds, researchers have used multiple measures, including sales, profit, number of employees, asset and firm changes over time (Børke and Trossmark, 2016). Some studies even debate using multiple measures at the same time to measure the multifaceted growth (Eijdenberg et al., 2015). Børke and Trossmark (2016) reviewed the different growth definitions. They assessed that the definitions could be sorted into two ways, as Penrose mentioned in his 1959's research: growth as an increase in size, and growth as a development process.

Ekstrom and Pallin (2018) revisited previous literature on business growth. They found that most research paid attention to growth as an outcome, trying to understand growth through different measures, such as assets, market share, output, or profit. In contrast, this study focuses on the challenges during the growth stage and the decision on whether to pursue growth. This study examines the different challenges that an entrepreneur needs to address as a result of firm growth. The managerial challenges could be the organizational decision, structure, activities, or the change of the founder's responsibilities as the firm grows.

Scott and Bruce (1987) assessed that these growth outcomes include a significant change in the management role, from supervision to delegation, and in the organizational structure, from a simple structure to a more complex, centralized one. They propose five stages in a small business life cycle: inception, survival, growth, expansion, and maturity. In each stage, a crisis precedes the evolution to the next stage, and there is always a possible failure at each of the crisis point. The focus of this model is the management role, management style and organizational structure needed for growth. With this growth model in mind, this research looks into the transition from stage 2 (Survival) to stage 3 (Growth) to see how the entrepreneur's management role changes that accompany the transition, and what decisions could be made.

McKelvie and Wiklund (2010) assessed that not all SMEs are prepared to make necessary changes for growth. For many entrepreneurs, their objectives to found an SME are not only economic gain, but also a desire for independence, control and personal development (Jayawarna et al., 2013; Ly-Le, 2021). Thus, they give priority to other aspects than to facilitate growth. Further, some SME owners are even against growth. They think the bigger the company, the more vulnerable it is during a crisis (Wiklund et al., 2003; Davidsson et al., 2007). As a result, for SMEs, growth is not always desirable, and the motivations for growth are usually debatable. To discuss the rationale behind these motivations, or de-motivations, Table 1 presents some advantages for an SME to stay small and advantages to grow.

**Table 1.** *Advantages of Staying Small versus Advantages of Firm Growth for SMEs*

|  | Advantages | Reference sources |
|---|---|---|
| **Staying small** | Simple organizational structure with a high level of flexibility. Founders can manage more easily. | (Steffens et al., 2009) |
|  | SMEs can have better profitability than firms pursuing growth. Growth may jeopardize the existence of SME firms. | (Børke & Trossmark, 2016) (Penrose, 1959) (Poutziouris, 2003) |
| **Growth** | Employees can enjoy more personal development and career opportunities. | (Børke & Trossmark, 2016) |
|  | Firms can achieve benefits from economies of scale. | (Børke & Trossmark, 2016) |
|  | Growing firms have better profitability and sustainability. | (Orser et al., 2000) |

Assessing motivation in relation to growth, Børke and Trossmark (2016) discussed that a founder's motivations might not directly facilitate or hinder a firm's growth; however, the motivations are believed to influence the founder's decision in the business, and in turn, affect the growth. Different entrepreneurial motivations correlate with different levels of observed firm growth. Founders with "push" motivations, launching a firm out of necessity, are usually lack of desire to cultivate the firm, resulting in slow or low growth (Eijdenberg et al., 2015). On the

other hand, founders who are driven by wealth, achievements or challenges usually have a more substantial desire for growth, yielding better firm performance (Jayawarna et al., 2013).

Further, on the entrepreneurial motivation-firm growth relationship, Børke and Trossmark (2016) argued that this relationship is more robust in SME contexts. In smaller firms, the founders play a more significant role, which is often a managing role with overall higher control, than in larger firms. Thus, their motivations and decisions make a more significant impact on the firm's strategies and culture, which translate into growth aspiration. Therefore, this present study aims to understand the founder's motivations to start a business, and to see how the motivations influence their decisions in the growth stage.

*The Founder/Entrepreneur's Skills Needed for Growth*

The literature review identified three types of skills that could affect a company's performance: industry or technical skills, management or organizational skills, and entrepreneurial skills. Among them, industry skills include operational details of the enterprise industry and work-related research, development, or communication skills (Cooney, 2012). These skills have a significant direct impact on growth (Eravia et al., 2015). The second type, management skills, includes opportunity identification, business planning, decision making, finance, marketing, and other business-related skills (Cooney, 2012). These skills have a significant indirect impact on growth (Eravia et al., 2015). The last type is entrepreneurial skills. They are defined as risk-taking, determination, innovation, and internal discipline (Cooney, 2012). Other scholars (e.g., Hayton, 2015; Mitchelmore and Rowley, 2013; Sony and Iman, 2005) considered entrepreneurial skills a general term to describe both industry and technical skills that are specifically related to a new business.

In all cases, the skills needed for each business stage are different (Eravia et al., 2015), and the business founders much identify the skills suitable for each stage to make an effective transition through the different stages of growth. As the company grows, the roles and responsibilities of the founders begin to change as well. The founders must adapt to their roles (Kimberly and Miles, 1980) and are expected to assume more management roles and focus more on operations (Shah et al., 2013). Consequently, in the growth stage, the management skills are found to be more important than industry-specific skills (Picken, 2017; Ly-Le, 2021).

*Entrepreneurship in Vietnam and the Focus in the Public Relations Industry*

In 2018, the Amway Global Entrepreneurship Report surveyed about 50,000 respondents in 44 countries about their attitudes and perceptions toward entrepreneurship. According to this report, Vietnam has the highest desire to start a business, with 91% of Vietnamese surveyed said that they see starting a new business as a desirable career opportunity (Amway, 2018). This result shows how positive Vietnamese people perceive entrepreneurship. Promoting entrepreneurship is thus considered one of the most critical measures of Vietnam's economic

development (Vu and Vu, 2020). Many governmental and independent programs, policies, and funds are designed to support Vietnamese entrepreneurs.

However, moving beyond the launching stage, the entrepreneurial journey of Vietnamese founders does not look as promising as they initially perceive. Vietnam is among the 20 countries with the lowest ability to succeed in a business venture, with only a 3% successful rate (Amway, 2018). Vietnam Chamber of Commerce and Industry also estimated that Vietnamese start-ups have less than a 10% probability of success (Vu and Vu, 2020). This poor outcome may indicate that the distance between (entrepreneurial) aspiration and concrete action is too great. Vietnamese entrepreneurs would need to acquire the necessary skills, education and knowledge to prepare themselves during the business venture better.

For this research, the author chose the public relations industry to study its entrepreneurs' motivations. As there is no official public relations association in Vietnam, and public relations is not recognized as an independent category for business registration purposes, it is difficult to know the exact number of public relations agencies in this market. In the Brands Vietnam directory of global and Vietnamese agency networks, in 2019, there are 24 public relations agencies and 25 communications agencies in Vietnam (Brands Vietnam, 2019). A review of different listings of public relations agencies or communications agencies in Vietnam on popular industry directories (Vietnam's Yellow Pages, Sortlist, Brands Vietnam, Clutch and LinkedIn) shows that most firms in this industry are SMEs. They have fewer than 50 employees and 10 billion VND (440,000 USD) in registered capital. While the research information is outdated and the directory is not comprehensive and only includes self-listed companies, they provide a general outlook of the industry.

Despite its rising importance, there are a minimal number of studies on the topic of the public relations industry in Vietnam (Ly-Le, 2019). Among them, no previous work explored why an entrepreneur decided to venture into public relations, and how they planned to grow their firms in this dynamic industry. The inadequate attention to the field calls for better understanding and research on this topic. Further, a study on this topic could also benefit the marketing, advertising, communications and the broader professional service industries. All the listings and directories in Vietnam group these industries together, and many agencies offer more than one of these closely related services. It is thus safe to assume the entrepreneurial stories and challenges of these industries are quite similar.


**Methodology**

*Grounded Theory*

This study was guided by the grounded theory approach to produce and construct an explanatory theory that uncovers this relatively new topic in entrepreneurship in Vietnam, with a focus on the public relations industry.

According to Kemp (2016), the best-suited methodology to understand the phenomenological experience of becoming an entrepreneur is a qualitative,

systematic approach. As an entrepreneurial experience is complex, a researcher needs to carefully assess the previous literature in entrepreneurship to understand the entrepreneurial nature and attributes. A researcher also needs to identify concepts and categories from the narrative responses of participants, and compare them with the literature to determine what has been overlooked. Accordingly, Kemp (2016) proposed the use of grounded theory as an analytic tool to review the previous literature, to understand the background information, as well as to initiate theory development for the entrepreneurial experience.

Grounded theory was chosen as it allowed the researcher to follow the leads in the collected responses to generate relevant themes that are grounded in the data.

*Data Collection and Analysis*

The study used a qualitative analysis of a series of in-depth interviews with public relations agency founders in Vietnam. The participants are founders or co-founders of a public relations or communications agency in Vietnam; their agency offers public relations as the core service or one of the core services; and their agency is in or has passed the business growth stage. Founders of an agency that is part of a regional or international group when it was launched were excluded from the sample.

After each interview, the researcher used the snowball sampling technique and asked the participants to refer other suitable founders in their network to participate in this study. The researcher interviewed twelve qualified founders and found a high degree of consistency in theme responses and made little additional change to the codebook. It was then considered data saturation, as the answers no longer provide new information.

The participant profiles are presented in Table 2. Their demographic information was varied as they are of both genders and from companies with varying ranges of years in business and years entered the growth stage.

**Table 2.** *Profiles of Interview Participants*

| Participant | Gender | Agency established | Entered growth stage |
|---|---|---|---|
| A | Male | 2004 | 2005-2006 |
| B | Male | 2005 | 2009 |
| C | Male | 2002 | 2008 |
| D | Male | 2011 | 2014 |
| E | Male | 2003 | 2007 |
| F | Female | 2015 | 2018 |
| G | Female | 2014 | 2017 |
| H | Male | 2014 | 2016 |
| I | Female | 2009 | 2016 |
| J | Female | 2015 | 2017 |
| K | Female | 2004 | 2015 |
| L | Male | 2003 | 2008 |

The interviews were transcribed and analyzed for patterns and differences

across responses and scenarios. The data were then inductively coded into open codes with delineated concepts, further refined into axial codes with identified concepts, and finally integrated into selective codes with core concepts. The codes were compared with previous literature to explain the behaviors and responses of the participants. The findings in this study reflected the generation and analytical conceptualization of the grounded theory.

This study's methodology, approach and instruments were approved by Ryerson University's Research Ethics Board (application #REB 2019-455).

**Findings**

The twelve interviews were transcribed and coded line-by-line. Twenty-six categories were identified and further grouped into seven core concepts. The themes, concepts and codes obtained from analyzing the interview transcripts are presented in Table 3.

