Special Issue:

Selected paper from the 10th CIRCLE Conference

3rd - 6th April, 2013
Viana do Castelo, Portugal

EDITORIAL BOARD

Subscription Fees

2013 subscriptions are available in a number of major currencies.
Exchange rates and prices will be held throughout 2013.

Subscription fees per volume are:

$US 300
£Stg 150
$Aus 370
€ 210
SFr 345
¥ 33,740

Individual journal editions can be purchased at the following prices:

10 Journals @ £15 per journal
20 Journals @ £10 per journal
50 Journals @ £7 per journal

Subscription information is available from the Publishers at:

Access Press UK
1 Hilllside Gardens
Darwen
Lancashire
 BB3 2NJ UK
+447815737243

Reproduction Rights

The publishers of the International Journal of Sales, Retailing and Marketing have granted, free of charge, unlimited photocopying and other reproduction rights to subscribers, for teaching and study use within the subscribing organization. Authors may also photocopy or otherwise reproduce their particular case from The International Journal Sales, Retailing and Marketing, subject to an acknowledgement of publication and copyright details.

Contents:

Editorial

This is the Special Issue of the International Journal of Sales, Retailing and Marketing dedicated for publication of the best papers that have been presented on the 10th CIRCLE Conference that took place between 3rd and 6th April, 2013 in Viana do Castelo, Portugal.

Six chosen papers cover the core theories, empirical researches, essential research tools expanding the existing knowledge base about topics in retailing, sales and marketing and we hope that they will be read and cited in the future investigations and relieves dealing with this area.

Until then we are working diligently to have the journal indexed in the respected data bases.

We wish you an enjoyable reading!

Editors

THE EFFECTS OF CAPITAL INVESTMENT APPRAISAL METHODS IN AUTOMOTIVE COMPANIES

Valentin Beck, Razaq Raj & Bernd Britzelmaier

Abstract

Nowadays, the increasingly competitive nature of the corporate environment is driving companies to explore avenues of the existence of corporate organizations, especially the actualization of their corporate objectives. Corporate objectives in this sense may include, according to Drury (2007): maximization of profit through investments, maximization of sales, survival of the firm, achieving a satisfactory level of profits, obtaining the largest share of the market, and satisfying social needs. Although the two most important goals appear to be profitability and survival of the firm, the critical problem faced by managers is the availability of numerous investment opportunities.

An important question which has to be answered is: Which of the investment opportunities should the manager select? One of the crucial decisions that an investor/ manager takes concerns the selection of the best investment to help with actualization of his organization's corporate objectives. The study of capital investment appraisal techniques is very relevant in today's business environment. Various appraisal techniques could be adopted. Several studies on the impact of such variables on management systems can be found in the literature (Abernethy and Lillis (1995); Langfield-Smith (1997); Weber et al. (2006), Raj et al (2008)). Nevertheless, there is little empirical evidence about the factors that explain the use of capital investment appraisal methods (CIAM) by firms. The purpose of this study is to understand the current state of literature on capital investment appraisal methods and their application in German automotive companies.

Key words: capital investment appraisal technique; discounted cash flow; German automotive companies

Introduction

In recent years, the global automotive industry has generally recorded continual growth (Becker 2010, p. 111). The major market players in this industry are the original equipment manufacturers (OEMs) as well as suppliers at various stages of the value-added chain (Wagner 2006, p. 67). However, the business environment is undergoing a dramatic organizational change. There is a pressure to respond on time to changing market conditions. The demand for innovation, flexibility, and shorter time to market for new products has led

Valentin Beck, Leeds Metropolitan University, UK
Dr Razaq Raj is Senior Lecturer at School of Events, Tourism and Hospitality, Carnegie Faculty, Leeds Metropolitan University, (email: r.raj@leedsmet.ac.uk)
Bernd Britzelmaier, Pforzheim University, Germany

to rethinking industry structures. New avenues of intertwining IT and business structures are required to maximize business flexibility (Hopwood, 1990, p. 11).

In today's increasingly competitive business climate, there is a growing requirement for stronger cost control, and a demand for higher returns while minimizing risks of investments. According to Rappaport (1986), the main reason for the existence of corporate organization is the actualization of a company's corporate objectives. These objectives include maximization of profit through investments, maximization of sales, survival of the firm, achieving a satisfactory level of profits, obtaining the largest share of the market and satisfying social needs. Therefore, managers are faced with this crucial task to decide which of myriad investment opportunities should be

selected. This decision is important because once made, the organization has to live with the decision for many years to come. Once capital investment is made, it is difficult to reverse; for instance, if a plant is built, the company is committed to a course of action that is not easy to change (Sugden & Williams, 1978, p.3). The study of capital investment appraisal techniques therefore becomes very relevant in today's business environment.

Among the literature capital investment appraisal methods (CIAM) or "capital budgeting practices" have been defined in the literature as the methods and techniques used to evaluate and select an investment project (Verbeeten, 2006, p. 107). Various appraisal techniques could be adopted. According to Remer and Nieto (1995) they could be classified as follows:

The traditional methods: Accounting Rate of Return (ARR) and Payback method (PBP).
The Discounted Cash Flow (DCF) Techniques: Net Present Value (NPV) and Internal Rate of Rate of Return (IRR).

Several studies on the impact of such variables on management systems can be found in the literature. Table 1 gives an overview of some selected investment appraisal studies conducted in the last decades.

Year of research	Year of publication	Author(s)	Sample size	Response rate (%)	Sample	DCF usage (%)
1981	1984	Stanley & Block	339	36	Fortune 1000	88
1991	1995	Poterba & Summers	1000	23	Fortune 1000	92
1997	1998	Bruner et al	27	54	50 Best Practice in Finance	96
2000	2001	Graham & Campbell	4400	9	Fortune 500, FEI 4400 members	75
2001	2002	Ryan & Ryan	1000	21	Fortune 1000	96

Table 1: capital investment appraisals techniques studies

It seems that researchers focusing on capital investment appraisal techniques have found evidence that companies use theory-prescribed methods when making long-term decisions. However, in companies' practice the activities of identifying and progressing capital investment opportunities are often disregarded and too much importance is placed on rational calculations rather than qualitative judgments (Seward, Dugdale and Jones, 2001). There is also little empirical evidence on the factors that explain the use of capital investment appraisal methods (CIAM) by German automotive firms. Thus, the purpose of this study is to understand the current state of literature on capital investment appraisal methods and their application in German automotive companies. A written survey of 90 companies was carried out to find answers to the following questions:

What are the methods that German automotive companies use for investment appraisal?
What are the reasons for using the particular methods for investment appraisal?

After analysing and interpreting the data, the result was, as most surveys indicate, that managers are using the DCF analysis more and more, but it has not been shown how they use the DCF information and why they make the decisions they do. It is possible that managers carry out calculations for the sophisticated procedures, but the result of calculation is not taken into account in the actual decision-making process. Consequently, it is necessary to explore other stages in the capital investment appraisal methods, including identification of investment opportunities, the search for ideas, the development of proposals into projects, the early screening to match with strategy and culture, the implementation stage, and control

and review of performance. Due to the fact that these other elements may be more critical to the success of firms than the financial analysis of projects, an in-depth study of capital investment practices employed by individual corporations could provide a better understanding of the entire process. Therefore, a field study was conducted in addition to the written survey. In-depth interviews were carried out in three companies. The aim of these interviews was to find out how the investment appraisal process fits with the budgeting process and what influences the choice of CIAM.

In this paper, the current state of literature on CIAM is considered, and the results and discussion of the written survey regarding the application of capital investment appraisal methods in German automotive companies are presented. The validation of the written questionnaire is presented and the result of the in-depth interview is analysed.

Capital investment

Capital investment appraisal literature is based on the statement that the objective of a firm's manager is to maximize the firm's value (Van-Horne, 1990). It involves a decision to spend money now on a project with the expectation of obtaining or recovering such money from the project at some future date. Therefore, it is crucial that management use truthful methods that will result in the maximization of shareholder wealth. According to Frankly (2000), the appraisal of new and existing capital investment projects is essential to the success of companies. Drury (2007) noted that investment decisions are long-term decisions where consumption and investment alternatives are balanced over time in the hope that investment now will generate extra returns in the future. There are many similarities

between short-term and long-term decision-making, for example, the choice between alternatives, the need to consider future costs and revenues, and the importance of incremental changes in costs and revenues. However, there are additional requirements for investment decisions that, because of time scale involved and the time value of the money invested, must be considered. The most important financial decisions facing managers of firms are about capital investment and the estimation of the cost of capital (Weißenberger & Ulmer, 2005, p. 5). The financial literature has promoted the net present value as the key model of investment appraisal. For example, Modigliani and Miller (1958) argued that managers should not be concerned with financing and dividend decisions since they are irrelevant, and instead should focus on positive net present value (NPV) investment opportunities that would maximize the value of the firm.

Decision-making model for capital investment
The profitability and survival of the firm leads managers to a reasonable task to select the investment opportunities of numerous investment possibilities (Drury, 2007). A number of questions have to be asked by them, including:

How many of the proposed projects are worth undertaking?
How much finance, in total, should we commit to new projects?
Where should the finance be obtained?
After the event, was the investment in the proposed project successful?

Decision-making on such projects should follow a process. A typical decision model for capital investment decision is represented below:
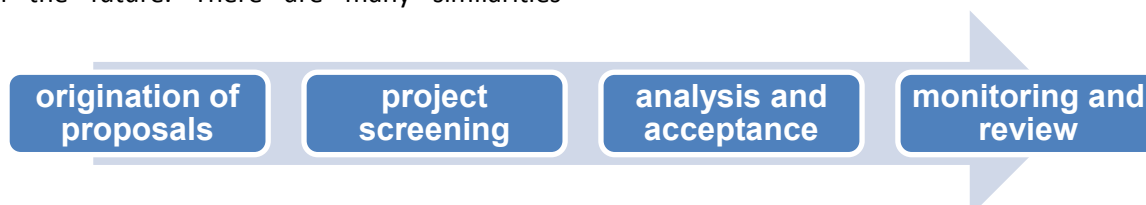
Figure 1: Decision model for capital investment decision (Source: CIMA Study Systems (2006), p. 278)

Making capital investment decisions is a very important task for managers, because capital investments are irreversible once made, and they usually involve large sums of money. However, a form of uncertainty generally exists in capital budgeting due to the fact that capital investment decisions have uncertain outcomes. In the long run, the complete important information for the survival of companies is unavailable (CIMA Study Systems, 2006, p. 278).

Capital investment appraisal methods
The need for relevant information and analysis of capital investment alternatives has influenced the development of a series of methods offering new avenues for firms when making the "'best" allocation of resources. According to Remer and Nieto (1995) these methods could be classified as follows:

The traditional methods: Accounting Rate of Return (ARR) and the Payback method (PBP).
The Discounted Cash Flow (DCF) Techniques: Net Present Value (NPV) and Internal Rate of Rate of Return (IRR).

Traditional methods
The earliest available methods were the non-discounted cash flow methods and the discounted cash flow techniques. A non-discounted cash flow method is a form of capital investment technique used in evaluating the uncertainty and risk about the value of a firm without considering the time value of money. This type of method is biased in selecting projects and also does not consider cash flows in investment decisions. The method leads to the traditional payback period (PBP) and the accounting rate of return (ARR) methods (Drury, 2007). It is a fact that both methods ignore the time value of money. They are theoretically weak and they will not necessarily lead to the best decision-making process.

CIMA (2002) defines payback (PB) as "the time it takes the cash inflows from a capital investment project to equal the cash outflows, usually expressed in years" (Steven, 2008). When deciding between two or more competing projects, the usual decision is to

accept the one with the shortest payback. Payback is often used as a "first screening method" (CIMA Study Systems (2006), p. 283). This implies that when a capital investment project is being considered, the first question to ask is: "How long will it take to pay back its cost"? However, the timing of cash flows within the payback period is ignored, and therefore no account is taken of the time value of money.

The accounting rate of return (ARR) differs from the payback method in using accounting profits rather than cash flows. The calculation of profits includes depreciation, which is an accounting allocation but has no cash flow effect. The attraction of using profit in a method of capital investment appraisal is that it links long-term decision-making to profit as the conventional measure of success in business (Copper, 1999). Unlike the payback period, this technique produces a percentage rate of return figure which is then used to rank the alternative investments. ARR is also known as 'return on capital employed' (ROCE) or 'return on investment' (ROI) (Raj et al. 2008, p. 189). However, the main disadvantage of the ARR is that it does not take account of the timing of the profits from a project (Pike and Neale 2008).
IBM researchers suggest that this technique is useful in a services environment (Bieberstein et al. 2005, p. 700).

The Discounted Cash Flow Techniques
In contrast to the non-discounted cash flow methods, the discounted cash flow methods of capital investment appraisal account for the time value of money. Commonly known techniques under this group are net present value (NPV) and internal rate of return (IRR) (Akalu, 2001, p. 380).

The net present value (NPV) is a popular technique to use when making investment decisions because it is a financial measure that ascertains the time value of money invested in a business (Raj et al, 2008, p. 194). With this technique, the present value of cash flows is discounted at the cost of capital, less the investment outlay. An understanding of various project evaluation techniques provides the

investor with valuable tools for determining which projects, if any, should be accepted or rejected. This technique is not the only one in capital investment appraisal which takes into consideration the time value of money. The decision rule is based on the absolute amount of the net present value of the surplus generated by the project. There is some evidence from research into the practical use of capital investment appraisal techniques that decision-makers feel more comfortable with a percentage rather than an absolute amount.

The first documented use of a DCF-based investment appraisal method was when US firm, Atlantic Refining, applied a method known as the internal rate of return (IRR) in 1946. This method also takes into consideration the time value of money. This technique uses discounted cash flows (DCF) in order to decide on the viability of long-term investments (Copper, 1999). IRR represents the true interest rate earned on an investment over the course of its economic life. The simple decision rule is to accept projects with an IRR that is greater than the cost of capital, and reject those with an IRR that is less than the cost of capital.

There are also other investment evaluation methods such as the discounted payback period (DPP) and profitability index (PI).

The discounted payback period (DPP) method also takes into account the time value of money. The discounted payback period represents the time it takes for the present value of a project's cash flows to equal the cost of the investment.

The profitability index (PI) is determined by dividing the present value of each proposal by its initial investment. This investment evaluation method is used to evaluate proposals for which net present values have been determined. PI is also referred to as the benefit cost ratio. A project is acceptable if its PI is greater than 1.0, and the higher the PI, the higher the project ranking.

Based on the empirical research, the following matrix (Table 2) was created to summarize the capital investment appraisal techniques (CIAT) and compare them with the most valuable components:

	PP	ROI	IRR	NPV
Does it consider the entire lifetime of the investment?	No	Yes	Yes	Yes
Does it consider the time value of money?	No	No	Yes	Yes
Can risk levels be included in the feasibility evaluation?	No	Yes	Yes	Yes
Can risk levels be included in the selection of mutual exclusive projects?	No	No	No	Yes

Table 2: Matrix of summary and comparison of CIAT

The following Hypothesis was derived based on the literature review and tested trough the survey: "German automotive companies do make use of sophisticated investment appraisal techniques in making their investment decisions."

Methodology
In order to give empirical support to this paper concerning the application of capital appraisal techniques in German automotive companies, a survey of 90 companies in Germany was

conducted. The main aim of this survey was the assessment of the application of capital appraisal in German automotive companies.

The automotive sector was chosen because the general global and national development is reflected in the German automotive industry. Working closely with the political sector, that industrial sector, which is of such importance to Germany, was able to overcome the economic and financial crisis, and has experienced a new upswing ever since (Financial Times, last

accessed: 05/08/2010). In generating a turnover of 317 billion Euros in 2010, the German automotive industry achieved one fifth of the total turnover in the German industry. The significance of this is increased by the fact that the German automotive industry is among the biggest employers in Germany. With around 709,000 employees, the automotive industry increased its share of employment in total German industry by 14 per cent (Federal Ministry of Economics and Technology 2010). Another major role in stabilising the labour market is played by the medium-sized supply industry, which employs about one million people (cp. German Association of the Automotive Industry 2011, p. 18). According to the German Association of the Automotive Industry, a total of approximately five million people are employed in automotive areas. Automobile production presents a highly complex, technology-based process involving a number of different enterprises. The companies selected were classified into two groups:

original equipment manufacturers (OEMs) suppliers of various value-added stages.

As with similar surveys, a questionnaire was chosen as the survey instrument. The questions were mainly structured to provide a systematic overview of the subject. However, the respondents had an opportunity to choose the answer "other" and comment on their responses. Ninety copies of designed questionnaires were randomly distributed. There were two parts to the questionnaire: the first part was related to general information about the respondents, and company, i.e. company name as well as respondent name, the company's years in business, expenditure and revenue for the year of 2010-2011. The second part contained information on investment appraisal techniques, and major constraints on capital investment. The respondents were believed to possess adequate accounting knowledge in the processes and valuation of capital projects using appropriate techniques.

Results and Discussion

Although the survey was sent to 90 companies in Germany, only 67 companies replied. The following table shows the response rate:

	distributed questionnaire	actual response rate	response rate in %
OEMs	5	4	80.0
suppliers	85	63	74.1
Total	90	67	74.4

Table 3: response rate of distributed questionnaire

The question about the familiarity ("very well" or "well") with various investment appraisal techniques produced the following results: 90% for the payback method, 89% for the accounting rate of return, 95% for NPV, and 85% for IRR. The participants were allowed to give more than one answer.

