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GUIDELINES FOR SUBMISSION

Journal of Strategic Innovation and Sustainability (JSIS)

Domain Statement

The Journal of Strategic Innovation and Sustainability takes a multi-disciplinary approach to addressing the many challenges of managing innovation and sustainability, rather than a narrow focus on a single aspect such as technology, R&D or new product development. JSIS is inclusive & practical, and encourages active interaction between academics, managers and consultants. The scope encompasses innovation research, sustainability research, policy analysis and best practices in large and small enterprises, public and private sector service organizations, state and national government, and local and regional societies and economies with special emphasis on linking academic research to future practice. Articles of all nature are published including: quantitative studies, qualitative studies, literature and book reviews, methodology, policy analyses, and case studies.

Focus of the articles should be on applications and implications of business, management and economics. Theoretical articles are welcome.

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- Generate an exchange of ideas between scholars, practitioners and industry specialists
- Enhance the development of the management discipline
- Acknowledge and disseminate achievement in new approaches to strategic thinking
- Provide an additional outlet for scholars and experts to contribute their ongoing work in the area of applied cross-functional management and organizational topics.

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Include a title page with manuscript which includes the full names, affiliations, address, phone, fax, and e-mail addresses of all authors and identifies one person as the Primary Contact. Put the submission date on the bottom of the title page. On a separate sheet, include the title and
an abstract of 200 words or less. Do not include authors’ names on this sheet. A final page, “About the Authors,” should include a brief biographical sketch of 100 words or less on each author. Include current place of employment and degrees held.

References must be written in APA style. It is the responsibility of the author(s) to ensure that the paper is thoroughly and accurately reviewed for spelling, grammar and referencing.

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Authors will receive an acknowledgement by e-mail including a reference number shortly after receipt of the manuscript. All manuscripts within the general domain of the journal will be sent for at least two reviews, using a double blind format, from members of our Editorial Board or their designated reviewers. In the majority of cases, authors will be notified within 60 days of the result of the review. If reviewers recommend changes, authors will receive a copy of the reviews and a timetable for submitting revisions. Papers and disks will not be returned to authors.

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A Goal-Based Perspective of Knowledge Spillover within Organizations

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This study applies a goal-based perspective to predict when innovation projects will contribute useful new knowledge beyond their original scope to the originating firm (i.e., internal knowledge spillover). Longitudinal data from a cross-section of R&D projects support predictions for perceived goal challenge and implicit learning-goal emphasis as stimuli of internal knowledge spillover. The instrumentality of knowledge spillover is corroborated by its relationship with knowledge-related project outcomes such as patent applications 3 to 5 years post the study baseline. Findings extend empirical support for goal-setting precepts to a real-world innovation context and offer practical implications for performance management.

INTRODUCTION

Knowledge creation is a pragmatic organizational concern in the current knowledge economy. Popular wisdom translates this to a need for innovativeness within firms. However, innovation is not synonymous with new knowledge. Researchers generally agree that innovation may take the form of exploitation or the novel and riskier path of exploration (e.g., Benner & Tushman; He & Wong, 2004). Innovation under exploitation is incremental and localized; it stems from the reuse and refinement of existing routines, relying heavily on the firm’s existing knowledge base. Innovation through exploration is more varied and stems from experimentation with new alternatives, relying on the discovery of new knowledge.

Exploitation and exploration are both important to the long-term survival of any organization (March, 1991). However, organizational members seem to struggle more with the latter and may face a bias for exploitation due to risk aversion and the desire to reproduce past successes (the ‘success trap’; Denrell & March, 2001). This preference may be overcome by incentives, norms, or other performance management approaches (March, 1991, 1994). For example, Google and 3M allow employees specific time to explore new ideas distinct from their routinized work time, Proctor & Gamble established a business unit with explicit performance standards requiring researchers to seek new ideas from external sources, and some companies offer rewards for employees’ novel attempts even if they fail (see Shellenbarger, 2011 for some examples).

The present paper investigates two attributes of project goals as potential influencers of exploration. Specifically, we investigate whether perceived goal challenge at the task level and implicit learning-goal emphasis at the broader contextual level are positively related to new knowledge generated by R&D
projects. While most research focuses on the tangible output of R&D projects as a final outcome, we are interested in when a specific innovation effort contributes useful knowledge to the firm that extends beyond the project scope—i.e., internal knowledge spillover.

The study contributes to research in four primary ways. First, it empirically extends goal concepts to the domain of exploration, building on a recent conceptualization of brainstorming which points to the untapped relevance of goal concepts for directing employees towards exploration or exploitation (Litchfield, 2008). Second, while goal concepts are often empirically evaluated through experimental design and at the individual-level of analysis, this study is conducted with a real-world sample of R&D projects. Further, the data is longitudinal which is particularly relevant to goal concepts in the context of complex tasks since the effect of goals on performance in such contexts likely requires a lag time for learning (Smith, Locke, & Barry, 1990; Weldon, Jehn, & Pradhan, 1991). Third, the study adds to the research stream on knowledge spillover by focusing on internal knowledge spillover whereas existing research focuses interorganizationally (Yang, Phelps, & Steensma, 2010). Finally, the study speaks to the recent call for systematic study of antecedents to exploration and exploitation tendencies (Lavie, Stettner, & Tushman, 2010). As described above, organizations are increasingly adopting performance-management practices to encourage employee innovation through exploration; the present study will shed light on aspects of goal setting which may facilitate this process.

BACKGROUND AND THEORY

Exploration and exploitation compete for scarce organizational resources (March, 1991). Within an entire organization, exploration and exploitation may coexist across different functions, levels or other organizational relationships. However, within one individual or a single domain, such as a specific R&D project, achieving both simultaneously is unlikely since each approach is fundamentally different with respect to how learning and existing routines are used (Gupta, Smith, & Shalley, 2006).

Although individual differences may influence preference or ability for exploration and exploitation, research suggests that it is more likely influenced by the work context than innate individual qualities, particularly when it comes to project teams. In a study predicting team performance outcomes indicative of exploration and exploitation, the researchers were surprised to see that team knowledge assets such as knowledge diversity, experience and past success did not differentiate innovation type. They reasoned that organizational goals and expectations for the project, not controlled in the study, may play a larger role than team composition in directing team exploration (Taylor & Greve, 2006). In a related vein, perceived organizational expectations for creativity—creativity being a construct generally aligned with exploration—has been found to have a positive association with employee creative performance (Amabile, Conti, Coon, Lazenby, & Herron, 1996; Farmer, Tierney, & Kung-McIntyre, 2003). Finally, firm-level innovation has been empirically linked to the organizational climate for such, which can be defined as employees’ shared perceptions of the firm’s formal and informal goals and appropriate means to goal attainment (Jung, Wu, & Chow, 2008).

The question remains as to what specific aspects of goals or expectations (i.e., implicit goals) stimulate exploration. For example, all R&D project teams are assigned some form of implicit or explicit goal for innovation, but the knowledge-building process they use to accomplish the objective will, we assert, still vary widely. Goal research points to two attributes of goal content that may have particular relevance in influencing exploration: goal level and learning-goal orientation. Goal level, also known as goal difficulty (see Locke, Chah, Harrison, & Lustgarten, 1989 for distinction between terms), is defined as the degree of challenge perceived and is generally manifested at the task level. A learning-goal orientation, as opposed to a specific learning goal, operates at a higher-order level and may be most simply understood for the present purpose as a goal orientation that “draws attention away from the end result to the discovery of effective task processes,” as contrasted with a performance-goal orientation which focuses on outcomes or end results (Seijts & Latham, 2006, p. 4). We will subsequently explore these goal attributes in considering how a goal-based perspective can inform our exploration-related predictions. First, we will clarify our outcome of interest, internal knowledge spillover.
Internal Knowledge Spillover

Knowledge spillover in relation to innovation is typically defined from an interorganizational perspective (i.e., external knowledge spillovers) and represents the transfer of knowledge outside its intended boundary (Ibrahim & Fallah, 2005). For example, Firm A invests in R&D and then firm B exploits firm A’s knowledge for their own innovative pursuits, thus benefiting from firm A’s innovation efforts (see Yang, Phelps, & Steensma, 2010 for further example). Although less considered, innovation knowledge may also spill within a firm. Internal knowledge spillover exists when knowledge generated within one research project contributes to or stimulates other innovation within the same firm (Henderson & Cockburn, 1994).

The drivers of internal knowledge spillover are not empirically defined, although there is an association between the scope of research projects within a firm and ability of the firm to capture knowledge spillover (Henderson & Cockburn, 1994). Conceptually, however, internal knowledge spillover may be explained by exploration. Innovation through exploration relies on the acquisition of new knowledge derived from experimentation with new alternatives. Some of the varied knowledge generated through this approach will not have relevance for the project at hand, but may inform other innovative efforts. Some attempted alternatives will prove unsuccessful, but again may inform other innovative efforts. Some new knowledge generated may have implications for the project at hand as well as other projects. In contrast, innovation under exploitation relies heavily on the firm’s existing knowledge base and any learning that occurs is incremental and localized. Thus, we equate exploration as fundamentally aligned with internal knowledge spillover.

Knowledge as a Function of Goal Level

Goals affect performance by directing attention and effort toward goal-relevant activities and away from goal-irrelevant activities (Locke & Latham, 1990, 2002). This is because, since goals refer to future valued outcomes, they serve to highlight discrepancy between current conditions and desired conditions (Locke & Latham, 2006). Challenging goals, relative to unchallenging goals, increase the size, clarity and duration of the discrepancy and thus the likelihood that the discrepancy will be detected and acted upon and that such effort will persist (Austin & Vancouver, 1996; cf., Latham & Locke, 1991; Litchfield, 2008). This rationale is supported by the generally consistent finding over hundreds of studies that performance is a linear function of goal level (Latham & Locke, 1991; Locke & Latham, 1990).

Once high-level goals (i.e., goals perceived as challenging) direct attention and effort as discussed above, they then have distinct implications for knowledge seeking in new and complex task domains such as innovation tasks. “Goals may simply motivate one to use one’s existing ability, may automatically ‘pull’ stored task-relevant knowledge into awareness, and/or may motivate people to search for new knowledge. The latter is most common when people are confronted by new, complex tasks” (Locke & Latham, 2006, p. 265). It is important to clarify that goal level is not synonymous with task newness and complexity (Locke & Latham, 2002). For example, a goal of 100 push-ups is challenging even though the task itself is not complex, nor something requiring new knowledge for most.

However, in the case of innovation via R&D, goal level is more naturally equated with both task complexity and newness since R&D encompasses these qualities by definition. In other words, all innovation through R&D is complex in that it requires some degree of new understanding to determine the specific path to attainment. A more ambitious R&D project implies less knowledge of feasible approaches to attainment, and thus greater complexity rooted in the need for a greater amount of new understanding. This is particularly true for R&D projects at the seed-funding stage, such as the present study sample, where discovery is still underway. Taken together, a challenging goal for an R&D project ultimately leads to greater potential for internal knowledge spillover by first directing attention and effort to the task, and then through its newness and related complexity, encouraging exploratory knowledge seeking.

Hypothesis 1: With regards to R&D projects, there will be a positive association between initial perception of goal challenge and subsequent internal knowledge spillover.
Knowledge as a Function of Inducted Learning-Goal Orientation

A goal’s domain or content can be viewed as hierarchical with action-plan goals nested under the higher order of learning or performance goals (DeShon & Gillespie, 2005). As previously noted, a performance goal emphasizes end results and a learning goal emphasizes discovery (Seijts & Latham, 2006). The specific action-plan goal for an R&D project is typically a performance outcome related to the development of a new product or process. However, this does not dictate a distinct higher-order goal of performance or preclude a distinct higher-order goal of learning.

Whereas action-plan goals are generally explicitly identified at the task level, higher-order goals stem from implicit or explicit sources in the task environment (Kozlowski & Bell, 2006). For example, in an experimental study involving both levels of goals, higher-order learning and performance goals were implicitly inducted through differences in the framing of task instruction and reminder wording: errors were either learning opportunities or something to be avoided, and feedback was to be used for learning purposes or to gauge ability (Kozlowski & Bell, 2006). Action-plan goals within the same study were explicitly stated as task outcomes.

As the above implies, identification of the goal domain does not derive solely from an assigned, explicit goal. Irrespective of whether the goal is construed as task-level or higher order, many other studies have inducted a performance or learning goal orientation, respectively, with relatively subtle cues such as instructing participants to score points or creatively explore (Sansone, Sachau, & Wier; 1989), or describing a training activity as an opportunity to test and demonstrate a skill or an opportunity to develop and improve a skill (Roberson & Alsua, 2002). Thus goals can be implicitly defined and activated by the performance norms individuals associate with the task (Earley & Erez, 1991) and implicit task cues (Hassin, Bargh, & Zimerman, 2009). Per the collective findings of these studies, implicit goals may even supersede explicitly assigned goals and direct goal pursuit towards the cued goal rather than, or in addition to, the stated goal.

Relevant to the present study are the performance norms attached to the financing of R&D projects, and the higher-order goal that these norms may implicitly induct. Government grants for R&D in the form of financial awards that do not require repayment convey a different set of goal-relevant norms than typical R&D funding. External knowledge dissemination and broad innovative activity is recognized as an inherent goal of government R&D grant programs (Wallsten, 2000), whereas expectations of instrumental market outcomes accompany typical non-government R&D funding. The R&D projects within the present study all received varied amounts of funding from the U.S. government’s Advanced Technology Program (ATP). The ATP funding program’s public objective was to encourage the broad dissemination of new knowledge for the social good (see Jaffe, 1996 for details of ATP’s public goal). Further, awarded ATP funds were limited in use to the specific awarded project. Thus ATP awards convey an inherent learning-goal orientation, we contend, through an emphasis on broad knowledge creation and through the de-emphasis of opportunity cost (exploratory learning otherwise entails a large opportunity cost because of time spent and greater variation of performance; March, 1991). In relative comparison, other sources of R&D financing—debt, equity and slack resources—implicitly convey a performance-goal orientation since borrowed money must be repaid with interest, capital investments anticipate a return, and investment of slack resources in any one project entails the opportunity cost of other foregone investments.

If these distinct funding norms are effective at inducting higher-order learning-goal and performance-goal orientations, as we suggest, then the greater the ratio of government awarded funding to total project funding, the more consistent the goal domain will be with learning. This in turn has logical positive implications for knowledge spillover since a learning-goal orientation is positively related to individual self-regulatory processes associated with learning (Kozlowski & Bell, 2006; Payne, Youngcourt, & Beaubien, 2007). For example, in the above described experimental manipulation of higher-order goals, implicit learning goals were more beneficial than implicit performance goals for trainees’ self-regulatory activity such as exploratory practice, and subsequent learning in a complex task (Kozlowski & Bell, 2006).
Hypothesis 2: With regards to R&D projects, there will be a positive association between the ratio of government award to total project funding and subsequent internal knowledge spillover.

METHODS

Sample
Data were collected for 183 R&D projects funded by the Advanced Technology Program (ATP), from 2005 to 2007. ATP was a government grant program facilitated through the U.S. National Institute of Standards and Technology. The program was designed to support innovation in the United States by providing seed funding for R&D projects that were past the basic research stage but not yet ready for commercialization. Funding was targeted to projects within for-profit companies or company-led partnerships, as opposed to universities or other non-profit research centers. Awards were for either product or process technology development, and granted based on business and technical merit. ATP was replaced by the Technology Innovation Program in 2008. Under the terms and conditions of these funding awards, primary decision makers from the awarded firms were required to respond to surveys. We use two of these surveys for the present research: 1) the Baseline report that collected data before project start, and 2) the Closeout report that collected data three to five years after project start upon the funding period.

Measures
Internal knowledge spillover (Cronbach alpha = .77) was assessed with three items from the Closeout reporting period (i.e., at project completion): 1) To what extent was useful new knowledge created from your ATP-funded project? 2) To what extent has your ATP project enhanced the value of other R&D at your company? 3) To what extent has your ATP project stimulated new ideas for R&D at your company? Responses were on a scale of 1 (not at all) to 4 (large extent). Knowledge spillover, external and to a limited extent internal, is often measured based on some form of patent count calculation. We consider our perceptual measure a more direct assessment of internal knowledge spillover and a more comprehensive measure since the maturation of spilled knowledge to patentable development may vary widely, and spilled knowledge may benefit firm innovation in other less tangible ways. However, since this is a self-reported measure, we bolstered validity by preliminarily testing its relationship with project performance in the form of tangible, knowledge-related project outcomes (see Results section and performance measure directly below).

Project performance (Cronbach alpha = .76) was measured using four knowledge-related project outcomes reported in the Closeout survey period: number of patents, conference presentations, number of publications, and number of awards. With a principal component procedure, the four items emerged as a single factor and were thus combined into a single measure by occurrence count.

Goal level was assessed with a single item: “Relative to other R&D initiatives in your industry, how ambitious would you say are the overall goals identified for this project?” Responses were on a scale of 1 (much less ambitious) to 7 (much more ambitious) and were reported by the awarded firm at the Baseline point of survey. The item appropriately captures the perceived level of goal challenge from the goal pursuer’s perspective since goal difficulty is a relative concept defined by the beholder, and the beholder of interest to the present research is the goal pursuer.

Learning-goal orientation was assessed as the ratio of government awarded funding to total project funding, which was previously posed as influential in inducting learning-goal and performance-goal orientations due to the different norms associated with the funding sources. As such, a higher ratio represents greater consistency of the goal domain with a learning-goal versus performance-goal orientation. Project awards ranged from 40 to 100 percent of direct project costs and were restricted in use to the specific awarded project. Funding periods ranged from three to five years.

Several control variables were included to minimize alternative explanations and confounding influences. Industry effects were controlled by dummy variables. Five industry categories were
considered: electronics, manufacturing, biotechnology, materials/chemicals and information technology. Also controlled were firm size (number of employees), firm start-up status, and whether a firm is publicly or privately held since each represents variations in human or financial capital that may influence both goal level and knowledge creation.

RESULTS

Means, standard deviations, and correlation coefficients are reported in Table 1 below. Zero order correlations are significant for the two predicted relationships: goal level and learning-goal orientation are both significantly and positively correlated with internal knowledge spillover. Goal level and learning-goal orientation are also significantly intercorrelated ($r = .20$, $p < .01$). We examined variance inflation factors (VIF) to determine the likelihood of confounding effects due to multicollinearity. None of our variables showed VIF values of more than 1.67, which is well below the suggested threshold of 10 (Neter, Wasserman, & Kutner, 1985).

### TABLE 1
PEARSON CORRELATIONS AND DESCRIPTIVE STATISTICS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>s.d.</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Internal knowledge spillover</td>
<td>3.39</td>
<td>.58</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Project performance (item count)</td>
<td>8.37</td>
<td>13.73</td>
<td>.07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Goal level</td>
<td>6.04</td>
<td>.97</td>
<td>.37</td>
<td>***</td>
<td>.06</td>
</tr>
<tr>
<td>4. Learning-goal orientation</td>
<td>60.42</td>
<td>16.19</td>
<td>.43</td>
<td>***</td>
<td>-.14</td>
</tr>
<tr>
<td>5. Firm size (logarithm)</td>
<td>4.95</td>
<td>3.21</td>
<td>-.27</td>
<td>**</td>
<td>.19</td>
</tr>
<tr>
<td>6. Public company (0=no, 1=yes)</td>
<td>.20</td>
<td>0.40</td>
<td>-.18</td>
<td>*</td>
<td>.01</td>
</tr>
<tr>
<td>7. Startup (0=no, 1=yes)</td>
<td>.36</td>
<td>.48</td>
<td>.41</td>
<td>***</td>
<td>-.08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>4</th>
<th>5</th>
<th>6</th>
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<tr>
<td>1. Internal knowledge spillover</td>
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<td></td>
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</tr>
<tr>
<td>2. Project performance (item count)</td>
<td></td>
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<td>3. Goal level</td>
<td></td>
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<tr>
<td>4. Learning-goal orientation</td>
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</tr>
<tr>
<td>5. Firm size (logarithm)</td>
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<tr>
<td>6. Public company (0=no, 1=yes)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>7. Startup (0=no, 1=yes)</td>
<td></td>
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</tbody>
</table>

Note: $n = 162$ due to listwise deletion of missing data.

*p < .05, **p < .01, ***p < .001, two-tailed. Industry dummies omitted from table.

Before proceeding with hypothesis testing, a validity check was conducted for the measure of internal knowledge spillover. One would reasonably expect internal knowledge creation to have a beneficial relationship with objective knowledge-related project performance after controlling for the previously described company and industry influences. This relationship should be detectable but likely modest since the maturation of internal knowledge creation to tangible development may vary widely, and the conversion of such knowledge to tangible outcomes is influenced by intervening external factors such as competition, which were not controlled for in the model. Regression results demonstrated a positive and
significant relationship ($\beta = .15, p < .05$), thus bolstering confidence for the measure of internal knowledge spillover (see Table 2). Had the self-reporting of internal knowledge creation been unduly biased by impression management, we might have instead seen a negative relationship with tangible outcomes (i.e., inflation of intangible outcomes to offset lack of tangible outcomes).

### TABLE 2
PROJECT PERFORMANCE REgressed ON Internal Knowledge Spillover

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>.38**</td>
<td>(0.50)</td>
<td></td>
</tr>
<tr>
<td>Public company (0=no, 1=yes)</td>
<td>-.24*</td>
<td>(3.59)</td>
<td></td>
</tr>
<tr>
<td>Startup (0=no, 1=yes)</td>
<td>-.02</td>
<td>(2.71)</td>
<td></td>
</tr>
<tr>
<td>Industry M</td>
<td>-.02</td>
<td>(3.38)</td>
<td></td>
</tr>
<tr>
<td>Industry I</td>
<td>-.10</td>
<td>(3.06)</td>
<td></td>
</tr>
<tr>
<td>Industry B</td>
<td>-.02</td>
<td>(3.11)</td>
<td></td>
</tr>
<tr>
<td>Industry A</td>
<td>-.07</td>
<td>(3.60)</td>
<td></td>
</tr>
<tr>
<td>Internal knowledge spillover</td>
<td>.15*</td>
<td>(2.07)</td>
<td></td>
</tr>
<tr>
<td>Model $F$</td>
<td>1.90*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model $R^2$</td>
<td>.09</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: n = 164 due to listwise deletion of missing data. Values are standardized coefficients.

Standard errors in parentheses. *$p < .05$, **$p < .01$, ***$p < .000$, one-tailed.


Table 3 summarizes the results of the testing of hypotheses through hierarchical regression analysis. Model 1 introduces the control variables and model 2 tests the hypothesized relationships between the goal variables and internal knowledge spillover. Hypothesis 1, proposing a positive relationship between goal level and internal knowledge spillover, was supported ($\beta = .21, p < .01$). Hypothesis 2, proposing a positive relationship between learning-goal orientation and internal knowledge spillover, was also supported ($\beta = .27, p < .01$). Together, goal level and learning-goal orientation also demonstrated practical significance in explaining an additional 8 percent of the incremental variance in internal knowledge spillover beyond the controls ($p < .001$).