**Table 3.** *Theme Mapping*

| Theme | Core concept | Focused code |
|---|---|---|
| Founder's motivation to launch the company. | "Pushed" motivation. | Had unsatisfied employment. Everyone else is doing it (founding their companies). Have support from a partner. Support self and family. |
| | "Pulled" motivation. | Seek challenge. Take the opportunity as it arises. |
| Challenges faced during the growth stage. | Client-related challenges. | Finding new clients. Retaining clients. Keeping up with client's demands. Serving clients in unfamiliar sectors. |
| | Management-related challenges. | Founder to multitask. Business management. Staff recruitment and retainment. Setting up company's policies and processes. Capital and cash flow. |
| Skills needed to control the company. | Professional, industry-related skills. | Professional expertise. Updated knowledge in the (PR, communication) fields. Journalism knowledge. Good understanding of clients. |
| | Business skills. | Business vision/Strategic thinking. Consulting skills. Management, human resource |

| | | |
|---|---|---|
| | | and finance skills. Negotiation skills. |
| Strategies used to grow the company. | Avoid high growth and pursue moderate growth. | Keep the business small, 'boutique' and selective. Maintain moderate and sustainable growth. Maintain company structure from the beginning. |

*Entrepreneurship as a Response to External Situations*

The interviews suggested that most Vietnamese founders in the public relations industry made their entrepreneurial decisions because of various "push" factors. Their founding journey was not based on their personality traits, need for achievement, ability to take risks, tolerance for ambiguity, or preference for control. They founded their businesses as a response to external situations, such as the founder previously had unsatisfied employment, the founder sees that everyone else is founding their companies, and the founder receive support from a partner.

The so-called "motivation" to launch a company is sometimes as simple as a boring job or a less-than-compatible supervisor that gave the participants a "push" to start their own business:

> "When I negotiated with my boss about a reasonable salary, she said she couldn't get a raise immediately and I had to wait a bit longer. In that situation, I decided to open the agency earlier than expected." – Participant B.
> "At that time, I wasn't really ready to run a new business on my own. But my supervisor then didn't share the same opinions with me, so I left." – Participant J.

Other pushes to launch a company includes peer pressure and having support and encouragement from a trusted person:

> "Many business articles I read at that time listed opening your own company in the bucket to-do list before one turn 35. And I saw that lots of my friends working in agencies still have their own companies, and the cost to set up a company is meager. I just follow suit." – Participant G.
> "I had many opportunities and was invited by some other companies, but I still chose to open my own company because I trusted my partner. She helped me before. She used to be the head of my division when I worked at [my previous company]. She was an inspirational and reliable person, so I chose [to start this business with her]." – Participant H.

Two participants discussed finances as their motivation: they started their company for financial reasons to support themselves and their families.

> "I have always felt and still feel in the current situation that my security and my family security come before me being an entrepreneur, running my own, controlling my own destiny than working for other people. So I knew I wanted to start my own business." – Participant C.

Five participants identified their motivations both as a necessity ("push" factor) and an opportunity ("pull" factor). They had a change in employment status but they did not plan to start a business; then they saw an opportunity arises (a business offer, a sizeable project to work on), and they simply took the opportunity and launched their companies.

> "What inspired me to [launch the business]is essentially just a bit of a spirit of adventure. If I don't say yes to this opportunity that I may never get this opportunity again. And I always knew it is easy for me to move backward. If it didn't work out, I could always go back to Singapore and be an account director again. The experience wouldn't hurt." – Participant A.
>
> "Actually, I didn't think that much. I simply had many opportunities. A certain number of customers who were working with me in my previous company. When I quit, they still wanted to work with me. I had to set up a legal entity to sign contracts and issue invoices to them, and that is why I started a new business." – Participant J.

### *Entrepreneurship as a Constant Tackle on Management-Related Challenges*

The participants' perceived challenges during the growth stage of their agencies can be refined into two main concepts: client-related challenges, and management-related challenges.

The first concept includes the different client-related challenges: finding new clients, retaining existing clients, keeping up with clients' demands, and serving clients in unfamiliar sectors. These challenges were mentioned by six out of twelve participants. Among them, finding new clients was regarded as the most challenging task by four participants. This task does not only present in the growth stage, but it has been the number one concern of the agencies from the very beginning, as participant B shared:

> "Many people believe that if they have a strong relationship with one or two loyal customers, they will support them in the early stages of the startup. However, a business based on a certain number of customers will often lead to failure after a short time."

For participant J, having a constant flow of new clients not only brings revenue needed for company growth, but also gives the employees opportunities to learn and grow professionally:

> "I am still worried that if there were no customers, how could I have money to hire staff, pay for staff, and so on… I also need a sufficient number of customers for my employees to learn from the experience and develop themselves."

The second, and more relevant, concept is management-related challenges, which were mentioned by all twelve participants. These challenges include the founder's multitasking, overall business management, staff recruitment and retainment, setting up the company's policies and processes, and capital and cash flow. Among them, staff issues were the most common challenge, with seven participants agreeing that it is their constant concern. It is difficult to find the right

person for their agency, as participant A shares:

> "Finding talented people that fit in with your culture is hard. You might find people that fit in great in the office but have no talent. You might find people that are incredibly talented in terms of their hard skills, but then everybody, all of their colleagues, hate them."

After recruitment, it becomes even more challenging to retain the employees over time. Public relations practitioners usually work very closely with each other; and when they leave, they often leave together, making it even more challenging for the company:

> "Retaining and developing talent is just as hard. People come in groups; they start around about the same time; they form their little groups. And then they all leave at the same time. So you'll find that at first, you have very little turnover; and then all of a sudden, you wake up one day, and you have 15 resignations in the course of three months; and everybody's gone. You have like 100% turnover."

In accordance with the types of challenges an entrepreneur faces during their business growth stage, the participants identified two types of skills needed to control the company during the growth stage: professional or industry-related skills and business skills. Each concept was established from different related nodes.

The first concept, professional or industry-related skills, was associated with professional expertise, updated knowledge in the (public relations or communication) fields, journalism knowledge, and a good understanding of clients. Four participants mentioned that the skills needed are professional, public relations, or communications skills. Among them, two people stated that the industry is changing quite quickly so the founders must continuously update their knowledge in the fields:

> "I have to study every day… Our learning process in running the company is relentless. We must continue to refresh ourselves through short-term courses, formal training programs, our colleagues and clients." – Participant I.

Having a journalism background also gives the advantage of moving the company forward. Public relations and media are two closely related fields. Thus, if a founder has a journalism background, they can be familiar with the journalism practice and have a good relationship with the media network.

> "I have a journalism background and I've been working [as a journalist] for seven years. Therefore, I always understand journalists' needs as well as have a strong relationship with the press. That will give me many advantages over other agencies." – Participant B.

In addition, a founder should have a good understanding of their clients and excellent professional knowledge, so that they can sell themselves and their business better to the clients.

"My great asset is that I can understand my clients and know what would work for them. I know how to give suitable offers, find the right people to work on the job, and how to manage client leadership." – Participant L.

"I think [the needed skill for growth] is expertise. I was quite recognized in the market. I specialized in social media and personal branding at that time in the industry. That's my strong point, so when I met my customers, they knew that I was running a marketing agency and they were happy to work with me." – Participant J.

On the other hand, business-related skills were perceived as essential skills for growth by all participants. They thought that business skills or business-related soft skills are more important than public relations skills, because a founder spends more time managing the company than working directly with a client. This concept was associated with business vision, strategic thinking, consulting skills, management, human resource and finance skills, and negotiation skills.

Five people stressed that management, human resource, and finance skills are most needed.

"I strived hard to improve my professional knowledge at first, but when we reached the growth stage, I had to equip myself with management knowledge. The company can't grow if it is not well-organized, structured and financially healthy." – Participant K.

"I didn't know how to manage the cash flow, so I often had shortages or unreasonable expenses. I must learn how to manage it more effectively, save money, and cut unnecessary expenses. I also learned to manage employees better, to arrange each person's tasks to balance the workload for them. Those are the critical steps of the company." – Participant J.

In addition, strategic thinking, consulting skills, and negotiation skills were also mentioned as needed for growth. Each idea was mentioned by one participant.

"I think the leaders of the companies should have the vision to predict what will happen in the next five or ten years. It's very important because once we see the future clearly, the corporate structure, services, the strategy we implement, and the way we manage people will be different." – Participant E.

"I think one of my strengths is consulting. When a client has a request, I can work with the client to dissect their problem and help them achieve more than their original request."– Participant D.

"You need great negotiation skills. Because again, the likelihood is that you're on the very edge of profitability, and you're serving on the very edge of cash flow. And having to negotiate with suppliers and having to push clients to pay their bills on time and accept favorable payment terms and things like that is very important in the growth stage." – Participant C.

However, it is worth noting that at the end of the day, developing a founder's management skills may not be enough to address all the challenges. The staff turnover issue also depends on the nature of the agency and the public relations industry. With the majority of the agencies being small or medium businesses, an employee does not have much room for new challenges, personal development, or career advancement. As a result, they may either apply to more prominent,

international companies when they have the right qualifications, or start their own companies.

> "After working for a while and gain enough knowledge in the field, [the employees] would think of starting their own business. I always support that intention, but it is a challenge for the company leaders." – Participant E.
>
> "Young people like to work in large corporations because they have many opportunities for advancement, high salaries, and broadened social circles. That means we can't retain our employees even if our company tries to pay them well." – Participant I.

*Entrepreneurship as a Preference of Staying Small*

The interviews addressed the different strategies the participating founders used to grow their companies. All participants mentioned they preferred their agencies to remain small with little changes over time. Three concepts were derived from the responses: keeping the business small, "boutique" and selective, maintaining moderate and sustainable growth, and maintaining the company structure from the beginning.

The first concept is keeping the business small. One participant stressed that being a small, boutique agency has its own advantage, and he does not intend to grow his number of staff to a mid- or full-sized agency. For him, being small means that he can be more selective of his employees and projects. He can spend more time getting to know his team, learning about the current market trends, and making more informed decisions.

> "By keeping [the company] boutique, I can carefully select my team members, my suppliers and other collaborators. I can build trust with my clients and partners, because they know everything I do is set to a high standard." – Participant H.

Two participants agreed on the second concept, which is instead of pursuing high growth, they maintain a moderate level of growth.

> "I will try my best to maintain the growth at present and in the near future. In the next five years, I will [still position my company as an] independent agency. I am trying to be among the best independent agencies in Vietnam." – Participant B
>
> "I think that the way things stand at the moment, I'm able to make a decent living, and the company is profitable. I'm not looking to triple the size of the company [or pursue high growth]. I want to cement our position where we are now." – Participant C.

The last strategy concept was mentioned by one participant. He wanted to maintain the company structure from the beginning days, as it had proved to perform well, and he did not want to make any changes.

> "The structure of the business for almost ten years has been very stable. And we've developed the business with similar size of the team in Ho Chi Minh, but expanded the business into areas where we're able to take on much larger contracts, with

broader geographical coverage and different segments of the business." – Participant C.