Figure 2 shows the response to the question: "What are the methods that German automotive companies use for investment appraisal?"
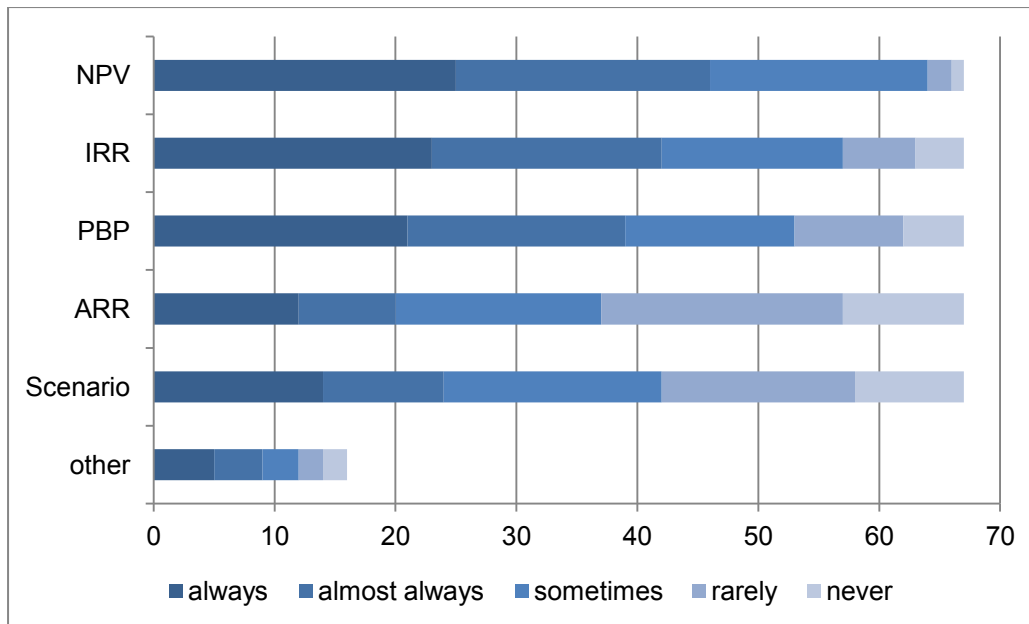
Figure 2: Usage of various investment appraisal methods in German automotive companies (number of respondents choosing an answer)

The percentage of those using a given method "always" or "almost always" was highest for NPV, at 69%. IRR was at the usage level, with 63% of respondents using those methods always or almost always, and 58% of respondents said the same regarding the PB method. Only 30% of respondents to the survey used ARR "always" or "almost always". The findings correspond with the results of many researchers (e.g. Weißenberger & Ulmer, 2005, p. 13). It also seems that companies frequently employ a variety of financial techniques on a regular basis. This is consistent with the findings of other survey researchers.

The reasons for using the particular methods for investment appraisal were investigated in this survey. The companies which use mainly discounted cash flow methods (IRR or NPV) gave the responses "account for the time value of money", "are simple and understandable", "comply with theory". They also brought up disadvantages of DCF methods, such as "it is hard to determine the discount rate", "difficult to get necessary data", "do not account for qualitative factors". Companies that use mainly the payback period method listed as advantages: "easy to calculate and explain to others", "quick and easy", "all projects need to pay back sooner or later". The major disadvantages of the payback method were named as not taking the time value of money into account and not accounting for the cost of capital. The advantages of using accounting rate of return in investment appraisal mentioned were as follows: "accounting rates are easy and clear", "ARR is understandable at all levels in the company", "can be aligned with goals", "the knowledge and skills exist in the company". As disadvantages of the ARR method, ignorance of the time value of money was pointed out.

The following table shows the response, in percentage terms, to the question "Which types of investment does your company differentiate?" The respondents were allowed to mention more than one investment type used in their company.

	OEMs	suppliers	together
Properties	75.0	77.8	77.6
acquisition/ disinvestment	75.0	71.4	71.6
research & development project	100.0	88.9	89.6
first investment/ follow-up investment	25.0	58.7	56.7
Other	50.0	31.7	32.8

Table 4: Differentiation of investment types

It seems that for OEMs (100.0%) as well as for suppliers (88.9%) investment in research and development is vital.

In summary, the results of the questionnaire show that out of 67 respondents that participated in the survey, 48 (71.6%) make use of sophisticated investment appraisal techniques when making investment decisions. Therefore, the hypothesis that German automotive companies make use of sophisticated investment appraisal techniques in making their investment decisions is confirmed.

The understanding gained was validated by in-depth interviews with three companies. All three companies confirmed the usage of DCF-based methods. However, before analysing the investment projects, companies usually classify them as big, unique, strategically important and optional. Table 5 shows the questionnaire responses about the importance of various factors taken into financial consideration by the three interviewed companies (A, B and C) when conducting investment appraisal.

	A	B	C	Average
Financial analysis	4	4	5	4.3
Strategy	5	5	4	4.6
Greater flexibility	4	4	5	4.3

Table 5: Importance of factors in investment decision-making (scale: 5-very important, 1-not important)

The result of the importance of factors in investment decision-making was validated through the in-depth interviews. The directors of the interviewed companies mentioned that financial analysis is not the only key factor in decision-making. The most important consideration is what happens if the particular project is not implemented. What really counts is the strategic fit and having a clear need for a particular investment. It could determine that the most important considerations in making investment decisions strategic fit.

The interviewees mentioned many factors that affect the planning process and investment appraisal methods that are used. Almost all companies stated that the environmental factors and the development of the firm have significantly affected the methods and procedures used for investment appraisal and budgeting process. Ownership is also one of the crucial factors that affects the planning process and investment appraisal methods. However, it depends on the structure of the company. In some companies, owners set the broad guidelines and strategic directions. So, once goals are agreed upon, management is free to make tactical and operational level decisions. However, in smaller firms, the owners have closer ties with management and make their wishes and preferences more clearly known.

Conclusion
This paper focused on the application of the capital appraisal technique with particular reference to German automotive companies. A general review was conducted of different capital appraisal methods. Using both a questionnaire and in-depth interviews to study the investment evaluation practice in German automotive companies produced some methodological findings.

The results of the written survey indicate that companies make use of capital project appraisal. The utilization of Discounted Cash Flow (DCF) techniques was noticeable in both sectors of the automotive industry (OEMs and suppliers). Simplicity, understandability, and the ease of access to data are the main reasons for employing a particular method. This study has

shown that firms apply one or a combination of capital appraisal techniques.

The results of the in-depth interviews show that financial analysis is not the only key factor in decision-making. Strategic fit and having a clear need for a particular investment are also taken into consideration. The ownership, as well as environmental factors and the development of the firm, have a significant effect on methods and procedures used for investment appraisal and budgeting process. As a conclusion it can be stated that the smaller the companies and/or projects, the simpler the methods that are used.

Although, there are some limitations to the current study, this paper has shown avenues for future research. This study can be used as a basis for future studies. An improved written survey could be prepared and carried out, involving a larger number of companies. Many questions could be rephrased and reformulated, and many important ones added. Finally, research on unspecific uncertainties in the investment decision associated with the application of sophisticated capital budgeting practices could be worth conducting.

Reference

Abernethy, M. A. & Lillis, A. M. (1995): "The impact of manufacturing flexibility on management control system design". Accounting, Organizations and Society. 20(4), pp. 241-258.

Akalu, M. (2001): "Re-examining project appraisal and control: developing a focus on wealth creation. "International Journal of Project Management 19, pp. 375-383.

Becker, H. (2010): "Darwins Gesetz in der Automobilindustrie: Warum deutsche Hersteller zu den Gewinnern zählen", Berlin / Heidelberg: Springer Verlag.

Bieberstein, N., Bose, S., Walker, L., and Lynch, A. (2005): "Impact of service-oriented architecture on enterprise systems, organizational structures, and individuals." IBM Systems Journal, 44(4), pp.691-708.

Bruner, R.F., Eades, K.M., Harris, R., Higgins, R.C. (1998): "Best Practices in Estimating the Cost of Capital: Survey and Synthesis", Journal of Financial Practice and Education, Spring, pp. 13-28.

Bundesministerium für Wirtschaft und Technologie (2010): Automobilindustrie, URL:http://www.bmwi.de/BMWi/Navigation/Wirtschaft/branchenfokus,did=195924.html?view=renderPrint (last accessed: 04/04/2012).

Bundesverband der Deutschen Industrie (2012): Aussenwirtschaftsreport 1/2012, Berlin 2012.

CIMA Study Systems (2006): Management Accounting Fundamentals Oxford, Elsevier Butterworth Heinemann, pp. 275- 308.

Copper, W. D. (1999): "Capital Budgeting Models theory vs. Practice". Bus. Forum. 26(2), pp. 15-18.

Drury, C. (2007): Management and Cost Accounting, 7th edition, Thomson Learning London.

Financial Times Deutschland (05/08/2010): Welche Branchen brummen, URL: http://www.ftd.de/unternehmen/industrie/:das-erholungsrennen-welche-branchen-brummen/50153301.html (last accessed: 30/03/2012).

Frankly L (2000): "Decisive action: Using the financial appraisal profile". J. Chart. Manage. Account. 78(3), pp. 17-49.

Graham, J., Campbell H. (2001): "The Theory and Practice of Corporate Finance: Evidence from the Field", Journal of Financial Economics, Number 61.

Hopwood, A. (1990): "Accounting and Organizational Change", Accounting, Audition and Accountability, Vol. 3, No. 1, pp. 7-17.

Langfield-Smith, K. (1997): "Management control systems and strategy: A critical review." Accounting, Organizations and Society 22(2), pp. 207-232.

Modigliani, F. & Miller, M.H. (1958): "The Cost of Capital", Corporation Finance and the Theory of Investment. Am. Econ. Rev. 48(3), pp. 261-295.

Pike, R. & Neale, B. (2008): "Corporate Finance and Investment: Decisions and Strategies", Financial Times Prent.Int; 6th Revised edition.

Poterba, J., Summers, L. (1995): "A CEO Survey of U.S. Companies' Time Horizons and Hurdle Rates", Sloan Management Review, Vol 37 (No. 1, Fall), pp. 43-53.

Raj, R. Walters, P. and Rashid, T., (2008): Advanced Event Management, An integrated and practical approach, SAGE publishing, UK, 185-201.

Rappaport, A. (1986): Creating Shareholder Value: The New Standard for Business Performance, New York: Free Press.

Remer, D. and Nieto, A (1995): "A compendium and comparison of 25 project evaluation techniques." International Journal of Production Economics 42, pp. 79-129

Ryan, P., Ryan, G. (2002), "Capital Budgeting Practices of the Fortune 1000: How Have Things Changed?", Journal of Business and Management, Volume 8, Number 4.

Seward, C, Dugdale D., Jones, C. (2001): "Capital Budgeting and the Control of Corporate Investment", in 5th International Management Control Systems Research Conference. Conference Proceeding, University of London.

Stanley, M., Block, S. (1984): "A Survey of Multinational Capital Budgeting", Financial Review, March, pp. 36-51.

Steven, G. (2008): "Management Accounting – Decision Management", Financial Management.

Sugden, R. & Williams, A. (1978): The Principles of Practical Cost-Benefit Analysis, Oxford.

Van-Horne, J.C. (1990): Financial Management and Policy, 6th Edition, Englewood Cliffs, N . J., Prentice Hall. International Inc.

Verbeeten, F. H. M. (2006): "Do organizations adopt sophisticated capital budgeting practices to deal with uncertainty in the investment decision? - A research note", Management Accounting Research 17, pp. 106–120.

Wagner, J. (2006): Exports, foreign direct investment, and productivity: evidence from German firm level data. Applied Economics Letter 13 (6), pp. 347-349.

Weber, J., Hirsch, B., Rambuch, R., Schlüter, H., Sill, F. & Spatz, A. (2006): Controlling 2006 – Stand und Perspektiven, Vallendar.

Weißenberger, B. E. & Ulmer, Th. (2005): 004 Benchmarking-Studie/2/D - Kapitalkosten im Rahmen des Investitionscontrollings - Untersuchungsergebnisse für DAX-Unternehmen, inkl. Vergleich zur Branche Chemie/Pharma.

RELATIONS WITH BUSINESS PARTNERS IN KEY AREAS OF CORPORATE SOCIAL RESPONSIBILITY

Edyta Rudawska

Abstract

Today's economic reality is on the one hand characterized by growing competition and demanding customer requirements, and on the other hand by growing pressure from stakeholders on market entities which are required to accomplish both economic and social objectives. In these circumstances an important element of creating competitive advantage is, together with ensuring financial efficiency, attention to the quality of offered products and services, as well as providing customers with added value unavailable from competitors. The processes of creating, communicating and providing customers with unique and distinguishing added value must be socially responsible. In order to present their positive image corporations tend to promote responsible business practices. According to the concept of relationships marketing, value for customers is derived not only from the quality, usefulness or functionality of a product, but above all from relations with customers. According to this concept, the relation itself greatly influences the total perceived value of offer, and customers' decisions are determined by their assessment of a relation as a whole, not individual offers of a particular company.

From the above mentioned it could be concluded that companies involved in the process of creating long-term efficient market advantage are currently faced with the necessity to create socially responsible relations with customers and other business and social entities.

In order to systematize knowledge of corporate social responsibility (CSR) and to specify values which should be fostered by organizations, guidelines and standards of CSR to be used are implemented, ISO 26000 being one of them. In the contained key areas of social responsibility regulations concerning relations with business partners constitute a major part.

The aim of this study is to indicate broadly understood relations with business partners, including customers, in the areas of social responsibility, as well as to provide examples of Polish businesses which perceive creating business relations in a socially responsible way as a source of competitive advantage.

Keywords: social responsibility, relations with business partners

CSR as a concept of functioning of contemporary businesses

Stability of relations among business partners is mainly determined by internal factors. i.e. factors resulting from processes which take place directly between them. Among them, the following need to be pointed out: involvement in establishing and maintaining relations, credibility, good communication, commonly shared values. Durability and character of these relations depend greatly on whether practices followed by business partners are socially responsible, i.e. whether they take into account not only the economic but also social and ecological aspects.

In Poland as well as worldwide dynamic development of the concept of CRS is being currently observed. Each year an increasing number of market entities recognize the necessity to follow socially responsible practices. It is confirmed by the findings from the 2011 Sustainability & Innovation Global Executive Study and Research Project (Haanaes, et. al., 2012). 70% out of 4000 managers from 113 countries who took part in the survey declared that they put CSR permanently on

Prof. Edyta Rudawska, PhD, Marketing Department, Faculty of Economics and Management, University of Szczecin, Poland. (email: edyta@rudawska.pl)

their management agendas. Two-third of the respondents said that social responsibility was necessary to being competitive in today's marketplace, up from 55% in 2010 survey (Figure 1).

Figure 1: Is pursuing socially responsible strategies necessary to be competitive? (in %)
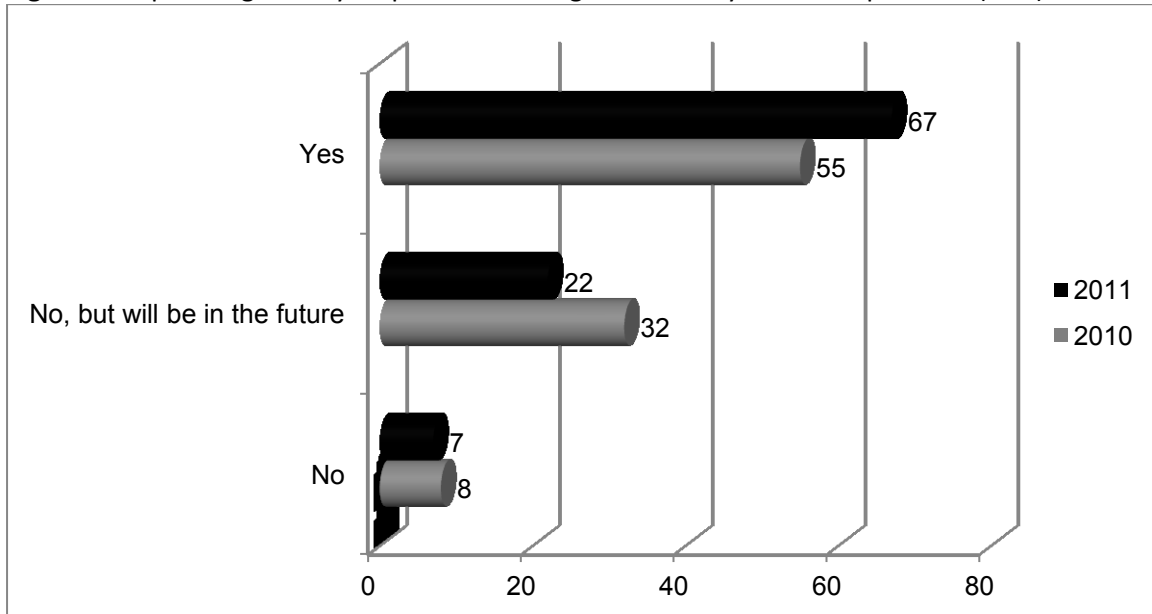
Source: Haanaes, K., Reeves, M., Strengvelken, I., Audretsch, M., Kiron, D., Kruschwitz, N., (2012), „Sustainability nears the tipping point", MIT Sloan Management Review, Vol. 53, No 2, pp. 69-74.