Three control variables were significant in the final model. Start-up status was positively related to internal knowledge spillover ($\beta = .21, p < .05$), suggesting new companies are more focused than existing companies on exploratory innovation, or possibly they simply have more to learn. The manufacturing and biotechnology industries, relative to the benchmark of the electronics industry, are both negatively related to internal knowledge spillover ($\beta = -.26, p < .01; \beta = -.16, p < .05$). R&D projects within these industries may require a narrower or project-specific knowledge focus, leaving less room for knowledge spillover.
### TABLE 3
INTERNAL KNOWLEDGE SPILLOVER REGRESSED ON GOAL ATTRIBUTES

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1 Controls</th>
<th>Model 2 Goal Predictors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>-.11 (.02)</td>
<td>-.01 (.02)</td>
</tr>
<tr>
<td>Public company (0=no, 1=yes)</td>
<td>.04 (.14)</td>
<td>.02 (.13)</td>
</tr>
<tr>
<td>Startup (0=no, 1=yes)</td>
<td>.32 *** (.10)</td>
<td>.21 * (.10)</td>
</tr>
<tr>
<td>Industry M</td>
<td>-.29 *** (.12)</td>
<td>-.26 ** (.12)</td>
</tr>
<tr>
<td>Industry I</td>
<td>-.00 (.12)</td>
<td>-.10 (.12)</td>
</tr>
<tr>
<td>Industry B</td>
<td>-.13 (.12)</td>
<td>-.16 * (.11)</td>
</tr>
<tr>
<td>Industry A</td>
<td>.02 (.14)</td>
<td>-.04 (.13)</td>
</tr>
<tr>
<td>Goal level</td>
<td></td>
<td>.21 ** (.04)</td>
</tr>
<tr>
<td>Learning-goal orientation</td>
<td></td>
<td>.27 ** (.00)</td>
</tr>
</tbody>
</table>

Model $F$: 8.48 *** 9.73 ***  
Model $R^2$: .23  .31  
$\Delta R^2$: .08 ***

*Note: n = 173 due to listwise deletion of missing data. Values are standardized coefficients. Standard errors in parentheses.  
*p < .05, **p < .01, ***p < .001, two-tailed.*


### DISCUSSION

This study examined the influence of goal attributes on internal knowledge spillover in the context of innovation. The findings supported our predictions. Perceived challenge of task goals and contextual emphasis of a learning-goal orientation, at the start of R&D projects, both positively predicted internal knowledge spillover three to five years later in the project. We attribute this to the ability of these goal attributes to encourage exploratory versus exploitive innovation. In particular, a challenging goal focuses attention and, in the context of new and complex tasks, increases knowledge seeking. A learning-goal orientation increases self-regulatory processes associated with knowledge development. Goal level and goal orientation typically represent two separate streams in goal research, with the notable exception of recent integrative efforts (DeShon & Gillespie, 2005; Kozlowski & Bell, 2006). The present conceptual development and findings highlight their complementary though distinct influences on knowledge creation. This study is the first, to our knowledge, to explore these known goal attribute effects in the domain of knowledge spillover.

The study also contributes to the research stream on knowledge spillover by focusing on internal knowledge spillover whereas existing knowledge spill research focuses interorganizationally (Yang, Phelps, & Steensma, 2010). We use the term internal knowledge spillover in its broadest sense to include any way in which the usefulness of findings from a knowledge-creation project extends within the firm. Identification of indirect and less tangible returns from R&D investment may have important implications for funding decisions, making projects that are high in risk or low in direct return more attractive since knowledge creation that benefits other aspects of the firm is a valued outcome in itself. Thus we suggest...
In addition, the study offers insights for the inducement of exploration within organizations. Although March (1991) alluded to organizational norms and contextual factors as relevant to encouraging exploration and exploitation, empirical findings are limited, particularly in relation to specific performance-management practices such as goal attributes. Goal attributes have been conceptually posed as relevant in directing exploration in the domain of employee brainstorming (Litchfield, 2008) and exploratory organizational learning (Sitkin, See, Miller, Lawless, & Carton, 2011). Our findings provide empirical support for the role of two key goal attributes—goal level and learning-goal orientation—in encouraging exploration. We recommend that future research continue to investigate the relationship between goal attributes and exploratory versus exploitive organizational knowledge creation. One way that future research may directly extend our findings is to induct learning-goal orientation explicitly to determine consistency with our construal of its implicit induction. Finding a non-laboratory context in which to do so would be challenging, but most replicative of the present findings. This inquiry could also be extended to address a call by goal scholars to explore the motivational dominance of situationally induced goal orientation effects over dispositional goal orientation (Locke & Latham, 2004).

While the present study focused on internal knowledge creation as an important outcome in itself, preliminary consideration was also given to its link with external performance. The relationship between internal knowledge spillover and R&D project performance in the form of external knowledge output (patents and other externally codified project knowledge) was positive, but as expected this relationship was relatively modest presumably due to the varied maturation time and market uncertainties involved in translating organizational knowledge externally. Attenuation may also stem from founded disconnects between exploratory knowledge seeking and performance. For example, exploration leads to wider variation (highs and lows) in performance since it embraces the unknown, whereas exploitation leads to more consistent performance since it attempts to leverage existing success (March, 1991). Relatedly, goal research suggests that for complex tasks that require the acquisition of new knowledge, increased effort alone will not be translated into tangible gains unless effective strategies are developed for deploying that effort productively (see Wood & Locke, 1990; Wood, Mento, & Locke, 1987). Future research should consider how goal attributes may be optimized to more tightly align exploratory knowledge building with performance outcomes. For example, a study that investigated team norms and individual goal orientations for R&D project teams within a pharmaceutical company suggests some combination of learning and performance goal focus produces better results for employee creativity than either focus alone (Hirst, Van Knippenberg, & Zhou, 2009).

Goal specification has also been found to reduce variation in performance by reducing ambiguity regarding what constitutes goal relevant behavior and outcomes (Locke & Latham, 2002). Learning-goal orientation represents a higher order of goal domain specification than action-plan goals, which are explicitly identified at the task level. Future research may consider the relevance of goal specification at the action-plan level to bridging knowledge building and performance. For instance, a study of the influence of organizational control mechanisms on output from R&D project teams across 57 pharmaceutical firms unexpectedly found that degree of goal specificity at the task level was positively associated with radical but not incremental innovation, similar concepts to exploration and exploitation (Cardinal, 2001).

In terms of practice, organizations are increasingly adopting programs aimed to encourage innovation through exploration—e.g., Google and 3M allow employees specific time for new knowledge seeking distinct from their routinized work time. Some have posed that the knowledge economy as we know it is giving way to the creative economy (Businessweek, 2005), suggesting an exploratory, versus exploitative, approach to knowledge building and innovation may play an even more important role in firm success going forward. Our findings shed light on aspects of goal setting which organizations may use to direct employee performance towards this direction. A challenging task-level goal and a contextually inducted learning-goal orientation each offer unique beneficial effects for exploration in the domain of R&D projects. Whereas the learning-goal orientation stemmed from project financing norms in the study
sample, by logical extension of this finding and previously discussed experimental findings, organizations may convey the same through their own performance standards—by explicitly or implicitly stressing learning as a valued R&D project outcome.

The research design of this study offers the strength of a real-world sample of R&D projects, where much goal research is experimental in design, and a time lagged measure of goal outcomes. The latter is particularly important to the study of goal concepts applied to complex tasks where learning must occur before performance is impacted (Smith et al., 1990; Weldon et al., 1991). However, as with any study, there are limitations of the present research which must also be considered. Even though our sample is comprised of a wide cross-section of R&D projects and industries, the findings are not necessarily generalizable outside of R&D contexts. Second, our measure of goal level and internal knowledge spillover are self-reported, thus potentially subject to common method bias. However, the likelihood of common method bias is lessened by the substantial time separating the measurement of goal level and knowledge spillover. Further, goal challenge is in the eye of the beholder, so a perceptual measure of such was deemed appropriate. And while the perceptual measure of knowledge spillover may be subject to impression management, participants had nothing to gain or lose by misreporting this information since all funding awards were completed at this point of survey. Validity of the knowledge-spillover measure is also bolstered by its significant relationship with an objective measure of knowledge-related performance.

In conclusion, we offer a unique field test of the links between goal attributes and the sparsely researched outcome of internal knowledge spillover. In addition to implications for theory and research, the findings highlight ways in which the process of organizational learning and innovation, as exploration or exploitation, may potentially be influenced. We are hopeful that our findings will contribute to an improved understanding of these important relationships and encourage continued research in the areas noted.

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REFERENCES


Where Innovation Does a World of Good: Entrepreneurial Orientation and Innovative Outcomes in Nonprofit Organizations

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Nonprofit organizations face uncertain economic times, yet societal demands on them continue to grow. Innovation has been identified as an important capability for long-term success. However, nonprofit innovation has not been widely studied. To better understand how nonprofit organizations can become more innovative, this article integrates theories from the fields of entrepreneurship, nonprofit management, and strategic management. We apply a well-established construct, entrepreneurial orientation, and explore the entrepreneurial alignment among three critical actors -- the executive director, board of directors, and key staff members -- to develop a model and propositions. Future research directions and implications for practitioners are discussed.

INTRODUCTION

Charles Handy (2001) said, “Creativity is born of chaos, even if it is somewhat difficult to glimpse the possibilities in the midst of the confusion” (2001, p. 106). Currently, nonprofit organizations are facing a chaotic context. In the United States, the need for community services provided by agencies other than governments has grown significantly, as both federal and state public sector budgets have been reduced (Johnson, Oliff, & Williams, 2011). Concurrently, private sources of funding have also declined (Barton & Hall, 2011; Hall, 2011). Despite decreased funding, demand for social services is dramatically increasing. In 2010, the number of people in the United States living below the official poverty line increased to the highest number since 1952, when the U.S. Census Bureau started tracking this statistic (Tavernise, 2011).

Given the retrenchment of corporate giving and reductions in government funding for social, community health, educational, and other types of services, it is critically important that nonprofit organizations develop new ways to deliver services to their constituents. In order to provide more services with fewer resources, nonprofits have been called on to increase innovation to deliver services more efficiently and more effectively (Jaskyte, 2011; Lieu, 2010; Neff & Moss, 2011). For example, innovations such as online giving are becoming increasingly important for nonprofits (Plank, 2011).
Unfortunately, research suggests that nonprofits tend to become more restrictive in their actions at times when creativity and flexibility are most needed (Gill, 1995).

Although several recent studies (Jaskyte, Byerly, Adams & Koksarova, 2010; Jaskyte, 2011; Jaskyte & Dressler, 2005; Jaskyte & Lee, 2006; Kong, 2010; McDonald, 2007) have addressed innovation in nonprofits, only a few studies provide direct guidance on how nonprofits can better innovate (e.g., Jaskyte et al., 2010). This article integrates existing research from the nonprofit management, entrepreneurship, and strategic management literatures to develop a theoretical model and propositions to help explain and predict how the entrepreneurial orientation (EO) of key actors in nonprofit organizations can improve innovation.

EO reflects the extent to which an organization can be described as entrepreneurial versus conservative (Morris, Webb, & Franklin, 2011). In a meta-analysis of EO and business performance, Rauch, Wiklund, Lumpkin and Frese defined EO as “the entrepreneurial strategy-making processes that key decision makers use to enact their firms’ organizational purpose, sustain its vision, and create competitive advantage(s)” (2009: 763). Three dimensions of EO have been identified: innovativeness, risk taking and proactiveness (Becherer & Maurer, 1997; Covin & Slevin, 1989; Lee, Lee, & Pennings, 2001; Miller, 1983; Thoumrungroje, 2010). Morris et al. (2011) contend that these three EO dimensions pertain to nonprofits because nonprofits need to engage in entrepreneurial behavior to sustain operations when traditional funding sources are no longer reliable. Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds (2010) noted that, while performance outcomes or value creation measures are different for social versus commercial enterprises, operational processes and behaviors as well as resource flows are similar.

This article develops the application of the EO concept to nonprofits by looking at the relationship between innovative outcomes (which is an important measure of performance and long-term viability) and EO. Our model suggests that nonprofits will be more effective at innovation when the senior management, board of directors, and key staff members share an aligned EO. Thus, our article makes three significant contributions to the research literature.

First, while EO is a firm level construct that is often measured by determining the attitudes of top managers, we propose that the EO in a nonprofit is comprised of multiple perspectives, all of which are essential to innovation. As Hatten (1982) pointed out, managerial responsibilities in the nonprofit are shared between senior management, board members, and professional staff. When differences arise in the priorities and preferences towards innovation, these differences may derail innovation. Consequently, to evaluate the relationship between EO and the implementation of innovative products or services, the EO of an organization must reflect the proactiveness, risk taking and innovativeness of senior management and the board; and key staff members must value the three elements of EO for innovation to be accepted and implemented. Even though these connections may exist in the for-profit sector, we propose that this alignment is especially important in nonprofits, given the importance of nonprofit boards in raising funds and raising public awareness (Miller-Millesen, 2003) and the need for nonprofit agency directors to often serve multiple roles within their organizations (Lee & Kelley, 2008). We predict that greater EO alignment will improve innovative outcomes in nonprofit organizations. Thus, the expansion of the EO concept to include multiple stakeholders is the first important contribution of this article.

A second contribution of this article is its exploration of the conditions under which different types of innovation occur. We posit that not only does the degree to which the EO of senior management, the board and key staff members are consistent impact the intensity of innovative activity that takes place, but also the level of EO for each of the three stakeholders groups affects the type of innovation that is undertaken. Innovations range from incremental improvements in the service delivery process to large-scale initiatives to add new services or products. Typically, key staff members are responsible for the implementation of incremental innovations, whereas the board plays a key role in the adoption of large-scale innovations that result in major shifts in the types of products or services offered. Thus, the EO of the board may be primarily related to the successful implementation of product or service innovations, while the EO of key staff may affect both process and product/service innovation.
The third contribution of the article is an enhanced understanding of the innovation process in nonprofits. Nonprofits face demands from funding agencies and other stakeholders to improve efficiency and effectiveness by improving managerial practices (Chetkovic & Frumkin, 2003). Particularly in light of current funding patterns, innovation is a key to survival. Nevertheless, as previously discussed, this is an under-researched topic in the nonprofit literature (Jaskyte et al., 2010). Our article helps shed light on an important corner of the nonprofit research literature: the link between top managers, boards, key staff members, and innovation.

In the next section, we review the research literature on innovation, entrepreneurial orientation, and three key actors identified in the nonprofit management literature: top management, the board of directors, and key staff members. Proposition development follows the literature review section.

LITERATURE REVIEW

Innovation

What is innovation? Innovation implies new knowledge and new knowledge combinations that are specific to a particular context (Eisenhardt & Martin, 2000). In the nonprofit sector, innovation may help an organization better serve its constituents (McDonald & Srinivasan, 2004). The nature of innovation is complex. Based on a meta-analysis of sixty definitions from seven business-related fields, Baregheh, Rowley and Sambrook proposed that innovation is a “multi-stage process whereby organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully” (2009: 1334).

The pressure or drive to innovate is derived from many sources. Most organizations are externally driven by factors such as increased competition, resource scarcity, or deregulation. In the nonprofit domain, many have assumed that the ‘industries’ in which organizations ‘compete’ are considered either non-existent due to the nonprofit nature of the entities involved or fairly stable (Salamon & Anheier, 1992). While stability may have existed at one point in time for nonprofits, this is no longer an accurate assumption. The needs of their clients are increasing at the same time that there is greater competition for scarce resources. The nonprofit sector has experienced a sea of change in terms of demands from the government and funders to become more efficient and more entrepreneurial and innovative at the same time (Pearce, Fritz, & Davis, 2010). Hence, nonprofits must learn to navigate changing boundaries in order to survive. Innovation is an important component of adaptation. Moreover, the attributes of an innovation are critical because they have different determinants and impacts (Damanpour, Walker & Avellaneda, 2009; Jaskyte & Kisieliene, 2006).

One of the most enduring and widely studied typologies, which is rooted in the seminal works of Joseph Schumpeter (1942), is the distinction between product innovation and process innovation (Kazanjian & Drazin 1986; Kotabe & Murray, 1990; Utterback & Abernathy 1975; Zmud 1984). Product innovations are developed to meet the needs of external users (Barras, 1986). Process innovations, in contrast, focus on internal needs for efficiency and effectiveness in the production and delivery of goods and services to customers (Abernathy & Utterback, 1978).

Research on organizational innovation typically has not distinguished between product innovations by manufacturers and retailers and service innovations by service providers (Damanpour et al., 2009; Miles, 2001; Sirilli & Evangelista, 1998). The rationale behind the similar treatment of product and service innovations by academic researchers is that both types of innovations are externally focused and that they are introduced to differentiate the organization from its competitors (Abernathy & Utterback, 1978; Damanpour & Gopalakrishnan, 2001). In addition, like product innovations, the catalyst for service innovations can either be external user demands for new services or senior management’s intended goals to create either new markets for existing services or new services for current and potential clients (Damanpour et al., 2009).

The perceived similarity between product and service innovation is also evident in the often-cited classification of service innovations in nonprofits proposed by Osborne (1998). Osborne’s typology of service innovations parallels Ansoff’s (1957) product/market matrix. Osborne (1998) proposed four types
of service offerings based on the newness of the services themselves and the newness of the client to the organization. “Incremental development” (similar to market penetration) involves providing the same services to an existing client base, but incrementally improving them. “Expansionary innovation” (similar to market development) involves providing existing services to a new client base. “Evolutionary innovation” (similar to product development) involves providing new services to an existing client base. “Total innovation” (similar to diversification) involves providing new services to a new client base.

The second type of innovation, process innovation, also has several categories. A recognized, albeit less researched, typology distinguishes between technical and administrative innovations (Damanpour et al., 2009). Technical process innovations are directed towards the organization’s core operating systems and procedures, which directly affect the nature of the services being rendered to clients (Abernathy & Utterback, 1978; Damanpour & Gopalakrishnan, 2001; Mees & Edquist, 2006). Examples of this kind of process innovation are increased operational efficiency, lower production costs, and quicker delivery times. Administrative process innovations entail changes in management support functions (Daft, 1978; Damanpour & Evan, 1984; Light, 1998). These innovations include changes in the organizational structure, leadership practices, reward systems, and administrative systems.

We assert that nonprofits engage in a full range of innovation activities, an assumption that, while not clearly tested in the research literature, is born out in the popular media. For example, Fan of the Feather created a transitional home geared toward female homeless veterans because this fast-growing group of veterans has minimal dedicated resources. This San Marcos, California organization created and integrated new configurations of resources addressing post-traumatic stress disorder, military sexual trauma, and substance abuse not typically seen in the traditional homeless population (Mecija, 2012). This is an example of “total innovation” using the Osborne (1998) typology – a set of new services for a primarily new market.

In an example of process innovation, the Fremont Clinic in Minnesota brings sexually transmitted disease (STD) education to isolated and distressed communities using partnerships with local businesses, such as barber shops, within these communities rather than simply delivering the education in existing clinics and hospital settings (Bankston, 2012). The Clinic provides the same product (STD education), but it uses a different and new process (partnerships with local businesses) to reach new clients. Using the typology identified by Damanpour et al. (2009), this example has aspects of both technical and administrative process innovation. The new service created increased operational efficiency, lower production costs, and quicker delivery times and required changes in organizational structure and administrative systems.

**Entrepreneurial Orientation (EO) and Innovation in the Nonprofit Sector**

If innovation is the key to sustainability for nonprofits, then the adoption of an entrepreneurial orientation (EO) may be beneficial. An important aspect of entrepreneurship is the development and/or adoption of new products or processes. EO refers to the strategy-making policies and practices that provide organizations with a basis for entrepreneurial decisions and actions (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003). EO has been widely researched and therefore is reasonably well developed conceptually. Much of the research adopts Miller’s (1983) definition, which identified innovativeness, risk taking and proactiveness as the three key dimensions of EO. Innovativeness is the willingness to experiment with new ideas and processes that may result in the introduction of new products and services (Lumpkin & Dess, 1996). Risk taking refers to acting in ways that are perceived as bold even in the face of uncertainty, such as a willingness to commit resources where the outcomes are unknown and the probability of failure is high (Wiklund & Shepherd, 2005). Being proactive is defined as the confidence to seek new opportunities, anticipate future demand, and introduce products and services ahead of the competition (Venkatraman, 1989).

Numerous studies have demonstrated a significant positive relationship in for-profit organizations between all three dimensions and firm performance (Keh, Nguyen & Ng, 2007; Rauch, et al., 2009). Su, Xie and Li (2011) found that the EO-performance linkage in new organizations is an inverse U-shaped, whereas the relationship between EO and performance is positive for established firms. How does this
relationship between EO and performance apply to the nonprofit sector where performance is not always assessed solely in financial terms? Morris et al. (2011) maintained that the three dimensions of EO apply to nonprofits with a little modification regarding the nature of organizational performance. They suggest that “nonprofit EO considers not only the development of new products and services but also means through which the organization can pursue social mission-related and commercial opportunities” (2011: 966). Hence, we expect EO to be positively related to innovative behavior and organizational performance in nonprofits.

Typically, EO is viewed as an organizational-level construct, but it is measured by looking at the innovativeness, risk taking and proactiveness of the top managers (Covin & Slevin, 1989). While this may be a realistic reflection of the organizational-level EO in a for-profit firm, Salamon & Anheier (1992) pointed out that a key distinguishing feature of a nonprofit is the governance structure. In nonprofits, managerial decisions and responsibilities are shared between senior management, board members, and professional staff (Hatten, 1982). Morris et al. (2011) suggested that because of the critical role of the board in decision-making, the measurement of EO in nonprofits should not be restricted to top managers. Nonprofits have multiple stakeholders that play key roles in embracing, developing and implementing innovation.

It is reasonable to assume that the degree to which the development and implementation of innovation is successful depends on the support and actions of multiple stakeholders within the organization, and we assume that there will be variance in the EO among the three groups in terms of both degree and valence. This variance will be impacted by the relative power of each group and that the interplay of the degree and valence of EO among these groups will be an important driver of organizational innovation. Although the top manager is still a key actor in the innovation process, the measure of EO in nonprofits should include top management EO along with the other two actors central in the nonprofit context: board members and the professional staff.

The Role of Top Management

While many nonprofit studies have focused on the relationship between structural factors, such as organizational size and structure, researchers are increasingly recognizing that human factors, including leadership, culture, and experiences, are also influential on the development and implementation of innovation (Jaskyte, 2011). The executive director is an essential human factor that drives variance in organizational innovation, and one way to understand differences among executive directors is the construct of entrepreneurial orientation (EO). Entrepreneurial orientation includes domain knowledge, a high tolerance for risk and ambiguity, and the ability to sell ideas. According to Covin and Slevin (1989) and Miller (1983), top managers must emphasize all three dimensions to be considered entrepreneurial. A recent meta-analysis of EO by Rauch, et al. (2009) confirmed that the EO of top managers is significantly positively related to both financial and nonfinancial measures of performance.