**Discussion**

None of the participants in this study had business experience before deciding to launch their firms. They received training in journalism or public relations, and some of them had worked in (public relations) agencies beforehand. Naturally, in the beginning, none of them had sufficient management skills. Therefore, during the growth stage, as the managerial tasks became more complex as the company grew and the founders must spend more time running the company than working directly with clients, all twelve participants found the managerial tasks more challenging than client-related tasks. The challenges mentioned include the founder's multitasking, managing and operating the business, recruiting and retaining staff, defining company policies and processes, and working on capital and cash flow. The findings support the reviewed literature, which assessed that during a business growth stage, entrepreneurs have more managerial responsibility (Shah et al., 2013) and managerial skills become more important than industry skills (Picken, 2017) to address those responsibilities.

Further, the founders of the Vietnamese public relations industry had different motivations to start their company. Most of the participants in this study demonstrated a "push" motivation. They started up unwillingly as a response to an external situation. Their entrepreneurial motivation and the motivation for business growth agree with the "push" profile: as they started up out of necessity, they usually do not have the motivation to cultivate the firm, so their firm growth is slow or low (Eijdenberg et al., 2015).

Some founders are less likely to make the changes needed to grow (McKelvie and Wiklund, 2010). This assessment is particularly relevant for SMEs. This is because some SMEs prefer sustainability to fast growth. This preference was demonstrated in the responses of this study. All twelve participants choose to have their agencies remain small, "boutique" with moderate and sustainable growth, and maintain the firm structure as in the launching stage. For them, being small means better management and more informed decision-making. These reasons are consistent with the findings from the reviewed literature that SME entrepreneurs believe that larger companies are more vulnerable during crises (Wiklund et al., 2003; Davidsson et al., 2007). Smaller companies are more flexible and easier to manage (Steffens et al., 2009; Børke and Trossmark, 2016).


*Implications*

As Remenyi (2014) states, grounded theorists distinguish between substantive and formal theory, each recognized by some degree of abstraction. He further points out that, in the social sciences, the development of formal theory from grounded theory is beyond the reach of most research projects. This study does provide substantive theory in its findings on public relations SMEs in Vietnam, that is capable of some degree of abstraction that meets Remenyi's "plausibility"

criteria. These findings are likely of relevance to other professional service firms in Vietnam and, perhaps, more broadly. In essence, the often-expected growth objective of professional services startups in emerging economies may be tempered by a lack of availability of suitable managerial talent to support delegation and growth. It further identifies that the potential for small professional services firms to prosper and grow can be inhibited by the lack of managerial skills of their professional founders.

*Limitations*

The qualitative approach and nonprobability sampling technique of this study may limit the representativeness and generalizability of the findings. Future studies may consider probability sampling technique to overcome the limitations of this study and generalize the results more broadly. However, given these limitations, this study still has unique academic value. It provides insight into Vietnamese SMEs and entrepreneurship, especially the public relations entrepreneurship. It highlights the entrepreneurial motivations, challenges and the skills perceived to be important during the growth stage.

## Conclusion

SMEs have long played an important role in the global economy, creating jobs and driving national growth. With this growing importance, particularly in the Asia-Pacific region, the demand for research on these topics increase and benefit academia and public relations professionals alike. A more diverse and robust academic research will benefit the industry practitioners as they can avoid risks, improve, adapt, and contribute to the repertoire of best practices.

This study gives a practical application for the founders' motivations and growth process. It provides insights to founders in the growth stage through the experience of the studied entrepreneurs. Other entrepreneurs can learn from the experience to make the decisions that best fit their company. A founder/manager is at heart a decision-maker. Having a "checklist" of how the bench strength can continue to deliver, based on the criteria that define quality expected to be executed by the founders, will bring peace of mind and release the founders from the day-to-day deliverables. As the public relations agency grows, so do the opportunities and threats from the clients and the competitions. Having a strategic mindset will enable the founders to remain relevant and be able to do what is in the best interest of the firm.

## Acknowledgement

## References

Amway (2018) *Amway global entrepreneurship report: What drives the entrepreneurial spirits?* Retrieved from: https://www.amwayglobal.com/amway-global-entrepreneurship-report/

Begley T, Boyd D (1987) A comparison of entrepreneurs and managers of small business firms. *Journal of Management* 13(1): 99-108.

Børke M, Trossmark P (2016) *Growing pains: A study of SME growth*. Master's Thesis. Oslo, Norway: Norwegian University of Science and Technology.

Brands Vietnam (2019) *Global and Vietnam agency networks*. Retrieved from: https://www.agencyvietnam.com/list/

Carsrud A, Brännback M (2011) Entrepreneurial motivations? What do we still need to know?. *Journal of Small Business Management* 49(1): 9-26.

Cooney T (2012) *Entrepreneurship skills for growth-orientated businesses. Report for the Workshop on Skills Development for SMEs and Entrepreneurship*. Retrieved from https://www.oecd.org/cfe/leed/Cooney_entrepreneurship_skil ls_HGF.pdf

Davidsson P, Achtenhagen L, Naldi L (2007) What do we know about small firm growth? In SC Parker (ed), *The life cycle of entrepreneurial ventures*, 361-398. Springer.

Eijdenberg E, Paas L, Masurel E (2015) Entrepreneurial motivation and small business growth in Rwanda. *Journal of Entrepreneurship in Emerging Economies* 7(3):.212-240.

Ekstrom E, Palin E (2018) *Challenge accepted: A qualitative study on how small firms can manage human resources when growing*. Master's thesis. Umeå, Sweden: Umeå University.

Eravia D, Handayani T, Julina (2015) The opportunities and threats of small and medium enterprises in Pekanbaru: Comparison between SMEs in food and restaurant industries. *Procedia - Social and Behavioral Sciences* 169: 88-97.

GSO Vietnam (2019) *Thông cáo báo chí Sách trắng doanh nghiệp Việt Nam năm 2019*. Retrieved from: https://www.gso.gov.vn/Default.aspx?tabid=382and ItemID=19273

Hayton J (2015) *Leadership and management skills in SMEs: Measuring associations with management practices and performance (BIS Research Paper No. 211)*. Retrieved from: https://assets.publishing.service.gov.uk/government/uploads/system /uploads/attachment_data/file/407624/BIS-15-95_Leadership_and_Management_Skills_in_SMEs.pdf

Hill H (2001) Small and medium enterprises in Indonesia: Old policy challenges for a new administration. *Asian Survey* 41(2): 248-270.

Jayawarna D, Rouse J, Kitching, J (2013) Entrepreneur motivations and life course. *International Small Business Journal* 31(1): 34-56.

Kemp M (2016) *The process of becoming an entrepreneur: A grounded theory study*. PhD thesis. Minnesota: Capella University.

Kimberly J, Miles R (1980) *The organizational life cycle: Issues in the creation, transformation, and decline of organizations*. Jossey-Bass.

Ly-Le TM (2019) *The usefulness of social media in crisis communication: How Vietnamese companies and stakeholders view social media engagement during crises*. PhD thesis. Australia: Bond University.

Ly-Le TM (2021) Small business entrepreneurship in Vietnam: The case of the public relations industry. *DeReMa (Development Research of Management): Jurnal Manajemen* 16(2): 145-157.

McKelvie A, Wiklund J (2010) Advancing firm growth research: A focus on growth mode instead of growth rate. *Entrepreneurship Theory and Practice* 34(2): 261-288.

Minh Ngoc (2019) *Doanh nghiệp vừa và nhỏ Việt Nam đang đứng trước những thách thức quan trọng*. Retrieved from: https://www.vnmedia.vn/kinh-te/201 912/doanh-nghiep-vua-va-nho-viet-nam-dang-dung-truoc-nhung-thach-thuc-quan-trong-08d60c0/

Mitchelmore S, Rowley J (2013) Entrepreneurial competencies of women entrepreneurs pursuing business growth. *Journal of Small Business and Enterprise Development* 20(1): 125-142.

Orser BJ, Hogarth-Scott S, Riding AL (2000) Performance, firm size, and management problem solving. *Journal of Small Business Management* 38(4): 42-58.

Penrose ET (1959) *The theory of the growth of the firm*. Oxford University Press.

Perri D, Chu H (2012) Entrepreneurs in China and Vietnam: Motivations and problems. *International Journal of Entrepreneurship* 16: .93-112.

Phung TD (2019) *Hỗ trợ doanh nghiệp nhỏ và vừa Việt Nam phát triển trong giai đoạn hiện nay*. Retrieved from: http://tapchitaichinh.vn/tai-chinh-kinh-doanh/ho-tro-do anh-nghiep-nho-va-vua-viet-nam-phat-trien-trong-giai-doan-hien-nay-314736.html

Picken J (2017) From founder to CEO: An entrepreneur's roadmap. *Business Horizons* 60: 7-14.

Poutziouris P (2003) The strategic orientation of owner-managers of small ventures – evidence from the UK small business economy. *International Journal of Entrepreneurial Behaviour & Research* 9(5): 185-214.

Remenyi D (2014) *Grounded theory: The reader series* (2nd ed.). Academic Conferences and Publishing International.

Scott M, Bruce R (1987) Five stages of growth in small business. *Long Range Planning* 20(3): 45-52.

Shah S, Nazir T, Zaman K, Shabir M (2013) Factors affecting the growth of enterprises: A survey of the literature from the perspective of small- and medium-sized enterprises. *Journal of Enterprise Transformation* 3(2): 53-75.

Sony H, Iman S (2005) Relationship between entrepreneurial learning, entrepreneurial competencies and venture success: Empirical study on SMEs. *International Journal of Entrepreneurship and Innovation Management* 5(5/6): 454-468.

Steffens P, Davidsson P, Fitzsimmons J (2009) Performance configurations over time: implications for growth- and profit-oriented strategies. *Entrepreneurship Theory and Practice* 33(1): 125-148.

Tap Chi Tai Chinh (2016) *Tiêu chí mới xác định doanh nghiệp siêu nhỏ, nhỏ và vừa*. Retrieved from: http://tapchitaichinh.vn/co-che-chinh-sach/tieu-chi-moi-xac-dinh-doanh-nghiep-sieu-nho-nho-va-vua-137009.html

Tran KT (2016) Key success factors of SME entrepreneurs: Empirical study in Vietnam. *International Journal of Business and Management* 11(1): 136-143.

Van LTH (2013) *Contemporary public relations in Vietnam: Public relations challenges in a culturally different setting*. PhD thesis. Australia: University of South Australia.

Vu TV, Vu HT (2020) *Thực trạng hoạt động của doanh nghiệp khởi nghiệp Việt Nam và một số giải pháp đề xuất*. Retrieved from: http://tapchitaichinh.vn/tai-chinh-kinh-doanh/thuc-trang-hoat-dong-cua-doanh-nghiep-khoi-nghiep-viet-nam-va-mot-so-giai-phap-de-xuat-324401.html

Wiklund J, Davidsson P, Delmar F (2003) What do they think and feel about growth? An expectancy-value approach to small business managers' attitudes toward growth. *Entrepreneurship Theory and Practice* 27(3): 247-270.