Figure 2: How has your organization's commitment to CSR changed in the past year, in terms of management attention and investment? (in %)
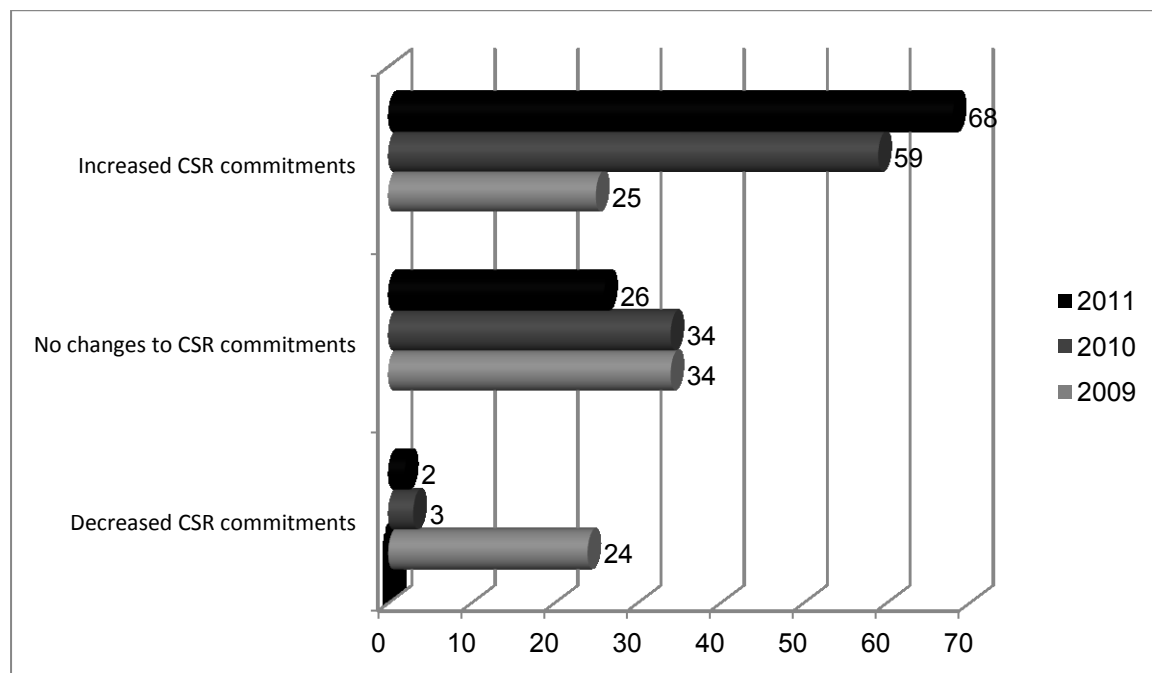
Source: Haanaes, K., Reeves, M., Strengvelken, I., Audretsch, M., Kiron, D., Kruschwitz, N., (2012), „Sustainability nears the tipping point", MIT Sloan Management Review, Vol. 53, No 2, pp. 69-74.

Moreover, 68% say their organization's commitment to CSR has increased in the past year (in 2009 just 25% of companies said this was the case), and almost none say they plan to reduce their commitments (in 2009 every fourth respondent declared to do this). What is more, a large proportion say they plan to increase their commitment to sustainability (Figure 2).

Dynamic development of CRS is on the one hand related to the fact that CRS practices are perceived as an effective tool for building competitive advantage and improving financial performance. But on the other hand, it results from growing popularity of the concept of sustainable development. As far as the first case is concerned, there have been attempts to demonstrate that corporate social responsibility practices translate into substantial benefits, both tangible and intangible. Companies become actively involved in CSR activities in order to improve their image, which in turn translates into a better competitive position, and enables companies to accomplish long-term objectives. Research conducted in 2007 by the World Bank shows that companies become involved in CSR activities in order to earn a better reputation, develop better relationships with local communities, build up the brand image, and improve relationships with their employees. Still more and more often attempts are made to show also tangible, measurable benefits of taking action on CSR. Studies have paid more attention to the correlation between CSR and such firm performance indicators as an increase in profit and market value (Peloza, 2006). Although, empirical evidence up till has been a bit conflicting, many of them have proved that returns to CSR were found to be positive (Fombrum and Shanley, 1990; Soloman and Hansen, 1985). The latest research confirms this. Almost a third of re- spondents say that their socially responsible activities are contributing to their profitability (Haanaes, et. al., 2012). According to the latest research run by MillwardBrown SMG/KRC and PwC for PARP (Polska Agencja Rozwoju Przedsiębiorczości), the majority of companies from Poland, regardless of whether they carry out socially responsible activities or not, still notice benefits in the implementation of CSR (60% in the whole-Polish sample). In companies from the whole-Polish group this is declared first of all by large enterprises (76% mentions), companies operating at least 15 years (70%), operating in the international market (74%). The benefits are noticed much less often by representatives of micro businesses (58%) compared to other companies. These benefits are first of all the improvement of the image of the company (74%), increasing employee motivation (58%), as well as generating incomes (45%).

Nearly all company representatives (86% in the group of companies from whole Poland) at the same time notice problems linked with the implementation of CSR principles. For representatives of companies from whole Poland, these issues are first of all: necessity to incur costs (38%), lack of time (33%), complexity of the whole issue (32%) and lack of awareness and skill (30%).

As far as the second case is concerned, as has been mentioned before, growing popularity of CSR is a result of the development of the concept of sustainable development. This approach refers to the Lisbon Strategy set at the Lisbon Summit in 2000. The Lisbon Strategy was supposed to transform Europe into the most competitive and dynamic knowledge-based economy in the world, capable of sustained and sustainable economic growth, with more and better jobs and greater social cohesion. Since this strategy failed to achieve its aims as a result of inefficient activities and the world's economic crisis, the Europe 2020 Strategy was launched in March 2010. The strategy is to help Europe recover from the crisis, and prepare EU economy for the next decade (Rudawska, Renko, Bilan, 2011). Sustainable development is a political economic doctrine, which assumes striving for the quality of life allowed by modern civilization. The vital message is contained in the famous statement from the report of the UN World Commission on Environment and Development 1987: 'Believing the sustainable development, which implies meeting the needs of the present without compromising the ability of future generations to meet their own needs, should become a central guiding principle.' According

to this principle, all people, especially businesspeople, should run their businesses in socially, environmentally and economically responsible ways. The awareness of existence of these three areas and keeping them in balance constitute sustainable development (ISO 26000).

It should be underlined, however, that corporate social responsibility focuses on an organization, not the world. It is closely related to sustainable development, since the objective of CSR is to contribute to this idea. In this study it is assumed that businesses, which consistently plan their strategic objectives in relation to the concept of CSR can gain tangible benefits, including (ISO 26000):

building competitive advantage and undertaking activities focusing on long-term and steady growth

an increase in resistance to the occurrence and possible results of a crisis

building transparent organization culture based on cooperation and high ethical standards

creating positive image, which includes strengthening recognition among internal and external stakeholders, among others, local community, public opinion, market researchers

positive image of a business by potential job seekers, as well as greater satisfaction of employees, their loyalty and motivation

positive image of company executives who initiate and undertake CSR activities by present and potential investors.

All the above-mentioned benefits result in the longer time in creating long-term relations, based on trust and mutual commitment between business partners.

The level of adaptation of CSR by businesses in Poland

Research on the level of adaptation of CSR by Polish businesses are ambiguous. It, however, confirms that the concept of CSR is developing dynamically in Poland. Basing on one research, it is estimated that around 48% of firms adopt a strategy for CSR. The most involved businesses include banking, energy, fuel, telecommunications and IT sectors. A substantial increase in ethical sensitivity among managers seems to be the most striking. As many as 90% of managers consider ethical

practices as important or very important. A significant part of them is convinced that adopting ethical practices brings success, since it improves the company's organizational culture and builds up its reputation. Managers have also become aware of the fact that social responsibility does not equal mere acts of charity, but it means comprehensive management. Therefore, the following issues are ranked high: transparency of financial information, campaigns for the environmental protection, compliance with ethical standards in all aspects of the company's functioning (Rudawska, Renko, Bilan, 2011).

On the other hand, according to the above mentioned research run by MillwardBrown SMG/KRC and PwC for PARP the term "corporate social responsibility" is familiar to 31% representatives of organizations operating in Poland – these are especially representatives of large enterprises (70% mentions), companies founded over 15 years ago (52%) and operating in international markets (59%). Every fifth respondent who declared the awareness of the existence of CSR also declared that they know the guidance and standards that regulate the implementation of CSR principles in their company. These are mostly people representing large companies (52% of their representatives from Poland declare that they are familiar with the above mentioned guidelines and standards). The norms that display the highest awareness are norms from the ISO family (ISO 14 000 and ISO 26 000) – a total of 81% company representatives declare that they know these CSR norms.

2 out of 3 companies whose representatives declare awareness of the term "corporate social responsibility" conduct activities related to it. In the group of companies from the whole Poland, these are much less often micro enterprises (56% mentions) compared to other companies (approx. 80% mentions). In the group of companies from all across Poland these activities are conducted in accordance with a set of norms and guidelines first of all by large companies (66% mentions) and production companies (67%). The norms implemented most often are the before mentioned ISO norms (ISO 14 000 and ISO 26 000) – in total, 54% companies chose one of them.

Increasing adaptation of CSR in Polish businesses is a result of a growing interest in these issues among consumers. Research conducted in Poland in 2011 indicated that as many as 55% of the respondents took into account social involvement of a company whose product they had chosen (Figure 3).

Figure 3: In case of two comparable products, of the same kind, of similar price and quality, have you ever chosen a product of a company that you consider as socially responsible? (in %)
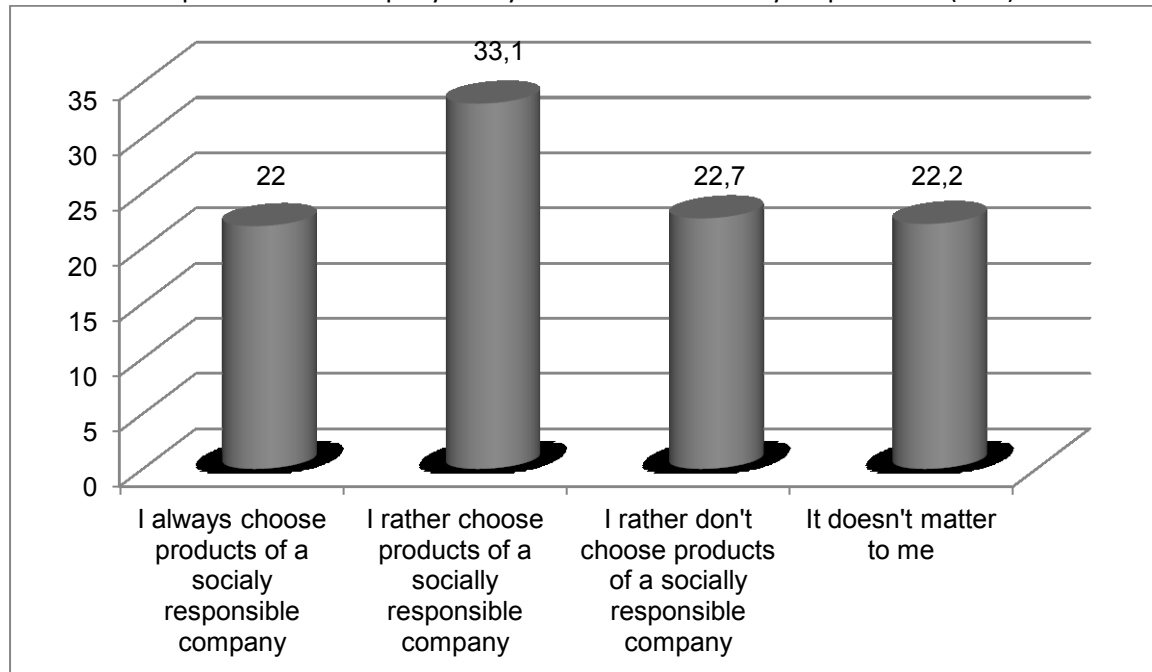
Source: Ćwik, N., (2012), Wspólna odpowiedzialność, rola marketignu, Forum Odpowiedzialnego Biznesu, Warszawa.

Key areas of social responsibility

In order to systematise knowledge of corporate social responsibility (CSR) and to specify values which should be fostered by organizations, guidelines and standards of CSR to be used are implemented, ISO 26000 being one of them. It differentiates the following core subjects of social responsibility:

Organizational governance - rules and standards relating to company management. Good practices should aim at improving the efficiency of organization management taking into account social interest, respect for stakeholders and ethics.

Human rights – every organization should respect all human rights and dignity, especially civil, political, economic, social and cultural rights. In Poland good practices should result from the necessity to counteract any discrimination and to enhance protection of rights at work.

Labour practices - every organization usually employs staff or outsource work. Labour practices are therefore not limited to relations with employees; they also refer to subcontractors, suppliers, competitors, etc. Good labour practices, exceeding responsibilities imposed by law, should take into consideration conditions of work and social protection, health and safety at work, human development (training), social dialogue as well as open and fair relations with cooperating entities.

Environment - this subject incorporates the issues of climate change mitigation and adaptation, as well as protection and restoration of the environment. Good practices concerning the environment should aim at measurable attention to reducing pollution and taking measures to provide sustainable resource use.

Fair operating practices – refer to company's ethical relations with other organizations, including governmental organizations, partners, suppliers, contractors, competitors and associations to which it belongs. To be perceived as an entity, which follows fair market practices and is socially responsible at

the same time, a business should adopt good practices to counteract unfair competition, to promote fair cooperation and respect property rights. Moreover, every organization should get involved in active promotion of rules of social responsibility among its partners, suppliers and environment.

Relations with customers – every business should be fair and transparent with its customers. It must in particular be concerned for fair marketing, fair contractual practices as well as factual and unbiased information. This subject comprises also market education, protecting consumers' health and safety, the quality of consumer service, support and complaint resolution. The above-mentioned issues should be focused on as far as the subject of relations with customers is concerned.

Social development – a company should contribute to a community and get involved in solving its problems, especially those relating to its employees and other stakeholders. Good practices involving social development should aim at social dialogue, which in turn should engage social organizations in planning and carrying out social projects, taking into consideration real social needs, such as investing in education, culture, health, technology development and access.

According to the research run in 2012 by MillwardBrown SMG/KRC and PwC for PARP, out of 7 social responsibility subjects defined in norm ISO 26 000, representatives of companies operating in Poland consider labour practices and consumer relations especially important for the development of the organization – with 74%. To representatives of nearly 2 out of 3 companies, another subject important for development is organizational governance, whereas for over a half – fair operating practices. The following subjects are much less often considered important for the growth of an organization: human rights, the environment (20% mentions for each of these two subjects), whereas the subject listed as last is community involvement (11%). Representatives of trade companies most often point out that consumer relations are important for the growth of the company (82%), whereas representatives of construction companies most often mention

the high importance of organizational governance (78%). Representatives of production companies consider the following areas significant for development much more often than other ones: fair operating practices (65%), environment (41%) and human rights (34%). Representatives of service companies least often declare that fair operating practices are important for company development (49%). Representatives of trade and construction companies least often declare that the following are important for the company's development: social involvement and development (15% and 14% respectively), human rights (21%) and protection of the environment (22% and 21% respectively).

On the other hand, CSR principles are implemented in the above mentioned 7 areas by a minority of organizations – the number of mentions is never over 50% for any of the areas. One can assert that the more often a given area is declared important for organization development, the more often company representatives declare that they implement CSR principles with respect to a given area. Corporate social responsibility principles are most often implemented in the following areas: consumer relations and labor practices (43% and 45% respectively). About 1/3 of the companies those consider organizational governance and fair operating principles important for development also implement CSR principles in these fields (34% and 32% respectively).

So the most important and the most often implemented are – fair operating practices, labor practices, consumer issues and organizational governance.

As far as the title of the paper is concerned, one can conclude, that relations with business partners are of strong interest in the concept of social corporate responsibility. Their importance is emphasized in several areas of the CSR concept, such as: 'employment relationships' and refer to creating relations with employees, 'fair market practices', which underline the necessity to create relations with other organizations, including government organizations, partners, suppliers, contractors,

competitors and associations to which the company belongs, as well as in the area of 'consumer relationships.'

On the other hand, the CSR concept itself increases managers' tendency to become more collaborative with stakeholders inside and outside of the company. It especially refers to those companies, which declare that the concept of CSR translates into increased profits (Figure 4).