The components of entrepreneurial orientation include intrinsic factors such as domain knowledge, personality, leadership capabilities, and a wide range of individual differences and human capital variables relevant to innovation. There are also important experiential differences, including formal education, managerial experience, and start-up experience. These experiential differences combine with the innate cognitive and personality factors mentioned above to create individual capabilities for innovation, including critical opportunity recognition and creative problem solving.

Both human capital theory and entrepreneurship research establish that knowledge provides individuals with increased cognitive ability and greater productivity (Becker, 1964). Human capital has been identified as a factor positively related to both nascent entrepreneurship (Davidsson & Honig, 2003) and successive entrepreneurial activities (Davidsson & Wiklund, 2001). While most of the previous research has looked at novice founders and founders who subsequently start other new businesses (Bates, 1995; Wiklund & Shepard, 2008), senior executives who have been successful in identifying and implementing innovation in the past will have a higher probability of innovating successfully again within the same organization.

The entrepreneurship and innovation literature also supports the assertion that the in-depth expertise,
judgment, and ability of individuals play a key role in the innovation process (Dougherty & Hardy, 1996; Leifer, McDermott, O’Connor, Peters, Rice, & Veryzer, 2000; Tushman & Nadler, 1986). Senior executives can draw on their knowledge and experience to facilitate their own productivity as well as provide guidance and advice to other organizational members (Garud & Van de Ven, 1992). Lee and Kelley (2008) considered the knowledge of the individual entrepreneur as a requisite resource for successful innovation. Thus, the senior executive’s entrepreneurial orientation is a key requirement for innovation, and this orientation is related to personality and can also develop through formal education and prior experience.

The Role of the Board of Directors

In order to lead effectively, the executive director must have the support of key stakeholders. One of the most important stakeholders in the nonprofit organization is the board of directors. The board plays a unique role in nonprofit organizations. Like all boards, nonprofit boards are supposed to approve the major strategic initiatives. In addition, nonprofit boards typically are more involved in managerial responsibilities and operations than their for-profit counterparts (Hatten, 1982; O’Reagan & Oster, 2005). A lack of board support for a specific strategy or conflicting strategic priorities can create tensions (Ridder & McCandless, 2010). Tensions, in turn, can affect strategic direction and, therefore, the development or implementation of innovative products or services.

Even though boards of directors play a critical role in the governance of nonprofit organizations, there is limited empirical research on boards’ influence on the successful creation and implementation of innovative processes, services and programs (Coombes, Morris, Allen & Webb, 2011; Jaskyte, 2009). There is recognition that the board impacts organizational performance and influences organizational members (Herman & Renz, 2004). Boards are seen as playing a role externally by communicating the organization’s message to attract resources (Klausner & Small, 2005) and by providing oversight of the strategic plan and monitoring the executive team and organizational outcomes (Abzug & Galaskiewicz, 2001). Nonetheless, most of these discussions have been prescriptive; a handful have been theoretical (Miller-Millesen, 2003) and even fewer have been empirical/evidence-based (Brown & Guo, 2010; Brudney & Murray, 1998).

A recent study of 417 nonprofit organizations examined the role of boards of directors in fostering or stopping innovation (Salamon, Geller & Mengel, 2010). While the most significant, steady sources of innovative ideas were from staff members and peer organizations, the study found that 62% of nonprofit organizations relied on board members to learn about innovation at some point in time. Of those surveyed, 20% relied on board members often, and 38% relied on them occasionally. Even though there was no dominant source of pressure to innovate, board members were viewed as a significant source of pressure by 22% of those surveyed. Board members typically were not viewed as a hindrance to innovation. When organizations wanted to adopt innovative programs and services, board resistance and/or disinterest was cited as important or very important by only 7% of those surveyed. On the other hand, for nonprofit organizations that instituted innovative programs and services, boards of directors were cited by 31% of those surveyed as a factor motivating the adoption of performance measurements to evaluate those innovations. In keeping with these results, Evashwick and Ory (2003) found that the majority of innovative projects that were successfully initiated by community health care organizations not only had a visionary leader within the organization, but also had a board member serving as a secondary champion of the innovation. Coombes et al. (2011) found that organizations with passive boards demonstrate less entrepreneurial behavior.

Although there has been significant research on boards of directors in both for-profit and nonprofit contexts (Bradshaw, 2009; Brown & Iverson, 2004; Herman & Renz, 2000; Miller-Millesen, 2003), there has been little empirical work specifically addressing the characteristics of the board that drive, foster or hinder innovation in nonprofit organizations. Monteduro, Hinna, & Ferrari (2009) found that the skill set and knowledge base of board members had significantly more impact on a nonprofit’s degree of innovation than overall board demographic profile. They found a strong positive correlation between the business expertise of individual members and the adoption of major innovations in grant-giving
foundations. Consequently, the EO of the board is relevant to the adoption and implementation of innovation.

**The Role of Key Staff**

While the entrepreneurial orientation of the senior manager is critical for the development and implementation of innovation, the ability to engage other organizational members is critical. Research suggests that continued innovation requires a culture of sustained organizational learning and creativity (e.g. Prugsamatz, 2010). Lee and Kelley (2008) established the need for collaboration and collective activity to develop the ability to learn and develop new approaches to achieve innovative outcomes. Senior managers can shape organizations at a broader level and create an environment that promotes and encourages experimentation and innovation (Hornsby, Kuratko, & Zahra, 2002).

Damanpour and Schneider (2006) found a positive relationship between favorable attitudes towards innovation within the organization and innovation adoption. In a social entrepreneurship study, Corner and Ho (2010) found that even though many patterns of opportunity development exist, most opportunities grow over time and are developed by multiple actors aware of a particular need working together to create social value. Prahalad and Hamel (1990) noted that in order to create new resources and facilitate innovation, firms must mobilize and combine individual knowledge and skills across boundaries. Sarros, Cooper and Santora (2008) found that organizational culture plays a moderating role in the positive relationship between leadership and innovation. Thus, there is groundwork in the literature to support the link between engagement from multiple sources and innovation success, suggesting that key staff members play a critical role in the development and implementation of innovation.

Infusing entrepreneurial orientation is vital for engaging key staff members but is difficult. Unlike for-profit firms, nonprofits are typically resource constrained and cannot pay rates competitive with the private markets or offer stock option packages (Oster, 1995). Many nonprofits also rely on volunteers to perform key functions. Further, the culture of nonprofits is historically more risk averse than for profits. As noted by Morris, Coombes, Allen, & Schindehutte (2007), the logic of being entrepreneurial, pursuing a social mission, serving multiple stakeholders, and operating with scarce resources is often not a clear proposition. Further, complex responsibility structures, public policy influences, and a reliance on government funding that specified program requirements limited the need and incentive for nonprofits to pursue innovative solutions to problems (Hull & Lio, 2006). Nonprofits have also tended to suffer from a culture steeped in social work ideals focused on solving social problems quickly and within budget rather than investing in longer term solutions that may be difficult to implement. Unless the senior executive can share knowledge and motivate other organizational members to engage, innovative initiatives are likely to fail. As Light (1998) noted, for innovation to become a viable alternative for nonprofits, nonprofit leaders must prepare the organization to innovate.

Morris et al. (2011) suggested that the inclusion of the board in the nonprofit context may be appropriate but the EO of key staff members may not be relevant to decision making. However, an argument can be made that the extent to which the key staff value innovation, risk taking, proactiveness, and are committed to changes is relevant for to the successful implementation of innovation. While organizational culture or shared values regarding entrepreneurship has not been measured before, Rauch et al, (2009) advocate the inclusion of moderators in the EO-performance relationship. Thus, evaluating the extent to which key staff members value innovation, risk taking, and proactiveness may affect the relationship between EO and innovation.

**THEORETICAL MODEL AND PROPOSITION DEVELOPMENT**

After a careful review of the literature, a theoretical model (see Figure 1) and several testable propositions emerge. All are predicated on the notion that entrepreneurial orientation is related to innovation and that the nature of this relationship is multidimensional across stakeholder groups. EO is usually measured by either querying top management or assessing top management’s actions to assess top management’s strategy in relationship to innovativeness, proactiveness and risk taking (Covin & Slevin,
Given the realities of nonprofit shared governance, we posit that it makes sense to expand the operationalization of entrepreneurial orientation to include the board as well as the top executive team. The entrepreneurial orientation of executive management is still the primary force, but the extent to which the board embraces innovativeness, proactiveness and risk taking plays a role in determining the success of the organization in pursuing and implementing innovation.

**FIGURE 1**
MODEL OF INNOVATION IN NONPROFIT ORGANIZATIONS

Another dimension is the type of innovation impacted by top management and the board. Previously, we identified two key categories of innovation: process and product/service. Process is more focused on the internal improvement of the delivery of goods and services, whereas product/service innovation is the development of new products/services to clients and customers. Incremental or operating changes occur in small steps and involve modifying peripheral organizational elements. They typically build upon existing knowledge and internal competencies. In contrast, major changes to the organization’s core services and/or operations, impact many organizational components. Major changes may require the development of new competencies and/or the acquisition of new resources.

The top managers, as the people in charge of strategic and operating strategies, are likely to be involved with both types of innovation. The board, on the other hand, is less involved in the operations of the organization (particularly the day-to-day operations) and more likely to be responsible for approving and supporting strategic decisions involving the development of new products and services. As noted by Salamon et al., (2010), the board is more apt to serve as a catalyst for change rather than a hindrance of change. Further, the board does not work in isolation to affect EO, but provides a support role. Hence, the board plays a moderating role such that when both the EO of the board and senior executives are high, the nonprofit should be in a stronger position to move forward in an innovative fashion. Therefore, based on this model, we propose six propositions:

**Proposition 1:** There is a positive relationship between top management’s EO and the level of product/service innovation in a nonprofit organization.

**Proposition 2:** There is a positive relationship between top management’s EO and the level of process innovation in a nonprofit organization.
Proposition 3: The EO of the board strongly moderates the positive relationship between the top management’s EO and the level of product/service innovation. When the board’s EO is higher, the relationship between executive management’s EO and the level of product/service innovation in a nonprofit organization is stronger.

Proposition 4: The EO of the board weakly moderates the positive relationship between the executive management’s EO and the level of process innovation. When the board’s EO is higher, the relationship between executive management’s EO and the level of process innovation in a nonprofit organization is stronger.

What role does key staff play in the adoption of innovation? As noted, because of the lean nature of nonprofits, the support of key staff members is critical to the successful implementation of innovation. The EO of the key staff is not relevant to strategic decision making, as that is the domain of top managers and the board. However, key staff members play a significant role in the implementation process, and a lack of support from the key staff members can doom innovation just as the support of key staff members can positively affect innovation implementation. Further, because key staff members are involved in both the process and product/service innovations, their EO is relevant to both types of innovations. Consequently, we propose the following:

Proposition 5: The EO of key staff members moderates the positive relationship between the top manager’s EO and the level of product/service innovation such that when the EO is higher of key staff is higher, the relationship between the top managers’ EO and the level of product/service innovation in a nonprofit organization is stronger.

Proposition 6: The EO of key staff members moderates the positive relationship between the top managers EO and the level of process innovation such that when the EO of key staff is higher, the relationship between the top managers’ EO and the level of process innovation in a nonprofit organization is stronger.

The model presented in Figure 1 identifies both main effect and the moderated effects of the variables. The central independent variable in this model is the EO of the top manager(s). The dependent variable in this model is innovation effectiveness, and we distinguish between product/service innovation and process innovation. We posit that the remaining variables in the model, the EO of the board and of key staff members, moderate the relationships between the top managers’ EO and the level of innovation.

IMPLICATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The model we have proposed attempts to expand our understanding of innovation in nonprofits. Innovation is becoming essential to the survival and sustainability of nonprofits. In order for innovation to be successful, the top manager(s) cannot act in isolation. Innovation requires the support of the board, particularly for new strategic initiatives where new products or services are introduced. The unique shared governance structure of the nonprofit requires that the board provide support in terms of resource allocation, implementation ideas and the development of community support. For these strategic plans to be carried out, yet another layer of support is necessary. Key staff members must understand and internalize the EO values of innovativeness, proactiveness and risk taking to successfully implement innovation. This can be a tall order in a culture where innovation has not been demanded or even expected until relatively recently. Nevertheless, regardless of how much the market demands it, a failure to embrace innovation can doom implementation from those on the front lines who must do the work.

These propositions have significant obvious and non-obvious implications for the future of nonprofits. First, how do we train nonprofit managers, both in existing organizations and in undergraduate and graduate universities? Where should nonprofits be looking to recruit new managers? What selection
criteria with respect to knowledge, skills, and experiences should be used when hiring new managers? How should boards be selected? What degree of alignment or misalignment is most effective and how do organizations get to such alignment? What are the implications for board selection and subsequent board training? While a perfect alignment between the top managers, board and key staff members may not be obtainable, nonprofits may benefit from devoting some time to assessing the extent to which innovation is valued and envisioned as part of the organizational fiber and taking steps to educate and communicate.

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Corporate Social Responsibility and Organizations Innovation Strategy

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In investigating the issues related to innovation and CSR, the 4CR multi-dimensional corporate responsibility perspective is reviewed. The research question is from this conceptual model, how can innovation and CSR be related for innovative organizations? This paper will investigate Lekkerkerk's theory that there are six types of CSR and innovation, and Doane's contention that in today's business environment, CSR and innovation do not really exist. A new model of CSR, the Corporate Sustainability and Social Responsibility for Innovation and creativity (CSSRIC) Model, is proposed. This model represents a value chain for sustainable, socially responsible, ethical corporate governance emphasizing innovation and creativity.

INTRODUCTION

Is it possible for a company to do well and prosper, while it is doing "good"? Doane asserts that the company which does well doing good is a myth, perpetrated by corporations themselves in a sort of social accountability shell game. (25) Doane's impression of corporate social responsibility and innovation is one which Lekkerkerk fails to support. (1) Lekkerkerk asserts that today's corporate drive is towards the combination of innovation and corporate social responsibility. This paper will investigate Lekkerkerk's theory that there are six types of CSR and innovation, and Doane's contention that in today's business environment, CSR and innovation do not really exist.

In investigating the issues related to innovation and CSR, the 4CR multi-dimensional corporate responsibility perspective is reviewed. The research question is from this conceptual model, how can innovation and CSR be related for innovative organizations?

The research question is investigated utilizing the contexts Lekkerkerk's models of CSR and Doane's theory of the non-existence of true CSR. The background of the study is established, a conceptual framework developed, the literature review is conducted, and the methodology of the study established. Finally, a new model of CSR, the Corporate Sustainability and Social Responsibility for Innovation (CSSR) Model, is proposed.

BACKGROUND OF THE STUDY

As MacGregor pointed out, linking the concept of innovation with the process of corporate social responsibility is not easy. (MacGregor & Fontrodona 4) MacGregor suggests that there is little explicit research that links innovation and corporate social responsibility. Instead, he believes, there is a great deal of implicit evidence that links the two. (MacGregor & Fontrodona 2) He proposes that through the process of scaffolding, one can observe and study the ways that innovation and corporate social
responsibility interact. (MacGregor & Fontrodona 4) Through the process of establishing key points of overlap between innovation and responsibility, he asserts, the link between the two becomes clear. (MacGregor & Fontrodona 4) Once the link is firmly established, he suggests, academic dialogue will open and it will be possible for companies to use the information and knowledge gained to develop a plan for practical implementation of corporate social responsibility and innovation. (MacGregor & Fontrodona 4)

Lekkerkerk, however, believes that there are six separate permutations of innovation and corporate social responsibility interact: (1) starting or strengthening CSR; (2) innovative CSR; (3) a CSR-innovation; (4) innovating using CSR as an added set of criteria; (5) to innovate as a corporate and social responsibility; and (6) not to innovate, as part of social and corporate responsibility. (Lekkerkerk 1-2). In the first case, when an organization which has never considered developing corporate social responsibility decides to develop CSR, it is, by definition, an innovation to the company. At the same time, Lekkerkerk suggests, companies that have implemented CSR for legal but not moral reasons, who now decide to pursue CSR for moral basis, are also performing innovation. (Lekkerkerk 1)

In the second case, Lekkerkerk asserts that it is innovative CSR when the companies which have not yet implemented a form of CSR decide to implement it. (Lekkerkerk 1) A CSR innovation, he states, exists when companies are forced to make strategic decisions as they make decisions that will bring CSR results, but no profit or pay-back benefits. (Lekkerkerk 1) The fourth case, innovating using CSR as an added set of criteria, exists when innovations for the customer are occurring, and CSR is added for additional reinforcement to the customer. (Lekkerkerk 2) When the company innovates as both corporate and social responsibility, it fulfills Lekkerkerk's fifth case definition. Lekkerkerk argues that it may be necessary to encourage the innovation of 'open' innovation, where companies share their previously shelved ideas that were socially responsible but fiscal drains. (Lekkerkerk 2) In the sixth and final case, Lekkerkerk argues that sometimes, not innovating fulfills corporate and social responsibility. He fulfills this argument with the use of the old axiom "if it ain't broke, don't fix it", and the argument that developing better bullets is an example of an innovation that is best left alone. (Lekkerkerk 6)

Several of Lekkerkerk's arguments defining corporate social responsibility and innovation closely resemble Doane's argument that the marriage of corporate social responsibility and innovation barely exists; yet he utilizes the same arguments to show it does exist that Doane utilizes to show that CSR and innovation does not. An example of this found in Doane's contention that "CSR as a concept simplifies some rather complex arguments and fails to acknowledge that ultimately, trade-offs must be made between the financial health of the company and ethical outcomes. And when they are made, profit undoubtedly wins over principles." (Doane 24)

It seems clear from the analysis of Lekkerkerk's and Doane's materials that there is a great difference of opinion on what CSR innovation really is. Indeed, it appears that MacGregor is correct when he states that the connection between innovation and corporate social responsibility must be made by scaffolding. The research for this project, then, will be conducted with that contention as a baseline for study.

CONCEPTUAL FRAME AND CONCEPTUAL ANALYSIS

Katsoulakos and Rutherford suggested that since the 1990s, the face of business strategy has changed. Rather than basing a company's business strategy on competition, the development of knowledge based resources led to the conclusion that business strategy based on resource allocation and the effective leverage of those resources was a more efficient form of competition. (Katsoulakos & Rutherford 5) Once understanding of the nature of knowledge as a business strategy has been acquired, it becomes clear that "intangibles" can be part of business strategy and hence business competition. It is then a small leap – a scaffolding – to reach the perception that there may be additional intangibles that may play a part in the competitive nature of business. (MacGregor & Fontrodona 4) If one accepts that advantage-creating resources can result in leveraging that gives the company competitive advantage, then it should be possible, in theory, to leverage corporate social responsibility as a competitive advantage.
Through the process of conceptual analysis, the conclusion can be reached that in order for the company to maintain any advantage garnered through corporate social responsibility, the CSR demonstrated by any particular or individual company must grow, change, develop, and evolve. Through the process of scaffolding the conclusion is reached that change, development, and evolution is a product of innovation. The framework for innovation is thus established.

Linton suggested that the future of business lies in the development of a field he terms ethonomics. The system of ethonomics allows the focal points of capitalism to remain intact, while developing the economy from an ethical standpoint. (Linton). Although Linton focuses on the concept of sustainability, he suggests that the way to develop the economy ethically is to (1) find the best economic methods to make money for the business; (2) find the best combination of ethics and economy for the industry in which the industry functions; and (3) find the way to make them work together. (Linton) This conceptualization closely resembles Friedman's later works, in which he pointed out that there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud [emphasis added] (Friedman 133.)

Carson pointed out that Friedman's feelings of social responsibility and ethical behavior ran quite deep….a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom (Carson 51).

Earlier, it was stated that business strategy based on resource allocation and the effective leverage of those resources was a more efficient form of competition. (Katsoulakos & Rutherford 5) If the goal is to be competitive – and none of the theorists deny that competition is part of business – then it seems that business must be ethical, driven by profit, based partly on intangibles, and able to develop knowledge based resources.

The intersection of ethical business and knowledge based resources is illustrated below.

FIGURE 1
INTERSECTION OF ETHICS AND KNOWLEDGE BASED RESOURCES

A similar illustration could be developed for the intersection of economic performance and ethics.
As ethical business practice intersects with self-regulation, demanded by Linton and Friedman, a new form of control develops.

Finally, ethical business practice intersects with social contributions in a model of Lekkerkerk's fifth and sixth permutations of CSR.
The result of the intersection of the maps represents the juncture of competitiveness, of governance, of social responsibility, and of sustainability.

That intersection, ethical business practices, is the cornerstone of what has been defined as the 4CR, or 4 Corporate Responsibility, taxonomy or framework. (INLECOM Ltd).
LITERATURE REVIEW

Katsoulakos and Katsoulacos refer to the 4CR approach as the "stakeholder oriented integrative strategic management framework linking the main strategic management theories across value, responsiveness and responsibility dimensions." (T. Katsoulakos & Katsoulacos 2). The 4CR approach represents the development of an approach to corporate responsibility which combines the needs of the organization, the community, and governing agencies in a blend of self-governance, pursuit of profit, and social and ethical responsibilities. The 4CR approach accommodates a number of theories, including (1) that of the industrial organization or environmental approaches; (2) the resource based view; (3) business networking and relations; (4) knowledge-based view of the firm; (5) corporate sustainability and the corporation's responsibility; and (6) the approaches of the stakeholder. (Katsoulakos & Katsoulacos 4). In the 4CR approach, then, all of the theorists that have already been discussed, except for Doane, are represented.

Midttun, however, argues that any model of corporate social responsibility needs to have an orientation that is more nearly one of corporate responsibility oriented public governance, integrated with a traditional regulatory approach. (Midttun 1) Although Midttun gives a number of examples of governmental initiatives into corporate social responsibility, the mere existence of these initiatives does not provide empirical proof they should exist. Midttun reports that some of the most well-known government initiatives into the provision of corporate social responsibility "guidance" include (1) OECD guidelines for the operations of multinational corporation; (2) Global Compact of the UN; (3) environmental legislation on national levels; (4) investments by financial institutions, when they are socially responsible investments; and (5) sustainable development and human rights campaigns by non-governmental organizations. (Midttun 2,3).

Midttun's argument that sustainable human rights campaigns by non-governmental organizations constitutes an example of governmental initiative into corporate social responsibility is difficult to comprehend. The argument might be made instead that it more nearly resembles an initiative of corporate social responsibility into the realm of governmental initiatives. In 1993, Levi Strauss pulled its business out of China, a very lucrative market both for sales and as a source of cheap labor. China, Strauss reported, had too many human rights violations for the company to consider doing business there. (Makower 278) In addition, Levi Strauss characterizes itself as being thoughtful. The company rethought their position in 1998 and reopened business in China. This time, Levi Strauss dictated rules to the Chinese.