Yoshino N, Taghizadeh-Hesary F (2018) *The role of SMEs in Asia and their difficulties in accessing finance (ADBI Working Paper No. 911)*. Retrieved from: https://www.adb. org/publications/role-smes-asia-and-their-difficulties-accessing-finance

# Minority Stress of Workers as Internal Customers: A Case Study in Turkey

## *By Deniz Akgül[*] & Vildan Güneş[±]*

*LGBT+ workers are invisible in Turkish work life. This paper aims to investigate LGBT+ workers as internal customers and how their performance in the workplace is affected by minority stress. Since LGBT+ individuals face covert discrimination in the workplace, this might cause minority stress. According to this argument, this study will investigate whether minority stress causes performance loss in the workplace and whether this affects LGBT+ people's performance as internal customers. Grounded theory approach has been used in this research. To conduct the qualitative study, 36 phone interviews were conducted. Participants were recruited with the snowball sampling method. The interview form was prepared according to the Human Rights Campaign's Corporate Equality Index questionnaire and included a video that shows a job interview. Based on the results, minority stress causes performance loss in the workplace. The findings highlight that LGBT+ individuals generally prefer not to be out at their workplaces because of internalized homophobia, perceived stigma, and prejudiced events concerning their sexual identity and gender expression. Furthermore, nondiscrimination is not legally enshrined in Turkey. LGBT+ individuals face covert discrimination in the workplace, which affects their performance as internal customers. Only a few Non-Governmental Organizations have reported on LGBT+ individuals' working situation. This research paper comprehensively examines their work lives and attitudes towards companies.*

**Keywords:** *LGBT+, internal customer, minority stress, gender, workplace*

## Introduction

The customer is the person or organization that buys the goods and services of a business. Currently, the concept of the customer has changed, and the person or company that buys the product is called a partner (Eichorn 2004). However, the concept of customer is divided into two: The enterprise employees are identified as internal customers, and those who buy products from the company are external customers (Conduit et al. 2014).

Presently, the objectives of the enterprises are to meet the mandatory needs of internal customers—namely employees—and satisfy external customers. Businesses uphold the expectations of internal and external customers above all else, increasing customer satisfaction and loyalty to ensure improvements and innovation

---

[*]Assistant Professor, Department of Business Administrations, Kirsehir Ahi Evran University, Turkey.
[‡]Research Assistant, Department of Business Administrations, Kirsehir Ahi Evran University, Turkey.

(Kağnıcıoğlu 2002). When LGBT+[1] individuals are employees of enterprises, the first problem they encounter in the workplace is discrimination or micro-aggressions. In the literature, the concept of discrimination is defined as treating an individual in an unfair way, which is different from other individuals in similar circumstances but not rationally justified (Van-Laer and Janssens 2011). In this context, LGBT+ employees are exposed to discrimination based on sexual orientation and gender expression, decreasing their job satisfaction and productivity. Discrimination based on sexual orientation, also known as "heterosexism" (Waldo 1999, Smith and Ingram 2004), encompasses the range of negative attitudes arising from homophobia against individuals and groups with sexual orientation identities other than heterosexuality.

In Turkish literature, the social and working life of LGBT+ individuals is discussed by analyzing discrimination in every aspect of their lives. The biggest problem of LGBT+ individuals in working life is the issue of visibility. If co-workers apprehend that they are members of the LGBT+ community, they might face discrimination (Tang and Yu 2021). Still, if their sexual orientation and gender expression apparent are not apparent and not understood by the companies they apply or work with, they can partially work freely (Opall 2021). However, once their identity becomes evident in their working life, it will become more difficult (Özbek 2017). The discrimination they face in working life is likely to manifest itself in cases such as not being invited to a job interview, not being hired, being dismissed, getting low pay or no compensation, getting a low-performance rating, not getting a promotion, or postponement, having rights curtailed, having duties changed, and so on (Öner 2015). Furthermore, Anti-discrimination legislation covering sexual and gender identity does not exist in Turkey, so LGBT+ rights are not protected.

According to Tejeda, even in safe and LGBT+-friendly businesses, people can express adverse reactions towards gays and lesbians. The insecure environment for the lesbian and gay employees also causes minority stress related to exposing their identity. In such work environments, LGBT+ workers try to hide their identity to avoid hostile and unwanted reactions. In this context, LGBT+ employees have various adverse reactions to discrimination based on their sexual orientation or gender expression in their workplace (Tejeda 2006, Burchiellaro 2021). Brooks (1981) and Meyer (1995) explain the theory of minority stress to explain the stress LGBT+ workers face in many countries.

The socio-political climate in Turkey and discourses towards LGBT+'s also affect their work lives. To ensure social coexistence, these people should be given free working environments. LGBT+ individuals are not different from non-LGBT+ individuals. They deserve to be treated as equal to other employees without prejudice. The satisfaction of LGBT+ employees -which is increasing day by day for businesses- as internal customers also strongly affect the external

---

[1]There are several terms for LGBT+. The latest term is LGBTQIA+ which stands for lesbian, gay, bisexual, transgender, queer, intersex, and asexual. The "+" sign is a placeholder to recognize this is a burgeoning community that is constantly in flux as they access and/or create the words they need to represent their lived experiences more fully and accurately. In terms of clarity and simplicity, LGBT+ is used in this research.

customer satisfaction. The purpose of this paper is to investigate LGBT+ workers as internal customers and how their performance in the workplace affects minority stress. Since LGBT+ individuals face covert discrimination in the workplace, this might cause minority stress. According to this argument, this study will investigate whether minority stress causes performance loss in the workplace and whether this affects LGBT+ people's performance as internal customers. Even being LGBT+ is taboo in Turkey; being an LGBT+ worker is harder than this. This community needs to be heard. If this study can reveal the minority stress and feelings that LGBT+ employees experience in their workplaces, it may encourage workplace owners to take precautions against the negativities experienced and to engage in activities aimed at ensuring external customer satisfaction through internal customer satisfaction.

## Literature Review

### Internal Customer

Internal marketing was first introduced by Berry (1981, p. 34) as "viewing employees as internal customers, viewing jobs as internal products, and then endeavoring to offer internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organization". Employees in the businesses are seen as internal customers and the labor is seen as a product (Berry 2002, p. 67). According to Varey and Lewis (1999), internal marketing aims to attract and retain "service-oriented", "customer-conscious" employees to help the perceived service quality and effective foreign marketing of the enterprise as a way of providing a competitive advantage to businesses. Even in sustainability issues satisfied internal customers are willing to volunteer their time on organizations activities (Munro and Arli 2020)

Greene et al. (1994, p. 8) defined the recruitment and retention of the best employees as internal marketing by applying the marketing philosophy and practice to the employees who serve external customers. Motivating the employees, coordinating the relations of different functions, and being customer-oriented is at the center of the internal marketing strategy (Rafiq and Ahmed 2000, p. 451). If the organization provides strong relations between the peer or organization as a whole, the internal customers should experience psychological connectedness (Grace et al. 2017). Accordingly, it can be said that external customers' satisfaction is related to the performance of internal customers (Lings 2004, pp. 409–411). In this way, it is necessary to consider the relationship between internal and external customers in evaluating the relationship between the business and the customer. The attitude of satisfied internal customers towards external customers will ensure that customers are satisfied. Satisfied customers will increase the financial performance of the business (Øgaard et al. 2008, Bai et al. 2006, Güven et al. 2005).

*Minority Stress Theory*

Minority stress is defined as psychosocial stress resulting from minority status (Brooks 1981). This concept is based on the premise that LGBT+ individuals, like members of other minority groups, are subjected to the chronic stress associated with being stigmatized. Brooks developed the minority stress concept for the psychological consequences of discrimination and prejudice. Brooks claimed that the subordinate status attributed to minorities leads to an increase in stressful life events (e.g., discrimination), leading to a lack of self-confidence and diminishing security and causes performance loss in the workplace (Waldo 1999, p. 220). Meyer identifies the categories of minority stress and thus took Brooks' work a step further. According to Meyer (1995), minority stress is not about having a lower status but refers to conflicting ideologies that cause stress. Meyer's conceptualization includes three sub-categories; Internalized homophobia, perceived stigma, and prejudice events.

Minority stress theory defines stress processes, including bias experiences, rejection expectations, hiding, concealment, internalized homophobia, and healing coping processes (Meyer 2013). In this study, Meyer's conceptualization is used to analyze the discrimination and job satisfaction of the interviewees. Using Meyer's (1995) minority stress theory, researchers have revealed the adverse personal effects of discriminatory experiences and minority stress processes on LGBT+ individuals (Meyer 2003). LGBT+ victimization has been associated with worse mental health outcomes in the workplace (e.g., Velez et al. 2013) and decreased job satisfaction and commitment (e.g., Ragins et al. 2007). In the work environment, the individual needs to adapt to such conditions as homophobia or sexual stigmatization, but these conditions cause significant stress that affects LGBT+ employees' physical and mental health (Herek and Garnets 2007, Dohrenwend et al. 1992). In this context, there is a decrease in job satisfaction.

Öner (2017) found that even in the most secure business environments for lesbian and gay minorities in Turkey, lesbians and gays experience the minority stress differently than their heterosexual counterparts. In Turkey, white-collar lesbian and gay employees spend much more energy than heterosexual individuals to survive in the business environment, not to experience a decline in job satisfaction and job success, as in other areas (Öner 2017).

According to Kaos GL's (an association for LGBT+) report (2017), LGBT+ individuals must deal with many difficulties ranging from being unable to find jobs because of their identities and hiding their identities in workplaces, experiencing discrimination because of their identities and being fired. In this context, these individuals face the obstacle of invisibility because they fear losing their jobs, yet the employed or unemployed LGBT+ individuals fear that they will not find a job (Ragins and Cornwell 2001). According to the American Psychology Association's (2018) fact sheet report, 42% to 68% of LGBT+ individuals experience employment discrimination (Badgett 2012). Furthermore, 47% of transgender reported that they were also discriminated against in employment, experienced expulsion, and were denied promotions. More than 25% reported

losing their jobs due to discrimination based on gender expression (Grant et al. 2011). Although they showed more success, many employees said they received late promotions or did not receive promotions. 90% of transgender people reported that they faced harassment, maltreatment, or discrimination in the workplace due to their gender expression (Grant et al. 2011, Griffith and Hebl 2002). LGBT+ individuals work for lower wages than employees with similar training and experience. Male members of the LGBT+ community earn less than heterosexual males, and lesbians make less than heterosexual women (Doğan 2015, Ragins 2004). Therefore, it seems that even LGBT+ employees working in LGBT+-friendly workplaces are not exempt from the negative consequences arising from the lack of protection against discrimination in the labor market (Yılmaz and Göçmen 2016).

## Design and Methodology

### Research Model

As we stated above, internal customers' performance is affected by their satisfaction in the literature review. Moreover, minority stress has an influence on the satisfaction level for LGBT+ workers (Figure 1).