Figure 4: Has CSR concept caused your company to increase its collaboration with any of the following? (in %)
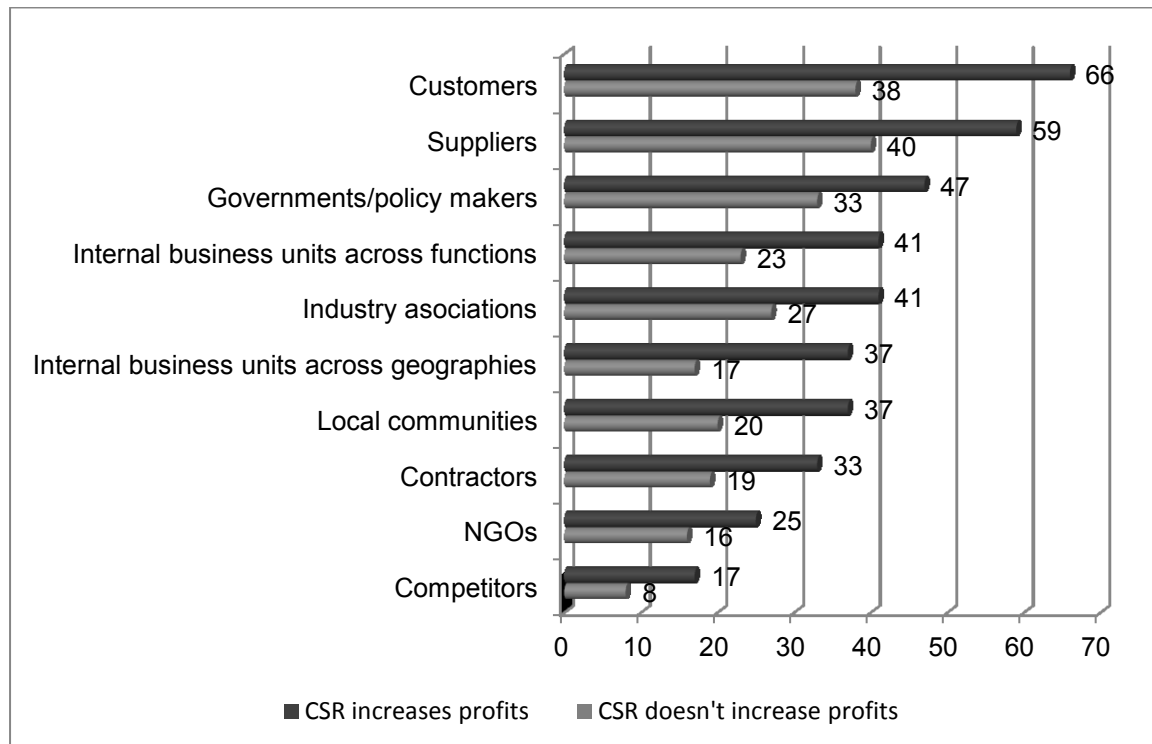
Source: Source: Haanaes, K., Reeves, M., Strengvelken, I., Audretsch, M., Kiron, D., Kruschwitz, N., (2012), „Sustainability nears the tipping point", MIT Sloan Management Review, Vol. 53, No 2, pp. 69-74.

The survey indicates that companies recognize nowadays that they need to partner with organizations that lie outside their businesses, not only customers but also such as regulators, suppliers, NGOs and citizen groups.

Research shows that Polish companies find socially responsible relations with business partners strategically important. Polpharma, one of the biggest pharmaceutical companies in Poland, is a case in point (Kompendium CSR, 2010). One of the executives underlines that business objectives always take into account social and ecological factors. The company is concerned about the quality and safety of its products, fair personnel policy and ethical relations with its business partners. In order to accomplish this objective it shares its knowledge with patients and medical environment, implementing numerous educational programmes. It promotes health protection, cooperates with organizations promoting Polish culture, science and sport.

The strategy of PGNiG (Polish Oil and Gas Exploration and Production Company) is another example of active involvement in creating relations in a socially responsible way (Kompendium CSR, 2010). Investments in the local economy made by the company have been giving a boost to the local market and winning the local community's favour for many years. In its new strategy for 2013 the company declares that acting to the benefit of its stakeholders, employees and customers the company wants to be a reliable and transparent partner, which develops and increases its value in accordance with the concept of corporate social responsibility. The comprehensive strategy for responsible business implemented by the

company is to refer to the whole value chain and contribute to creating responsible relations with various business partners.

Totalizator Sportowy, a company operating on the market of lottery services, undertook activities aimed at changing its image (Kompendium CSR, 2010). In the years 2009/2010 the company for the first time developed and implemented a strategy on social responsibility. The strategy involves the description of cooperation with customers, business partners and local communities. The President of the Executive Board declares that the company's priority is to enter into a dialogue with its stakeholders and to establish responsible relations. In this context the company concentrates on creating responsible

products, safety of lottery participants as well as education and protection of the under-age against gambling. The company aims at creating responsible workplace, therefore it focuses on improving its employees' competences, offering equal chances of development and engaging in a dialogue with employees. The company also established a charity foundation called Fundacja Totalizatora Sportowego Milion Marzeń whose objective is to create and strengthen relationships with the local community. Currently Totalizator Sportowy is the first state-owned company, which follows the corporate social responsibility strategy, and one of two companies, which use the Global Reporting Initiative (GRI) reporting system at the very high B+ level.

Conclusions

Social responsibility is becoming increasingly popular in corporate business practices. The amount of involved means, gradually changing opinions as to the role and scope of corporates' contribution to the society lead to the assumption that social responsibility will be a crucial and sustained element in corporate strategies, not just a passing trend. Once the concept of CSR has become clear and commonly used in everyday business practices and other operational activities within companies, some pressure as to the creation and use of CSR tools and instruments has emerged. In order to demonstrate their serious approach to social responsibility businesses develop implementation, assessment and evaluation systems of CSR policies and practices. They include establishing and defining objectives of social responsibility, processes, distribution of roles and responsibilities,

training needs, mechanisms for measuring progress and reporting, informing internal and external stakeholders about assumed commitments, defined objectives and the degree of their accomplishment, activities undertaken in order to achieve the objectives, their current and potential influence on the environment.

CSR standards help improve strategic management of responsible relations, thus increasing company's reliability in this respect. They help identify and manage risks relating to social, environmental and ethical factors. They support the dialogue and stakeholders' involvement in this dialogue and cooperation. As a result, they increase efficiency and effectiveness of a company by improving cooperation and coordination among various company parts, reducing the number of crises and enhancing familiarity with the market.

References:

Ćwik, N., (2012), Wspólna odpowiedzialność, rola marketignu, Forum Odpowiedzialnego Biznesu, Warszawa.

Fombrum, Ch., Stanley, M. (1990), "What's in a Name? Reputation Building and Corporate Strategy", Academy of Management Journal, Vol. 33, No. 2, pp. 233-258.

Haanaes, K., Reeves, M., Strengvelken, I., Audretsch, M., Kiron, D., Kruschwitz, N., (2012), „Sustainability nears the tipping point", MIT

Sloan Management Review, Vol. 53, No 2, pp. 69-74.

ISO 26000, Kapitał społeczny dla gospodarki, www.odpowiedzialnafirma.pl/o-csr/iso-26000, access: 20.07.2012r

„Kompednium CSR", (2010), Media Planet, nr 5, pp. 5-12.

Peloza, J. (2006), "Using Corporate Responsibility as Insurance for Financial

Performance", California Management Review, Vol. 48, No. 2, pp. 52.

Rudawska, E., Renko, S., Bilan, Y. (2011), A discussion of the concept of sustainable development – example of Polish, Croatian and Ukrainian markets, Krok Publishing House, Ternopil, Ukraina.

Soloman, R., Hansen, K. (1985), It's Good Business, Atheneum, New York; Augustyniak, Sz. (2007), "Koncepcja wymaga działań", Magazyn Top Menedżerów, CEO, December 18.

HOW DESTINATION IMAGE IS CHANGING THROUGH THE USE OF NEW TECHNOLOGY

Lo Presti Olga & Razaq Raj

Abstract

The study of destination image is relatively recent. The destination image is formed by a complex process, in which tourists develop a mental construct based upon a few selected impressions recollected from a flood of impressions (Echtner & Ritchie, 2003). These impressions have their origin in information assimilated from non-tourist, non-commercial sources which contribute to the formation of the organic image, such as - media (news reports, magazines, books, movies), education (school courses) and the opinion of family or friends (Gunn, 1988).

ICTs play a crucial role for the competitiveness of tourism organizations and destinations as well as for the entire industry as a whole. The development of ICTs and particularly the Internet empowered the e-tourist who is becoming knowledgeable and is seeking exceptional value for money and time. ICTs offer a range of tools to facilitate and improve the process for information search, to destination/product consumption and post experience engagement. Customers search for travel-related information, make online air-ticket bookings, online room reservations, and other online purchases themselves instead of relying on travel agencies to undertake this process for them (Morrison, Jing, O'Leary, and Lipping, 2001). Thus, Internet is a critical source information which influences the image that potential tourists will have of a tourist destination.

This paper considers the changing nature of destination image formation and the opportunities given by new technology. The paper will also provide theoretical backgrounds on destination image evolution consider the gaps in the research in this sector, particular focus will be development of relationship between destination and use of technology deepening the role of social media and user generated content for destination promotion.

Keywords: *Destination image, new technology, social media, user-generated content*

Introduction

Nowadays one of the aspect investigated by researchers relating destination image is the relationship between image and technology. These two components resulted complementary from the promotion viewpoint. Thus, the interest of this paper is to review literature in destination image with special focus in social media as agent of destination image formation. The paper provides theoretical backgrounds on destination image evolution through a description of destination meaning and show connection between destination and use of technology deepening the role of social media and user generated content for destination promotion.

The interest of the research in this key topic identify a lack of research into whether and how the visitor's interactions with and within the destination affect the image formation process. So through the measurement of tourist destination image it is possible to understand the impact of image on visitor behaviour in terms of destination choice and intention to

Lo Presti Olga is Assistant Researcher at Institute for Service Industry, Consiglio Nazionale delle Ricerche Via Michelangelo Schipa, 91, 80122 Naples, Italy (email: o.lopresti@irat.cnr.it)
Dr Razaq Raj is Senior Lecturer at School of Events, Tourism and Hospitality, Carnegie Faculty, Leeds Metropolitan University, (email: r.raj@leedsmet.ac.uk)

return or recommend and how destination image is changing through the use of new technology in the viewpoint of promotion and competitiveness.

This paper therefore reviews existing literature on tourist destination image as a starting point for developing an understanding of relationship between image formation and role of users generated content.

Methodology

In order to better understand the changing nature of destination image formation and the opportunities given by new technology. The research was carried out through a literature review of key theories and current related research. Books, journals, case studies, newspaper articles, online journals and the Internet were used as source of study. Starting from this analysis an hypothesis was express through a specific function by test during the empirical research. Authors' interest was provided to show destination image evolution consider the gaps in the research in this sector, particular focus on relationship between destination and use of technology deepening the role of social media and user generated content for destination promotion. The use of secondary research was useful to enhance research in the topic and propose functional findings for future researches.

Theoretical background

Destination image and formation

Destination can be considered a total tourism experience composed by different types of services which the tourist consumers all from the time they leave home to the time of return so it is been considered a part of entire tourism industry (Jafari, 2000).

The study of destination image has become a great area of research across a broad range of scholarly domains. It is widely accepted that destination image is a central and considerable component of the travellers' decision processes and therefore tourist behaviour. Image is recognised as an important factor in visitor destination choice behaviour (Dann, 1996; Baloglu and McCleary, 1999; Gartner, 1993;

Govers and Go, 2003;Tapachai and Waryszak, 2000; Thirkelson, 2003), as well as playing a part in visitor satisfaction and therefore intention to recommend or return (Chon, 1991).

Destination image is complex, and its influence on human behaviour is of interest to various academic disciplines. As a result, it has been studied from a variety of perspectives, including semiotics and marketing, sociology, anthropology, geography. For example, Baloglu concentrates specifically on recording and understanding particular aspects of tourist behaviour related to destination image and destination choice in a series of articles developed from a major survey of potential visitors to Turkey and other Mediterranean destinations (Baloglu and Brinberg, 1997; Baloglu and McCleary, 1999).

Destination image is part of the motivation for choosing a destination, but also forms some of the visitor's expectations. However, image is best understood as a dynamic construct and, consequently, image is likely to be altered by an individual's experience during his or her stay.

Gunn (1972) was among the first to try to tease out elements of image formation. Gunn suggested that image is personal, and formed on two levels, the organic and the induced. Organic images are acquired over time through personal experience, information from family and friends, newspapers, books and films, whereas induced images are supply side images, distributed through brochures, advertisements and advertorial to promote a product or destination. Gartner (1993), recognising that image formation and destination selection are strictly connected. He identifies three components of image, cognitive, affective and conative, arguing that these are interrelated. The cognitive component comprises known attributes of a destination, mental pictures derived from facts; in other words, the sum of beliefs and attitudes which create a picture of the destination's attributes and comprising both organic and induced elements described by Gunn (1972). Cognitive evaluations combine with affective components to determine or influence the

conative or behavioural component. The affective component relates to the motives for travel. There is a generally held understanding that escape, whether physical or psychological, is the underlying motive for travel. Gartner's third, conative component is essentially the processing of the cognitive and affective components to reach a decision (Gartner, 1993). This has been further explained by Dann (1996) as a description of the processual nature of image formation and its role in destination choice. He argues that the conative component is the interactive element of image, i.e. the way individuals imagine themselves behaving in the destination.

In refining Gunn's notions of organic and induced images, Gartner (1993) introduces a distinction between overt induced images, where the participation of the destination promoters is open and obvious to the consumer, and covert induced images, which appear to be independent of the destination promoter, such as celebrity endorsement or travel articles. He also differentiates between autonomous (independent) agents, solicited and unsolicited organic agents. Baloglu and McCleary (1999) proposed a conceptual model of tourist destination image formation, derived from the literature. They appear to include Gunn's organic and induced images within the information sources element of their model. These combined with other exogenous, or external stimulus factors (age, education and motivations) directly or indirectly influence the endogenous, or internal, evaluation variables (cognitive perceptions and affective evaluations), which in turn form the destination image. They found that affective components had a greater influence on overall destination image than the cognitive/perceptive ones.

Destination image formation therefore is a process involving a combination of directly promoted images and those absorbed indirectly from a variety of sources. Subsequently, numerous authors have investigated various aspects of the image formation process. The majority of research appears to have considered mainly the cognitive elements (Baloglu and Brinberg, 1997; Baloglu and McCleary, 1999; Echtner and Ritchie, 1993). Although the lists of destination attributes used in these studies often include items such as "friendly people" or "quality of service", there appears to have been no attempt to investigate the role of visitor interactions with the destination, whether before, after or during a trip, in the image formation process.

Recognising the quantity and variety of previous work on tourism destination image, Gallarza et al. (2002) argued that there was as yet no overarching conceptual framework relating to tourism destination image. They therefore undertook a review of existing literature on tourism image, identifying ten major strands of research and classifying the analytical techniques used to investigate different aspects of tourism destination image. From this, they constructed a theoretical model to demonstrate the complex, multiple, relativistic and dynamic nature of tourism destination image. Gallarza et al. further refer to the fact that image can be uni personal, i.e. held by the individual, or collective, i.e. stereotypical (2002, p.69) as evidence of its complexity. Finally, they argue that the dynamic nature of tourist destination image is demonstrated by the influence of two variables, time and space, on image (2002, p.72). Image is considered to change with the passing of time, becoming more complex as a result of increased knowledge and the impact of both follow-up promotion by the destination and reinforcement through recall occasioned by photographs or videos (Chon, 1991; Dann, 1996; Fakeye and Crompton, 1991). The influence of space on image can be regarded as the impact of geographic distance from the destination: the more distant the destination, the more stereotypic the image, whereas that of a destination closer to home is presumed to be more complex as a result of greater knowledge (Crompton, 1979; Fakeye and Crompton, 1991).

Since 2000, studies have tended to focus more on the use of attributes and the other components of image to measure the impact of image on visitor behaviour, whether in terms of destination choice or intention to return or recommend the destination to others, as

compared to earlier studies on destination choice which tended to sample potential visitors (Baloglu and Brinberg, 1997; Baloglu and McCleary, 1999; Crompton, 1979). It is accepted that image is a direct antecedent of perceived quality and satisfaction, as well as intention to return and recommend the destination. Allied to destination choice is destination competitiveness, which has also been assessed using image related studies. For example, visitor perceptions of destination attributes have been measured to identify areas for destination improvement in order to maintain competitiveness (O'Leary and Deegan, 2003).

Although Baloglu and McCleary (1999) number friends and family among the information sources incorporated in their model of destination image formation, they do not take into account previous experience of the destination in any other way, being concerned primarily with destination image formed in advance of a visit. Indeed, many existing studies into destination image formation assume that respondents have no prior personal experience of the destination; in other words, their image has been formed from advertising, word of mouth information, brochures and guidebooks, news and other media. There is recognition that image is not only formed in advance of a visit but changes over time. Dann (1996) compared pre-trip and on-trip response to pictorial images, concluding that the way visitors spoke about their reactions to the photographs indicated changes in their view of the destination and what they either expected to find or had found there. Murphy et al. (2007) investigated elements of destination product which influenced tourists' perceptions of quality and value. These studies have investigated aspect of visitation impact, but there appears to have been little or no work examining visitors' interactions with the destination and the linkages between good or bad experiences and visitor perceptions of the destination. The literature clearly demonstrates that visitation affects destination image, in that increased knowledge is likely to move the image from the stereotypical to the more individual complex.