Makower points out, however, that it is not enough to do "good deeds" or be socially responsible. Instead, he advocates for establishing a company vision that encompasses the company's goals and visions. The vision must go beyond merely making money. (Makower 13). Further, the vision must provide a guideline for achieving the vision. (Makower 15). Makower insists that the company must also establish visions related to social responsibility. (Makower 21). The vision must be codified into policy, and policy must support practice. (Makower 181) Makower also points out that there is some level of negative financial impact to companies which have exemplary social policies; it takes money to hire good employees, provide adequate benefits, and invest in customers, employees, and the community. (Makower 262). A company that has developed the trust of employees and the community is more likely to be able to survive. (Makower 216).

Doane has argued that CSR will never be effective because "there is often a wide chasm between what's good for a company and what's good for society as a whole." (Doane 25). I argue that this is no longer true. General Mills cereal once paid $100 a ton to have oat hulls from Cheerios transported to the landfill. Though the creative process, however, they developed a use for the hulls. An innovative plan to use hulls as fuel to heat their buildings evolved into a plan to sell any unused hulls to other companies. Because the hulls provide clean burn, they are highly desired in the industrial world. (Borden et al., 2007, Slide 1) General Mills now makes more than $100 a ton when they sell the hulls; when one considers the fuel savings from the hulls they burn, the savings is even higher. Similar innovations have paid Wal-Mart, Dell, Texas Instruments, Unilever, and Sun Microsystems (Borden et al.)
Doane's final conclusion is that CSR is nothing more than a placebo. (Doane 29). The evidence presented in the literature review suggests that CSR is a significant contribution to business, and that it will contribute to sustainability, responsibility, and governance of the corporate world simply by virtue of its level of competitiveness.

**METHODOLOGY**

The World Commission on Environment and Development stated that:

> Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. The concept of sustainable development does imply limits – *not absolute limits but limitations imposed by the present state of technology and social organization* on environmental resources and by the ability of the biosphere to absorb the effects of human activities. But technology and social organization can be both managed and improved to make way for a new era of economic growth. [Emphasis author's] (World Commission on Environment and Development 1987 8).

It is the meaning of this passage which guides the search for a method of enhancing corporate social responsibility and innovation. This is not a quantitative study; there are no studies of the numbers of organizations participating in various activities. Instead, this study explores conceptual models of innovation and corporate social responsibility. Qualitative methodology is ideal for the study as the goal of qualitative methodology is to place understanding in the context of culture (Marshall and Rossman). No hypothesis is utilized in the study, because the study endeavors to explore the subject of corporate social responsibility. The study may assist in the development of hypotheses for future studies, however.

The reasoning process used in the investigation is that of inductive reasoning. Inductive reasoning is used to generate observations and theories. A small observation may be used to help surmise a theory, without proving it. Though some inductive studies are used to prove theories, more commonly they are used to develop observations and construct theories. (Shuttleworth). Qualitative, inductive studies are ways of determining meaning and describing phenomenon. (Eldabi et al. 66). It is for these reasons that a qualitative inductive methodology of study was chosen.

Once the subject of corporate responsibility was investigated using the research question *How can innovation and CSR be related for innovative organization?* a new model of corporate responsibility was proposed.

**RECOMMENDATION FOR A NEW MODEL OF CORPORATE SOCIAL RESPONSIBILITY**

New technology cannot develop without innovation. (Kotter 216) It is impossible for business to progress without the utilization of new technology and new programs of business. In order to remain competitive in the global market, businesses must progress. Innovation becomes a requirement, rather than a luxury. Companies which do not fund research and development will not have an adequate product development cycle.

Innovation can be an unbelievable source of growth and development within a business, and it can literally disrupt an industry; a truly successful product innovation may even disrupt facets of society. (Jolly 63). There are individuals alive today who witnessed the birth of the television, color television, transistor radios….Pong, Atari, and the Wii. (Media Management Group) These individuals have seen the development of colored cereals with marshmallow stars, pre-seasoned steaks, and freeze-dried chili. Though the moral or ethical value of some of these products will vary depending on the perspective of the user, there is no doubt that they, like the personal computer, have (1) changed society and (2) been developed through the process of innovation. (Mowery 156)
The proposed model of corporate social responsibility, Corporate Sustainability and Social Responsibility for Innovation and Creativity (CSSRIC), is an adaptation of the original corporate social responsibility models discussed earlier in this paper.

**FIGURE 6**
INTERSECTION OF GOVERNANCE, SOCIAL RESPONSIBILITY

The proposed model represents a value chain for sustainable, socially responsible, ethical corporate governance emphasizing innovation and creativity. The proposed model suggests that it is no longer enough to recognize Corporate Social Responsibility without understanding the importance of Sustainability, Innovation, and Creativity in the process of ethically competing in the business world today.

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Harnessing the Potentials of Informal Sector Women for Development in Ghana

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This study affirms that “the economic development of a country can be accelerated by enhancing the status, position, and living conditions of women in a country” (Tripathy, 2003). Women dominance is evident in the major economic sectors (agriculture, services, and industry) in Ghana. Both secondary and primary data were employed and analyzed in this study. The study discovered that women’s contributions in most cases have been relegated to the background, impeding expected growth rates. Discussion of outcomes with recommended solutions for economic growth in Ghana is thoroughly addressed in this paper.

INTRODUCTION

The informal sector is reported to be growing steadily and rapidly with expected enormous economic benefits, especially in developing countries (Akingunola & Onayemi, 2010; ESCAP, 2006), such as Sub-Saharan Africa. Research indicates that even in the midst of economic crises, employment in the informal economy tends to rise but does not translate into improved standards of living. Hence, productivity in the sector has not been satisfactory due to several factors such as inadequate support (Amu, 2004) driving most informal entrepreneurs and their families into impoverishment (Horn, 2010, citing Lee 1998; and Tokman 1992).

Several studies have been ongoing, focused on different areas of the economy, in attempts to redirect efforts for development. One of such areas of study has been on gender and informal sector development, looking specifically at enhancing and sustaining women’s contributions toward economic development. It has been studied and concluded that “there is a sort of inevitability about women’s increasing engagement in labor markets” (ILO, 2010). The International Labor Organization again has indicated that female participation in the labor force increased from 50.2% to 51.7% between the years 1980 and 2008. The report also shows that “male labor force participation rates have shown a tendency to decrease slightly” over time. In most developing countries, women find job in the informal sector as the main source of employment. This has led to the sector having “a higher proportion of female workers than male workers” (Horn, 2010 citing United Nations 2000). In an attempt to describe the categories of workforce found in the informal sector, the International Labor Organization stated that “most workers involved in these units are women.” Adding that “most poor people are women” (Mata-Greenwood, n.d. citing United Nations,
Considering women dominance in the informal sector in Ghana (Amu, 2004; Ginnie, 1996), one would quickly envisage an existing corresponding participation in decision making. It also suggests focused development oriented programs for women in the informal sector. Unfortunately, it appears otherwise. Women’s impact on decision making and efforts to enhance their performance are minimal, according to Amu (2004). Amu contends that women still face many barriers in contributing to and benefiting from development. There are indications that the unsolved confusion is partly contributed by the seemingly inadequate or failed support for women in the sector. Another hindrance has been the difficulty in measuring the size of the sector (Mata-Greenwood, n.d.). In Ghana for instance, “equal opportunities to both boys and girls in all aspects of life” is concomitantly greeted with hindrances in terms of culture, economic and otherwise, that prevent girls and women from taking full advantage of such opportunities. There is the need for the formulation and implementation of “gender policies that enhance gender equality and full integration of women into the economy central to the growth process” (Amu, 2004). The International Labor Organization perfectly describes the unfortunate situation of the informal sector as:

characterized by a high degree of vulnerability. Workers have little or no legal or social protection and are excluded from or have limited access to public infrastructure and benefits. Informal economy workers are rarely organized for effective representation and have little or no voice at the workplace or in the sociopolitical arena (ILO, 2007).

The African Union Extraordinary Summit on Employment and Poverty Alleviation in Africa (Ouagadougou, September, 2004) agreed that women’s entrepreneurship should become a regional priority in the effort to reduce poverty (ILO, 2007). With women dominating the sector, it could be argued theoretically that they are the most vulnerable, as suggested earlier, making inevitable the need to redress the sector for productivity. The informal sector is evident in both the urban and rural areas. This study focused on illiterate informal sector women in some remote rural communities where the situation seems to be dilapidating. Issues addressed in the study hover around the following questions: What roles do women play in the informal sector? How has the sector been supported – focus on women? What are the perceptions of women in these communities about the various support programs? What are their challenges? Could there be a more productive support for a long-term development of the sector and the nation at large? One major problem encountered during the study was the scantiness of available information. Hence, this study sought to look at the role and challenges of women participation in the informal sector in Ghanaian communities. Informal sector activity reportage seems very low, giving subjectivity precedence over objectivity.

There are still differences in defining the informal sector and its components even though attempts have been made by the International Conference of Labor Statisticians (17th ICLS, 2003) to ensure uniformity and comparability. Such lapse of a universally accepted definition does not throw away the need for description. In view of this, country specific modification and crafting has been allowed (ILO, 2004). This paper has adopted the definition of the informal sector by Khotkina (2007) as any legal income generating activity resulting in the production of goods and services by “workers who in most cases are outside the organized workforce, entailing the violation of legal procedural requirements and also of labor and tax legislation.” Such activities, the writer indicates, exclude illegal acts that are the “objects of criminal law and do not belong to the sphere of the regulation or enforcement of labor legislation.”

Horn (2010; citing ILO, 2002) emphasizes the economic benefits of the informal sector indicating that informal employment comprises more than 70 percent of all employment in sub-Saharan Africa. The study adds that “the contribution of the informal economy to gross domestic product (GDP) is … more than 40 percent for sub-Saharan Africa.” Female dominance in the informal sector and their need for special attention has also been emphasized by various studies.
As far back as 1976, Mazumdar mentioned in his study that “A disproportionately large number of informal-sector workers are (i) very young or very old, (ii) females, (iii) limited in education…” Other studies have also confirmed women constituting the largest workforce with the highest contribution in the informal sector (Amu, 2004; Becker, 2004). Even in the formal sector, it has been reported that “the share of women in wage and salaried work has grown from 42.8% in 1999 to 47.3% in 2009” (ILO, 2010). Such female growth in the informal sector has been tremendously noticeable with varied cries for support and sustenance. Tripathy (2003) clearly puts it in the following words:

Women play a paramount role … The pace of the economic development of a country can be accelerated by enhancing the status, position, and living condition of women in a country. Participation of women in the process of economic development is greatly acknowledged even though its degree varies from country to country. Women account for over half the food produced in the developing world, and even more in Africa, they constitute one fourth of the developing world’s industrial labor force … (pg. 1).

At the regional level, for example in Sub-Saharan Africa, the informal sector is seen to be growing (Akingunola & Onayemi, 2010; ESCAP, 2006). Table 1 presents a summary of the percentages of women in total employment of each of the three sectors for Sub-Saharan Africa.

### TABLE 1
PERCENTAGE DISTRIBUTION OF SECTORAL EMPLOYMENT IN AFRICAN REGION… BY GENDER & SELECTED YEARS

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<tbody>
<tr>
<td>Females</td>
<td>69.4</td>
<td>66.5</td>
<td>64.7</td>
<td>64.2</td>
<td>5.8</td>
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<tr>
<td>Males</td>
<td>67.0</td>
<td>64.3</td>
<td>62.5</td>
<td>62.1</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Key: EA = Employment in Agriculture; EI = Employment in Industry; ES = Employment in Services

It can be seen from Table 1 that the proportion of females in agriculture in the sub-region from 1996 to 2006 went as high as 69.4% as compared to 67% for men. Women’s percentage in the services sector was also higher in 2006 (30.3%) as compared to 26.6 (men). The percentage in the industry sector is seen to be lower for women (5.8%) than that of men (11.4%). It could be deduced from this that sectors of the economy where informal activity is highly probable do have female predominance (ILO, 2007). This establishes the importance of the role of women in the development of the sub-region.

It then becomes imperative that women’s efforts be directed and rewarded with a more deliberately focused support for sustainability and national development. Amu (2004) adds that familiarity at the international arena indicate that “support for a stronger role for women in society contributes to economic growth…” (see also Mazumdar, 1976). The situation is not different in Ghana.

### Trends of Female Involvement

Women are seen to be the major players in all the main sectors of the economy – agriculture, industry, and services. It is estimated that some 80% of women in Ghana are engaged in various economic activities and they predominate in the informal micro-small to medium scale agriculture, manufacturing and service sectors of the economy. However, their contribution to economic growth and development is not adequately represented because the majority of their activities is in the informal low-growth low-return areas and are basically subsistent (Amu, 2004). Furthermore, Amu declares that in agriculture, women are involved in all the sub-sectors: farming, processing, and distribution. It is estimated that they produce about 70% - 80% of the food consumed in Ghana. Between 1984 and 2000...
(according to census data), women’s labor force contribution in agriculture moved from approximately 47% to 49%. The involvement of women in this case has been described: in most cases as men are responsible for the clearing and preparing of the land while women are responsible for planting, weeding, fertilizer application, harvesting, transportation to market centers, and marketing of the produce (Ibid.).

In Ghana, the main sub-sectors of industry are manufacturing, construction, mining, quarrying as well as electricity and water. The number of women employed in manufacturing activities (the main sub-sector within industry) was higher than men (Amu, 2004; citing census report from Ghana Statistical Services, 2000). Women participation in manufacturing amounted to 84%, 5% in construction, and 9% in mining and quarrying. The study explains that women dominate the two largest activities, which are food and beverages (corroborated by The Statesman, 2007) and textiles and leather products within manufacturing. The remaining activities in the sub-sector are wood products and furniture, chemical and petroleum products as well as metallic and mineral products and plastics. Their specific activities cover food processing; rural non-farm activities such as soap making, traditional medicine, cosmetics and beadwork among others and textiles and garment production. As mentioned earlier, most of such activities fall within the informal economy.

The service sector is made up of tertiary activities such as economic services - wholesale trade, retail trade and tourism; infrastructural services – transport, storage and communications; government services; community, social and personal services and finance and insurance services. The study revealed that women participation was directed more towards the wholesale and retail sub-sector (55%) under services. The rest were 13% in hotels and restaurants, and 11% in community service. It is estimated that this sector employs about 20% of women, ranking second after agriculture (Amu, 2004). These women are predominantly illiterate or semi-illiterate who acquire their knowledge and skills largely from family. In services are also domestic workers, dominated by women (The Statesman, 2007).

METHODOLOGY

This paper combined empirical study with the review of related literature. Although several studies have been done in this area of study, the point of divergence is the geographic area, seeking to contribute to its development. This study was carried out in the Eastern Region of Ghana. The decision was informed by a report that the Region is one of the areas where “the incidence of poverty is high and above the national average” (as declared by President Attah-Mills in 2010). Furthermore, the study was conducted within the Akyemansa district (a fusion of two districts in the region: Ayirebi and Ofoase). Data was gathered from women in the remote villages within the district (Adubiase, Brenase, Brampa, Asuogya Apoli, Asabidie, Nyamebekyere and Kwaboadi).

Hence, the target population consisted of female workers in the informal sector within the district. Focus was specifically on the situation of the informal sector women within communities where any form of support is almost absent. Nonprobability purposive sampling technique was used. Subgroups were predefined by type of job seen to be common among the population under study. They covered the following areas: petty trading (15), house help: maids (2), catering: “chop bar” (5), farming/rice (10), livestock farming (2), sewing (7), and agro-processing (9).

A total of fifty (50) respondents were sampled for the study. Due to the expected illiteracy level of the respondents, Interviews were used due to respondents’ inability to read or write.

Future study in this field (or any other) is recommended within other districts of the region for poverty reduction solutions (especially among illiterate rural women) toward national development.

RESULTS AND DISCUSSIONS

Statistics indicate that the Eastern Region of Ghana has a population of 49.2% males and 50.8% females (www.modernghana.com). The report continues that nearly four-fifths (77.7%) of the population in the region are self-employed with no employees, while 4.3% are with employees. Females constitute
the highest proportion of self-employed without employees, mainly in the informal sector. The sector employs 80.5% of workers within the region.

Figure 1 describes the age ranges of the respondents. It indicates that 18% of the respondents fall within 18-20 years. Since sampling was randomized, it can be concluded that it is possible the majority (26%) of the respondents within the study area were within the age bracket of 21–30 years, 24% within 31-40 years, 18% within 41-50 years, and finally, 14% were above 51 years old.

**FIGURE 1**
**AGE DISTRIBUTION OF RESPONDENTS**

![Age Distribution of Respondents](image)

Figure 2 provides information on the number of years the respondents had been engaged in their work at the time of study within the informal sector. It shows that 20% had been in business for at most 3 years, 28% between 4-6 years, 24% between 7-9 years, and 28% had worked for 10 years or more. A closer look at the figure indicates an even distribution across. This possibly confirms the increasing rate of women involvement in the informal sector all year round. In all, 80% of the respondents had been in business for over three years.

**Awareness of Business Support Programs**

The purpose of Figure 3 was to determine if the respondents were aware of any existing programs directed toward enhancing productivity among women in the informal sector. In all, 84% of the women registered their awareness of existing micro-finance programs by some non-governmental organizations and financial institutions. Only 8% were aware of existing entrepreneurial programs that educate on rudiments of starting a business, and barely 4% knew about available skills program. None of the respondents were aware of any available program to sponsor the financially challenged for further education. They were also not aware of any available business information that would be helpful in the planning, production, and selling of their products, as well as the delivery of services. So far micro-financing seems to be the only support program well known to the respondents. During the interview, the respondents did not suggest any knowledge or interest in the activities of banking institutions. They mainly knew of some non-governmental organizations and other micro-financing institutions and their activities. This could explain their perceptions about their exclusion from banking activities (such as commercial banks).
Sources of Funding

Respondents were asked whether they had ever accessed any credit from any micro-finance institution or a bank. Only 8% responded “Yes” while the remaining 92% indicated “No.” A follow-up question to determine the respondents’ future intentions to access credit from any financial institution or a bank only confirmed their responses for the previous question. All the fifty (50) women responded “No,” representing 100%.

When respondents were asked to give at most three reasons why they would not take any loan from any financial institution (Figure 4), 8% did not specifically indicate any reason, while 30% indicated the involvement of tiresome paperwork. Fear of business failure after a loan has been received and used followed with 42% respondents. Majority of the respondents showed no interest in such credit facilities due to the absence of banks within their vicinity, high interest rates, and their inability to secure loans with collateral (78%, 90%, and 96% respectively). These responses are crucial to this study since they give clues to closing the financial gap between the institutions and the women.
Every business needs funding. It was therefore necessary to find out from the respondents, at most three means by which their businesses were funded. Figure 5 indicates that all the respondents depended on their lean profits (profit plough back) to run and expand their businesses, representing 100%. As has been the practice with most businesses, 82% do purchase on credit, with 50% looking up to the “susu” collector for some sort of relief.

Education and Source of Skills Training
This study seems to confirm the view that the informal sector is characterized by illiteracy or semi-illiteracy. It can be seen from Figure 6 that about half of the respondents had just the basic education and the remaining half, representing 46%, had no formal education. Only 24% had up to primary education, 12% had Middle/Junior Secondary School, 8% had Secondary/Senior High School, 10% Vocational
training, and 30% had no education at all. As at the time of the study, none of the respondents had attained any graduate degree.

Since the level of education was very low, it then became important to find out how they train and develop their skills to run the businesses (Figure 7). Almost all the respondents (98%) would ask a business partner for help when the need arises. A form of apprenticeship also exists through which more than half of the respondents, 62%, had obtained their training. Others, representing 82%, indicated that they depend on their personal initiatives to solve business problems. This could also be seen as a form of apprenticeship. Only 10% indicated their experiences in vocational schools as their source of skills training. None of the respondents had attended any workshop/seminar for skills development. There is a clear indication here that these illiterate workers depend heavily on the rather incomplete and possibly obsolete circulated information to run their businesses in a closed environment.

![Figure 6: Education](image)

<table>
<thead>
<tr>
<th>Education Level</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>24</td>
</tr>
<tr>
<td>Middle/JSS</td>
<td>12</td>
</tr>
<tr>
<td>Secondary/SHS</td>
<td>8</td>
</tr>
<tr>
<td>Vocational</td>
<td>10</td>
</tr>
<tr>
<td>Graduate</td>
<td>0</td>
</tr>
<tr>
<td>None</td>
<td>46</td>
</tr>
</tbody>
</table>

![Figure 7: Source of Skills Training](image)

<table>
<thead>
<tr>
<th>Source of Training</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>School</td>
<td>10</td>
</tr>
<tr>
<td>Personal initiative</td>
<td>82</td>
</tr>
<tr>
<td>Apprenticeship</td>
<td>62</td>
</tr>
<tr>
<td>Ask when needed</td>
<td>98</td>
</tr>
<tr>
<td>Workshop/ Seminar</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
</tr>
</tbody>
</table>
**Business Growth and Standard of Living**

Information was gathered from the respondents who had been in business for more than 3 years to determine the extent to which their business had expanded (Figure 8). The results here were not encouraging. Even though they had been in business for a considerable amount of time, there seem not to be any significant improvement. Responses from 22% of the respondents indicated that there had been no expansion in business activities at all, and 8% were not sure whether there had been an increase or not. Half of the respondents did believe that there had been an increase in business activities. Out of these, 38%, the majority, thought that the increase had not been very significant, as compared 12% who saw a change to some extent.

**FIGURE 8**
EXPANSION IN BUSINESS ACTIVITIES

![Expansion in Business Activities](image)

It is obvious that lack of increased business activities reduce profitability, thereby reducing one's possibility of improved standard of living. From Figure 9 respondents were asked whether they agreed or disagreed to the fact that their standard of living had been improved. Only 6% agreed to the statement. 10% were not sure of any improvement, while a surprising 84% disagreed.

**FIGURE 9**
IMPROVED STANDARD OF LIVING

![Improved Standard of Living](image)
Discussions so far clearly indicate the need to revisit some policies in place to alleviate the burden of informal sector disorganization and poverty, especially for the semi-illiterate and illiterate rural women. The sector seems to need a revamp.

Support and Challenges
The International Labor Organization, in 2002, has suggested expected institutional roles toward developing the informal sector for individual and national development. These were the roles of financing, unions, cooperatives, literacy and basic education, training and skills development, and, national and local governments. Some of these major roles and few challenges have been considered and related to the conditions in the Ghanaian rural environment.