**Figure 1.** *Research Model*
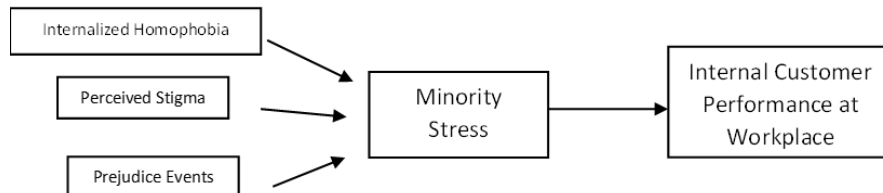


### Participants and Procedure

Given the goal of explicating LGBT+ workers as internal customers and learning how discrimination and equality policies affect their attitudes, in-depth interviews were planned as the primary research technique. Nevertheless, due to the sensitive circumstance of LGBT+ individuals in Turkey, many interviewees did not want to conduct face-to-face interviews. Therefore, structured interviews were created, and potential participants responded to the questions via phone calls, and the researcher wrote down the participants' answers. This is one of the limitations of this research. Because there is no face-to-face connection, interviewers cannot get the preliminary information relayed through a respondent's body language (Irvine et al. 2013, Newman et al. 2002). However, due to the sensitive circumstances, this limitation is accepted. For further research, interviewees who accept face-to-face interviews will be identified.

The participants took part in the research voluntarily and did not receive any rewards for their contribution. Interviews have been completed between September-December 2018. The participants were chosen with a snowball sampling method. An invitation e-mail that contained instructions for the research was sent to employees' work e-mail addresses based on their friends' recommendations. This e-mail also explained the procedure and aims of this study and guaranteed the anonymity of the results. The e-mail also contained an approximately 5-minute video that had a short part of an episode of a well-known soap opera, *Avrupa Yakası,* which includes a scenario about a man in the job interview who was accused of being LGBT+ and lost his potential job. Participants were asked to watch the video before the phone interview.

For the study, 485 LGBT+ workers were invited. The interviewees were chosen using criteria and snowball sampling (Teddlie and Yu 2007). The starting worker of the sample is a well-known representative of the LGBT+ community; however, their name and organization cannot be disclosed due to the confidentiality rule. A total of 80 phone calls were made in Turkish, but 44 interviewees wanted to withdraw from the research during their phone call, so they were removed. The researchers have discussed the reason why interviewees withdrew from the interviews. Reasons given by interviewees ranged from fear of being exposed, not being interested in the questions, or being abroad at that moment and not available. However, most of the participants who withdrew from the interview said that they had participated in this kind of research before but considered it a waste of time in Turkey. Therefore, they did not want to spend time on this interview.

Thirty-six of them finished the interview with enough answers to evaluate. Phone calls lasted 30-45 minutes, yielding almost 120 pages of typed transcript. All 36 of them were sent a consent form, and they chose to sign them electronically with their nicknames. The main aim of the interview was clarified at the beginning of each phone call. Anonymity and confidentiality of the results were guaranteed. The results were analyzed with the ATLAS.ti qualitative analysis program.

The interviews and the transcriptions of these interviews have been completed in Turkish. First-cycle coding completed in Turkish as well. After second-cycle coding translation to English has been made for the quotations. After the translation made by the researchers, an English native speaker who is also a member of LGBT+ community check for the translation and made the corrections according to maintain the internal relevance.

The questions were primarily based on the questions from the Human Resources Campaign (HRC)'s Corporate Equality Index (CEI) questionnaire. Launched in 2002, CEI is the first internationally recognized benchmarking report for enterprises to measure their level of involvement in LGBT+ awareness against their competitors. The process of being certified as an LGBT+-friendly company by the CEI is one of the best practices to meet the needs of its employees and ensure that LGBT+ employees are treated fairly in the workplace[2]. According to

---

[2]Using the CEI, in 2018 the HRC gave the label of "the best place to work for LGBT Equality" to 609 companies that had a 100% rating, as they met each criterion in the research. According to CEI criteria, employers with the highest scores are spread throughout almost every sector and area in the United States and other regions where they do business. 59% of CEI-rated employers have global

Tayar's (2017) work on diversity ranking systems, there are 12 rankings worldwide. Only two of them -the USA and Italy (Tayar 2017, p. 199) include nondiscrimination questions. The researchers asked for both questionnaires from the institutions, but HRC was the only one that sent the entire questionnaire. The CEI questionnaire covers nondiscrimination protections, including those for contractors in the US, and prohibition of philanthropy where non-religious organizations discriminate against LGBT+ people (Human Rights Campaign 2015); therefore, the questions were adapted into open-ended questions. Following HRC's questionnaire, a list of questions and prompts for the interviews were created. Although a discussion guide was followed, the interviews also aimed to let interviewees describe their own experiences. The interviews began with a general question that asked informants about their experiences of "being out with their gender identity and sexual orientation". Probes followed this general question to discern their feelings about other people's reactions to their gender expression or sexual orientation. After that, they were asked about their experiences in the hiring process and work atmosphere as LGBT+ workers. Finally, they were asked how they felt about the guy in the video and whether they had faced anything like that in their interviews. The discussion guide included 7 demographic and 19 in-depth questions.

The 36 participants work in several industries, including education (4), entertainment (2), food (7), public (1), health (5), Civil Society Organizations (3), and several areas of the private sector (14). The sample also included a range of sexual orientations and gender identities. Each participant was assigned to a sexual orientation and gender identity according to his/her identification. Accordingly, the participants are queer (7), bisexual (6), trans-women and trans-men (5), lesbian (3), gay (11), asexual (1), intersex (1), and pansexual (2). Half of them have been working for less than one year in their companies. In all, 36% of them have been working there between 1-3 years, and the rest have worked more than four years at their company. Nearly half of the participants (47.2%) work in small companies with 1-50 workers, while 25% work in companies with more than 501 people.

To ensure the trustworthiness of the data, overt relationships with participants were created and anonymity of the results was assured. In order to maintain internal validity, and in consideration of the environment for data collection, two of the participants were asked to confirm the results. They confirmed that the results were consistent in itself and constituted a meaningful whole. At the same time, the data were checked by two academics who had previously worked on this topic.

For external validity, the research sample, data collection process and data collection environment were defined in detail before the research commenced. The results of this research are available for application in similar environments and in other countries (Başkale 2016) Furthermore, recommended interview techniques such as probing the participants were used. The second issue regarding data quality is an interpretation of the results. To ensure the accurate interpretation of the experiences of the participants, enough time was reserved for clarifying the

---

operations, and 98% of their work protection based on sexual orientation and gender expression in their international activities.

codes. One of the participants, a leader in one LGBT+ association, was asked to read the results. She/he said that the findings are consistent with what she/he had stated in the interview (Wallendorf and Belk 1989).

**Findings**

This research has been designed based on the grounded theory. Grounded theory is a systematic methodology that involves the application of inductive reasoning and also involves the construction of hypotheses and theories through the data itself. So the ideas and concepts are emerged from the data that has been collected (Sbaraini et al. 2011). So the grounded theory is well suited for understanding social processes which have attracted little prior attention (Milliken and Schreiber 2012). The reason why the grounded theory has been used in this research is that the previous research about LGBT+ workers and the assumption of them to be internal customers is lacking in depth and need new point of view on this topic. So the process of job interviews can be specified and understood in the LGBT+ communities' point of view.

According to the grounded theory, predetermined classifications for codes, themes, and categories were not used to clarify the interviewees' understanding of discrimination and minority stress as internal customers. At the first stage of the study, data collection and qualitative data coding were conducted. The themes arose from the first stage, descriptive and in-vivo coding (Miles et al. 2014). To facilitate the analysis, these codes were organized into second-cycle systematic patterns as themes. (All relations between categories and codes can be seen at network analysis in Figure 2). Based upon the grounded theory, the main themes were derived from the interviews as Table 1.

**Table 1.** *Themes and Variable Relations*

| Themes | Related Variable | Literature |
|---|---|---|
| general feelings when being out | Internal Customer Performance at Workplace | Waldo 1999 |
| application process | Minority Stress | Meyer 1995 Ragins 2004 |
| interview process | Minority Stress | Meyer 1995 Ragins 2004 |
| hiring process | Minority Stress | Meyer 1995 Ragins 2004 |
| working area attitudes | Internal Customer Performance at Workplace | Waldo 1999 |
| general company attitude towards LGBT+ workers | Internal Customer Performance at Workplace | Waldo 1999 |

The findings revealed that LGBT+ internal customers in Turkey are hesitant to be out at every stage of their work lives. However, NGO workers are freer to be out than corporate workers. Psychological interpretations of these findings were made according to the minority stress theory (Brooks 1981, Meyer 1995). As seen in the network analysis in Figure 2, there are many connections between the application process, interview process, and hiring process.