Destination image formation and role of technology

Currently, ICTs play a critical role for the competitiveness of tourism organizations and destinations as well as for the entire industry as a whole (UNWTO, 2001). ICTs and the Internet improvement empowered the new consumers who is becoming well-informed and is looking for special value for money and time. Tourists are much more enthusiastic to pursue their own preferences and schedules less following the crowds and packaged tours. Package tours are loosing market share in favour of independently organised tourism facilitated by dynamic packaging (Online Travel Market). ICTs offer a range of tools to facilitate and improve the process for information search, to destination/product consumption and post experience engagement. Customers search for travel-related information, make online air-ticket bookings, online room reservations, and other online purchases themselves instead of relying on travel agencies to undertake this process for them (Morrison, Jing, O'Leary, and Lipping, 2001). This trend is confirmed by Eurobarometer studies (2012), according to which, 53% of Europeans booked their holidays via internet, 49% of those who went on holiday in 2011 organised the various elements of their trip separately, rather than booking them altogether in one package. Besides, EU tourists still rely on recommendations from family and friends about where to go. Word-of-mouth was relevant to 52% of EU travellers, more than internet websites (40%). Thus, Internet is a crucial source information which influences the image that potential tourists will have of a tourist destination (Govers, Go and Kumar, 2007). Govers and Go (2003) reports that social network on the Internet can play an important role as a source of inside information for potential tourists, whether through images, interaction and multimedia on the Web, making it possible to configure a stronger and lighter image of a destination. So in order to achieve customers centricity, destinations need to integrate all their systems and develop mechanisms for both recording customer reaction to stimulus and also for providing suggestions to both employees and the customers themselves.

The Internet has deeply reshaped the way tourism-related information is distributed and the way people plan for and consumer travel (Buhalis & Law, 2008). In latest years, two "mega trends" have noticeably emerged on the Internet, underscoring changes that can significantly impact the tourism system. On one hand, so-called social media Websites, representing various forms of consumer-generated content (CGC) such as blogs, virtual communities, wikis, social networks, collaborative tagging, and media files shared on sites like YouTube and Flickr, have gained substantial popularity in online travelers' use of the Internet (Pan, MacLaurin, & Crotts, 2007). Many of these social media websites assist consumers in posting and sharing their travel-related comments, opinions, and personal experiences, which then serve as information for others. At the same time, the Internet also increasingly mediates tourism experiences as tourists use these social media sites to portray, reconstruct and relive their trips (Pudliner, 2007; Tussyadiah & Fesenmaier, 2009). On the other hand, due to huge amount of information available, searching has become an increasingly dominant mode in travellers' use of Internet. As such, search-engines have become a powerful interface that serves as the "gateway" to travel-related information as well as an important marketing channel through which destinations and tourism enterprises can reach and persuade potential visitors (Xiang, Wöber, & Fesenmaier, 2008).

Social media
Social media is one particularly powerful web-based application for travel and tourism. Social media is defined as "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content" (Kaplan & Haenlein, 2010). Although there a number of approaches in terms of social media taxonomies (Costantinides, et al., 2010; Kim, Jeong, & Lee, 2010; Mangold & Faulds, 2009). Social media provide a large amount of information regarding specific travel destinations, allowing both potential travellers to gather a high level

of information and tourism strategy researchers and planners to gather costumers feedback (Pan, MacLaurin, & Crotts, 2007). They also plays a most important role in the experience of travellers, with Xiang & Gretzels' research (2010) indicating that a majority of travel-related search results include a high rate of social media returns. These results allow travellers to access reviews, recommendations, and other information directly from other travellers, rather than from formal sources of marketing information (Xiang & Greztel, 2010). In addition, users may access social media not only on dedicates sites, such as Trip Advisor, Lonely Planet or Virtual Tourist, but also in the context of review and ratings featured on travel display sites. The growth of online social media represents a significant change in information provision from Internet sources of travel information. The role of Internet is more important in the formation of destination image.

The contents generated by these social media include a variety of new and emerging source of online information that are created, initiated, circulated, and used by consumers with the intent of educating each other about products, brands, services and issues (Blackshaw & Nazzarro, 2006). In contrast, to content provided by marketers and suppliers, social media are produced by consumers to be shared among themselves. Since more and more travellers seem to tap into this "collective intelligence" available on the Web (Litvin, Goldsmith, & Pan, 2008), this will challenge the established marketing practices of may tourism businesses and destinations. Today Web 2.0, also referred to as Travel 2.0 in tourism, include a range of new technological applications such as media and content syndication, mash-ups, tagging, wikis, web forums and message boards, costumer ratings and evaluation systems, virtual worlds, podcastings, blogs, and online videos (Schmallegger & Carson, 2008). Consumer blogs have emerged as one of the most prominent themes in research on social media in travel and tourism (Braun-LaTour, Grinley, & Loftus, 2006; Mack, Blose, & Pan, 2008; Waldhör & Rind, 2008).

The study on this type of social media focus on its use as well as its impact on travel decision making. Multimedia sharing (i.e., video, photos, podcasting, etc) represented by Websites such as YouTube and Flickr, has attracted tourism researchers by generating interests in understanding the role of this type of social media content in transforming travel experiences (Tussyadiah & Fesenmaier, 2009).

User generated content
Tourists have new ways to learn about tourist destinations and their products and services directly from other consumers in Internet. Travellers use a new method of communication that is similar to word-of-mouth and empowers consumers and through e-mail one another, post comments and feedbacks, publish online blogs, and form communities on the Internet improve the content.

User-generated content (UGC) or consumer-generated media (Blackshaw & Nazzaro, 2006) include online information sources that are created, initiated, circulated and used by consumers who intend to educate each other and share information about products, brands, services, personalities and issue. As this information emanates form a third party, consumers tend to rely on and trust it (Mack, Blose, & Pan, 2008; Pan et al., 2007), and it thus serves as a strong image builder (Ye, Zhang, & Law, 2009) for particular products. User-generated content is an electronic communication phenomenon enabled by Web 2.0, the second generation of web-based services, which allows people to collaborate and share information online (Cox, Burgess, Sellitto & Buultjens, 2008); because of the experiential nature of tourism products for which previous quality cannot be ascertained, word of mouth and, more recently, electronic word of mouth are much relied on by potential tourists in forming images (Cox et al., 2008; Gretzel, Hyan-Yoo, & Purifoy, 2007; Pan et al., 2007). Tourists search for online information pertaining to travel partners, attractions, costs, activities,

itineraries, transportation, possible stops, and food centres. Consequently, UGC information serves as an image source for potential tourists (Ye et al., 2009). Owing to the development of information communication technology (ICT) and the upsurge in usage of user-consumer generated content, there has been growing interest in its application in destination image research (Mack et al., 2008; Pan et al., 2007; Wenger, 2008).

User Generated Content (UGC) can be seen as the sum of all ways in which people make use of Social Media while Web 2.0 represents its ideological and technological foundation. The term, which achieved broad popularity in 2005, is usually applied to describe the various forms of media content that are publicly available and created by end-users (Kaplan & Haenlein, 2010).

User-generated content information serves as an image source for potential tourists (Ye et al., 2009). As destination image is developed through a complex process of learning and information sharing (Wenger, 2008) that usually pertains to diverse entities in a destination (Gallarza, Saura, & Garcia, 2002), researchers have to focus on the shared component that can be captured only when tourists communicate with each other in a communication space such as blog forums in order to capture destination image.

Tourism Destination Image Continuum model
Starting from the considerations above and focusing the attention only in online tourists that use social media to travel and sharing travel experience, destination imagine is the sum of travellers' experiences and their comments influence future tourists' destination choice through the use of social media. This means that the e-tourist's post-travel phase constitutes the pre-visit of another e-tourist in a continuous cycle and the destination image is constantly evolving. This hypothesis is showed by this function:

$$\gamma_{t=0} = TDI_{t=0} + \sum_{t=-\infty}^{t=-1} TDI \qquad \forall \chi \in SM$$

The choice of the tourist is a function of the amount of the tourist's image at the time of making the choice and the set of TDI which the tourist has as the result of his research on social media, from passed posts to those most immediately preceding the choice.

This model wants to underline the reset among pre and post travel in a destination in online space because all the two phases can represent the same time so the studies are developed during these years must be overcome to understand how destination changes and its speed of change. Understanding this new process is useful to study the phenomenon of pre and post visit in order to reach e-tourists' interests and understand what kind of new technological applications need to satisfy new travellers.

The model represents a first step through this new study method of destination image and it must be test on a specific online space related to a specific destination.

Conclusion

Starting from analysis of literature review done, the destination is a part of tourism product and image is one of its components. As a product, it offers several possibilities of attraction and sells itself to different typologies of clients. It is universally acknowledge that destination image influences the final choice and consumer behaviour.

Since 1970, numerous of researchers have studies every aspect of destination image from concept and dimension at the measurement, at the formation and change, at the role of tourists and residents until the management policies.

Thus, researchers defined two different components: the cognitive component represents the intellectual knowledge and understanding that an individual maintains about the destination; the affective component represents feelings about a destination. Both depend from each other.

Other researches have added at the destination image a relativistic and dynamic nature because images change from person to person, with time, depending on destination proximity to potential traveller, and with respect to others destinations. Besides, researchers have also found that images differ at diverse time points, such as pre- and post visitation images.

At the end of '90, studies on destination image are definitively based on consumer behaviour and at the two main components others agents are added that influence the consumer's final choice: the amount and type of information, consumer's age, level of education and socio-psychological motivations. So, the destination image process is formed by a complex process in which tourists develop a mental construct based upon a few selected impressions recollected from a flood of impressions. These impressions have their origin in information assimilated from non-tourist, non-commercial sources which contribute to the formation of the organic image, such as - media (news reports, magazines, books, movies), education (school courses) and the opinion of family or friends.

Therefore, researchers agree that image is mainly formed by stimulus factors comes from outside (travel agents, magazines, marketing promotion, etc.) and personal factors comes from consumers' social and psychological characteristics. In view of what it has been shown it becomes very important to study the formation of the image destination in order to understand how it is evolving into consideration the fact that the consumer, today, is located at the center of a technological revolution.

Since 2000 and especially in the last years, several studies have concentrate their attention on Internet and the use of social media to understand how consumers use these tools for seeking travel information and how destinations can be use technology for marketing promotion. These researches are really new and the knowledge in the field are needed to be improved.

Finally the model showed above is one opportunity to study the phenomenon destination image for of e-tourists in the choice of destination to enhance researches in this field and provide guidelines for destination promotion and competitiveness.

References

Baloglu, S., & D. Brinberg (1997) Affective Images of Tourism Destinations. Journal of Travel Research, 35 (4), pp.11–15

Baloglu, S., & K. W. McCleary (1999) U.S. International Travelers' Images of Four Mediterranean Destinations: A Comparison of Visitors and Nonvisitors. Journal of Travel Research, 38(November), pp.144–152

Blackshaw, P., & Nazzaro, M. (2006) Consumer-generated media (CGM) 101: Word-of-mouth in the age of the web-fortified consumer. New York: Nielsen BuzzMetrics

Braun-LaTour, K. A., Grinley, M. J., & Loftus, E. F. (2006) Tourist memory distortion. Journal of Travel Research, 44(4), pp.360–367.

Buhalis, D., and Law, R., 2008, Progress in tourism management: Twenty years on and 10 years after the internet: The state of eTourism research, Tourism Management, 29(4), pp.609–623.

Chon, K. S. (1991) Tourism Destination Image Modification Process: Marketing Implications. Tourism Management, March, pp.68–72.

Constantinides E., Lorenzo C. & Gómez- Borja M.A (2010) Effects of web experience on consumer choice: a multicultural approach, Journal of Internet Research, 20, (2), pp.188 – 209

Cox, C., Burgess, S., Sellitto, C., & Buutlejens, J. (2008) Consumer generated web based marketing. CRC for Sustainable Tourism Pty Ltd. Australia.

Crompton, J.L. (1979) An Assessment of the Image of Mexico as a Vacation Destination and the Influence of Geographical Location Upon That Image. Journal of Travel Research, 17 (1), pp.18–23.

Dann, G.M.S. (1996) Tourists images of a destination: an alternative analysis. Journal of Travel and Tourism Marketing, 5 (1/2), pp.41-55

Echtner, C. M. and Ritchie, J.R.B. (2003), "The Meaning and Measurement of Destination Image", The Journal of Tourism Studies, 14 (1): 37-48.

Fakeye, P. C., and J. L. Crompton (1991). "Image Differences Between Prospective, First-Time, and Repeat Visitors to the Lower Rio Grande Valley." Journal of Travel Research, 30(Fall): 10–16.

Gartner W. C. (1993). Image Formation Process. Journal of Travel Tourism Marketing, 2(2/3): 191-215.

Gartner W. C. (1993). Image Formation Process. Journal of Travel Tourism Marketing, 2(2/3): 191-215.

Gallarza, M. G., Saura, I. G., & Garcia, H. C. (2002). Destination image: Towards a conceptual framework. Annals of Tourism Research, 29(1), 56–78.

Govers, R., and F. Go. (2003). "Deconstruction Destination Image in the Information Age." Information Technology and Tourism, 6(1): 13–29

Govers, R., Go, F.M. & Kumar, K. (2007) Promoting Tourism Destination Image. Journal of Travel Research, 46 (1), pp.15-23.

Gretzel, U., Hyan-Yoo, K. & Purifoy, M. (2007). Online travel review study: The role and impact of online travel reviews. Texas: A&M University.

Gunn, C. (1972). Vacationscape: Designing Tourist Regions. Austin: Bureau of Business Research, University of Texas.

Gunn, C.A. (1988) Vacationscape: Designing Tourist Regions (2nd Ed.), Van Nostrand, NY. Holbrook, M.B.

Kaplan, A. M., & Haenlein, M. (2010). Users of the world unite! The challenges and opportunities of social media. Business Horizons 53, pp.59-68

Kim, W.G., Jeong, O.R., & Lee, S.W. (2010) On social web sites. Information Systems, 35 (2), pp.215-236

Litvin, S. W., Goldsmith, R. E., & Pan, B. (2008). Electronic word-of-mouth in hospitality and tourism management. Tourism Management, 29(3), 458–468

Mack, R. W., Blose, J. E., & Pan, B. (2008). Believe it or not: credibility of blogs in tourism. Journal of Vacation Marketing, 14(2), 133–144.

Mangold, W., Faulds, D. (2009) Social media: The new hybrid element of the promotion mix. Business Horizons 52(4), pp.357-365.

Morrison, A.M., Jing, S., O'Leary, J.T. & Lipping, A.C (2001) Predicting usage of the Internet for travel bookings: An exploratory study. Information Technology & Tourism, 4 (1), pp.15-30.

Murphy, L., Moscardo, G. & Benckendorff, P. (2007) Using Brand Personality to Differentiate Regional Tourism Destinations. Journal of Travel Research, 46 (1), pp.5-14.

O'Leary, S., & Deegan, J. (2003) People, pace, place: Qualitative and quantitative images of Ireland as a tourism destination in France. Journal of Vacation Marketing, 9 (3), pp.213-226.

Online Travel Market (2012) Travel planning. Available at < http://www.newmediatrendwatch.com/world-overview/91-online-travel-market?showall=1> [Accessed on 11 October 2012]

Pan, B., MacLaurin, T., & Crotts, J. C. (2007). Travel blogs and its implications for destination marketing. Journal of Travel Research, 46: 35–45.

Pudliner, B. A. (2007). Alternative literature and tourist experience: travel and tourist Weblogs. Journal of Tourism and Cultural Change, 5(1), 46–59.

Jafari, J. (2000). Encyclopedia of Tourism. Routledge World References. London

Schmallegger, D., & Carson, D. (2008). Blogs in tourism: changing approaches to information exchange. Journal of Vacation Marketing, 14(2), 99–110.

Tapachai, N., and R. Waryszak (2000). "An Examination of the Role of Beneficial Image in Tourist Destination Selection." Journal of Travel Research, 39 (1), pp. 37–44.

Tussyadiah, I., & Fesenmaier, D. R. (2009). Mediating tourist experiences: access to places via shared videos. Annals of Tourism Research, 36(1), 24–40.

UNWTO. (2001). eBusiness for tourism: Practical guidelines for destinations and businesses. Madrid: World Tourism Organisation.

Waldhor, K., & Rind, A. (2008) etBlogAnalysis – mining virtual communities using statistical and linguistic methods for quality control in tourism. In P. O'Connor, W. Hopken, & U. Gretzel (Eds.), Information and communication technologies in tourism 2008, pp.453–462. New York: Springer.

Wenger, A. (2008). Analysis of travel bloggers' characteristics and their communication about Austria as a tourism destination. Journal of Vacation Marketing, 14, pp.169-176.

Ye, Q., Zhang, Z., & Law, R. (2009) Sentiments classification of online reviews to travel destinations by supervised machine learning approaches. Expert System with Applications, 36 (6), pp.527–6,535.

Xiang, Z., & Gretzel, U. (2010). Role of social media in online travel information search. Tourism Management, 31(2), 179-188.

Xiang, Z., Wöber, K., & Fesenmaier, D. R. (2008) Representation of the online tourism domain in search engines. Journal of Travel Research, 47(2), pp.137–150

EVOLUTION OF SOCIAL MEDIA AND CONSUMER BEHAVIOR CHANGES IN TOURISM DESTINATION PROMOTION

Lo Presti Olga & Razaq Raj

Abstract

The evolution of the internet, as well as the constant evolution of society has lead to conceive new forms of communication, thus, new consumer behaviour. The new consumer is more sophisticated and therefore they need more specialized media where they can take information from. This new type of media is called social media, which in spite of the fact that its nature is in the very essence of the Internet communication. User-consumer content (UCC) and social media platforms have suppose a real revolution on the Internet. Nowadays, users can create content, uploaded it to the Internet and share their own experiences, opinions, thoughts and so on. This UCC and social media platforms form a new and more interactive source of information, essential and of highlight importance to the tourism sector which as Sheldon (1997) pointed out tourism is information intense industry due to the tourism product features.