<table>
<thead>
<tr>
<th>Name of Program</th>
<th>Purpose</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow Up for Ghana National Association of Garages (Koforidua)</td>
<td>Follow-up</td>
<td>11 to 13 November 2009</td>
</tr>
<tr>
<td>Management Workshop for Graduate Apprentices (Koforidua)</td>
<td>Business Startup Workshop</td>
<td>03 to 13 February 2010</td>
</tr>
<tr>
<td>Needs Assessment for Christian Mothers (Atimpoku)</td>
<td>Agro Processing Workshop</td>
<td>02 to 16 July 2009</td>
</tr>
<tr>
<td>Technical Workshop For Christian Mothers Association (Abirem)</td>
<td>Agro Processing Workshop</td>
<td>01 to 10 July 2009</td>
</tr>
<tr>
<td>Technical Workshop for Palm oil processors (Abirem)</td>
<td>Agro Processing – Palm Oil</td>
<td>01 to 06 July 2009</td>
</tr>
<tr>
<td>Technical Workshop Tafo Christian Mothers Group (Kibi)</td>
<td>Agro Processing – Cassava</td>
<td>10 July 2009 to 17 July 2009</td>
</tr>
<tr>
<td>Technical Workshop for Ghana National Tailors and Dressmakers Association (GNTDA) in Koforidua</td>
<td>Services – Computer aided designing in fashion</td>
<td>March 20-30 2010</td>
</tr>
<tr>
<td>Technical Workshop for Victory Vocational Institute (Koforidua)</td>
<td>Entrepreneurship Talk for unemployed youth.</td>
<td>March 3 to May 30 2010</td>
</tr>
</tbody>
</table>

Source: National Board for Small Scale Industries Website

The National Board for Small Scale Industries (NBSSI) has been offering region specific programs in all areas of industry across the nation (Ghana) in support of the informal sector. Table 2 provides a list of such programs within the eastern region. It can be seen from the table that as at November 2010 no program had been designed specifically for illiterate women in rural areas.

In spite of the various support programs, illiterate women in the informal sector do face a lot of challenges, especially in the economies of remote rural areas that seldom attract the attention of both governmental and private institutional support. Amu (2004) has emphasized that “While there has been an increased participation of women in economic activities in Ghana, there are still more women with little or no means of economic survival.” In spite of the various supporting programs, literature and empirical studies point to impending progress stagnating challenges.

During the interviews some female-specific challenges mentioned were, inadequate time for business due to domestic chores (housekeeping); inability to own property (in some communities) for collateral to access loans; stigmatization that women cannot do what men do. The number one major challenge among the respondents was lack of finance. The rest were (not in any special order), low demand for products, no regulation of business activities in the sector, lack of formal education, poor managerial and technical skills, lack of equipment, poor technology, bad roads, high transportation costs, lack of market
information, no/poor electricity, inadequate equipment, bad location of business, bad economy, and poor working environment.

It is believed that no venture will survive without financial backing. The financial requirements for growing business dwarf the strength of informal sector activities (ILO, 2002). There has been an argument that women’s entrepreneurial skills improve when they are given access to credit (Schindler, 2010, citing Goetz and Sen Gupta, 1996; see also Akingunola & Onayemi, 2010). According to the International Labor Organization (1998) “both training and credit, together and separately, are seen as ways of increasing women’s productive capabilities and bargaining power.” Some progress is made to lessen the burden of the informal sector woman with the availability of microfinance programs on a broader scale (Schindler, 2010); unlike some years back where only traditional money-lenders (informal credit) provided loans. The sector is mainly financed by non-banking institutions in Ghana. For example, Opportunity International had allocated 93% of its loan portfolio to commerce; Ezi Savings & Loans, 80%. About 90% of loan clients in the savings and loans industry are women. Most of the loans go to market women, hairdressers, dressmakers, and others (Boateng et al, 2011, citing GBN, 2009).

Unfortunately, not all women do benefit from such credit programs due to several factors (see Figures 4 and 5). These leave them with “little resources to meet eligibility criteria for borrowing and also to be considered creditworthy” (Munga & Gideon, 2009; Amu, 2004). The poor informal rural women are then left at the mercy of the informal traditional money lender with higher interest rates. A study indicated that “informal credit involves high transaction costs and prevents market women from growing out of poverty in the long term” (Schindler, 2010). The proliferation of microfinance activities currently benefits most urban informal sector women but not those in the remote rural communities.

More so, the informal sector is commonly characterized by high illiteracy (ILO, 2002; Adu-Amankwaah, 2008). Amu (2004; see The Statesman, 2007) also adds that women’s inability to access formal education has precipitated their dominance in the informal sector. Most women in the informal sector lack the requisite educational and business skills. Low education and technical skills development lead to low productivity due to the absence of scientific and technological business applications. Low literacy levels are mostly attributed to cultural bias against girls and women in society. The government of Ghana, in 1992, initiated a tuition free basic educational reform. Illiteracy rates in Ghana seem to be reducing (as shown in Table 3) but on the surface.

### TABLE 3
LITERACY/ILLITERACY RATES IN GHANA

<table>
<thead>
<tr>
<th>Year</th>
<th>Literacy</th>
<th>Illiteracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td></td>
<td>56.2</td>
</tr>
<tr>
<td>1985</td>
<td></td>
<td>48.9</td>
</tr>
<tr>
<td>1990</td>
<td>58.46</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td></td>
<td>34.8</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td>29.7</td>
</tr>
<tr>
<td>2001</td>
<td>51.1</td>
<td>49.9</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td>25.1</td>
</tr>
<tr>
<td>2006</td>
<td>57.9</td>
<td>47</td>
</tr>
<tr>
<td>2008</td>
<td>66</td>
<td>44</td>
</tr>
<tr>
<td>2009</td>
<td>65</td>
<td>35</td>
</tr>
</tbody>
</table>


The Integrated Social Development Centre (2009) has indicated in a report that Ghana is one of the 75 countries that have missed the goal of achieving the Universal Completion of Primary Education by 2015 required by the Millennium Development Goals (MDGs) which states that by 2005, there should be an equal number of girls in classrooms as there are boys. The gender parity stands at 0.88 and is greater in
poverty ridden regions. It continues that “out of the total number of children who get enrolled into basic schools, only 39% of boys and 22% of girls managed to complete nine years of formal education.” Basic education is a constitutional right (free basic education), but the report indicated that the number of school going children out of school were 18%, majority of them supposedly girls. All these end up looking for work (as entrepreneurs) in the informal sector. In practice, free education is not actually free for parents in some poor rural communities who cannot afford the “financial attachés.”

Where formal education fails, training and skills development is resorted to as alternative for development. In Ghana, several institutions have been established toward this end. They include Vocational and Technical Education Division (VOTEC); National Vocational Training Institute (NVTI); and National Coordinating Committee for Technical and Vocational Education and Training (NACVET). Ghana has 10 Polytechnics, 22 Technical Training Institutes, and about 300 Vocational Training Institutions, VT1 (Haan & Serrieré, 2002). With all these establishments, Figure 6 indicates that females in some rural areas still do not have access. As mentioned earlier, cultural bias could be a factor among others. In spite of all the vocational institutional establishments, “opportunities for skill development are limited in Ghana…” (Amankrah, 2001, cited by Haan & Serrieré, 2002). Vocational Centers are available, but are confronted with some setbacks such as “(i) inadequate funding, (ii) fragmented institutional framework, and (iii) low quality and limited outreach of training at different levels.” There also appear to be some duplication of efforts among these institutions (Haan & Serrieré, 2002).

It is believed that women have not been given the expected support in the informal sector due to some cultural biases against them: the belief that the place of the woman is to keep the home and take care of the children. Such bias and constant reminder of inferiority to men only heightens low self-esteem for many (ILO, 2007; Amu, 2004). Besides, according to Amu (2004), women in the informal sector also have domestic responsibilities. These include caring for the home, the children, and helping the husband process and sell his produce. “The demand on the woman farmer’s time is very high and does not allow her to give adequate attention to her work.” The ultimate effect of such demerit is reduced productivity due to lack of adequate time to improve business practices. In addition, inability to access information on support services for business improvement has been a characteristic of informal women in the sector. Majority of them have no or limited access to information and technology. Illiteracy or semi-illiteracy also does not allow ability to access available new technology. Limited information does not encourage productivity. Consequently, lack of adequate education and skills as well as financial support has led to low productivity making it impossible to save for re-investment.

CONCLUSION AND RECOMMENDATIONS

The informal sector has been characterized by rapid growth, greatly supporting the economy of the nation of Ghana. The focus of the study was directed toward women who form the majority of the workforce in the informal sector and contributes greatly to development. Literature and empirical studies have indicated that women participation in the sector has been increasing and need to be brought to the foreground and supported.

The study identified some existing issues among female workers of the informal sector needing redress. It was disinterred that:

1. The level of education among women in Ghana, particularly the eastern region is very low;
2. Micro-financing is basically the only support program known to these deprived women;
3. These women shun any form of credit from financial institutions for varied reasons such as no collaterals, low productivity to pay up high interest rates and inaccessibility (proximity) to financial institutions. Others also avoid it due to the unfortunate experiences of others, and also for the fear of uncertainties that the business may collapse in the future;
4. The main source of funding for these seemingly underprivileged women have been in the hope of generating enough profits for reinvestment, or receiving credit purchases from suppliers. Few also depended on their daily meager savings with “susu” collectors as collaterals for loans;
5. these women hope to grow their businesses but the expansion, for many, seems insignificant, and to some, non-existent;
6. there has not been any significant improvement in the standard of living of these disadvantaged women, possibly due to their inability to do “good” business

The importance of education (literacy) cannot be sidetracked in any way because it is the backbone of all development. Special effort will probably have to be made to exclusively entice and encourage parents in deprived and remote rural areas to send their girls to school. Certain incentives could be given, just as allowances are made available to entice students into Colleges of Education to train as teachers. Several schools should be made available in these areas, and more teachers trained because female population keeps escalating.

The skills of adults already in business may be sharpened through vocational training. Vocational centres should be made available within those deprived communities and fully supported for easy accessibility. The learn-to-train skills development method could also be adopted. Here, Traditional Apprenticeship Training will have to be fully recognized and developed to formally train those already in business. This will equip the trainees to in turn train new entrants who may have no skills.

It is possible these women shun accessing credit because of their limited understanding of its benefits. Just as urban informal sector women have access to most information about financing and other supporting programs, same should be made available to those in rural communities. It appears that recognizing, regularizing, encouraging, supporting and promoting the role of the informal money lender (the susu collector) could be an ideal starter for women in the sector, until full knowledge and interests are elevated to acknowledge and access loans from financial institutions; and on the other hand, until loans are made easily accessible by the institutions. As at December 2010, the Ghana Co-operative Susu Collectors’ Association (GCSC) had registered a total of 1,462 susu collectors (1,249 males and 213 females) with a total client base of 372,805 (GCSC, 2010). These are just official figures. Unofficial, traditional, informal susu collectors may add up to the current number. Also, business success stories, as well as the impact of micro-finance support for women on changing roles in the household will have to be shared to change the perceptions of some remote rural community informal sector men and women. Arku & Arku (2009) observed that women’s “increased engagement in productive roles and financial support to the household” due to their participation in business support programs has facilitated the modification of gender roles in some cultures. Arku & Arku (2009) picture it in the following style: husbands were increasingly dealing with children and housework when women in credit groups were overseeing the setting up and operation of new shops. Creating opportunities for men to experience the world through the ‘eyes’ of women – engaging in reproductive tasks – could potentially modify the perceptibly low value that patriarchal societies place on women’s work. Also, … men’s and women’s roles – describing the man as doing mostly productive work and the woman as responsible for reproductive work – are fading away…especially within rural communities.

Issues on culture are always very sensitive, and treaded cautiously! Society in general (especially in rural areas) needs to be educated on the need to support the female, and also on the benefits reaped from such, for personal and national development. The respondents’ ignorance of any existing support for informal sector business activities is a clear indication of a missing link. There seems to be communication gap; either the supporting institutions are not informing the women about existing programs, or they are marginalized due to their remoteness. Market activity information should be made available regularly to allow for the sharing of best practices. There should also be maintenance of regular communication between institutions and these illiterate women.

One major problem identified during the study is the dispersal of skills. Supporting female illiterate entrepreneurs with clustering and networking is believed to be a solution (Abdel-Fadil, 2000; citing Meine Pieter Van Dijk, 1997). Institutions’ role should be to initiate and motivate the establishment of geographical business and trading zones for entrepreneurs with like skills, and creating links to other sources of labor and raw materials.
In addition to the above, women in the informal sector could be supported in the following ways for efficiency and effectiveness: market demand should be created for their goods and services; availability of infrastructure (eg. water, transport, and telecommunications) for easy transactions; availability of productive resources (land, buildings, machinery, and raw materials) to enhance productivity; women in remote rural areas should also be given the opportunity to participate in the formulation and implementation of policies concerning them; training should be conducted in local languages (not English) for easy and better understanding of business practices; information collection on informal sector women’s activities should be regular to help keep corresponding policies up to date.

The illiterate rural informal woman needs to be fully supported as Ghana prepares to move up to a middle-income nation; the struggle toward national development. The pace of the economic development of a country can be accelerated by enhancing the status, position, and living condition of women in a country” Tripathy (2003).

REFERENCES


Modern Ghana News Agency.
As the generation of renewable energy gains importance, large energy suppliers have begun to change their marketing strategies into campaigns that include information about where their energy comes from. This paper presents the results of an eye tracking experiment that analyses the significance of renewable energy generation in advertising campaigns. The consumers’ perception will be examined through campaigns from German energy suppliers, which include ecological elements displaying the green marketing strategy. It is hypothesised that eye movements can give a real impression of how user’s attention is affected through the given ecological stimuli within the advertisements.

INTRODUCTION

Since the great oil spill in the Gulf of Mexico in April 2010, international debate on renewable energy has been heated. Renewable energy generation has been gaining importance as governments around the world subsidize projects that develop new ways for producing a green and clear energy. Thus business strategies for sustainability are developing fast and worldwide (Werbach, 2009, p.8 et seqq.). Accompanied with this fact major energy suppliers have begun to change their marketing strategies into campaigns that include information about the source of their energy supply. Currently the whole energy sector is undergoing a great change. However, there is also an opposing movement in some countries. For example, in Germany the current discussion about the phasing-out of existing nuclear power plants is controversial in both the policy and the German society. The anti-nuclear activists demonstrate fervently against an extension. The media is full of various debates about energy and the way it is produced. In contrast, the consumer interest on this issue appears to be low and the willingness of customers to change their current energy supplier is marginal. It is a fact that the large majority of main part of german population do not know their own energy household costs (Schikarski, 2005, p.25). The level of information about the different providers and their energy prices even in times of an economical crisis are stunningly low. This is a very interesting point given that the price is always identified by the energy customers to be the dominant factor in choosing an energy supplier (Schickarski, 2005, p.23).
THEORETICAL BACKGROUND

The main focus in conventional marketing and consumer behaviour theory has always been strongly on the actual purchase of products and services (Belz & Peattie, 2010, p.74 et seqq.; Belz, 2001, p.58 et seqq.). Even if psychological and sociological effects like awareness or attitude are discussed as reaction parameters within the basic S-O-R paradigm (Kroeber-Riel/Weinberg, 2008, S.30 et seqq.), from a legal and economic perspective, the purchase is all important. Focusing on sustainability marketing, however, the impacts of a product are determined more on factors that precede the purchase decision (see Belz & Peattie, 2010, p.74 et seqq.; Bilharz, 2008, p.53 et seqq.). Psychological reaction parameters preceding the purchase like “company awareness”, “price perception” and “ecological attitude” are determined by a multitude of external and internal stimulus parameters. Of importance for marketing aspects is the fact that emotions and motives of the consumer significantly influence the human behavior (Meffert, Burmann & Kirchgeorg, 2008, p.703). However electric energy can be described as a low involvement product. The intention of this paper is to analyse the relevance of sustainability strategies within marketing communication from an electric energy supplier’s perspective of. The question that arises is to which extend an ecologically targeted advertising strategy is influential. Do customers recognize that companies promote “green energy” and how do they judge the effort of being “green”?

HYPOTHESES

The crucial question that follows these theoretical considerations is which factors can be identified as relevant in energy suppliers’ print campaigns to stand out in a competitive environment. We identified three such factors that were present in the displayed advertisements (Schickarski, 2005, p.23; Lovelock & Wirtz, 2010, p.67).

1. “logo” element: The logo is a sign for a certain trademark and the first impression of a company. A well established brand provides confidence and suggests product quality.
2. “price” element: The price is proved by various empirical studies to be a very dominant factor. If a price offer is included in the advertisement the supplier displays it as a very cheap one.
3. “ecological” element: If an ecological element is shown in the advert the supplier follows a green strategy and promotes a renewable energy production. We assume that this generates a higher involvement for energy as a low involvement product.

This paper evaluates, exemplified by six different print advertisements (three with an ecological reference and three without such a reference) how customers react to different elements viewing those campaigns. Assuming that a positive rating is an important step to be willing to change the energy supplier we additionally pay attention to the evaluation of different advertisements.

1. Hypothesis: The section of the advert that gives advices to renewable energy is perceived faster than price offers or logos of the companies.
2. Hypothesis: An advert including the information of an ecologically worthwhile production of energy is considered more than the other parts.
3. Hypothesis: Advertisements that suggest an ecologically worthwhile energy production are better evaluated than those who focus only on price and brand image.
4. Hypothesis: An Advertisement giving the consumer an indication of an ecologically production is more often to be reminded by the test persons than an advertisement without such a reference.

RESEARCH METHODOLOGY

The initial point of the research project was to create an experimental research design that enables an implicit method of measurement that prevents bias which usually arises from questioned surveys. The eye tracking methodology enables a measurement of the actually perceived information that comes from the human visual process (Kroeber-Riel & Weinberg, 2008, p.264). To get this valuable information the eye
tracker is used to verify via infrared where and how long test candidates look at different parts of the displayed frames. Thus the method provides objective and quantitative evidence of the user’s visual process. The eye movements can give a real impression of the user’s attention concerning given stimuli within the advertisements. Eye tracking can provide insight into at least one aspect of the internal consumer model: how the consumer is delivered as efficiently and directly as possible (Duchowski, 2007, p.263. All information we perceive is through visual processes we receive through fixations (Kroeber-Riel & Weinberg, 2008, p.265). A measurement of the relative intensity of different, self-defined parts of the advertisement becomes possible. We therefore divided the relevant advertisements in different “areas of interest” (the so called AOIs), such as the company logo, an ecological element and price information. The intention was to measure how long and how often the subjects gave attention to these different parts (AOIs) of the given stimuli. 127 participants joined the eye tracking experiment with a fixed eye tracker. Six different advertisements from German energy providers were shown. The pictures were randomized and the digitalized stimuli display time was limited to five seconds. Every test person received the same advertisement. Furthermore, we implemented an additional recall survey afterwards. The test volunteers were asked to rate each individual advertisement from five levels from “very bad” to “very good”. In the meantime the advertisements were shown again.

Results

Table 1 shows the results of the eye tracking experiment. We used the created areas of interest (“price”, “logo” and “eco”) and generated an overview (summed up) of the AOIs for all three advertisements. The reception of an ecologically conscious message was not the first that was noticed. By far the price was the key visual in the given stimulus. Interestingly the logo and the ecological reference were rated equally. If we look at the comparison group without the ecological reference (on the right side of the table) the price and the logo are closely tied together. Thus, our first hypothesis must be falsified. If we consider the duration of the visit on the different AOIs the visit duration on the ecological reference is significantly much shorter than the other factors. We can deduce that the importance of the ecological background is not as relevant as the price and the logo. Surprisingly, the percentage of generally recognized AOI’s differs only marginally. Nearly every person noticed the three different sections. The advertisements which suggest an ecologically conscious energy production received a more positive rating (as portrayed in table 2) than the advertisements which only focus on price and brand image. Thus, the hypothesis can be verified. Perhaps this is based on a social adjustment. People recognise that renewable energy is better for the environment and therefore they rate these kinds of advertisements higher. Regarding the recall test, advertisements without an ecological reference performed much better than the comparison group. On average the three advertisements without the ecological reference were remembered by 26 % of probands while only 14 % remembered the name of the advertising companies that followed a green marketing strategy. This hypothesis has to be falsified. We can reason that for a marketing strategy that is targeted on simple publicity the ecological reference is not important. In contrast, for the development of a green brand image, the application of “green” elements seems to be crucial.

CONCLUSION

We can assume that the ecological information is being emotionally processed. The ratings of the renewable based advertisements were significantly better. Nevertheless, it is still the price that plays the major role in the perception process. Due to the absence of willingness to change energy suppliers, the supplier itself and its brand play an essential role. Generally, it is very difficult to reach a high emotional excitement with a product that only has a low involvement. An extension of our research by evaluating more advertising campaigns would be crucial for validation. Nevertheless, we can assume that the awareness for an environmental friendly production is existent, but not anchored in our minds such as the price or the brand. Since it is a continuous process we can expect that this will change more and more in the future.
TABLE 1
RESULTS OF THE EYE TRACKING TEST

<table>
<thead>
<tr>
<th></th>
<th>advertisements with an ecological reference</th>
<th>advertisements without such a reference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>price</td>
<td>logo</td>
</tr>
<tr>
<td>time to first fixation</td>
<td>4,4 sec</td>
<td>6,99 sec</td>
</tr>
<tr>
<td>total visit duration</td>
<td>2,47 sec</td>
<td>2,35 sec</td>
</tr>
<tr>
<td>percent of people</td>
<td>99%</td>
<td>97%</td>
</tr>
</tbody>
</table>

TABLE 2
RESULTS OF THE RECALL SURVEY

<table>
<thead>
<tr>
<th></th>
<th>advertisements with an ecological reference</th>
<th>advertisements without an ecological reference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>mean of evaluation</td>
<td>2,74</td>
</tr>
<tr>
<td>percentage of people who remembered the advertisements</td>
<td>14%</td>
<td>26%</td>
</tr>
</tbody>
</table>

REFERENCES


Oil Trade, People and Power Relationship: Exploring a Possible Point of Convergence for Nigeria

Olumide Abimbola Ajayi
Africa Leadership Forum

Oil continued to influence the dynamics of power and international relations because of a wide spectrum of internal and external interests associated with the exploration and utilisation of its revenue. In spite of cumulative revenue of $400 Billion since the oil boom of 1970s, 70% of Nigerian citizens are still living below $1/day. The paper used resource curse theory, comparative analysis and a robust literature review to examine the various issues around oil in Nigeria, exploring possible point of convergence between trade in oil, people and power relationships that can deliver tangible benefits to Nigerians and possibly citizens of other oil producing countries.

INTRODUCTION

The advent of oil has significantly altered the socio-economic and political dynamism of the world so much that it has become a major deciding factor in global affairs. The consumption of oil for energy and other uses bring in hundreds of billion dollars for oil producing nations. Saudi Arabia, Kuwait, Nigeria, Angola, Russia, Norway, Mexico and other oil producing nations have made fortunes from oil sales in terms of revenue earnings. In 2006, Organization of Petroleum Exporting Countries (OPEC) countries made US$ 650 billion compared to US$ 110 billion in 1998. However, the huge revenue earnings from oil have not translated into viable economic developments for most of the oil producing nations especially in Southern Sahara African countries. Rather, it has succeeded in creating a bloc of corrupt powerful elites in the oil producing nations while a large percentage of the population continued to live below poverty lines. With the exception of Norway, which has been able to justify substantial developments from oil money, many other countries that depend on oil for revenue suffer from what The Economist magazine, called ‘Poverty of Policy’.