**Figure 2.** *Network Analysis of Data*
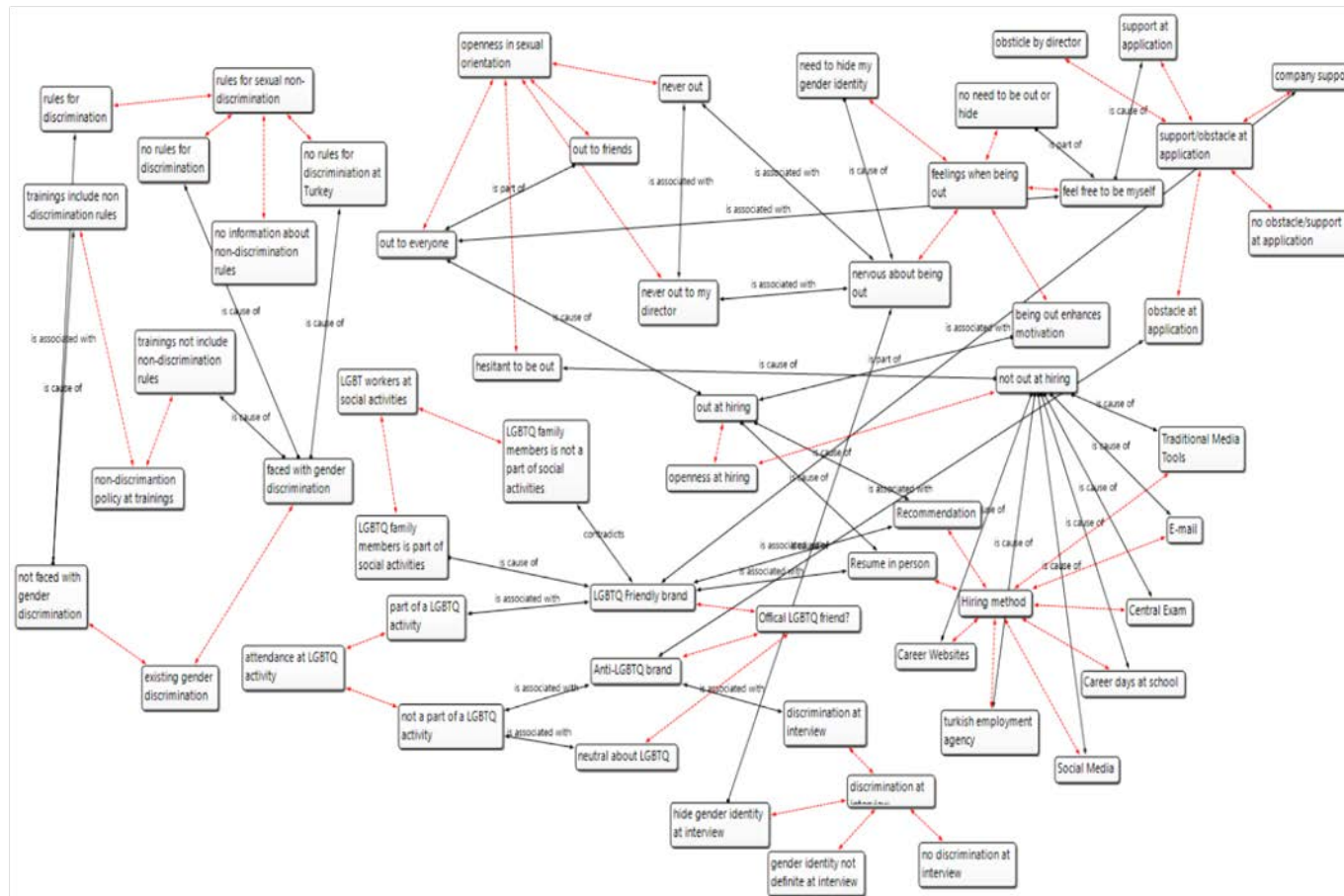
*General Feelings when Being Out*

The discussion of the questions about being out reveals that participants generally do not openly discuss or express their sexual orientation and gender identities at their companies. This might be explained by the fact that conservatism[10] is culturally dominant.

> Respondent (R): I cannot explain that I am gay. A few years ago, maybe I could, but not now…This might be explained by the socio-political context that is becoming increasingly conservative. Also, human rights are decreasing day by day in this country. (Arthur, gay man)
> R: I don't need to be out, actually. I can hide my sexual identity, obviously... My company is close to the government, so they need to look conservative. How could they employ a queer? (Ivy, lesbian)
> R: I am really nervous about being out at my job interviews. I feel weird about it. I prepared potential answers to potential questions about this issue to not affect my interview performance. Also, it needs to be consistent with my attitudes after hiring. (Olivia, trans woman)

As internal customers, the motivations of all workers are so crucial for the company. Furthermore, as a respondent has stated, "being out enhances motivation" for the LGBT+ worker.

> R: Hiding your sexual orientation requires energy. And this consumes a person's soul. Being out enhances a worker's motivation, and leads to increased work efficiency. (Sally, lesbian)
> R: I do not need to hide my sexual orientation. Actually, I repress my attitudes and clothing, but my colleagues know that I am gay, and it seems they don't have any problem with that. So, I feel blended into the crowd. Obviously, this motivates me; it means the company accepts me and I have to pay back to this attitude. I have to work hard for my company. (Jack, gay man)

According to the participants, being out at the beginning is associated with being out during the hiring process. If applicants feel supported during the application process, their motivation rises, and they feel free to be themselves. In all, 47% of participants are nervous about being out during a job search. Furthermore, 36% of them need to hide their sexual identities and are nervous about it. This shows that minority stress affects their mental well-being. Their minority identity and perceived stigma, which assumes that they carry the prejudicial pressures, affect the interview performance.

---

[10]Turkish conservatism has a different meaning from conservatism in other countries. Conservatism in Turkey is predominantly at odds with the established state structure, tending to be critical of the founding principles of the Turkish Republic whereas most forms of conservatism elsewhere tend to endorse the principal values of the state. Conservatism in Turkey inspired and strongly influenced by political Islam. Therefore, Turkish conservatism tends to be more socially conservative, religious, and in favor of centralized solid leadership. Governing party refers that their ideology is conservative democracy which is generally referred to as Turkish-style conservatism (Özkan 2016, Yavuz and Öztürk 2019).

*Application Process*

The respondents were asked which application channel they used. Most of them (39.5%) used recommendations by an acquaintance to apply. Only 2% used the Turkish Employment Agency and private employment offices. This finding highlights the lack of belief in the reliability of these channels and the suspicion of "profiling". The high number of participants searching for a job through recommendations from an acquaintance might mean that these participants look for a workplace that is relatively or LGBT+ friendly. Companies' social media posts also show their support for LGBT+. This helps LGBT+ applicants trust the company.

> R: When I applied for my job, it said in the job advertisement that they have a nondiscrimination policy on the grounds of sexual identity. That really relieved me and made me feel enthusiastic. (John, gay man)
>
> R: The first thing I do before I apply for the job is to look for their social media accounts. I saw their post about the Pride March. You cannot imagine how happy this made me feel. After this, I applied for the job immediately. (Harper, bisexual woman)

Participants stated that they felt supported during the application process if the firm was somewhat LGBT+ friendly. This is related to their openness to all their friends. If they are out to everyone, they might be out during the application process. In all, 77% of participants said that they saw neither support nor obstacles at the application stage. However, three participants said that they saw obstacles during their application because of the military service criteria.

> R: When I saw the job advertisement, I noticed a sentence about nondiscrimination. At first, I was relieved, but a few sentences later, I saw "Men must complete military service" criteria. How on earth can I complete it? I am exempted from military service because I am trans. But how can I explain that? This means I am going to expose myself. So, I withdrew my application. (Mia, transwoman)
>
> R: Hegemonic gender roles make me angry when I look for a job. They are looking for a "male specialist who upholds social morality". How can I apply for this job? I uphold social morality in my own ways, but not the ways they think are essential. I am gay, and I think that they don't want a feminine man specialist. (Oscar, gay man)

The results show that if the job advertisement gives a definite gender for the applicants, LGBT+ individuals get confused and may be hesitant to apply for the job. This also is associated with the company's general attitudes towards LGBT+ people. If the company is openly anti-LGBT+, no one from the LGBT+ community will apply for the job.

> R: When I saw the job advertisement, I saw they look for a man who has experience in accountancy. According to my ID, I am a man, but when I look into the mirror, I don't see a man. I know that company very well; they are a fanatic anti-LGBT+ company. When Pride comes, they nearly curse us. The job is perfect; the salary is perfect; the company is prestigious but only for a straight man, unfortunately not for a gay man. (Arthur, gay man)

On the other hand, the hiring method is another parameter used by LGBT+ workers. 38% of participants found their jobs via recommendations. The idea behind this is to be known before if their sexual orientation or gender expression is apparent. However, some participants want to be anonymous before the interview, applying for jobs through career websites (10%), social media (10%), and central exams for public institutions (15%).

> R: I found my current job via my best friend. She is also lesbian like me. My friend gave information to the company about me before my application. So, I felt comfortable when I went to the interview. (Ivy, lesbian)

*Interview and Hiring Process*

Most participants stated that they hid their sexual identity during the interview (42%) or that their sexual identity was not definite (36%). It is clear from their comments that they hid their sexual identity or gender expression because of their perception of social homophobia or how they would be treated if they carried the social labels attributed to LGBT+ individuals. These perceptions cause minority stress. During their job interviews, LGBT+ interviewees are asked questions about their lives that might expose their sexual identity or gender expression. To hide this, interviewees gave vague answers.

> R: I need that job. I have a life too. During the interview, they asked me if I plan to marry…even though it is not appropriate to ask a straight person. Of course, I prevaricated, but I guess they understood the situation since I look more feminine than a straight guy. (Charlie, gay man)
> R: I guess we lesbians are luckier than gays. They cannot discern our sexual orientation easily. That helps us cover ourselves during the interviews. They might think that we are masculine, but that's it. (Emily, lesbian)

The participants who said they were open during the interview process stated that they knew the company had a clear nondiscrimination policy. They also said that their interview performance was positively affected by it. They feel more confident during the interview because they do not need to hide their sexual orientation. This make them feel secure.

> R: Before I applied, I asked on the phone whether it was a problem that I am a trans man. Still, they invited me to the interview (...) I know I am "the" expert, but it is good to know that they were interested in my work experience. (Leo, trans man)
> R: I'd been to several interviews before my current job. I am always open to interviewers about my sexual identity. A few of them told me that there would be a problem with my sexual identity because their boss is a bit conservative. (...) They accepted me for the job, but they only asked that I be careful about my outfits. I guess that is a fair request. (David, gay man)

It is clear from the interviews that when LGBT+ individuals are open in public, they generally are open at interviews and during the hiring process. It seems that being out at interviews motivates and increases people's moods during

the interview process. However, if they decide to hide their identity during the hiring process, the application methods used are generally anonymous, such as career websites or e-mails.

> R: I never tell them my sexual orientation at the beginning. If they understand later, maybe I'll explain - but not at the beginning. This will eventually affect their behavior towards me. So, I don't want to be judged. To maintain that secrecy, I usually apply for jobs via career websites like Kariyer.net. It is so easy to hide your sexual orientation. They invite you according to your abilities. No judgment. (John, gay man)

Finally, participants were asked what they thought about the video sent to them. Their standard answer was that this is the normal situation. Nearly every interviewer does the same thing in Turkey. They have not faced this kind of situation before, but they all agreed that this is the usual response in Turkey.

*Working Area Attitudes*

The minority stress does not finish once the interview is over for the LGBT+ individuals. It is just starting. , The openness of one's sexual orientation or gender expression at work may cause stress that might affect the performance of an LGBT+ worker. In all, 25% of participants responded that they are never out at the workplace, and 27% of them said they could be out to the colleagues they trust once they have established a relationship with them. Another 19% said that they never tell their directors or supervisors. Only 10% of the participants said they could be out to everyone in the workplace. Nevertheless, some of these respondents said this only happened when there was a nondiscrimination policy.

> R: It is an unfortunate situation that I cannot be myself at the workplace. I know that my colleagues make fun of me because of it. Or gossip behind my back. I don't want to be a person who has a target on their back. So, I decided not to tell anyone. But someday, when I get used to them and learn their opinions about queer people, why not? I'll tell my colleagues… But never my director, of course. I am pretty sure that will affect my promotion prospects. (Charlie, gay man)
> R: I cannot hide my sexual identity, even if I wanted to hide. It is apparent that I am trans. I have a blue ID card[11], but my outside looks like a woman. I have not finished my legal transition process then I'll get my new genderless ID card. Everything is happening in front of their eyes. So, I have to be out. At first, I felt the tension in the office. Sometime later, they accepted or got used to the situation. Now sometimes, I feel touchy about jokes, but generally, we're ok. (Olivia, trans woman)

These responses show that LGBT+ workers are not necessarily discriminated against by their colleagues but worry that they will be. Minority stress issues show their effects in this matter too. Their sexual identity or gender expression might cause proximal minority stress, affecting their work performance. It is also essential

---

[11]Former Turkish ID cards were different for each gender. Pink for women and blue for men. Today those ID cards have been changed.

that LGBT+ workers want to be part of the company's social activities with their partners. This might be possible with the LGBT+ friendly companies, but otherwise, it creates an awkward situation; workers do not want to expose their private life to their colleagues in that manner.