Focusing on the tourism field and concentrating on the tourism product, it has to be considered social media complexity in order to understand consumer behaviour in tourism. The tourism product is not a simple item, good or service of consumption; the tourism product is "a bundle of activities, services and benefits that constitute experiences" (Medlick and Middleton 1973). It constitutes a mix of the characteristics of the services and the singular features of the tourism industry, what really differentiate the product from any physical good (Yilmaz and Bitizti, 2005).

This paper will examine the evolution of social media and consumer behaviour changes in tourism industry to manage destination promotion for the future. Advertising and promotional materials will be explored alongside social media to explore the authenticity and types of values being communicated through social media about the tourism destinations for modern travellers.

Keywords: Social media, tourist 2.0, destination image, user-consumer content

Introduction

As Reactive reports (2007, p.3): Web 2.0 refers to 'the second generation of web-based services that have gained massive popularity by letting people collaborate and share information online in previously unavailable ways'. It provides the means by which any individual is able to post their own content, opinions, videos, audio or imagery to the web for other users to see and respond to. O'Reilly (2005, p.1) defines Web 2.0 as "a set of principles that include the capacity to integrate information in new ways, the aspiration to harness distributed knowledge, and the need to engage users as co-developers".

A number of alternative phrases have been used to describe the type of sites and information that is now available online, since, Web 2.0 has emerged and begun to change the way that consumers engage with information

Lo Presti Olga is Assistant Researcher at Institute for Service Industry, Consiglio Nazionale delle Ricerche Via Michelangelo Schipa, 91, 80122 Naples, Italy (email: o.lopresti@irat.cnr.it)
Dr Razaq Raj is Senior Lecturer at School of Events, Tourism and Hospitality, Carnegie Faculty, Leeds Metropolitan University, (email:

presented via the Internet. According to Gretzel (2006,2007) terms such as 'User-generated Content' (UGC) or Consumer-Generated Media (CGM) are commonly used to highlight the pivotal role that individual consumers have in submitting, reviewing and responding to online content. Another common term used to describe the rapidly growing number of pages that contain user-generated content in various formats is 'social networking' (Reactive, 2007).

In marketing terms, UGC sites are effectively a form of 'consumer to consumer marketing' (Buhler, 2006). Essentially they offer a form of word-of-mouth marketing, whereby somebody who has an opinion about a product or service shares their views, way of life and experiences with other people (Ahuja et ali., 2007). Fernando (2007) also refers to UGC as 'social media' being the polar opposite to traditional forms of media and marketing, whereby content is generated by the 'consumer' rather than by the 'marketer'. There are various forms of Web 2.0 sites appearing on the Internet forming a 'social network' that enables Internet users to add content to websites in various forms including text dialogue and commentary, images, video content and general reviews and opinions on products, services, organisations or special interest topics (iProspect, 2007). Whatever terminology is used to describe Web 2.0 or user-generated content, there is no doubt that adoption of these sites is rapidly increasing. Historically, tourism researchers have found that advice from friends and relatives is the most frequently obtained and influential source of information used by consumers in their travel decision-making (Crotts, 1999; Perdue, 1993). Nowadays, social media is becoming increasingly crucial to hospitality and tourism enterprises. They has

revived the older decision-making processes prevalent before the emergence of mass media, when the exchange of opinions between one's families, relativities, friends, and neighbours was the basis for purchasing decisions (Pan & Crotts, 2012).

Methodology

With the intention of the exploration of changes in the evolution of social media and consumer behaviour to manage destination promotion, authors analysed the phenomenon of social media through a literature review of key theories and current related research. Books, journals, case studies, newspaper articles, online journals and the Internet were used as source of study. The use of secondary research is functional to explore the authenticity and types of values being communicated through social media about the tourism destinations for modern travellers.

Theoretical background

Word of mouth benefits

According to Henning-Thurau et al. (2004) individuals take part in this exchange in order to obtain all the necessary abilities to understand and use a product or service. Internet forms a platform for the viral spread of word of mouth communication. The sender and the receiver are the two participants in word of mouth communications. The receiver has the role to gains information for a purchase decision; the sender gives information about a product or service through comments reinforcing or weakening purchase decision. This constitutes the core of word of mouth (WOM) communications, the obtaining of benefits of an exchange of information. Blackwell et al. (2006) remarked the main benefits of WOM communications in the following chart:

Table 1: Word of mouth communication benefits

Hedonic Benefits	Functional Benefit
Receiver	
Decrease risk of new behaviour	More information about options
Increase confidence of choice	More reliable/credible information
Decreased cognitive dissonance	Less time spent on search
Increase likelihood and acceptance by a desired group or individual	Enhanced relationship with another individual
Sender	
Feeling of power and prestige of influencing other behaviours	Potential reciprocity of exchange
Enhanced position within a group	Increased attention and status
	Increase in number of individuals with similar behaviours
	Increased cohesion within group
	Satisfaction of verbal expression

Source: Blackwell, et al. (2006)

According the table above there are various benefits perceived by consumers. These benefits are higher if the consumer does not have a knowledge about a product or a service; is not able to evaluate products or services; thinks that advertising (traditional media) is false and less credibly; when consumer has great needs of social approval; the product or service complexity; when the relationship among sender and receiver is very strong; when a product or service is difficult to check; and the product is highly visible to others.

Over the years it has been proved that WOM communications have more influence on consumers than any other type of communication (Goldsmith and Horowitz, 2006); especially in the service sector due to the intangibility and risk associated with services (Murray, 1991). The need of word of mouth information and the increase importance of this phenomenon is given by the impossibility to test the product before consumption, thus, consumers' opinion become fundamental to elaborate an true idea on product or service and decide to purchase it. Tourists need to know by the hand of reliable sources how their experience is going to be like in order to reduce uncertainty and create some expectations of what they are going to find at a destination (Zeithaml et al. 2006). In addition, due to the fact that this informal communications which WOM constitutes does not imply any type of monetary or commercial refund, it is believed to be more unbiased (Bansal and Voyer, 2000); thus, more truthful than formal or official information. Therefore WOM is of highlight importance for tourists in their travels.

Communication in social media platforms are different from existing interpersonal communication theories, since they have tended to focus on face-to-face interaction in which the communicators are in close proximity and can draw upon a wealth of social context cues (Knapp & Daly, 2002). However, research focusing on the social emotional nature of computer-mediated communication (e.g., Lea & Spears, 1995; Parks & Floyd, 1996; Walther, 1992, 1996; Walther, Anderson, & Park, 1994), based on principles in social cognition and interpersonal relationship development from social psychology, suggest that given enough time, individuals can create fully formed impressions of others based solely on the linguistic content of written electronic messages. It is imperative that marketers understand how these impressions affect the assessment and use of WOM information about products, brands, and firms, and consequential consumer behavior both online and offline.

In fact, Steffes and Burgee (2008, p.43) underlines that WOM communications have a great influence upon the decision-making process in tourism; above all on the pre-purchase stages, when the information needs are higher (Blackwell et al. 2006). Furthermore, according to (Bristor, 1990 cited Bansal and Voyer, 2000, p.167) in the tourism field WOM communications serve as a reducer of the problems associated to low comparability and little search qualities, hence it is argued that WOM is widely used as a source of information

not only when searching for information but when comparing alternatives.

WOM communications are considered by many authors "one of the most powerful forces on the marketplace" (Silverman, 2001 p. 23).

Consumer behaviour and tourism product

Consumer behaviour reflects on the way consumers behave (Blackwell et al. 2006) focusing on individuals making decisions about the use of their available resources (time, money and effort) in the purchase of goods and services related to consumption (Schiffman and Kanuk 2005).
Nowadays, social media is becoming increasingly crucial to hospitality and tourism enterprises. They has revived the older decision-making processes prevalent before the emergence of mass media, when the exchange of opinions between one's families, relativities, friends, and neighbours was the basis for purchasing decisions (Pan & Crotts, 2012).

The choice of a tourism product is the outcome of a very complex set of decisions. When buying a holiday, the tourist is buying several tourism products, products which are different in nature as well as interdependent. As consequence the tourist will be affected by many factors, might be internal to the tourist or external in the environment, and which will influence the different elements of the holiday separately. (Swarbrooke and Horner, 2007). The tourism product is not a simple item, good or service of consumption; the tourism product is "a bundle of activities, services and benefits that constitute experiences" (Medlick and Middleton 1973 cited Carmichael 2005 p.185). It constitutes a mix of the characteristics of the services and the singular features of the tourism industry, what really differentiate the product from any physical good (Yilmaz and Bitizti, 2005).

The problematic of the tourist decision is that once the purchase of a holiday has been concluded, the tourist does not stop taking decisions. The purchase of a holiday is not the ultimate decision; the person will continue

taking decisions all over the holiday about the activities in which he/she may participate at the destination.

According to Crotts (1999) and Perdue (1993), advice from friends and relatives is the most frequently obtained and influential source of information used by consumers in their travel decision-making tourism researchers have found that. When concentrating on the tourism sector, this new innovation in ICT's and the new digital user leads to the new tourist. This new tourist which according to Buhalis (2002) is more sophisticated, more demanding, and requires high quality products; this tourist has a wider knowledge of tourism destinations and products, he is more experienced and he gives high value to money and time. The new tourist has clear preferences and he is always comparing the different alternatives.

The new tourists are more cultural and environmental educated, looking to get more involved in local societies when travelling. Tourists from all part of the most important tourism generating regions in the world are becoming frequent travellers, and they are linguistically and technologically skilled (Buhalis 2002). The tourist is not anymore a passive customer who goes to a travel agency and sits down for several hours so he goes out of the agency with a holiday purchased. The new tourist is more active, like to get involved in the purchase process and it is flexible in the choice and service delivery (Poon, 1993). Now he/she is using less travel agencies focusing more on the Internet as the main source of information and purchase of tourist products. According to Buhalis (2002) there are several factors which motivate tourists to use the Internet: first the richness and deepness of the information provided. Tourists can get a great amount of information of the different alternatives at the same time; second the information provided is easy to use; third tourists can access at the information at any time and with a low cost and fourth tourism products are usually offered at discounted prices as suppliers operate with fewer intermediaries. This were the main motives for using the Internet in its first phase (Web 1.0), however in the Web 2.0, apart from

the reasons named before, tourists go to the Internet to seek for the so-called social media platforms in order to find other users experiences and opinions, to share photos, videos, experiences, ideas and create new relationships. According to McGrath (2008, p.2-3) this is done for three main motives: "Trust, it is non marketed information and thus it is perceived as more reliable; Simplicity, it is easier to participate; and Interactivity of the content, which is wide and varied".

The table provides a wide range of factors which can influence the travel decision, both internal and external to the tourist. Between external factors, there are word of mouth communications and travel media, both influence decisions from an information source perspective. It must be said that all these factors are strongly related to tourist motivations and determinants, and that depending on the very single tourist they will affect in different ways.

Table 2: Factors influencing the holiday decision

Decision	
Internal to the tourist	External to the tourist
Personal motivations	Availability of suitable products
Personality	Advice of travel agents
Disposable income	Information obtained from destinations, tourism organizations, and the travel media
Health	Word-of-mouth
Family commitments	Political restrictions on travel e.g. visa requirements, war and cases of civil strike
Work commitments	Health problems and vaccination requirements in destinations
Past experiences	Special promotions and offers from tourism organizations
Hobbies and interests	The climate/destination of regions
Existing knowledge of potential holidays	
Lifestyle	
Attitudes, opinions and perceptions	

Source: adapted from Swarbrooke & Horner (1996)

According to Dépêches (2010, aeroweb-net.fr), "for instances, Trip Advisor currently purports to have over 40 million reviews attracting over 50 million unique users each month, it allows consumers access personally meaningful critiques not only from friends and relatives but also strangers".

Findings of prior studies indicate that online reviews can significantly influence the popularity and sales of certain products (Chevalier and Mayzlin, 2006; Liu, 2006; Adjei et al., 2009; Zhang and Tran, 2009; Zhu and Zhang, 2010). Xia and Bechwati (2008) indicated that consumers evaluated an online review as more trustworthy and useful when perceiving an agreement between the review and their own opinion which in turn led to higher purchase intentions. Sen and Lerman (2007) found that the valence of the reviews (positive vs negative) significantly affected consumers' attitude toward the reviewed product. In the context of tourism industry, travel reviews are helpful for

decision making on travels because it provides tourists with indirect experiences (Park et al., 2007). An online review has a dual role: it provides information about products and services, and serves as a recommendation (Park et al., 2007). Since tourists request destination information and its recommendation information simultaneously for travelling to a certain destination, in order to learn about it and reduce uncertainty (Bickart and Schindler, 2001), online travel reviews playing these two roles can completely meet tourists' information needs. The impact of eWOM in the tourism industry is especially strong. Intangibles such as tourism services cannot be evaluated before the consumption experience; therefore, purchasing intangible products and services brings a higher risk, so customers are more dependent on the interpersonal influence of eWOM (Lewis and Chambers, 2000).

Perhaps it is crucial to examine implications for hospitality and tourism marketing research, the

tools of promotion for hospitality and tourism businesses through social media and how consumer behavior is influenced by these tools.

Social media marketing strategies

Social media marketing efforts in tourism and hospitality related industries will most likely be an important element in the marketing mix for many years to come. As the usage of social media tools continues to grow and evolve, researchers should have ample opportunity to discover best practices, tie theory back to reality and conduct a myriad of projects that could help tourism and hospitality officials better understand the optimum approaches to social media marketing for destinations.

Internet and especially social media provides marketers of a one-to-many platform to develop strategies and communicate the products with a higher rate of spread than in traditional media. Although the electronic word of mouth's spread can be higher using social media it is of need importance for marketers to understand this new platform to communicate and support customer relationship in the best way.

Litvin et al. (2008) suggest that there are two major groups of strategies to manage eWOM, one is the informational and the other one is the revenue generating.

The target of Informational strategies is to promote online customer participation. Marketers have to achieve that customers join in discussions and feedback processes promoting the exchange of information. These results are obtained through the enhancement of product and service improvement for a better visitor satisfaction; resolving customer problems and doubts; understanding what customers think and say about their experience; and for monitoring the company reputation and analysing the current competitive strategies.
In informational strategies the information's management is crucial. Whilst positive WOM is related to encouraging purchases and the enhancement of a firm status, negative WOM is related to discouraging customer purchases and

to the reduction of a firm's image and revenues (Salomon 1998 cited Derbaix et al. 2003). Negative WOM can be extremely dangerous for the reputation of a company, therefore good customers relationships have to be maintained; because as Bougie et al. (2003) claimed, in the service industry when customers are dissatisfied they may remain passive, however, if they become angry they will complain and produce wide amounts of negative information for revenge purposes causing great damage to a company. This is the reason to maintain permanent monitoring systems, so negative reviews or information can be controlled. As Silverman (2001 p.27) said "WOM can be powerful positive force because of its credibility, but it can also be destructive because of its negativity".

For reinforcing the efforts on the generation of positive WOM evenue generating strategies are applied; positive WOM will stimulate a firm or destination image and reputation, so when a tourist search for information online, he/she will have more predisposition to purchase that destination or product, increasing the firm's revenues. Reichheld and Sasser (1990 cited in Derbaix et al. 2003) claimed that WOM has a great potential in marketing as it reduces expenses and it can to increase revenues if customers are engaged. These revenue generating strategies might be focus in consumers and customer relationships, the most satisfied and engaged online a customer is, the most positive eWOM will produce and better image will have the company with less money invested in marketing. For instances, revenue generating strategies might be carried out through a viral or a social media marketing strategy.
Viral marketing and Social Media Marketing (SMM) might be perceived as similar; however they have to be distinguished. According to Wilson (2000 p.1) viral marketing refers to "any strategy that encourages individuals to pass on a marketing message to others, creating the potential for exponential growth in the message's exposure and influence". It is based upon the idea of rapid spread of viruses which in the field of online communications it is translated to the "buzz" created by eWOM.

Besides, SMM is a new type of marketing which aim to achieve its objectives trough the participation in social media platforms by means of unique, attractive and useful content (Barra, 2008). Those contents go from simple articles in blogs to a video on YouTube. The main difference lies in the fact that SMM is focused on the raise of a brand visibility and Viral marketing in the spread of the word.

Conclusion

Web 2.0 affects all stages of travel decision process changing the way to identify and realise what consumers need (Sigala, 2012); according to Kim et al. (2004), web 2.0 has changed sources for searching and evaluate travel information; also channels for booking and buying products are different as well as the way to share and disseminate opinions at the end of the travel (Yoo & Gretzel, 2008)

Traditional marketing techniques have evolved to include social media marketing. Destinations have recognized the need to adapt over the past decade to meet the needs and demands of their consumers. However, with the social media platform changing every few months, destinations must constantly work to catch up and stay updated.

For destinations the most interesting aspect of these new forms of aggregation is people in the community are related to each other, even without knowing, we highlight information, news, content, proposals and also offers.

Today, one of the new generation of its tourism marketing tip to work from the perspective of community, trying to reach those groups of potential tourists, who are already on the network, or better yet, create new ones around the destination. A user who already knows the destination can be in fact interested in receiving regular information as well as a member of a group can also accept proposals from a destination or a tour operator, as long as, respond to their interests. Ultimately, it is the advertising forget to switch to engagement. A destination should create their own community because it is a potential market, already present and easily be enjoyed. It is essential to produce and distribute content, stimulate interaction, facilitate the exchange of views, comments, and also the creation of new content to promote destination and improve tourists.