In Nigeria, a fraction of the population which constitute the ruling elites have benefitted largely from the oil industry at the expense of about 70 per cent of the population which live on a less than $1 a day. Yet Nigeria has earned over $400 billion from oil, since oil boom of 1970s. Oil has also changed the game of international power relations among comity of nations due to vested interests of home government of multinational companies in oil exploration business across oil-producing countries. For instance, the vested interest of the US and Britain in the Persian Gulf in Asia and the Niger Delta region in Nigeria is a pointer to oil as a major focus of their foreign relations/interest. Investigation is still on in Britain and the US to ascertain the real motive behind the war against the regime of Saddam Hussein of Iraq, as some critics have alleged that it has more oil content than any other reason.

Today, the politics of oil is part of international relations and foreign policy advocacy for many nations. There is always serious external concern for hostility in an oil producing nation, as such could
trigger immediate price increase, owing to shortfall in supply. At the peak of militant activities in the Niger Delta, every interruption to the activities of oil companies reduce Nigeria’s daily production and cause oil price to rise. Oil has also become a major issue in the internal politics of oil producing nations. This is evident in continuous agitation among ethnic nationalities, political parties’ rivalry and fierce battle among politicians to gain power so as to control the petro-dollars accruing to the state.

The main objective of this paper is to engage in an exploration of possible point of convergence between trade in oil, people and power relationship and plot a path that can deliver tangible benefits to citizens and people of oil producing countries.

In the rest of this paper, section two deals with the review of relevant literature, section three- theoretical framework, section four- Nigeria as a case study and section five- Looking for point of positive convergence, avoiding oil curse and recommendations.

**Review of Relevant Literature**

Oil has become the mainstay of the economy of several countries with the capacity to produce in large commercial quantity. According to mbendi.com, “the countries with the largest 2006 oil production were, in this order, Saudi Arabia, Russia, the USA, Iran, China, Mexico, Canada, the UAE, Venezuela, Norway, Kuwait and Nigeria”. However both Nigeria and Norway were not among the top 10 in 2008 going by the ranking posted by David (2008) topforeignstock.com indicating production in million barrels per day: Russia (9.76), Saudi Arabia (9.22), USA (5.17), Iran (3.90), China (3.80), UAE (2.85), Mexico (2.81), Canada (2.68), Kuwait (2.55) and Venezuela (2.39). This huge production has translated into high foreign revenue earnings for countries that export oil.

Virtually all members of OPEC, who depend on oil for economic survival, rely solely on the oil industry for approximately 95% of export earnings and 80% of government revenue (Shell, 2010). In 2009, OPEC, according to statistics from US Energy Information Administration (EIA), earned $571 billion in net oil export revenues, which represents a 41 percent decrease from 2008 revenue level. Also, EIA in its Short Term Energy Outlook (STEO) projected that OPEC members could earn $750 billion of net oil export revenues in 2010 and $847 billion in 2011.

However, irrespective of billions of dollars from petroleum sales, (Schubert, 2006) observed that “oil rich states manifest some of the greatest inequalities imaginable”. They lack transparency, press freedom, and accountability and tend to have stratified social classes, with a tiny minority earning millions at the detriment of the majority of the population who wallow in abject poverty. Prof Terry Lynn Karl (2010) of Stanford University observed in (North, 2010) that:

> *Even though petro-states earned billions of dollars for their oil exports, almost none of them were able to use their earnings for sustained, balanced growth. Instead, they ended up in chronic economic crisis, with collapsing agriculture, nonexistent manufacturing sectors, very high unemployment, enormous debts to Western banks, growing political instability, and in some cases, ferocious violence.*

Some economists have argued that ‘most of the oil producers would have been better off if oil had never been discovered in their territories at all’. This would later lead us to the Resource Curse Theory associated with oil. Joseph Stiglitz, a Nobel Prize winner in economics and former chief economist of the World Bank (In Schubert, 2006) described the petro-states as “rich countries with poor people.” Also lending credence to this position, Jeffrey Sachs, who later head U.N.’s millennium development project, observed that ‘countries rich in resources grew slower than those without’. Posted on globalwitness.org:

> *Many countries that are rich in oil, gas and other minerals are nonetheless mired in poverty because the public revenues earned from selling these resources have been squandered through corruption and lack of government accountability. Citizens of resource-rich countries cannot hold governments and extractive companies to account*
and ensure that mineral resources are used in a fair and sustainable way unless they have full information about the management of these resources.

Prof Karl in (Schubert, 2006) noted that the situation is worse than first thought, as major oil producers such as Algeria, Angola, Iran, Saudi Arabia, Venezuela and Trinidad Tobago have experienced fundamental declines in per capita incomes in recent decades. Findings further reveal that oil dependent states have performed 1.7% worse in terms of economic growth than non-oil states in recent years, while in the last 30 years or more, the numbers of people living in abject poverty in big oil-producing states like Nigeria, Venezuela, and Angola have increased dramatically. “In short, oil exports as a revenue source for development don’t seem to work. Most countries that have come on-line in the last twenty years are exhibiting increased poverty, not less, slower growth, not more, weaker institutions, and regulatory frameworks, not stronger (Schubert, 2006)” A 2004 survey by Transparent International (TI) revealed that oil wealth is often a breeding ground for corruption. The report estimated that billions of dollars are lost to bribery in public purchasing, citing the oil sector in many nations as a particular problem. Bangladesh, Haiti, Nigeria, Burma, Azerbaijan, Paraguay and Chad were seen to be the most corrupt (bbc.co.uk, Oct 20, 2004).

"As the Corruption Perceptions Index 2004 shows, oil-rich Angola, Azerbaijan, Chad, Ecuador, Indonesia, Iran, Iraq, Kazakhstan, Libya, Nigeria, Russia, Sudan, Venezuela and Yemen all have extremely low scores. In these countries, public contracting in the oil sector is plagued by revenues vanishing into the pockets of Western oil executives, middlemen and local officials," (Peter Eigen, the chairman of Transparency International, 2004).

Former Nigerian anti-graft chief Nuhu Ribadu quoted in Boston Globe (Dec 17, 2004), noted that “corruption and mismanagement swallow about 40 percent of Nigeria's $20 billion annual oil income”, while oil Industry sources say “at least 100,000 barrels, or 4 percent, of national oil exports are stolen every day in Nigeria” (Reuters, 2004). Former Nigerian military head of state, General Muhammadu Buhari, said while campaigning for the 2007 presidential elections remarked that "corruption has been worse with oil because oil has brought more money," (Thompson, 2007). Yet, the theft of crude oil has continued unabated in the Niger Delta region of Nigeria, spurred by chronic under-development, a disaffected youth, and increasing lawlessness (IRIN, 2008).

Studies, according to (Schubert, 2006) have shown that oil dependence leads to a skewing of political forces. It concentrates production to geographic enclaves and concentrates power into the hands of a few elites. That is why (Alnasrawi, 2002) recognized oil as a strategic factor in power relations between some five oil producing Asian countries and other foreign partners. For instance, he stated that world oil reserves in 1999 amounted to 1,033 billion barrels of oil with two-thirds of these reserves found in Saudi Arabia, Iraq, Iran, Kuwait, and the United Arab Emirates. Consequently (Alnasrawi, 2002) posited that:

“What happens to the oil industry in any one of these countries will affect the economic fortunes of its neighboring countries. Moreover, the high degree of concentration of oil reserves, output, and exports in these five countries make them a constant target of outside power machination and interference. It is a well-known fact that the oil sectors in these five countries have been, until recently, under the direct control of a handful of multinational oil corporations (BP, Exxon, Mobil, Shell, Texaco, Gulf, and Chevron). Thus in the span of four short decades culminating in 1990 one can make the case that oil, or more precisely, the management of the oil wealth was responsible in varying degrees for all the major changes that engulfed Iraq, be it economic development, the Iraq-Iran War, or the invasion of Kuwait and the economic sanctions under which the country is still labouring".
Due to foreign interest in the Persian Gulf oil, Dr Mosedegh, the political leader of Iran was overthrown with the assistance of the West, and replaced by the Shah of Iran to make it easier for Western oil companies to explore for oil in the country. The multinational companies did not like Mosedegh’s threat to nationalize the oil industry. “The Shah was put in power and propped up supposedly to stabilize the country for the oil business and the security of the Persian Gulf Region” (Torulagha, 2004). For instance, critics have argued that the 2003 invasion of Iraq was neither motivated by the existence of weapons of mass destruction nor by its links to al-Qaida, an assumption which (Perezalonso, 2006) supported. Oil has also played significant role in shaping the relationship between powerful nations of the world as it relates to their interests in third world nations. For instance, energy security is now playing an increasingly significant role in Sino-U.S. relations leading to policy disagreements between the United States and China over Sudan. While the US favoured sanction against the Sudan for its very negative human rights records, China, which gets 7 percent of crude oil supply from the country, has concluded that Sudan is very strategic to its energy security and the rapid growth of its economy (Shinn, 2011).

China is the second largest consumer of oil behind the US in the world and has continued to expand its foreign interest especially in Africa. The continent’s oil now covers almost one-fifth of the US imports and a third of Chinese imports (Afriqueavenir.org, 2010). The expanding interest of China in Africa is due to its strategic hold of proven oil reserve. A publication of Stellenbosch University on monthly China Monitor observed that the involvement of Chinese companies in Angola's oil industry is characterized as one marked both by instances of mutually beneficial cooperation and by exploitation (Shinn, 2011).

“With almost 10% of oil reserves in the world, Africa is, more than ever, the center of attention. Producing as much as Iran, Venezuela and Mexico combined, African oil production increased by 40% between 1990 and 2004, and it should represent almost 15% of the world production by 2020. With such figures, the continent is attracting investments from large companies in the sector. The investments on the continent increased by 4% in 2009 while they declined by 16% worldwide. They should reach 30% of global offshore investments by 2030 (Afriqueavenir.org, 2010)”.

The oil industry has shaped power relations in Nigeria both internally and with foreign partners. According to Vanguard Newspaper in its ‘Sweet crude’ publication, a monthly review of the Nigerian Energy Industry in January 2011, “since the discovery of oil in commercial quantity, in the late 50s in Nigeria, every politician has struggled to get a chunk of the oil wealth or petrodollars popularly referred to as ‘national cake’. Before the advent of democratic rule, Oronto Douglas in (Environmental Watch Nigeria, 2007) noted that here is a symbiotic relationship between the military dictatorship in Nigeria and the multinational companies who grease their palms regularly. Oil has become a central focus in the agitation over resource control, which was a subject of intense national discourse during the President Olusegun Obasanjo’s administration. During the heat of the debate over resource control, (Balarabe, 2003) observed that “much of the environmental-political debate since 1999 have shifted emphasis from environmental management issue like water and air pollution, desertification, loss of bio-diversity to resource control.

(Oliveira, 2008) in a study observed that oil has had a powerfully negative effect on the quality of government in Africa and expressed worry that regardless of thriving oil economy due to high oil prices and significant new investment from Western oil companies, the welfare and security need of the people is still far from being met, while the revenues from oil is use to enrich small elites and to protect their hold on power. With huge revenue earnings from oil, Nigeria could not boast of efficient and sufficient refineries, but import bulk of its fuel for domestic consumption. Unfortunately, high volume of petroleum imports has led to the near collapse of the nation’s downstream sector and significantly contributed to the crisis in the banking sector (Sweet Crude, 2011). Issue of oil continued to spur agitation in the Niger Delta, with US showing great concern over its effect on the rest of the world. Former US Ambassador to Nigeria, Ms. Robin Renee Sanders, said “issue of oil price jumping up after every attack in the area affects everybody in the world”. Consequently, she said that "there is a legitimate concern in the Niger
Delta both politically and economically (Ohia and Ibiam, 2008). Oil has brought more disaster than blessing and it has not proved to be a means out of poverty or for rapid development (Schubert, 2006).

Theoretical Framework

The ‘Resource Curse’ theory provides a veritable framework for this paper, dwelling on the assertion that “Mineral and fuel abundance does not determine either the political or economic trajectory of less developed countries” (John, 2010). Although the idea that oil is an economic curse than a blessing began to emerge in the 1980s, it was not until 1993 that the term resource curse thesis was first used by Richard Auty to describe how “countries rich in natural resources were unable to use that wealth to boost their economies and how, counter-intuitively, these countries had lower economic growth than countries without an abundance of natural resources” (Economist’s View, 2008). Several other studies have also shown a connection abundant natural resources and poor economic growth.

“The big idea behind the ‘resource curse’ is that mineral and fuel abundance in less developed countries (LDCs) tends to generate negative developmental outcomes, including poor economic performance, growth collapses, high levels of corruption, ineffective governance and greater political violence. Natural resources, for most poor countries, are deemed to be more of a ‘curse’ than a ‘blessing’” (John, 2010).

Karl and Gary (in Schubert, 2006) lend credence to resource curse theory by pointing out that “countries dependent on oil as their primary export perform significantly worse than other developing economies across a wide range of economic indicators”. This is supported by Birdsell, who noted that “throughout history; countries with natural resources have fared worse than ‘poorer’ nations”. Karl who dwelt extensively on the oil curse concept, described it as ‘Paradox of Plenty.’ In 1997, she published ‘The Paradox of Plenty: Oil Boom and Petro-States, stating that “even though petro-states earned billions of dollars for their oil exports, almost none of them were able to use their earnings for sustained, balanced growth” (North, 2010).

However, a report in science by C. N. Brunnschweiler of the Swiss Federal Institute of Technology and E.H. Bulte of the Oxford Center for the Study of Resource-Rich Economies, contended that “resource curse” theory is dubious, noting that the causation goes in the opposite direction:

Conflicts and bad policies created the heavy dependence on exports of natural resources. When a country’s chaos and economic policies scare off foreign investors and send local entrepreneurs abroad to look for better opportunities, the economy becomes skewed. Factories may close and businesses may flee, but petroleum and precious metals remain for the taking. Resource extraction becomes “the default sector” that still functions after other industries have come to a halt (Tierney, 2008).

John (2010) averred that the ‘resource curse’ proposition is not supported by comparative or historical evidence. Consequently, he explained that “the extent to which mineral and fuel abundance generate developmental outcomes depends largely on the nature of the state and politics as well as the structure of ownership in the export sector, all of which are neglected in much of the resource-curse literature”. Brunnschweiler and Bulte found that “the curse vanishes when they look not at the relative importance of resource exports in the economy but rather at a different measure: the relative abundance of natural resources in the ground”.

Schubert (2006) offered a plausible explanation to the oil-curse theory which covered both side of the divide. He stated that despite empirical evidences showing “the numbers of people living in abject poverty in big oil-producing states like Nigeria, Venezuela, and Angola increased dramatically over the last 30 years of the twentieth century”, “there exist, a country like Norway where oil has not destroyed democracy and also Indonesia, which has weaned itself away from its negative effects”. 
The numbers don’t tell the whole story. There are examples of countries that broke the oil curse and others that avoided it altogether. The latter group consists predominantly of states that were already democracies long before oil came along. These states had years, even centuries to develop robust institutions to protect against corruption, patronage, and self-aggrandizing fiscal imprudence. Among them are the United States, United Kingdom, Norway, and Canada. Another group, however, has successfully moved from oil cursed to oil blessed. These include Indonesia, Mexico and to a great extent the small emirate of Dubai.

Nigeria as a Case Study

The first discovery of oil in commercial quantity in Oloibiri (now in the present day Ogbia local government area of Bayelsa State), on Sunday 15th January 1956, ended 50 years of unsuccessful oil exploration in Nigeria by various companies. However, production did not start until late 1957 and early 1958, when the first oil production from the field came at the rate of 4928 barrels per day. The successful exploration from the Nigeria’s first commercial oil field immediately launched the country into limelight of Petro-State, leading to a gradual change in economic priority. Agriculture had been the mainstay of the Nigerian economy, until the advent of oil. Unfortunately, successive governments did little or nothing since independence to diversify the economy but allowed oil to totally erode agriculture and other productive sector base of the economy, especially with the boom recorded in the 1970s. Today, Nigeria now depends on the oil industry for approximately 95% of export earnings and 80% of government revenue. (Nigeria-Planet.Com, 2006) puts in this perspective:

New oil wealth, the concurrent decline of other economic sectors, and a lurch toward a statist economic model fueled massive migration to the cities and led to increasingly widespread poverty, especially in rural areas. A collapse of basic infrastructure and social services since the early 1980s accompanied this trend. By 2000 Nigeria's per capita income had plunged to about one-quarter of its mid-1970s high, below the level at independence. Along with the endemic malaise of Nigeria's non-oil sectors, the economy continues to witness massive growth of "informal sector" economic activities, estimated by some to be as high as 75% of the total economy.

The Challenges of Oil Exploration and Trade in Nigeria

Numerous challenges abound with the discovery of oil in Nigeria, even as the country continue to grapple with environmental and social problems, corruption and mismanagement of the treasury, including the threat of oil vanishing in the next 30 years. Nigeria fall into the category of countries placed in the context of the ‘Resource Curse’ theory. (Schubert, 2006) stated that Nigeria has earned over $340 billion dollars in oil revenues in the last four decades, yet 70 per cent of the population live on less than $1 a day.

An investigation and report by Essential Action and Global Exchange in (Shah, 2010) found the following about the oil situation in Nigeria:

i. Oil corporations in the Niger Delta seriously threaten the livelihood of neighboring local communities. Due to the many forms of oil-generated environmental pollution evident throughout the region, farming and fishing have become impossible or extremely difficult in oil-affected areas, and even drinking water has become scarce. Malnourishment and disease appear common.

ii. The presence of multinational oil companies has had additional adverse effects on the local economy and society, including loss of property, price inflation, prostitution, and irresponsible fathering by expatriate oil workers.

iii. Organized protest and activism by affected communities regularly meet with military repression, sometimes ending in the loss of life. In some cases military forces have been summoned and assisted by oil companies.

iv. Reporting on the situation is extremely difficult, due to the existence of physical and legal constraints to free passage and free circulation of information. Similar constraints discourage grassroots activism.”
Foster (2007) described the Niger Delta as a place of fantastic contrasts and corruption. “Despite producing tens of billions of dollars worth of oil every year -- and 80 percent of the country's revenue -- the delta remains one of the poorest and underserved regions in Nigeria. Most live on $1 or less a day and are without power, potable water and other basic services”. This is a further illustration of the challenges oil has thrown up in Nigeria. There have been wide spread criticisms on the way the oil companies have neglected the surrounding environment and health of the local communities in the Niger Delta. It is regarded as the richest area of biodiversity in Nigeria, but Regular oil spills that are not cleaned up has destroyed the rich biodiversity of the Niger Delta, including dumping of industrial waste. While the oil companies have been regularly alleged of not doing genuine Environmental Impact Assessment (EIA) to the detriment of the area, failed promises of development projects have however added to the problems.

Corruption is a major challenge to Nigeria and has been greatly influenced by oil money, which has not been properly accounted for till date. Toward the 2007 Presidential elections, General Muhammadu Buhari, while observing that "Oil has been a disappointment," said regrettably that "corruption has been worse with oil because oil has brought more money." "Now corruption has eaten away at our industries and society generally" (Thompson, 2007). Nuhu Ribadu, former chairman of Nigeria's Economic and Financial Crimes Commission (EFCC) said in a lecture in Lagos in 2006 that "over $400bn in oil money has been stolen by bad leaders." The sentiment of corruption infested system through oil money, have been shared by all Nigerians and interestingly too by leaders who have been or are being alleged of corruption.

The oil boom in the 1970s was badly managed to the extent that it eroded agricultural sectors as successive governments failed to diversify the economy, thereby creating a monolithic economy solely depending on oil for survival. Virtually, every policy attempt to revive the agricultural sector and return it to its previous position as a major revenue earner through OFN, Green Revolution, DFRRI and other initiatives have failed. “Agriculture in Nigeria used to be the power house of the national economy, providing more than 85 percent of the country's foreign exchange earnings and abundant and cheap food for the people” (Alademerin and Adedeji, 2010). There has been about 25 percent decrease in the contribution of agriculture to the nation's GDP, which stood at 65.7 percent in 1957. Nigeria has lost its status as a net exporter of agricultural products, while local food production cannot keep pace with the increasing population (encyclopedia of the Nations, n.d).

Today, individuals and groups that should be ordinary less enthusiastic about power are now fiercely fighting for it to have control over the oil resources of the country. Oil has heightened the intensity of individuals and ethic battle for the control of power at the federal, state and local government levels in Nigeria, due to revenue allocation coming majorly from oil.

The Benefit of oil to Nigeria

Although Nigeria is properly captured in the context of the ‘Resource Curse’ theory, however, the oil industry is not all about doom and negative propositions. Since Nigeria is running a monolithic economy, solely dependent on the oil industry, therefore, revenue accruing from oil sale is largely a benefit, contributing to economic survival. The government has done little or nothing to invest in a viable alternative or demonstrates the will to do so; hence oil money which has been regularly shared by all the three tiers of government and used for developmental projects remain a major economic benefit to the country. Irrespective of criticism and concern, mismanagement and corruption, Nigeria has benefitted immensely from the oil industry, as every sector is affected by oil revenue. Aside the monetary value, oil has made Nigeria a major player in the international community. If Nigeria sneezes, the rest of the world could catch cold because of her strategic position as a major supplier of crude oil through OPEC to the world market. Former US Ambassador to Nigeria, Ms. Robin Renee Sanders, had been quoted earlier in this paper to have said that the “issue of oil price jumping up after every attack in the area (Niger Delta) affects everybody in the world”. That is how strategic Nigeria is to the rest of the world.

Oil money has helped Nigeria to effectively play the big brother role in Africa, enabling its financial muscle to act as a power broker and influencing its foreign relations. Nigeria has been involved in several peace keeping operations and has funded many in the African countries with its own resources to ensure
peace and stability in the continent. The country has also conducted military intervention through the Economic Community of West African States Monitoring Group (ECOMOG) in Liberia, Sierra Leone and Guinea Bissau. It has also supported neighbouring countries in terms of economic challenges like Ghana, including granting food/financial aid to other countries like Niger Republic for regional stability and economic growth.

There is always future assurance that irrespective of previous mismanagement of the oil revenue, an accountable, transparent and development oriented government can still make judicious use of the earnings to improve the Nigerian economy, ensure good standard of living and even develop an alternative productive industry sector like the agricultural sector. The oil industry has helped to create thousands of jobs for Nigerians, while its oil reserve (36.2 billion barrel of proven oil reserve as at 2007), has also helped to create confidence of sort especially for foreign investors. Though, with the capacity to produce about 3 million barrels per day, Nigeria currently produces an average of 2.5 million barrels of crude oil per day, making it the 10 largest oil producers in the world. With oil as a major energy demand globally, Nigeria will continue to remain relevant in international relations.