> R: When our company has a picnic, I cannot bring my partner, of course. Still, my supervisor doesn't know that I am gay. Just a few of my office mates. But I cannot imagine that I brought my boyfriend to the picnic, hand in hand? No way… (Jack, gay man)
>
> R: I am trans, and my company is aware of this. They give me every support they can give. Moreover, I can bring my partner to the company activities because I know that all of my co-workers are LGBT+ friendly. (Leo, trans man)

*General Company Attitudes towards LGBT+*

Companies establish orientation programs when their new employees start their work. Participants were asked whether their company offered this kind of orientation. If the answer was yes, they were asked whether the information was offered about LGBT+ people and nondiscrimination policy. In all, 75% said that even if they had an orientation program, nondiscrimination at the workplace was not mentioned. However, this does not mean that these companies are anti-LGBT+, only that they do not place importance on nondiscrimination.

> R: When I first started my job, they took me to the orientation program. The topics discussed were on everything I could see. Even how to use a coffee machine. But not a word about nondiscrimination… (Noah, pansexual)
>
> R: Yes, we have nondiscrimination rules, but not in Turkey. My company is working overseas and nearly all countries except for Turkey have nondiscrimination rules. But not here. This is not the company's fault. Even laws don't recognize us; how can they? So, I am not angry with them. (Sally, lesbian)

Only 19% of participants said their company had a written code about nondiscrimination. In all, 10% of respondents who gave this answer work at international companies. Furthermore, 11% of the participants who work for international companies said there is an ethical code about nondiscrimination at the international level, but not in Turkey. Another essential issue in minority stress is existing sexual identity or gender expression discrimination. We asked participants whether they experienced any discrimination because of their sexual identity or gender expression. In all, 33% said that they had experienced sexual or gender expression discrimination.

> R: Everything was ok before my friends at the office found out that I am intersex. Then, they started to make fun of me. We have a Facebook group. Some of my friends send queer jokes or caricatures via that group. This is so embarrassing. Finally, I got out of that group. (Ava, intersex)
>
> R: I am trans, completed my transition 2 years ago, and am now legally and physically a woman. At the office, some of my friends insistently ask me about my surgeries, process, pills that I've taken…They want to see my ID, and so on…I don't want to

explain these things to them. That's my private area. I want to be treated normally. (Olivia, trans woman)

LGBT+-friendly companies are more flexible about discrimination problems at the workplace. Only 11% of participants said their companies are LGBT+-friendly, but 58%—a vast number—said their companies are anti-LGBT+ and conservative. The rest of the companies are neutral, or their opinions about LGBT+ are not prominent. As a result of these numbers, participants stated that they could not involve their partners in company activities. They are not seen as a family or a regular couple.

R: Our families were invited to the company's foundation day party. I brought my gay partner with me. My sexual identity is not known there. So, everyone thought that we were "friends". (Arthur, gay man)
R: For the annual company picnic, our families could come. My boss knows that I am a trans man. The day before the picnic, he asked me not to bring my partner to the picnic. He told me that this is a family event and we're not ordinary families. How can I love my company after this? (Henry, trans man)

## Discussion

LGBT+ workers are invisible in Turkish work life. They hide behind a curtain because they are fearful of losing their jobs. Also, unemployed LGBT+ individuals hide behind the same curtain because they fear not finding a job. So, this research aims to investigate LGBT+ workers as internal customers and how their performance in the workplace is affected by minority stress. All over the world, LGBT+ individuals have these kinds of problems in the workplace (Ng and Rumens 2017, Pichler et al. 2017). Most previous studies regarding discrimination and harassment that LGBT+ workers face at the workplace show that this can be seen in many countries (Thompson and Figueroa 2020, Catalyst 2007, Liyanage and Adikaram 2019, Romanets 2014). The recent research reveals that LGBT+ workers face this discrimination and harassment because of their sexual identity, and this can be in any country like El Salvador (Thompson and Figueroa 2020), UK (Woodruffe and Bairstow 2013) and Sri Lanka (Liyanage and Adikaram 2019). This research enhances the ongoing debate about LGBT+ inclusion in workplaces by adding Turkish LGBT+ workers' problems to the literature.

LGBT+ has been a tense topic in Turkey. Because of the conservative government, LGBT+ individuals' visibility decreases day by day (Yenilmez 2021). Talking about their rights on legal grounds became nearly impossible for companies. The contribution of this study to the literature is addressing important discrimination areas that LGBT+ workers face in working life in Turkey. Being a minority in society creates stress on these individuals. So, this minority stress causes performance losses at work. This study sees employees as internal customers. It is employers' job to satisfy the internal customers to satisfy the external customers' (Waldo 1999). It can be seen that internal customers are the key factors of creating customer satisfaction. This study considers that it is

important to reveal LGBT+ workers' workers' minority stress problems in Turkey to maintain the inclusiveness and diversity at the workplace.

This research believes that recognizing LGBT+ workers' challenges and bringing them together is the first step to maintain this inclusiveness and diversity. A few of the participants mentioned that they come together in their community except during the Pride Parade[12], which is not a peaceful march anymore in Turkey. Therefore, no entity defends their rights and brings them together. To fight these discriminatory attitudes towards LGBT+ individuals, unionization must be considered. They should obtain social rights just like other workers, and forming a union may allow them to do so. Current labor unions do not oversee LGBT+ rights or have any agenda on creating LGBT+-friendly policies. They ignore them as workers. Therefore, a labor union that specifically defends LGBT+ rights is urgently needed. Furthermore there is a lack of laws that protect the working life of LGBT+ individuals. Although there are laws regulating gender discrimination in the workplace, no laws regulate sexual orientation or gender identity discrimination. These individuals are also hesitant about seeking justice in the courts because they fear prejudice from the lawyers and judges. Therefore, it is essential to increase non-discriminatory laws in order to maintain LGBT+ workers' confidence.

As mentioned, most Turkish organizations have a heterosexist point of view in every aspect of their work. They want distinct gender roles and cannot tolerate sexual identity or gender expression other than heterosexuality and cisgenderism. This marginalizes LGBT+ workers (Bowleg et al. 2008), who face discrimination and ostracization in the form of homophobia and transphobia. This causes stress in the workplace and yields minority stress. All workers in an organization are also internal customers, and all customers, including internal customers, should be made happy to maintain the organization's success. Internal customers who face workplace stress, especially minority stress, cannot be happy in the workplace.

## Conclusion

The initial purpose of this research was to explore LGBT+ individuals' workplace satisfaction as internal customers via the theory of minority stress. The findings highlight that LGBT+ individuals generally prefer not to be out at their workplaces because of internalized homophobia, perceived stigma, and prejudiced events about their sexual and gender expression. This veiled discrimination manifests itself through LGBT+ individuals making themselves invisible at the workplace and experiencing verbal harassment, threatening, gossiping and stonewalls for promotion and exclusion. To not be confronted with this, LGBT+ workers prefer to be invisible. It seems that lesbians, bisexuals, and asexuals find it easier to hide their sexual identity. However, gay and trans individuals have difficulties hiding their gender expression and sexual identity during the

---

[12]Pride Parade which is also known as pride march is a worldwide outdoor event for social acceptance, legal rights, achievements, and pride of LGBT+ community. This event occurs annually, often late June.

application, interview, and working stages. Participants faced homophobia and discrimination because of being out. Figure 2 shows that every aspect of being out to the companies' companies' attitudes towards LGBT+ individuals. If they are LGBT+-friendly companies, the workers are relieved and can be themselves. They do not need to play a role, so this affects their working performance. It is evident from the results that LGBT+ workers have jobs in nearly all areas, such as blue-collar workers, doctors, civil servants, university academics, and teachers. As internal customers, LGBT+ individuals should not be excluded from the performance support.

This research will serve as a base for future studies in Turkey about LGBT+ workers. Perhaps this work can break the taboo of talking about sexual identity and gender orientation in the workplace. This research also has raised many questions on LGBT+ individuals' needs that need to be further investigated. Further research on LGBT+ workers' rights may offer peace of mind to LGBT+ people in their work lives. What is needed is a research group formed from several institutions, such as universities and other NGOs that create solutions to this blockade.

*Managerial Implication*

This study addresses significant implications for practitioners, especially for human resources managers. It is hard to hire LGBT+ individuals at companies because of their country's ongoing conservative and heteronormative perspective. Just a few companies recognize them and accept their sexual identity. In organizations, these employees face discrimination, unequal treatment, and harassment as minority groups. Managers need to make provisions to maintain inclusivity and fairness in the workplace. Managers or owners of the companies must create policies. Counselling systems or psychological educations have to be provided for these employees. It is well known that satisfied internal customers make external customers satisfied. HRC's yearly CEI report reveals that most successful companies listed in Fortune 1000 recognize LGBT+ workers, and in 2020, 13 companies in the first 20 of Fortune 1000 got 100 points on CEI scale (Human Rights Campaign Foundation 2020) (in 2019, there are 12 companies who get 100 points in first 20 of Fortune 1000) (Human Rights Campaign Foundation 2019). Companies like Apple, Exxon Mobil, AT&T, Amazon, and Walgreen care about their LGBT+ workers and yet they are financially and socially very successful. This study tries to help overcome the biases and prejudices about LGBT+ workers in Turkey and show the companies, especially the managers what these employees feel about this minority stress, because they exist and they cannot be ignored as workers.

*Research Limitations*

One of the main limitations is that LGBT+ people in Turkey did not want to participate in academic research for fear it would expose them. To accommodate these fears and ensure honest answers, interviews were conducted via phone. For

further research, interviewees who accept face-to-face interviews will be looked for. In addition, we could not ask the health support questions of HRC's index because Turkey's laws do not include separate legal regulations for LGBTQ.

## References

American Psychological Association (2018) *Sexual orientation, gender, identity and socioeconomic status factsheet*. Retrieved from: https://www.apa.org/pi/ses/resource spublications/factsheet-lgbt.pdf. [Accessed 10 August 2018]

Badgett MVL (2012) *Testimony on S.811, The employment non-discrimination act of 2011*. Williams Institute.

Bai B, Brewer KP, Sammons G, Swerdlow S (2006) Job satisfaction, organizational commitment, and internal service quality: a case study of Las Vegas hotel/casino industry. *Journal of Human Resources in Hospitality and Tourism* 5(2): 37–54.

Başkale H (2016) *Nitel Araştırmalarda Geçerlik, Güvenirlik ve Örneklem Büyüklüğünün Belirlenmesi*. (Determination of validity, reliability and sample size in qualitative research). *Dokuz Eylül Üniversitesi Hemşirelik Fakültesi Elektronik Dergisi* 9(1): 23–28.

Berry LL (1981) The employee as customer. *Journal of Retail Banking* 3(1): 33–40.