References

Adjei, M.T., Noble, S.M., & Noble, C.H. (2009) The influence of C2C communications in online brand communities on customer purchase behavior, Journal of the Academy of Marketing Science, 38 (5), pp.634-53.

Ahuja, R.D., Michels, T.A., Walker, M.M., & Weissbuch, M. (2007) Teen perceptions of disclosure in buzz marketing, Journal of Consumer Marketing, 24 (3), pp.151–159.

Bansal, H.S., & Voyer, P.A. (2000) Word of Mouth Processes Within a Services Purchase Decision Context. Journal of Service Research, 3 (2), pp.166-177.

Barra, A. (5 April 2008). Social Media en auge y sin traducción al español. El Blog de Albert Barra: Marketing Hotelero 2.0, Distribución, CRM y Revenue Management. (Social Media at the pick and without translation to the Spanish language). Available from: http://www.albertbarra.com/social-media/social-media-en-auge-y-sin-traduccion-al-espanol/ [Accessed 10 August 2012]

Bickart, B. & Schindler, R.M. (2001) Internet forums as influential sources of consumer information. Journal of Interactive Marketing, 15 (3), pp.31-40.

Blackwell, L.D., Miniard, P.W. and Engel, J.F. (2006) Consumer behavior. 10th ed. Mason: Thomson Business and Economics

Bougie, R., Pieters, R., & Zeelenberg, M. (2003) Angry customers don't come back, they get back: The experience and behavioural implications of anger and dissatisfaction in

services. Journal of the Academy of Marketing Science, 31 (4), pp.377-393.

Buhalis, D. (2002) eTourism: Information technologies for strategic tourism management. New York: Financial Times Prentice Hall

Buhler, J.E. (2006) Destination Marketing in the Age of Web 2.0. Available at <http://www.hotelmarketing.com> [Accessed 23 October 2012]

Carmichael, B.A. (2005) Understanding the Wine tourism experience for winery visitors in the Niagara Region, Ontario, Canada. Tourism Geographies, 7 (2), pp.185-204

Chevalier, J.A. & Mayzlin, D. (2006) The effect of word of mouth on sales: online book reviews, Journal of Marketing Research, 43 (3), pp.345-54.

Crotts, J.C. (1999) Consumers decision making and prepurchase information search In Pizam, A. & Masfeld, Y. Consumer behavior in Travel and Tourism, New York: The Haworth Hospitality Press, pp.149-168.

Dépêches 2010. TripAdvisor becomes the first travel brand to break the 40 million unique monthly visitor barrier. Available at http://www.aeroweb-fr.net/depeches/2010/09/tripadvisor-becomes-the-first-travel-band-to-break-the40-million-unique-monthly-visitors-barrier [Accessed from 22 October 2012]

Derbaix, C., & Vanhamme, J. (2003) Inducing word of mouth by eliciting surprise-A pilot investigation. Journal of economic psychology, 24, pp.99-116.

Fernando, A (2007) Social media change the rules: Say farewell to top-down and hello to consumer-led communication, Communication World, 24 (1), pp.9-10.

Goldsmith, R.E., & Horowitz, D. (2006) Measuring Motivations for Online opinion seeking. Journal of Interactive Advertising, 6 (2), pp.3-14

Gretzel, U. (2006) Consumer Generated Content – Trends and Implications for Branding. e-Review of Tourism Research. 4 (3), pp.9-11.

Gretzel, U. (2007) Online Travel Review Study: Role & Impact of Online Travel Reviews.

Laboratory for Intelligent Systems in Tourism. Texas University.

Hennig-Thurau, T., Gwinner, K.P., Walsh, G., & Gremler D.D. (2004) Electronic word-of mouth via consumer opinion-platforms: what motivates consumers to articulate themselves on the Internet?, Journal of Interactive Marketing. 18 (1), pp.38-52.

iProspect (2007) iProspect Social Networking User Behavior Study, iProspect, Watertown, MA

Kim, W.G., Lee, C., & Hiemstra, S.J. (2004) Effects of an online virtual community on customer loyalty and travel product purchases. Tourism Management, 25, pp.343-355

Knapp, M. L., & Daly, J. A. (2002) Handbook of Interpersonal Communication. Thousand Oaks, CA: Sage.

Lea, R., & Spears, M. (1995) Love at First Byte? Building Personal Relationships over Computer Networks. In J. T. Wood & S. Duck (Eds.), Under-Studied Relationships: Off the Beaten Track, pp. 197–233. Thousand Oaks, CA: Sage.

Lewis, R.C. & Chambers, R.E. (2000), Marketing Leadership in Hospitality. Foundations and Practices, 3rd ed., Wiley, New York, NY.

Litvin, S. W., Goldsmith, R. E., & Pan, B. (2008) Electronic word-of-mouth in hospitality and tourism management. Tourism Management, 29 (3), pp.458-468

Liu, Y. (2006) Word of mouth for movies: its dynamics and impact on box office revenue, Journal of Marketing, 70 (3), pp.74-89.

McGrath, Michael G. (2008) Employing 'Social Networking Analysis' to Influence Tourism Events Decision-Making: A Pilot Study In: O'Connor, P., Höpken, W., Gretzel, U. Information and Communication Technologies in Tourism 2008: Proceedings of the International Conference in Innsbruck, Austria, 2008, Springer, pp.557-569

Medlik, S., and V. T. C. Middleton (1973), Product Formulation in Tourism. In Tourism and Marketing (vol. 13). Berne: AIEST.

Murray, K.B. (1991) A test of Services Marketing Theory: Consumer information acquisition activities. Journal of Marketing, 55 (1), pp.10-25

Parks, M. R., & Floyd, K. (1996) Making Friends in Cyberspace. Journal of Communication, 46, pp.80–97.

O'Reilly, T. (2005). What Is Web 2.0?: Design Patterns and Business Models for the Next Generation of Software, O'Reilly Network. Available from <http://www.oreillynet.com/lpt/a/6228> [Accessed 12 July 2012]

Pan, B. & Crotts, J.C. (2012) Theoretical models of social media, marketing implications, and future research directions In: Sigala, M., Christou, E., & Gretzel, U. eds., 2012. Social media in travel, tourism and hospitality. Ashgate Publishing Limited: Surrey, England, pp.73-85

Park, D.H., Lee, J., & Han, I. (2007) The effects of on-line consumer reviews on consumer purchasing intention: the moderating role of involvement, International Journal of Electronic Commerce, 11 (4), pp. 125-48.

Perdue, P.P. (1993) External information search in marine recreational fishing, Leisure Sciences, 15 (3), pp.169-187.

Reactive (2007). Web 2.0 for the Tourism & Travel Industry, Reactive, Melbourne.

Sheldon, P.J., (1997) Tourism Information Technology. Wallingford: CAB International

Schiffman, L. G. & Kanuk, L. L. (2005) Comportamiento del consumidor. Mexico: Pearson Education. "Consumer behaviour". Available from: http://books.google.com/books [Accessed 30 May 2012]

Sen, S. & Lerman, D. (2007) Why are you telling me this? An examination into negative consumer reviews on the web, Journal of Interactive Marketing, 21 (4), pp.76-94.

Sigala, M. (2012) The integration and impact of web 2.0 on business operations and strategies In: Sigala, M., Christou, E., & Gretzel, U. eds., 2012. Social media in travel, tourism and hospitality. Ashgate Publishing Limited: Surrey, England, pp.9-10

Silverman, G. (2001) The Secrets of Word of Mouth Marketing: how to trigger exponential sales trough runaway word of mouth. New York: AMACOM

Steffes, E.M., & Burgee, L.E. (2008) Social Ties and Online Word of Mouth. Internet Research, 19 (1), pp.42-59.

Swarbrooke, J. and Horner, S. (2007) Consumer behaviour in tourism. 2nd ed. Oxford: Butterworth-Heinemann

Walther, J. B. (1992) Interpersonal Effects on Computer-Mediated Interaction: A Relational Perspective. Communication Research, 19, pp.52–90.

Walther, J. B. (1996) Computer Mediated Communication: Impersonal, Interpersonal and Hyperpersonal Interaction. Human Communication Research, 23, pp.3–43.

Walther, J. B., Anderson, J. F., & Park, D. W. (1994) Interpersonal Effects of Computer-Mediated Communication: A Meta-Analysis of Social and Antisocial Communication. Communication Research, 21, pp.460–487.

Yilmaz, Y. and Bitizti, U. (2005) Performance measurement in the value chain: manufacturing v. Tourism. International Journal of Productivity and Performance Management, 55 (5), pp.371-389.

Xia, L. & Bechwati, N.N. (2008) Word of mouth: the role of cognitive personalization in online consumer reviews, Journal of Interactive Advertising, 9 (1), pp.108-28.

Yoo, K.H., & Gretzel, U. (2008) What motivates consumers to write online travel reviews? Information Technology & Tourism, 10, pp.283-295

Zhang, R. & Tran, T. (2009) Helping e-commerce consumers make good purchase decisions: a user reviews-based approach, in Babin, G., Kropf, P. and Weiss, M. (Eds), E-technologies: Innovation in an Open World, Springer, Berlin, pp. 1-11.

Zeithaml, V.A., Bitner, M.J., & Gremler, D.D. (2006) Services marketing: Integrative customer focus across the firm. 4th ed. London: McGraw-Hill.

Zhu, F., & Zhang, X. (2010) Impact of online consumer reviews on sales: the moderating role of product and consumer characteristics, Journal of Marketing, 74 (2), pp.133-14.

THE PERFECT POSITION: IDENTIFYING CENTRAL INDIVIDUALS IN ONLINE FOOD-RELATED SOCIAL NETWORKS

César Sahelices Pinto & Carmen Rodríguez Santos

Abstract

The potential of social media is huge. Millions of individuals interact on these platforms, creating networks through which 'electronic word-of-mouth' flows. By observing and analyzing these social networks, researchers can identify the spread of innovations throughout the network and obtain valuable and useful feedback for developing new ideas. This working paper presents an analysis of a food-related network on the Internet, identifies the most prominent actors and discusses some of the managerial implications.

Keywords: *eWoM, centrality, user-driven innovation, weak ties, food*

The power of 'electronic Word-of-Mouth'

Online weblogs, discussion forums, opinion web sites and social networks comprise the platforms most frequently used by consumers to share opinions, comments and reviews about products, facilitating all of them what is known as 'electronic Word-of-Mouth', or 'Word of Mouse' (eWoM).

Like traditional Word-of-Mouth (WoM), eWoM consists of an informal exchange of negative or positive information about products, services and brands, etc. However, in this case it is carried out on the digital platforms available on the Internet (Park and Lee, 2008; Taylor, 2010; Feng and Papatla, 2012). Some definitions of the concept are given in Appendix I, although the notion offered by Henning-Thurau et al. (2004) is the most widely accepted.

In spite of the similarity between traditional and electronic WoM, two important and helpful differences exist which facilitate the freer and quicker flow of information:

eWom transcends local boundaries and the small, intimate and private groups in which traditional 'WoM' usually occurs (from a person to another one); consumers are connected with other consumers beyond their personal circle (comprising relatives, friends and acquaintances, etc.) and outside their geographical and sociocultural borders. In other words, they are connected with consumers they do not and probably never will know, but with whom they share a common interest. Supported by the worldwide scope of the Internet, opinions and experiences are transmitted globally through eWoM from a single person to the entire world (Dellarocas, 2003; Steffes and Burgee, 2009; Cheung and Tadani, 2010; Munz and Sergiunaite, 2012).

Moreover, eWoM is usually written in an asynchronous way, passing from informants to recipients of information who are separated in terms of time and space, contrary to the case of traditional WoM where the conversation is oral and immediate. This also implies that the information uploaded onto the Internet remains available worldwide, anywhere, and at any time, rendering the flow of information exponentially freer and faster (Steffes and Burgee, 2009; Cheung and Tadani, 2010; Munz

César Sahelices Pinto, Universidad de León, Departamento de Dirección y Economía de la Empresa, Área de Comercialización e Investigación de Mercados, León, Spain. (email: cesar.sahelices@unileon.es)

Carmen Rodríguez Santos, Universidad de León, Departamento de Dirección y Economía de la Empresa, Área de Comercialización e Investigación de Mercados (email: carmen.santos@unileon.es)

and Sergiunaite, 2012; Datta, Chowdhury, and Chakraborty, 2005).

The consequence of the arrival of eWoM is obvious. Thanks to the Internet, individuals have access to much more knowledge and information at a much lower cost than ever before. Now, customers can evaluate products and brands, etc., and also obtain opinions from other consumers, decreasing risk in their purchase decisions and modifying the perception of brand images, among other outcomes.

Consumers abandon their passive role, progressively attaining a position of control, authority, and prominence in their own consumption activities and, consequently, in the success or failure of products and services, a phenomenon referred to by multiple authors as 'consumer empowerment' (Harrison, Waite, and Hunter, 2006; Newholm, Laing, and Hogg, 2006; Pires, Stanton, and Rita, 2006; Gil and Romero, 2008).

Aware of this complex context, the business world now demands a series of new professional profiles to meet these emerging needs. Whilst not aiming to be exhaustive, Appendix II enumerates some of these professions related to the new technologies, a rapidly growing sector.

The foregoing suggests that individuals' informal relationships (eWoM) arise from their need and desire to interact with the environment and other customers.

Homophily in online food-related social networks

Social networks emerge in response to or in order to satisfy the different interests and needs that individuals share and present beforehand by reason of their condition as social beings. Individuals seek to establish ties with other people with similar interests and needs, utilizing these relationships as a mean to achieve their objectives (Mehra, Kilduff, and Brass, 1998).

In addition to needs, there are numerous other motivations and similarities which further the formation of social networks both off- and online. Some of the most common examples are kinship and friendship, or commercial, work-related, affiliate, or hobby-related networks. Thus, those people who form part of a friendship network, whether off- or online, share their need for sympathy and affection, which does not at first fit in with those people interested in food topics, since the common need or hobby is not the same.

Traditionally, sociologists have documented the occurrence of homophily in populations sharing socio-demographic variables such as race or ethnicity, religion, gender, age, education, social class, occupation or affiliation (Verbrugge, 1977; Hoyt and Babchuk, 1983; Brass, 1985; McPherson and Smith-Lovin, 1987; Feld, 1981; Marsden, 1988; Ibarra, 1992; 1993; Mehra et al., 1998; McPherson, Smith-Lovin, and Cook, 2001; Gibbons and Olk, 2003; Rogers, 2003). All these studies have been carried out in specific settings through consulting small groups of people. The impossibility of exploring human relationships in a wider context, beyond geographical boundaries and social circles (workplaces or schools, etc.), has meant that it has been difficult to extrapolate the findings.

Nonetheless, more recent studies have proven the existence of other variables which although less evident, possess a high capacity to influence the formation and organization of social networks on a large scale, such as personality traits and other inner dimensions of the individual (Casciaro, 1998; Mark, 1998; Mehra, Kilduff, and Brass, 2001; Klein et al., 2004; Oh and Kilduff, 2008; Roberts et al., 2008; Kalish and Robins, 2006; Sasovova et al., 2010; Selfhout et al., 2010; Dolgova, 2011).

Furthermore, with the arrival of the Internet and Web 2.0, interests, hobbies, opinions, points of view and thoughts, etc. have become the most convincing components for evaluating homophily in this virtual participative world, since socio-demographic details such as age, gender, education or social status are not always available, and even when they are, they are not very reliable. In addition, the results obtained from such research are potentially much more conclusive and generalizable, given the possibility of reaching a greater number of individuals. Some of these studies can be consulted in Adamic and Adar (2003), Fiore and Donath (2005), Nowak and Rauh (2005), Crandall et al. (2008), and Bisgin, Agarwal, and Xu (2012).

In virtual environments, this kind of homophily, termed 'psychographic' (values, attitudes, interests, opinions or preferences), represents the main concept around which social networks are defined, and as can be seen, content may encompass a wide range of topics. In this study, an interest in food topics was the similarity criterion which linked consumers who formed online food-related social networks.

Lastly, a network of interconnected individuals emerges through which information and eWoM conversations flow from the start. Moreover, as Ryan and Gross (1943), Brown and Reingen (1987), Valente and Rogers (1995) and Hienerth

and Lettl (2011) have argued, by observing and analyzing these social networks, researchers can identify the diffusion of innovations throughout the network and obtain valuable and useful feedback for developing new ideas.

The analysis of online social networks: the graph theory

A social network is "a clearly delimited set of actors (individuals, groups, organizations, communities, global societies, etc.) tied to one another by means of a relation or a set of social relations" (Lozares, 1996; p. 108).

Figure 1. Example of a social network with an isolated actor.
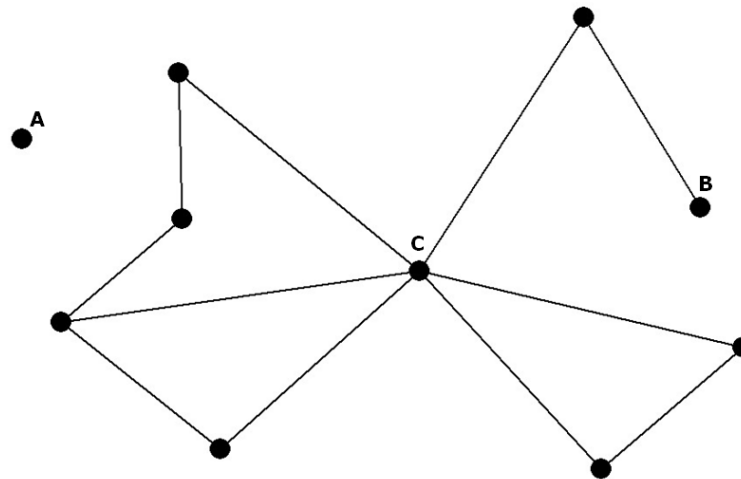
Source: Authors.