Without gainsaying, the oil industry has continued to be the major important contributor to the national treasury, while taxes and royalties from it sales have made possible, massive infrastructural and social development throughout the country. The gain also include the construction of high ways, schools and hospitals in selected rural and urban areas, though some of these are highly motivated and driven by political rather than economic considerations. The ability of government to employ many more due to the oil boom has indeed helped to fashion a remarkable economic landscape and has continued to give semblance of hope for a better future.

**Oil and Human Development Deficit**

Decades of government mismanagement and corruption have only succeeded in lining the pockets of small elite, while the vast majority of Nigeria’s 150 million people survive on less than $2 a day. The oil industry has helped to create the super rich, while those in the corridors of powers and their cronies have over the decades corruptly enrich themselves with cornered oil money. The gap between the rich and the poor is very wide, and while the rich are getting richer, the poor appeared to be getting poorer without sustained concerted effort by the government and stakeholders to bridge the gap. The situation is further compounded by lack of basic amenities and necessary infrastructure that could have helped in a way to leverage the condition of the poor.

The oil traders/dealers who had held the industry down for a long time has succeeded in ensuring that they perpetually put the sector under their firm grip. This they have achieved by ensuring that Nigeria does not have a refining capacity to meet local consumption so that they can continue to make huge profits from importation of fuel. Despite being an oil producing nation, the bulk of Nigeria fuel is imported by few oil cartels that have ensured the four refineries in the country does not work or work below the optimal level. Even though at optimum capacity, they cannot meet the needs of the country. The four refineries in the country have a combined capacity in excess of 445,000 barrels per day, but could only refine mere 80,757 metric tons of petroleum products for most part of 2010. However, the country spent about $7.6 billion on importing about 8.1 million metric tons of petroleum products for the same period the year before. The government during the period continues to subsidize petrol by N46 per liter, from a landing cost of N111, with the consumer paying N65 (Sweet Crude, 2010). Unfortunately the only beneficiary of this arrangement is the few individual marketers who have made fortunes, while the money that could have been used to better the lots of the people is utilized for fuel subsidy. It is taking the government, hundreds of billions of naira to subsidize fuel yearly, a situation that could have been avoided if successive governments have invested in upgrading existing refineries and constructing new ones. Over the years, it either that those in government becomes part of the oil mafia, or the cartel, penetrate the government, but with the connivance of the multinational oil companies who helped in most cases to launder money (Sweet crude, 2010). In essence, at the expense of the majority only very few privileged individuals benefit from oil money.
Oil Factor in Nigeria Power Relations

The advent of oil indeed marked a turning point in Nigeria’s internal and external power relations. Oil instantly made Nigeria a bride for other nations, especially the West who fancied Nigerian crude. Nigeria’s standing and prowess increases in the international community as a major player in the oil industry. It is obvious today that China, equally a Super power nation has been doing all it could to pry Nigeria away from the US, including making frantic effort to get as many oil blocs as possible in the country. Oil more than anything else determines our trading partners and influence our foreign policy. Irrespective of the socio-economic challenges, Nigeria is still regarded as the most strategic country to Africa development among the comity of nations.

Numerical strength aside, the huge revenue generated from oil has empowered Nigeria to perform a Big Brother role in Africa. That is why Nigeria has been able to lead and finance military operations in countries like Liberia, Sierra Leone and performs peace keeping operations in some African countries. As one of the 10th largest exporters of crude oil in the world, Nigeria is a factor to be reckoned with in the international community. As an oil producing nation, Nigeria’s internal security is a concern to the rest of the world. Any time there is unrest in the Niger Delta region, it automatically affects world oil price because of the disruption in daily quota allocated to Nigeria by OPEC.

Oil Has Played a Significant Role in Nigeria’s Internal Power Relation

With huge revenue coming from crude oil sales, the power game among the elites and ethnic nationalities in Nigeria has over the decades changed. Power relationship is now defined by the power of oil as evident in mutual suspicion between the North and the South. For a long time in Nigeria, there has been much attention on who occupies the Petroleum Ministry than any other appointment, which often generates arguments between public commentators in the South and in the North. So also is the politics over the allocation of oil blocs, which in many instances has been treated as reward to the elites who “oiled” the political machinery and ascendancy of rulers both at the centre and state level.

Critics in South, especially in the Niger Delta have often contended that the North has exploited the advantage of their long held rule over the country to favour the people of the region in the allocation of oil blocs. While the Niger Delta region produces the oil, a good number of people that have occupied strategic government positions in the oil industries are from the Northern part of the country. Therefore, for a long time, oil has become a major issue in Nigeria’s internal affairs with military and political actors setting eyes on the sector and the proceeds from it.

There have been several agitations over oil, with oil producing states demanding for resource control. At the heat of this agitation, political leaders in the North and the South have had cause to disagree, even with the threat of secession by the Niger Delta region. Due to sustained pressure, the oil producing states got 3 per cent oil derivation and later 13 per cent, but this did not assuage their feelings owing to many years of neglect. Until recently when the federal government engaged the restive youths and militants in the Niger Delta on the path of peace by declaring amnesty and with a promise to address their concerns, Nigeria was gradually drifting into a crisis ridden State.

Indeed oil has changed the internal power relation in Nigeria compared with what was obtained at Independence and when each region depends on what it can produce. Now, with the 774 local governments, 36 states of the federation and the federal government at the centre depending on oil for revenue, every aspect of Nigeria’s national life is dictated and affected by it. In Nigeria today, the most powerful group are the oil merchants whose influence have grown to the point of influencing government’s policies and programmes.

Using Nigeria as a case study, a number of issues relating to oil trade, people and power relations are very obvious even to the least discerning eyes.

In Search for a Point of Positive Convergence

There is an urgent need to reconstruct the benefit of oil for the greater majority of the people on one hand and also refocus the relationship between trade in oil and power relations on the other hand. The oil curse syndrome is not an automatic spell that debut with the advent of oil. It comes due to lack of sincere
and efficient policy framework to guide the oil sector, ineffective leadership, absence of strong
government institution manned by highly skilled personnel, greed and corruption, wastages, lack of due
diligence and transparency and also undue politicisation of the economy. Norway which is the world's
third-largest oil exporter, behind only Saudi Arabia and Russia, and the seventh-largest oil producer offers
an interesting model for Nigeria to consider in overcoming the oil curse.

Avoiding Oil Curse: The Norway Example

Norway is one nation that has insulated itself from oil curse, embracing best practices, transparency,
accountability and futuristic in the management of its oil wealth. Today, Norway is a model for any
nation to be assured that the advent of oil does not automatically debut with curse, but it depends on how
it is handled by the government and stakeholders. Norway's has about $322bn (£197bn) Sovereign Wealth
Fund (SWF), derived from oil revenue. The Norwegian economy is heavily dependent on oil like those
nations held down by oil curse, its Petroleum industries account for about 17 percent of Norwegian GDP
and a 45 percent of exports. But contrary to the mismanagement of oil price gain in other countries, for
Norway, any sudden increase in oil prices means larger inflows to the SWF and enhanced long-term
welfare for its citizens.

Also Ghana who recently joined the oil producing and exporting league has benefitted from the
expertise of Norway. On the prompting of former Secretary-General of the United Nation, Mr. Kofi
Anan, Norway has sent a government delegation to advise Ghana, on how to avoid the oil curse
challenges. The Scandinavian country has proven that oil does not have to be an obstacle to stability and
long-term growth. The West African country is now being expected to develop a fund for oil revenue
similar to the Norway’s SWF.

Nigeria has a lot to learn from Norway to get out of the oil curse bondage and efficiently utilize her
oil wealth. The establishment of the Sovereign Wealth Fund by the Federal Government similar to that of
Norway as a replacement for the Excess Crude Oil Account to take care of excess oil gain is a noble
initiative. However, there is a need for the total cleansing of the oil sector and reconstruction of the
utilization oil proceeds for greater majority of Nigerian.

The Federal should be very bold and painstaking by embarking on the holistic reform of the oil sector
learning from the Norway model. The Nigerian government should redefine the policy framework
guiding the oil sector to encourage sound long-term economic planning, eliminate corruption and promote
robust economic development.

“Norway has pursued a classically Scandinavian solution. It has viewed oil revenues as a
temporary, collectively owned windfall that, instead of spurring consumption today, can
be used to insulate the country from the storms of the global economy and provide a
thick, goose-down cushion for the distant day when the oil wells run dry (Gross, 2004).

Federal government and stakeholders in the oil sector must show total commitment to the Nigeria
Extractive Industries Transparency Initiative (NEITI), which is a global initiative aimed at following due
process and achieving transparency in payments by Extractive Industry (EI) companies to governments
and government-linked entities.

A New Future Direction with the Petroleum Industry Bill (PIB)

The much anticipated holistic reform in the oil industry may eventually take shape with the passage
of the PIB. The new hydrocarbon bill is expected to create a new policy direction that will drive the future
of the industry, restructure the oil sector with the objective of improving efficiency, raising government
stake and increasing natural gas utilization. Although the draft bill which has generated intense debate is
still under congressional review, It is expected the present National Assembly will pass it into law.

The draft Petroleum Industry Bill (PIB) was designed to act as an all-encompassing piece of
legislation and as a result, some 15 pieces of existing legislation will be revoked upon ratification. It will
create a number of new institutions with mandates over the upstream sector as shown below:
### TABLE 1
**NEW STRUCTURE OF THE INDUSTRY**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Function</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>POLICY</td>
<td>NATIONAL PETROLEUM DIRECTORATE</td>
</tr>
<tr>
<td>2</td>
<td>TECHNICAL REGULATOR</td>
<td>NATIONAL PETROLEUM INSPECTORATE</td>
</tr>
<tr>
<td>3</td>
<td>COMMERCIAL REGULATOR DOWNSTREAM</td>
<td>PETROLEUM PRODUCTS REGULATORY AUTHORITY</td>
</tr>
<tr>
<td>4</td>
<td>COST REGULATOR UPSTREAM</td>
<td>NATIONAL PETROLEUM ASSETS MANAGEMENT AGENCY</td>
</tr>
<tr>
<td>5</td>
<td>COMMERCIAL</td>
<td>NNPC LIMITED</td>
</tr>
<tr>
<td>6</td>
<td>RESEARCH</td>
<td>NATIONAL PETROLEUM RESEARCH CENTRE</td>
</tr>
<tr>
<td>7</td>
<td>FUND</td>
<td>PETROLEUM TECHNOLOGY DEVELOPMENT FUND</td>
</tr>
<tr>
<td>8</td>
<td>FUND</td>
<td>PETROLEUM EQUILISATION FUND</td>
</tr>
<tr>
<td>9</td>
<td>TRAINING</td>
<td>PETROLEUM TRAINING INSTITUTE</td>
</tr>
</tbody>
</table>


Specifically, the policy making function will reside with the Petroleum Directorate. The Petroleum Inspectorate will replace the Department of Petroleum Resources (DPR), currently within the Ministry of Energy. This commission will act as the independent regulatory body and licensing agency for the upstream sector.

On the operational side, the Nigerian National Petroleum Company Limited (NNPC) will be turn into an integrated oil and gas limited liability company to be known as NNPC Limited. The National Petroleum Investment Management Services (NAPIMS), currently part of NNPC, will be replaced by the National Petroleum Assets Management Agency (NAPAMA). This body will monitor and approve all upstream costs and manage tax/royalty oil (but not prospect for oil). NAPAMA will exist outside of the NNPC Limited as a separate and independent agency. The Research and Development division within NNPC will be carved out into an independent entity, the National Petroleum Research Center. A separate Frontier Service will also be created.

Overall the new bill and its proposed structural changes is expected to promote operational efficiency, product availability, space for new participants, full cost recovery, better margins for investors and better regulatory environment. However in the immediate term, there is likely to be policy confusion and significant delays for project decisions and approvals as the new institutions are staffed, trained and become operational.

**Exploring Oil Advantage for Better Power Relations**

Nigeria by the design of this vital natural resource called oil is a strategic country to global economic stability; hence it should at all time negotiate for a better deal with focus on human and infrastructural development. The PIB and the purposeful utilization of oil revenue should drive our engagement with the rest of the world. Nigeria is often at a disadvantaged position when she trades or engaged in diplomatic initiatives with other countries. While highly industrialized countries like US, Britain, China will consider their national interest first in dealing with any country or global issues, Nigeria play the role of “Father Christmas” most of the time especially with other African countries. Arguments still subsist that Nigeria is one country that is oblivion of her diplomatic responsibility to her citizens when dealing with other nations either for economic, political or peace keeping agenda. The logical path to follow therefore is for Nigeria to reconstruct and pursued a self-enlighten interest foreign policy initiative that is mindful of her resource relevance, population and economic size within the global arena. Nigeria must now consider
thoroughly what it stand to gain in peace keeping initiative, military intervention and diplomatic involvement in Africa. You cannot use your resources to support other nations and not be in a position to define the expected dividends and windfall.

Nigeria must consider what it stand to gain in economic partnership with China, USA and other developed and fast developing countries. Developing critical infrastructure like the Modern Mass Rail System in sales for oil may be a better way to bring development to the people rather than cash.

Oil has become a major factor in Nigeria’s internal relations. To curb agitations occasion by oil in Nigeria, the Federal government and stakeholders should develop a 10- year road map on ‘Resource Control and Fiscal Federalism. The road map should be designed in such a way that non-oil producing States are supported to become self-sustaining by less depending on federal allocation until they become financially autonomous. The roadmap should encompass short, medium and long term strategies that will bring development to every region and state of the federation.

**Recommendations**

In order to arrive at a point of positive convergence between oil, people and power relationship, the government of Nigeria and oil industry stakeholders will need to adopt and implement the recommendations identified below:

i. Adoption of a new paradigm called “Oil for Development Initiative (O4DI)” This new paradigm should drive the implementation of PIB, the SWF and the national development with emphasis on human development and upliftment aimed at the rapid reduction in the national poverty index across all the geo-political zones of Nigeria

ii. Logical and complimentary to O4DI is the need to shift focus from resource control to resource management with benchmark indicators for all tier of government. It is not control that matters but what you achieve with the control that you have. A national accountability law is required to monitor utilization of oil revenue if we are to deal with resource curse

iii. An independent 04DI monitors made up of national and international personalities should be put together to conduct periodic review of oil revenue utilization trend especially in Nigeria’s Delta region.

iv. The revenue allocation formula should be redefined and skewed towards the State rather than Federal Government. The power squabble and intense agitation that accompanies it is coming largely from the concentration of huge resources at the centre

v. The continued disregard for sustainable development and escalating environmental degradation calls for urgent need to build the capacity of State government to actively participate, monitor and conduct periodic strategic environmental assessment of the operation of oil and gas companies across Nigeria. People and their livelihood should come first in oil-power relations with foreign countries and companies;

vi. Nigeria Extractive Industry Transparency Initiative (NEITI) should be made to play prominent role now that it has achieve international agreed standards in its operation.

vii. Beyond the amnesty, the skill acquisition and re-integration of the militants is the need to embark on a cultural re-orientation for the younger Nigerians from the Niger Delta, backed up with massive investment in education, road development, health facilities and rehabilitation of the environment. Growing in an oppressive and degraded environment will ultimately alter your psyche and defined your behavioural tendencies and disposition in life.

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How Does Privatization Affect Innovation?
An Integrative Model

Chuanyin Xie
The University of Tampa

Privatization leads to private ownership. From an economic perspective, private ownership can motivate owner-managers to pursue innovation which is important for post-privatization performance. However, empirical studies do not always support the positive relationship between privatization and innovation. Therefore, the role of privatization in innovation may be more complex than economic theories suggest. This study attempts to untangle some controversies regarding innovation in privatized firms by integrating both economic and cognitive perspectives. Innovation needs risk taking behavior, but private ownership is likely to make owner-managers risk averse. A main reason is that it leads owner-managers to bear risk. I argue that innovation in privatized firms may depend on the relative strength of economic motivation and risk bearing, two opposing forces generated by private ownership.

INTRODUCTION

Firms can be grouped into different ownership classes, including publicly-traded and privately-owned. Different ownership structures, according to Mascarenhas (1989), lead to differences in the interests and constraints of owners and managers and in the conflicts between owners and managers. Ownership structure is important because it influences organizational behaviors (Perry & Rainey, 1988). Among different types of organizations, public firms are more visible because they are required to disclose information on their activities. According to Pagano and colleagues (1998), there are at least three advantages a public firm possesses: first, it can gain access to stock markets for funds. Second, owners of a public firm enjoy the benefits of share liquidity and portfolio diversification. Share trading on an organized exchange is cheap, and shareowners can diversify their investments easily. Third, the stock market can serve as “a managerial discipline device”.

Public firms cannot obtain these advantages without a cost. A frequently-cited and also much-studied issue in public firms is the agency problem – an organizing problem that arises when the owner and the manager have different goals and interests. It is difficult or expensive for the owner to determine whether the manager has behaved properly (Eisenhardt, 1989). A variety of internal and external governance mechanisms, including boards of directors, ownership concentration, managerial stock ownership, stock options, the market for corporate control, and golden parachutes (Phan & Hill, 1995), have been developed in order to overcome or reduce the agency problem. Despite expectations, the roles of those mechanisms are limited due to three factors: information asymmetry, low levels of motivation to control on the part of the board of directors, and management entrenchment (Walsh & Seward, 1990). Unresolved agency problems often trigger firm privatization via leveraged buyouts (Fox & Marcus, 1992), which was a notable phenomenon in corporate America during the 1980s.
The privatization of public firms, or buyouts, is an often-used corporate restructuring method (Bruton et al, 2002). In buyout transactions, firms are taken private by converting public stock ownership to private ownership (Phan & Hill, 1995). It was reported that in a period from 1981 to 1989, more than 2540 publicly-traded firms went through a buyout, and the total buyout transactions involved a market value of over $297 billion and accounted for 17.0 percent of all the corporate restructuring activities (Mergerstat Review, 1989). Though this buyout wave in the United States has passed, as an accepted corporate restructuring practice (Bruton et al, 2002), it still keeps occurring. Recently, the buyout practice has shown a growing trend in other countries such as the United Kingdom (Harris et al, 2005) and Japan (Wright & Kitamura, 2003).

A classical explanation of the widespread buyout practice is that buyouts can serve as an effective device to overcome the agency problem existing in public firms in which ownership and control are separated (Fama & Jensen, 1983; Jensen, 1986). The privatized firms enjoy two advantages: managerial motivation and discipline (Jensen, 1986; Jensen & Meckling, 1976). According to Magowan (1989), managers are now transformed into owners – owners’ money is also the managers’ money, so they have incentives to improve operational efficiency so as to create more value for their own businesses. Managerial discipline is associated with high-levels of debt most buyout firms have involved. Jensen (1986) reasoned that the need to repay debts in buyout firms could discipline management behavior by forcing them to use cash more efficiently, remove unprofitable investment projects, dispose of excessive resources or assets, and increase accountability.

Given the twin spurs of economic motivation and debt-based discipline, it is expected that privatization will improve firm performance. The empirical evidence has generally supported the improvement of efficiency (e.g., Bruton et al, 2002; Phan & Hill, 1995; Singh, 1990). It is also expected that owner-managers will be more motivated to engage in innovation (Wright et al, 2000; Wright et al, 2001), which is necessary for firm long-term growth (Long & Ravenscraft, 1993). Empirical studies have generated less encouraging results. Zahra and Fescina (1991), in an influential review of the past research, found more negative than positive effects of buyouts on R&D in most sample firms. Long and Ravenscraft’s (1993) reported a similar finding: buyouts cause R&D intensity to drop by 40 percent.

Heavy debts have been argued to have negative impact on investments in innovation. The reason is that it constrains both strategic and financial flexibilities due to debt payments (Rappaport, 1990; Seth & Easterwood, 1993). However, debts may not be the only factor leading to reduction in innovation (Zahra & Fescina, 1991). There is evidence that leveraged buyout firms did not reduce their investment efforts in unrelated businesses more than comparable public firms (Wiersema & Liebeskind, 1995), suggesting that debts may restrict financial capabilities for innovation, but may not restrict managerial behavior to engage in innovative activities. From this point of view, the effect of privatization on innovation may be more complex than the traditional explanations.

Though many of those studies were conducted in 1990s, the debate regarding the relationship between privatization and innovation has not been resolved to date. More recently, some researchers (Wright et al; 2000; Wright et al, 2001) have again raised the issue of innovation in privatized firms. They argued that the role of private ownership in innovation can be more than providing incentives. It can also lead to effective governance structures for innovation. According to Francis and Smith (1995), agency incentives and monitoring are not effective for innovation. Because innovation is characterized by a long-term nature, high-risk, and unpredictability, the contracting and monitoring costs associated with innovation projects could be especially high. In addition, contractual arrangements are likely to restrain experiments, so they may discourage innovation efforts. Therefore, Wright and colleagues (2000) reasoned that “independence might be an important antecedent for innovation”. They further argued that private ownership would “become an important way of encouraging and governing R&D activity”. In another study, Wright and colleagues (2001) showed how privatized firms were committed to developing new products and technologies, obtaining patent rights, and engaging in R&D joint ventures.

This study attempts to untangle some controversies about the relationship between privatization and innovation. Private ownership is a basic feature of privatized firms. It may motivate owner-managers to pursue innovation in order to maximize their own wealth (Wright et al, 2001). A positive relationship
between private ownership and innovation is mainly derived from economic perspectives such as agency theory and property rights theory. However, private ownership, as an incentive mechanism, may also cause risk averse behavior (Beatty & Zajac, 1994; Sanders, 2001), thus discouraging investments in innovation. Beatty and Zajac (1994) argued that organizational research has generally emphasized the positive side of economic incentives, but has neglected one important negative outcome the incentive devices might produce for managers: risk bearing, which is defined as perceived risk to one’s wealth. Private ownership ties owner-managers’ wealth to firm performance. Firm performance tends to be uncertain in the future, so owner-managers often bear risks in terms of possible loss of their wealth. I suspect that the neglect of negative impact of private ownership may be one explanation for the controversial relationship between privatization and innovation.

This study takes into account both positive and negative impact of private ownership on firm innovation. Given the alignment between ownership and control in privatized firms, it is reasonable to assume that owner-managers’ behavior represents the firm level behavior. In the following sections, I present an integrative model combining two opposing arguments about the role of private ownership. Based on the model, I develop a set of propositions. Finally, I discuss both theoretical and practical implications. Table 1 shows the definitions of key terms used in this study.