Berry LL (2002) Relationship marketing of services perspectives from 1983 and 2000. *Journal of Relationship Marketing* 1(1): 59–77.

Bowleg L, Brooks K, Ritz SF (2008) Bringing home more than a paycheck. *Journal of Lesbian Studies* 12(1): 69–84.

Brooks VR (1981). *Minority stress and lesbian women*. Free Press.

Burchiellaro O (2021) Queering control and inclusion in the contemporary organization: on 'LGBT-friendly control'and the reproduction of (queer) value. *Organization Studies* 42(5): 761–785.

Catalyst (2007) *Catalyst releases initial report on lesbian, gay, bisexual, and transgender (LGBT) inclusion in the workplace*. Catalyst.

Conduit J, Matanda MJ, Mavondo FT (2014) Balancing the act: the implications of jointly pursuing internal customer orientation and external customer orientation. *Journal of Marketing Management* 30(13–14): 1320–1352.

Doğan ET (2015) İşgücü piyasasında cinsel yönelim ve cinsiyet kimliği ayrımcılığının sosyal politika açısından değerlendirilmesi. (Evaluation of sexual orientation and gender identity discrimination in the labor market in terms of social policy). In Y Tar (ed.), *Çalışma Hayatında Ayrımcılık ve Ayrımcılığa Karşı Mücadele,* 57–76. Ankara: Kaos GL, Ankara.

Dohrenwend BP, Levav I, Shrout PE, Schwartz S, Naveh G, Link BG, et al. (1992) Socioeconomic status and psychiatric disorders: the causation-selection issue. *Science* 255(5047): 946–952.

Eichorn FL (2004) Internal customer relationship management (IntCRM): a framework for achieving customer relationship management from the inside out. *Problems and Perspectives in Management* 2(1): 154–177.

Grace D, King C, Iacono JL (2017) Workplace relationship cohesion: an internal customers' perspective. *Journal of Service Theory and Practice* 27(1): 129–150.

Grant JM, Mottet LA, Tanis J, Harrison J, Herman JL, Keisling M (2011) *Injustice at every turn: a report of the National Transgender Discrimination Survey*. Washington, DC: National Center for Transgender Equality and National Gay and Lesbian Task Force.

Greene WE, Walls GD, Schrest LJ (1994) Internal marketing: the key to external marketing success. *Journal of Services Marketing* 8(4): 5–13.

Griffith KH, Hebl MR (2002) The disclosure dilemma for gay men and lesbians: "coming out" at work. *Journal of Applied Psychology* 87(6): 1191–1199.

Güven M, Bakan İ, Yeşil S (2005) Çalışanların iş ve ücret tatmini boyutlarıyla demografik özellikler arasındaki ilişkiler: Bir alan çalışması. (Relationships between employee job and wage satisfaction dimensions and demographic characteristics: a field study). *Yönetim ve Ekonomi: Celal Bayar Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi* (12): 127–152.

Herek GM, Garnets LD.(2007) Sexual orientation and mental health. *Annual Review of Clinical Psychology* 3(1): 353–375.

Human Rights Campaign Foundation (2019) *Corporate equality index, 2019: rating workplaces on lesbian, gay, bisexual, transgender and queer equality*. Human Rights Campaign Foundation.

Human Rights Campaign Foundation (2020) *Corporate equality index, 2020: rating workplaces on lesbian, gay, bisexual, transgender and queer equality*. Human Rights Campaign Foundation.

Irvine A, Drew P, Sainsbury R (2013) 'Am I not answering your questions properly?' Clarification, adequacy and responsiveness in semi-structured telephone and face-to-face interviews. *Qualitative Research* 13(1): 87–106.

Kagnicioglu H (2002) Günümüz işletmelerinin yaşam anahtarı: müşteri odaklılık. (The key to life of today's businesses: customer focus). *Ege Academic Review* 2(1): 78–90.

Kaos GL (2017) *Situation of lesbian, gay, bisexual, transgender and intersex employees in private sector in Turkey*. Ankara: Kaos GL.

Lings IN (2004) Internal market orientation: construct and consequences. *Journal of Business Research* 57(4): 405–413.

Liyanage DM, Adikaram A (2019) Accepting or rejecting the label: how gay employees cope with harassment at work. *Gender in Management* 34(8): 644–664.

Meyer IH (1995) Minority stress and mental health in gay men. *Journal of Health and Social Behavior* 36(1): 38–56.

Meyer IH (2003) Prejudice, social stress, and mental health in lesbian, gay, and bisexual populations: conceptual issues and research evidence. *Psychological Bulletin* 129(5): 674–697.

Meyer IH (2013) Prejudice, social stress, and mental health in lesbian, gay, and bisexual populations: conceptual issues and research evidence. *Psychology of Sexual Orientation and Gender Diversity* 1(S): 3–26.

Miles MB, Huberman M, Saldana J (2014) Qualitative data analysis: a method sourcebook. 3rd Edition. USA: SAGE Publications.

Milliken PJ, Schreiber R (2012) Examining the nexus between grounded theory and symbolic interactionism. *International Journal of Qualitative Methods* 11(5): 684–696.

Munro V, Arli D (2020) Corporate sustainable actions through United Nations sustainable development goals: the internal customer's response. *International Journal of Nonprofit and Voluntary Sector Marketing* 25(3): e1660.

Newman JC, Des Jarlais DC, Turner CF, Gribble J, Cooley P, Paone D (2002) The differential effects of face-to-face and computer interview modes. *American Journal of Public Health* 92(2): 294–297.

Ng ES, Rumens N (2017) Diversity and inclusion for LGBT workers: current issues and new horizons for research. *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l'Administration* 34(2): 109–120.

Øgaard T, Marnburg E, Larsen S (2008) Perceptions of organizational structure in the hospitality industry: consequences for commitment, job satisfaction and perceived performance. *Tourism Management* 29(4): 661–671.

Öner A (2015) *Beyaz yakalı eşcinseller, işyerinde cinsel yönelim ayrımcılığı ve mücadele stratejileri*. (White collar homosexuals, sexual orientation discrimination in the workplace and struggle strategies). İstanbul: İletişim Yayınları.

Öner A (2017) Beyaz yakali lezbiyen ve gey bireylerin iş yerinde karşilaştiklari cinsel yönelim ayrimciliğinin etkileri. (The effects of sexual orientation discrimination encountered by white collar lesbian and gay individuals at work). *Türk Tabipleri Birliği Mesleki Sağlık ve Güvenlik Dergisi (MSG)* 17(64): 29–36.

Opall BS (2021) Motives in creating an LGBTQ inclusive work environment: a case study. *Qualitative Research in Organizations and Management: An International Journal* 16(1): 237–260.

Özbek Ç (2017) Ayrımcılıkla mücadelenin kamusallığı: LGBT, hareket ve örgütlülük. (Publicity of non-discrimination: LGBT, movement and organization). *Toplum ve Demokrasi Dergisi* 11(24): 141–165.

Özkan M (2016) Türk muhafazakarlığı: siyasal bir gelenek (mi)? (Turkish conservatism: a political tradition?) *Akademik Hassasiyetler* 3(5): 1–17.

Pichler S, Ruggs E, Trau R (2017) Worker outcomes of LGBT-supportive policies: a cross-level model. *Equality, Diversity and Inclusion: An International Journal* 36(1): 17–32.

Rafiq M, Ahmed PK (2000) Advances in the internal marketing concept: definition, synthesis and extension. *Journal of Services Marketing* 14(6): 449–462.

Ragins BR (2004) *Sexual orientation in the workplace: the unique work and career experiences of gay, lesbian and bisexual workers. In research in personnel and human resources management*. Emerald Group Publishing Limited.

Ragins BR, Cornwell JM (2001) Pink triangles: antecedents and consequences of perceived workplace discrimination against gay and lesbian employees. *Journal of Applied Psychology* 86(6): 1244–1261.

Ragins BR, Singh R, Cornwell JM (2007) Making the invisible visible: fear and disclosure of sexual orientation at work. *Journal of Applied Psychology* 92(4): 1103–1118.

Romanets M (2014) Gender, politics and society in Ukraine. *Gender in Management* 29(6): 375–378.

Sbaraini A, Carter SM, Evans RW, Blinkhorn A (2011) How to do a grounded theory study: a worked example of a study of dental practices. *BMC Medical Research Methodology* 11(Sep): 128.

Smith NG, Ingram KM (2004) Workplace heterosexism and adjustment among lesbian, gay, and bisexual individuals: the role of unsupportive social interactions. *Journal of Counseling Psychology* 51(1): 57–67.

Tang H, Yu W (2021) *LGBTQ inclusive workplaceclimate in China: a case study on the inclusion of LGBTQ groups in the workplace based on the organization's LGBTQ support policy, policy implementation and employees' understanding*. Sweden: Jönköping University.

Tayar M (2017) Ranking LGBT inclusion: diversity ranking systems as institutional archetypes. *Canadian Journal of Administrative Sciences* 34(2): 198–210.

Teddlie C, Yu F (2007) Mixed methods sampling a typology with example. *Journal of Mixed Methods Research* 1(1): 77–100.

Tejeda MJ (2006) Non-discrimination policies and sexual identity disclosure: do they make a difference in employee outcomes? *Employee Responsibilities and Rights Journal* 18(1): 45–59.

Thompson RJ, Figueroa S (2020) MeToo and LGBTQ+ Salvadorans: social and leadership challenges. *Gender in Management* 35(4): 373–389.

Van Laer K, Janssens M (2011) Ethnic minority professionals' experiences with subtle discrimination in the workplace. *Human Relations* 64(9): 1203–1227.

Varey RJ, Lewis BR (1999) A broadened conception of internal marketing. *European Journal of Marketing* 33(9–10): 926–944.

Velez BL, Moradi B, Brewster ME, (2013) Testing the tenets of minority stress theory in workplace contexts. *Journal of Counseling Psychology* 60(4): 532–542.

Waldo CR (1999) Working in a majority context: a structural model of heterosexism as minority stress in the workplace. *Journal of Counseling Psychology* 46(2): 218–232.

Wallendorf M, Belk RW (1989) Assessing trustworthiness in naturalistic consumer research. In Elizabeth C Hirschman (ed.), *SV - Interpretive Consumer Research*, 69–84. Provo, UT : Association for Consumer Research.

Woodruffe-Burton H, Bairstow S (2013) Countering heteronormativity: exploring the negotiation of butch lesbian identity in the organisational setting. *Gender in Management* 28(6): 359–374.

Yavuz MH, Öztürk AE (2019) Turkish secularism and Islam under the reign of Erdoğan. *Southeast European and Black Sea Studies* 19(1): 1–9.

Yenilmez MI (2021) LGBTQIs in Turkey: the challenges and resilience of this marginalized group. *Sexuality Research and Social Policy* 18(2): 440–449.

Yılmaz V, Göçmen İ (2016) Denied citizens of Turkey: experiences of discrimination among LGBT individuals in employment, housing and health care. *Gender, Work and Organization* 23(5): 470–488.