TABLE 1
DEFINITIONS OF KEY TERMS

<table>
<thead>
<tr>
<th>Terms</th>
<th>Definitions</th>
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<tr>
<td>Economic motivation</td>
<td>Owner-managers’ motivation to pursue wealth driven by private ownership</td>
<td></td>
</tr>
<tr>
<td>Managerial perspective of risk</td>
<td>Managers treat risk as (1) uncertainty about negative outcomes; (2) magnitude of possible negative outcomes; (3) subjective risk</td>
<td></td>
</tr>
<tr>
<td>Risk bearing</td>
<td>Perceived risk relative to owner-managers’ wealth</td>
<td></td>
</tr>
<tr>
<td>Risk perception of innovation</td>
<td>Perceived risk relative to innovation projects</td>
<td></td>
</tr>
<tr>
<td>Risk-taking behavior</td>
<td>Decision-making behavior in risky contexts in which the expected outcome of the decision is uncertain</td>
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AN INTEGRATIVE MODEL OF PRIVATE OWNERSHIP AND INNOVATION

Innovation is important for firm long-term survival. It is also critical to privatized firms’ competitiveness (Wright et al, 1998). Long and Ravenscraft (1993) found that buyout firms with high R&D intensity outperformed other buyout firms with no R&D expenditures. Despite its importance, innovation is not always emphasized in privatized firms (Zahra & Fescina, 1991). In this study, I argue private ownership may have both positive and negative impact on innovation. The positive impact is derived from an economic perspective, while the negative impact is based on a cognitive perspective. I develop a conceptual model, as shown in Figure 1, integrating both economic and cognitive theories. The model suggests that private ownership generates both economic motivation and risk bearing, which affect innovation in opposite directions. Economic motivation influences innovation positively. This influence can be both direct and indirect. The indirect relationship is mediated by owner-managers’ risk perception of innovation. Risk bearing affects innovation negatively in an indirect way, mediated by risk perception of innovation. Risk perception would in turn affect owner-manager’s risk behavior: whether or not to engage in risky innovative activities. This framework may explain some conflicting evidence regarding
the relationship between privatization and innovation, thus complementing the traditional economic theories.

**FIGURE 1**
THE IMPACT OF PRIVATE OWNERSHIP ON INNOVATION: AN INTEGRATIVE MODEL

The Positive Impact of Private Ownership

Scholars have argued that private ownership can contribute to firm innovation (Francis & Smith, 1995; Wright et al, 2000; Wright et al, 2001). There are two explanations for this argument. One is associated with “high-powered incentives” produced by private ownership (Wright et al, 2000). This explanation has its roots in agency theory and the theory of property rights, which are interrelated. Agency theory deals with the agency problem derived from the agency relationship between a principal and an agent whose interests are not often consistent (Jensen & Meckling, 1976). Private ownership can be an effective way to solving the agency problem because of the alignment between the owner (principle) and the manager (agent). This alignment leads to strong incentives for owner-managers to create more wealth for both the firm and themselves. For this reason, private ownership is expected to have positive impact on innovation (Zahra, 1995).

Property rights theory argues that private ownership is more efficient than public ownership because the “concentration of benefits and costs [associated with business activities] on owners creates incentives to utilize resources more efficiently” (Demsetz, 1967). Under a public ownership system, the owner of a public property does not need to bear the full costs of his activities. Others may not be willing to pay him appropriately for his activities. The owner cannot exclude others from enjoying the benefits of his efforts. Under these circumstances, the owner is unlikely to have the incentives to optimize the utilization of resources. Investments in innovation are often a long-term initiative and need sustained commitments (Dierickx & Cool, 1989). Though the success of innovation projects is likely to generate high returns, the innovator may lack the motivation to conduct innovative activities if others ignore his efforts and can enjoy the benefits of the innovation. With a private ownership, the resource owner has incentives to maximize the value of output because others would not enjoy the benefits without appropriate contributions (Henry, 1999). As a result, investments in innovation are more likely to occur.

The second explanation for the positive relationship between private ownership and innovation is associated with the governance of innovative activities. According to Holmstrom (1989), governance structures based on contracts or diffuse ownership are not effective for innovative activities. Innovation is risky and firm specific, so contracting and monitoring costs could be “especially high”. Reliable performance measures are hard to design due to high costs of obtaining information. If ownership is aligned with control, the contracting and monitoring costs can be minimized and owner-managers would have more motivation to do innovation. Francis and Smith (1995) found that diffusely-held firms had fewer patent awards and were more sensitive to the timing of investments in innovation, so they
concluded that diffusely-held firms are less innovative than closely-held firms. Thus, I propose the following:

**Proposition 1**: a) There is a positive relationship between private ownership and firm innovation; b) the positive relationship is mediated by economic motivation.

Private ownership may facilitate innovation, but empirical evidence is not always consistent with this argument. Scholars have reported negative impact of privatization on R&D spending in their studies (Long & Ravenscraft, 1993; Zahra & Fescina, 1991). High levels of debt in privatized firms may cause R&D spending to decline. According to Zahra and Fescina (1991), however, debts do not necessarily lead to R&D decline when executives become owners. They used several leveraged buyout cases including Harley Davidson to illustrate the positive impact of privatization on R&D, though the debt levels were high. In order to address the inconsistency regarding the relationship between private ownership and innovation, I introduce a risk concept due to the risky nature of innovation. I argue that the impact of private ownership on innovation may also be affected by how owner-managers perceive risk.

### Innovation as a Risk Taking Behavior

Innovation involves a great likelihood of failure (Baysinger et al, 1991; Graves & Langowitz, 1993). The riskiness of innovation results from the situation that the outcomes of innovation projects are neither immediate nor certain (Lee & O’Neill, 2003; Wiseman & Gomez-Mejia, 1998). The intrinsic uncertainty of innovation leads to its cost uncertainty. During the stages of research and development, information is revealed to the innovator gradually and investments can be sunk (Qian & Xu, 1998). Because of the risky nature, innovation projects may not produce any positive results (Dierickx & Cool, 1989). If a failure occurs, the manager’s personal wealth and job security could be at risk. In addition, investments in innovation projects also influence firms’ short-term performance by decreasing net returns on the current balance sheet (Baysinger & Hoskisson, 1989). Therefore, managers are often reluctant to invest in long-term innovation projects (Baysinger et al, 1991).

In addition to the risky nature, investments in innovation are often firm specific because they generate knowledge-based assets within the firm (David & O’Brien, 2006). This firm specific feature of innovation creates causal ambiguity for outsiders (Dierickx & Cool, 1989). Outsiders usually do not possess private information about the innovation projects. Therefore, it is often difficult for them to evaluate or monitor innovative activities (Chen & Huang, 2006; Dierickx & Cool, 1989). For this reason, Peyer and Shivdasani (2001) argued that outsiders are often unwilling to finance innovation projects. As a result, the firm would need to bear all risks by itself. A large body of research has proposed that innovative activities such as R&D need risk-taking behavior (e.g., Jassawalla & Sashittal, 2002; Traynor & Traynor, 1997).

### The Managerial Perspective of Risk

In decision-making theory, risk is usually defined as “variation in the distribution of outcomes, their likelihoods, and their subjective values” (March & Shapira, 1987). It is most frequently associated with “outcome uncertainty” (Sitkin & Pablo, 1992), often measured by the variance of the probability distribution of possible gains and losses related to a specific alternative (Pratt, 1964).

In the business context, however, risk is often not perceived in the calculative process defined in decision theory. According to March and Shapira (1987), three differences between the normative theory concerning risk and managerial responses to risk are obvious. First, for most managers, risk is treated as uncertainty about negative outcomes. Uncertainty about positive outcomes is not looked upon as risk. Second, managers do not see risk as a probability concept. Instead, the magnitudes of possible outcomes would be more prominent to them. Third, managers do not objectively calculate risk. They “feel” risk, or perceive risk subjectively. Two empirical studies, one by MacCrimon and Wehrung (1986) who used 509 Canadian and American executives as a sample, the other by Shapira (1986) who used 50 American and Israeli executives as a sample, provided support for March and Shapira’s (1987) managerial perspective
on risk. This study investigates owner-managers’ behavior in innovation in the business context, so March and Shapira’s managerial perspective on risk is appropriate.

Risk Perception and Innovation

When people make risky decisions such as investments in innovation, they display risk behavior. Risk behavior can be defined as individuals’ decision-making behavior in risky contexts in which the expected outcomes of the decision are uncertain, decision goals are difficult to achieve, or the potential outcomes include some unusual consequences (Sitkin & Pablo, 1992). Risk behavior can be risk-averse, risk-taking, or risk-neutral. According to Wiseman and Gomez-Mejia (1998), when people are risk averse, they prefer lower risk options at the expense of returns; if people are risk taking, they accept options where risk may not be fully compensated; and finally, when people display risk neutral behavior, they seek options where risk can be compensated.

Much research has taken the assumption that risk perception affects risk behavior. The reason is that decision makers tend to assess a risky situation first before making any decisions. It has been argued that risk perception affects risk taking behavior in a negative way (Sitkin & Pablo, 1992). People would not take risk deliberately when the risk is perceived high. According to Sitkin and Pablo, the negative relationship is consistent with prospect theory, though the theory does not take into account risk perception explicitly. People are more likely to be risk averse when they are experiencing possible loss of their assets, i.e., high risk perception, than they are when there is nothing to lose, i.e., low risk perception.

Empirical studies have supported the negative relationship between risk perception and risk-taking. For example, Sitkin and Weingart (1995) used MBAs and undergraduates as two separate samples and found that in both samples, the more risk individuals perceive, the less likely they make risky decisions. The entrepreneurship literature has also provided much evidence about the negative effect of risk perception on risk-taking behavior. Using a scenario approach to determine if entrepreneurs exhibit unique cognitive processes in dealing with risk-taking, Palich and Bagby (1995) found that entrepreneurs did not perceive themselves as being more predisposed to risk-taking than non-entrepreneurs, but they perceive more strengths than weaknesses, more opportunities than threats, and more potential for performance improvement than deterioration. The implication is that entrepreneurs may perceive less risk than non-entrepreneurs. A study by Simon and colleagues (2000) indicates that risky new venture creation is associated with a lower level of risk perception. Cooper and colleagues (1988) also found that 95% of entrepreneurs were confident in their ventures’ success, though statistics show that more than half of new ventures have failed.

Innovation needs risk taking behavior. Because of the negative impact of risk perception on risk taking behavior, it can be reasonably assumed that perceiving low risk would facilitate managerial pursuit of innovation. This assumption seems to be incompatible with the risk-return argument. Conventional wisdom suggests that risk and return are positively correlated (Brealey & Myers, 1981). If a negative relationship between risk perception and innovation exists, it appears that people prefer lower-return projects. However, the proposed negative relationship between risk perception and innovation does not conflict with individuals’ pursuit of high-return projects. This can be explained by the difference between subjective and objective risk associated with a project. Scholars have argued that managers take a risky action because they may not perceive the action’s riskiness (Kahneman & Lovallo, 1993; March & Shapira, 1987). That is to say, risk-taking behavior might not respond to the real risk message (Brown, 2005). There is evidence that people even deliberately adjust their perception about risk in order to reduce anxiety related to risk taking (Liberman & Chaiken, 1992). Therefore, perceiving low risk toward a project does not necessarily mean managers prefer low-returns.

Proposition 2: Owner-managers’ risk perception of innovation has negative impact on firm innovation.

If risk perception has direct impact on firm innovation, what factors might affect risk perception? In this study, I argue that private ownership generates both economic motivation and risk bearing which
would have opposite effects on risk perception of innovation. Economic motivation decreases risk perception, while risk bearing increases risk perception. These arguments are explained in the following sections.

Economic Motivation and Risk Perception of Innovation

Private ownership creates strong motivation for owner-managers to maximize their own wealth (Fox & Marcus, 1992). The economic motivation could lead to cognitive biases. According to Tiger (1979), strong motivation tends to produce optimistic bias, which can be defined as “an inflated tendency to expect things to turn out well” (Baron, 2004). The optimistic bias creates overconfidence, unrealistic optimism about future, and illusion of control (Kahneman & Lovallo, 1993; Simon et al, 2000). Examples in the entrepreneurship literature have demonstrated these cognitive biases. Cooper and colleagues’ (1988) research indicates that in pursuing entrepreneurial opportunities, entrepreneurs tend to be more optimistic than non-entrepreneurs in their assessments of business situations. Other studies (Busenitz & Barney, 1997; Simon et al, 2000) have also provided evidence that entrepreneurs are subject to cognitive biases such as overconfidence and illusion of control.

Motivation is a form of emotion. Baron (1998) used an “affect infusion” theory to explain why individuals’ emotions would influence their cognitive process. The theory suggests that current affective states derived from one experience can influence or “infuse” judgments about other events. The model can be exemplified by the following observations: if an individual is experiencing a good mood, he or she tends to evaluate things or people around favorably. On the contrary, if an individual is feeling irritable, he or she would perceive things or people around negatively. Theoretically, affect infusion can be defined as a process through which “affectively loaded information exerts an influence on and becomes incorporated into the judgmental process, entering into the judge’s deliberations and eventually coloring the judgmental outcome” (Forgtas, 1995).

Baron (1998) noted that a large body of literature supports the impact of affect on judgmental outcomes. For example, when decision makers are eager to do something, they are likely to overestimate their abilities and may not recognize possible negative consequences (Busenitz & Barney, 1997). Tiger (1997) argued that strong motivation often generates optimistic bias. Thus, I hypothesize that managers’ strong economic motivation triggered by private ownership would make them subject to cognitive biases such as overconfidence in their decision making. When motivation for wealth creation causes cognitive biases, these cognitive biases in turn would influence owner-managers’ risk perception of innovation. According to Kahneman and Lovallo (1993), cognitive biases like over-optimism could reduce individual perceived risk and produce “bold forecasts” about the future. Some empirical studies offered support for this argument. Based on a sample of small and medium-sized firms in Singapore, Keh and colleagues (2002) found that managers’ illusion of control reduced their perceived risk. Simon and colleagues (2000) had similar findings based on students’ responses to a survey: biases lowered perceived risk of venture creation. Simon and Houghton’s study (2002) shows that cognitive bias could make managers underestimate the threat of competition.

Proposition 3: Economic motivation has negative impact on risk perception of innovation.

Private Ownership, Risk Bearing, and Risk Perception of Innovation

According to agency theory, incentive programs can align the interests of stockholders and managers in public firms (Eisenhardt, 1989), so managers are supposed to act in stockholders’ interests and are motivated to improve the firm value. Despite expectations, incentive programs in public firms, including outcome-based rewards, stock options, and equity positions, do not always work as expected. The reason is that they sometimes make managers risk averse, thus discouraging managers’ innovative behavior (Zahra, 1996). Beatty and Zajac (1994) coined the term “risk bearing”, defined as perceived risk to one’s wealth, to describe the negative impact of incentives. They used managerial compensation to illustrate the concept: though pay-for-performance contracts provide strong incentives for managers to improve firm
Because risk bearing is a perceived risk, it is subject to change with situational factors. Wiseman and Gomez-Mejia (1998) proposed that several factors may influence individual risk bearing in public firms: firm performance, stock options design, and evaluation criteria. When the firm’s performance is strong, executives, to the extent that their wealth is tied to firm performance, tend to perceive themselves as risk bearers. They face the possibility of losing more when they possess more. In contrast, poor conditions would make them bear low risk because they have little wealth to lose. While stock option programs can increase executives’ risk bearing, the perceived risk may be lessened through the design of the options. If the down-side risk of stock options is set to zero, that is, “the stock option value is insulated from any adverse consequences of risk taking”, the program may not create risk bearing for the executives. The use of behavioral criteria, as opposed to outcome-based criteria, can increase managerial risk bearing because managers feel uncertain about how performance will be evaluated.

With these examples, we can see that the level of risk bearing is associated with two factors: one is the amount of wealth that might be influenced negatively and the other is how uncertain individuals perceive the future. These factors are consistent with the managerial perspective of risk (MacCrimmon & Wehrung, 1986; Shapira, 1986): the magnitude, instead of probability, of possible negative outcomes is important, and executives “feel” rather than quantify uncertainty. Some empirical studies have provided support for the risk bearing theory. Beatty and Zajac’s (1994) research suggests that the larger the equity stakes held by managers, the more risk averse they are. Sanders (2001) had similar findings: stock ownership made managers less risk-taking because of future uncertainty. When managers become less risk-taking, they would be less likely to conduct innovative activities.

In privatized firms, the risk owner-managers bear can be greater than employee-managers in public firms. Private ownership ties owner-managers’ wealth to firm performance closely. Firm performance in the future is hard to predict, so owner-managers would inevitably bear risk in the form of possible loss of their investments or wealth created by their investments. Their perceived risk to their wealth, i.e., risk bearing, is likely to contribute to their risk perception of innovation. According to the affect infusion theory (Baron, 1998; Forgas, 1995), when managers feel that their wealth in the firm is being threatened, this affective state is likely to influence their judgments about business activities such as innovation. They could probably perceive more risk toward the investments in innovation.

Proposition 4: Private ownership has positive impact on risk bearing.

Proposition 5: Risk bearing has positive impact on risk perception of innovation.

DISCUSSION

This study establishes a conceptual framework integrating both economic and cognitive perspectives to examine the relationship between privatization and innovation, which is often controversial. Private ownership generates economic motivation which is likely to facilitate innovative activities, but empirical results are not always consistent with this predication. Therefore, I extend the traditional economic explanation and introduce a risk concept due to the risky nature of innovation. Innovation needs risk taking behavior, which could be influenced negatively by owner-managers’ risk perception of innovation. Private ownership may affect risk perception of innovation in two ways. On the one hand, it leads to economic motivation that may cause over-optimistic biases. Over-optimism could decrease perceived risk to innovation projects. On the other hand, private ownership may also increase risk perception of innovation because of risk bearing. Therefore, owner-managers’ pursuit of innovation may be affected by two opposing forces: economic motivation and risk bearing. Risk perception of innovation is likely to be a link between private ownership and innovation. According to Sitkin and Pablo (1992), risk perception may mediate the relationship between situational factors and individual risk behaviors. When a situation
increases one’s perceived risk, risk aversion often arises; if a situation reduces one’s risk perception, a risk taking behavior may be triggered, though the objective risk may still be the same.

This study contributes to the literature by establishing an integrative model explaining the role of private ownership in firm innovation. The literature has emphasized the motivational effect of private ownership, but has neglected a possible negative consequence: risk bearing which could have negative implications for innovation. By incorporating the risk concept into the traditional incentive-based models, this study takes a step toward a deep understanding of the role of private ownership and provides an explanation for the controversial relationship between privatization and innovation. It suggests the importance of risk perception in managerial pursuit of innovation and the impact of private ownership on risk perception.

Risk perception is “an individual’s assessment of how risky a situation is” (Sitkin & Weingart, 1995). This assessment is a cognitive process in which individuals collect and process information, and form perceptions (Scherer & Cho, 2003). From a cognitive perspective, privatization may change managers’ cognitive structures after they become owners. A cognitive structure is a “hypothetical link between stimulus information and an ensuing judgment” (Bieri et al, 1966). This hypothetical link is associated with knowledge storage or structures. Privatization provides strong stimulus information. By studying the “hypothetical link” between privatization and owner-managers’ ensuing behaviors, we may understand the impact of privatization on managerial behaviors in a better way. This cognitive perspective is consistent with Walsh’s (1995) argument about the importance of managerial cognition in answering the “how” question. According to Walsh, agency theory views managers as source of variance in firm performance, but it cannot answer “how managers might increase or decrease firm value”. “Enter[ing] cognition” may help answer the “how” question.

A cognitive perspective may also be useful for explaining other managerial behaviors, as well as innovation behavior, in privatized firms. For example, it is still unclear whether privatization can contribute to managerial commitments to long-term growth. Given the uncertain nature of long-term performance, Wright and colleagues (2000) suggested that the explanation of strategic growth in privatized firms would require an understanding of entrepreneurial cognition, as well as managerial incentives. Though monetary incentives could motivate managers to pursue firms’ long-term performance, the role of these incentives is limited without entrepreneurial cognition. Wright and colleagues argued that without entrepreneurial cognition, owner-managers would be “frugal with R&D expenditure”.

This study emphasizes the importance of risk perception in risky behaviors. The concept of risk perception may also shed light on other business activities involving risk. In the entrepreneurship literature, for example, it has long been debated whether entrepreneurs are inherent risk-takers. Given the risky nature of entrepreneurship, it has been suggested that risk-taking propensity is one of the most distinctive features of entrepreneurs, and it fundamentally distinguishes entrepreneurs from managers (e.g., Gasse, 1982; Leibenstein, 1968). Along with the argument that entrepreneurs are risk-takers, there are disagreements. McClelland (1961) proposed that entrepreneurs are pursuing tasks which are not like gambling in Las Vegas. They tend to assess risks carefully before taking any risky actions. This argument is in line with the risk perception framework established in this study. Entrepreneurs may not necessarily possess some inborn traits such as risk-taking, but they are likely to perceive low levels of risk associated with their ventures.

In this study, I propose that innovation in privatized firms may be affected by two opposing forces: economic motivation and risk bearing. Both are cognitive variables. In order to facilitate innovation, owner-managers would need to maximize economic motivation and minimize risk bearing. One approach is to change owner-managers’ mindset. Wright et al (2001) have recognized the importance of appropriate managerial mindsets in privatized firms. They suggested that owner-managers in buyout firms should treat privatization as an entrepreneurial opportunity through which they can take advantage of both high-powered incentives and discretions. Though innovation projects are risky, the concerns about risk “tend to be overruled” by the opportunity owner-managers have recognized (Wright et al, 2000).
Another approach to facilitating innovation is to improve ownership structures in private firms. Innovation is likely to be influenced by risk bearing. Two factors lead to risk bearing: uncertainty and the amount of wealth at risk. If owner-managers have more wealth attached to the firm, they bear more risk. In contrast, if ownership is not concentrated, owner-managers would have less to lose if firm performance fails to reach expectations (Wiseman & Gomez-Mejia, 1998). Scholars (La Porta et al., 1999; Morck & Yeung, 2003) have argued that family firms are often risk averse because of relatively undiversified ownership position and wealth concentration. Beatty and Zajac’s (1994) study indicates that managers in public firms can become more risk averse when their equity stake increases. Therefore, it may be helpful for privatized firms to reduce ownership concentration. From an economic perspective, reducing ownership may have negative impact on owner-managers’ motivation to pursue innovation. Ownership position seems to be a double-edged sword, which may affect innovation in opposite ways. It is likely that both high and low ownership concentration is not helpful for risky activities such as innovation.

Future Directions

This study proposes that private ownership affects innovation through economic motivation and risk bearing, which are two opposing forces. The tension between the two forces would lead to managerial decisions: whether or not to pursue innovation. Future research may be directed toward the relative strength of economic motivation and risk bearing in affecting innovation. It can be interesting to examine how ownership positions might affect their relative strength. For example, when ownership is concentrated, it is likely to increase both economic motivation and risk bearing. Which force is stronger? In contrast, if the firm has a diffuse ownership structure, both economic motivation and risk bearing could be low. Are owner-managers more likely or less likely to engage in innovation? Answering these questions could have practical implications for privatized firms. They may be likely to promote innovation through improving their ownership structures.

CONCLUSION

Innovation can improve privatized firms’ competitiveness (Wright et al., 1998). From an economic point of view, private ownership drives innovation. However, the role of private ownership is more complex than the economic theories predict. A main reason is that innovation is a risky endeavor and private ownership may have negative implications for activities involving risk. This study suggests that it is necessary to use multiple perspectives to investigate innovation in privatized firms.

REFERENCES