In the graph theory, a 'sociogram' is the graphic representation of a social network in a normally two-dimensional or Cartesian plane. Figure 1 illustrates an example of a sociogram, in which network actors are represented by nodes, vertices or points, and existing relationships by lines (also designated arcs, edges, ties, bonds or links).

Each of the actors in a social network is, by definition, a component of the ties-nodes structure, and therefore, a participant in the flow of communication. However, not all network actors are equally important from the point of view of a social network analysis (SNA). Returning again to Figure 1, as can be seen at first glance, actor 'A' is located apart from any information flow and actor 'B' has hardly any

kind of involvement in the network activity, while actor 'C' in contrast is the best connected of all of them, benefiting from a privileged position with regard to communication and information flows.

The sections below focus on the definition and theory of this privileged location in the network and the implications for actors in this situation.
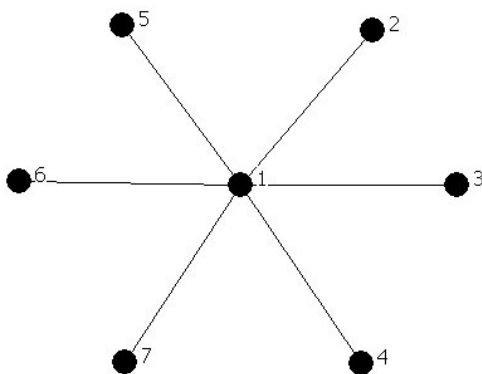
Centrality

One of the important functions of SNA is to locate and identify the most influential actors in a network, termed as the 'importance', 'prominence', or 'centrality' of an actor's position in a social network.

'Centrality' (Wasserman and Faust, 2009) refers to the 'strategic position of an actor within a

network' (p. 169), which makes him or her 'particularly visible to the other network actors' (p. 171). Despite relative unanimity regarding the conceptual basis for 'centrality', there are a variety of approaches for measuring this concept, including in-degree centrality, betweenness and flow betweenness centrality (Freeman, 1979; 2000), and 'eigenvector' and Bonacich's centrality (Bonacich, 1987; 1991; 2007).

In-degree centrality

Figure 2. Star graph.

In its simplest form, degree centrality helps to locate those actors involved to a greater extent in relationships with other actors. Degree centrality provides an easy, local, and dichotomous (among pairs of nodes) means to examine the number of links between actors, designating as 'central' the actor with multiple ties. Specifically, an actor is central according to 'degree centrality' if he or she exhibits more direct links with adjacent actors in comparison with other network actors.
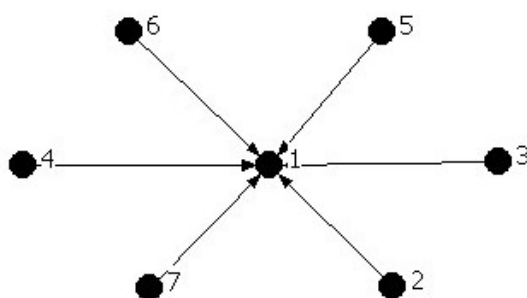
Figure 3. Circle graph.

Source: Authors (Netdraw 2.082).

In the star graph (Figure 2), actor 1 displays all possible links (degree 6) while the other actors show a single tie with actor 6, undoubtedly the most active and central in the network.

In the circle graph (Figure 3) however, there is no such precise conclusion, since all actors reveal the same number of ties: two. No single actor is more active than the others, and 'degree centrality' is the same for all of them.

'Degree centrality' can also be calculated using directed data, in this case providing more detailed information. Each node is examined to distinguish 'in-degree centrality' (number of
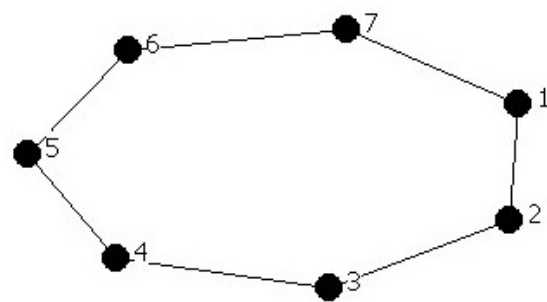
received ties) from 'out-degree centrality' (number of emitted ties).

Individuals with a high in-degree centrality, such as actor 1 in Figure 4 (left), are considered prestigious and relevant actors, since the other actors try to establish links with them, hence their importance. On the other hand, actors with a high out-degree centrality, such as actor 1 in Figure 4 (right), present high social activity, an information seeking approach and the capacity to access the rest of the actors.

Structurally identical graphs but with different relational directions lead, as seen, to divergent conclusions.
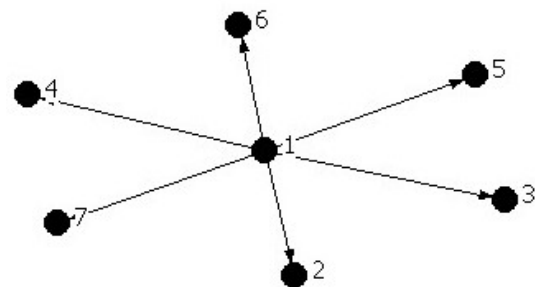
Figure 4. In-degree and out-degree centrality.

Source: Authors (Netdraw 2.082).

Betweenness centrality

According to 'betweenness centrality', two non-adjacent, not directly related actors can also interact, although this communication relies on other actors positioned in intermediate locations.

'Betweenness centrality' considers the position of an actor to be privileged when he or she is located along the shortest paths (geodesic distances) between pairs of actors, dominating the optimal communication routes.

Returning to the star graph, actor 1 is again the most central actor in terms of intermediation since he or she is located in the exact middle of the fifteen geodesic paths connecting the other six actors.

In the circle graph, control is balanced among all network participants.

'Betweenness centrality' is easy to perceive in simple graphs such as these shown. In more complex structures, however, it is necessary to turn to the different algorithms included in specific software packages.

'Eigenvector' of geodesic distances

The 'eigenvector' of geodesic distances represents a function which enables identification of the most central actors in terms of the global or general network structure, hence its usefulness and attractiveness.

Nevertheless, it presents two main disadvantages. First, this index cannot be calculated for asymmetric data (directed data), so it is based solely on the existence or absence of relationship inter-nodes, and second, the eminently mathematical nature of this measure renders its definition somewhat unintelligible.

Operationally, the 'eigenvector' works similarly to a factor analysis. The software extracts general dimensions from the global structure of the network, called 'eigenvalues', which are then compared to the dimensions of geodesic distances between all actors, calculating an 'eigenvector' for each actor.

The 'eigenvector' represents the degree to which the relationship dimension of actors fits in with the global relationship dimension of the network. Therefore, those actors with the highest 'eigenvectors' will be the most central actors in terms of the global or general network structure.

Flow betweenness centrality

Flow betweenness centrality considers all possible paths between actors, not only the shortest ones. This index assumes that actors will use all routes, including the most and the least efficient ones. It refers, then, to a generalization of betweenness centrality.

Flow betweenness centrality identifies the mediation position occupied by each actor in all existing communication flows between pairs of actors. It is the total participation index of an actor in a network.

Centrality and power according to Bonacich

The centrality index presented by Bonacich (1987) represents a modification to the concept as defined in previous indexes, discerning centrality on the basis of status or power. Bonacich (1987) proposed that actor relevance (centrality or power) depends on the contacts he or she has, and on the relevance of those contacts, that is, on the contacts that his or her own contacts have.

The author argued that being connected to well-connected actors renders an actor central, but not necessarily powerful. In contrast, being connected to weakly connected actors renders an actor powerful, since these actors are subordinate to the main actor.

In conclusion, it can be stated that the more connections actors adjacent to a particular actor have, the more central the latter, whereas the less relationships actors adjacent to a particular actor have, the more powerful is the latter.

Computer algorithms capture these ideas by adding a 'β factor' (or 'attenuation factor'), which varies between -1 and +1, in order to include the desired effect of actor connections.

A positive 'attenuation factor' (from 0 to 1) rewards the connections of actors adjacent to an actor, indicating his or her centrality in the network. Conversely, a negative 'attenuation factor' (from 0 to -1) penalizes the connections of actors adjacent to an actor in order to determine his or her power in the network.

Centrality, the key to innovation processes: generation of ideas and diffusion of new products

The study of network structures based on centrality analysis and its multiple approaches can be of great interest in the innovation process, as suggested by the Theory of the Strength of Weak Ties (TSWT), extended by Granovetter (1973), which occupies a distinguished place within SNA.

The principle goal of TSWT is the study of social network structures and attributes, the influence of actors' positions on network operation, the pattern of information flow and network content.

The strength of weak ties

In general terms, TSWT is based on a syllogistic structure: it consists of two propositions and a conclusion.

The first proposition states that the stronger the tie between two actors, the higher the probability that their social circle will overlap. In other words, it is more likely that these actors will have the same ties with third parties. Granovetter said that tie strength would be determined by a combination of several aspects, including time, frequency, power, trust and goods/services exchanged, so that if actor A (see Figure 5) has a strong tie with actor B, and actor B in turn has a strong tie with actor C, actors A and C will also tend to have a common tie, a weak one (weak tie), at least.

Figure 5. Triad formation according to TSWT.
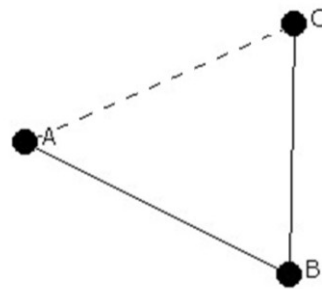
Source: Authors (Netdraw 2.082).

To give an example, if A is a close friend of B and B is a close friend of C, then A and C will probably be at least acquaintances.

The second proposition asserts that bridge ties are a source of new ideas and innovative information. A bridge tie is the tie, link or relationship that represents the only possible connection between two actors.

Actors who are connected by strong ties use to associate frequently, forming highly cohesive networks. Information flows easily in these groups, and consequently tends to be known and redundant for all actors. In contrast, a

bridge tie enables an actor to obtain fresh information from outer spheres.

In Figure 6, the link between A and B is a bridge tie, forming the only link between two groups which are especially cohesive in this case. Actor A is the only actor with a tie directed outside his or her group, and therefore probably receives non-redundant information proceeding from B (and his or her network) which is new to his or her own group and vice versa.

Lastly, Granovetter concluded that strong ties were not likely to be a source of new ideas and innovative information, reasoning as follows.

Figure 6. Bridge tie between A and B.
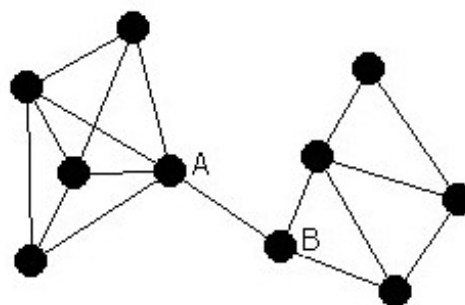
Source: Authors (Netdraw 2.082).

According to the first proposition, if A and B were tied by means of a strong relationship, then B should have a weak link with at least one of the other actors forming A's cohesive group, and vice versa. Thus, if this were true, the link between A and B would not then represent a bridge as there would be other paths for establishing inter group communication. Therefore, bridges are necessarily weak ties between actors and weak ties are necessarily bridges. Furthermore, since bridges are the origin of non-redundant messages, weak ties are indeed a real source of new ideas and innovative information. Hence the strength of weak ties.

Actors linked to other actors through weak ties occupy privileged positions in network information flow. These favored positions are precisely the central positions referred to in the previous section, and thus it can be reasoned that centrality, or the most central actors in an online social network (actors of reference for those with whom they are connected), such as actor 'C' in Figure 1, will be key consumers in the acquisition of new ideas and the diffusion of innovations.

Why the food sector?

In high uncertainty environments, such as the current situation, the food sector plays a strategic role for the future economy: it is one of the sectors least affected by the crisis, since foodstuffs are basic products. It presents a great potential for generating employment and including small, medium, and large-size companies simultaneously, conferring sufficient capacity and flexibility to cover international markets.

Nonetheless, when developing a new product or service, certain aspects must be taken into account, such as socio-demographic changes, new kinds of household, their consumption behavior, the legislative framework, different consumer typologies and the effects of the crisis, etc.

Although it is true that online food purchases are not the norm, there is an increasing tendency to share purchase experiences and seek those of other people. The food industry cannot afford to ignore the Internet. However, many food companies in Spain have no presence yet on social networks, and many others merely use them to transmit information rather than to interact with customers. This implies that the potential of social media to gain consumer loyalty, to identify trends or to launch new products successfully remains unexplored in some way.

Sampling and level of data analysis

Social network analyses are usually conducted with entire networks at a macro level. In these cases, it is common to turn to population censuses in order to identify and locate different actors (Lozares, 1996; Hanneman and Riddle, 2005). Data from an entire networks can produce powerful descriptions and comparisons of social structures; however, they can be extremely expensive and difficult to obtain, since the extraction of data from each and every population member and his or her relationships with the rest is a challenging task.

In the present study, data analysis was carried out on a meso level. Thus, due to information requirements, time and cost limits, the study was restricted to a sample or a subgroup of the global population.

Specifically, online snow-ball sampling was performed as described by Hanneman and Riddle (2005), which resulted in a group of 152 usable entries from people with personal food-related weblogs. The study was conducted in October 2011.

Relationship compilation

As with other sociometric measures, centrality requires the calculation of network data, in this instance, relationships between individuals. To this end, the most common procedure is to ask each respondent about the people he or she turns or would turn to for information, affection, advice, help or financing, etc., depending on the case (Coleman et al., 1966; Requena Santos, 1996; Rogers, 2003), and being standard practice to state a specific number of contacts to be cited by one participant.

Thus, with the aim of establishing links between participants, and consequently, a data base

with a grid structure, the individuals contacted were asked to answer the following question: "Please name the 5 Spanish language blogs to which you most frequently turn to obtain information and/or to ask for advice about food-related topics such as recipes, nutrition, restaurants, kitchen tools, etc.".

Graph generation

Once the data had been compiled and tabulated, a sociogram was constructed using Netdraw 2.082 software (Borgatti, 2002),

shown in Figure 7. Isolated nodes have been deleted, and the identity of nodes is not shown in order to respect their anonymity.

As can be seen, there are considerable differences between the relational structures of actors at an individual level. The calculation of centrality indexes according to the diverse approaches described in previous paragraphs enables identification of those individuals who occupy the most prominent positions not only in terms of local contexts, but also globally, in terms of the entire network.

Figure 7. Resultant sociogram with directed ties.
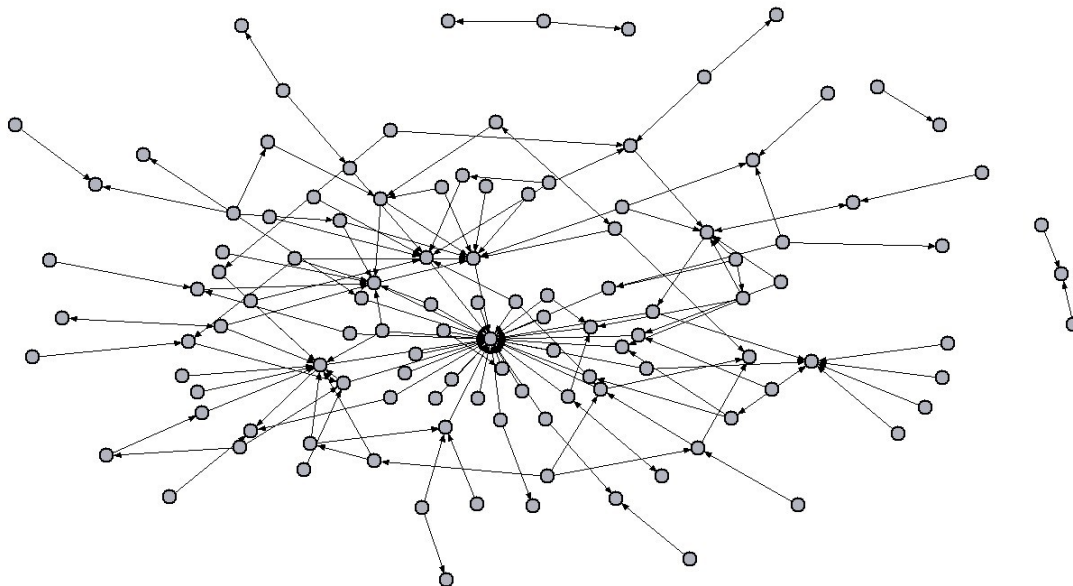
Source: Authors (Netdraw 2.082).

Graphic analysis of centrality

Calculation of the different centrality indexes was performed using the algorithms included in the Ucinet 6.411 software package (Borgatti, Everett and Freeman, 2002). A sociogram was directly generated for each index in which those individuals identified as the most central were highlighted, until reaching a total of six. These sociograms are depicted in Figures 8 to 13.
In-degree centrality (Figure 8)
The individuals mentioned most frequently by the sample components were numbers 1, 65,

68, 83, 129, 134 and 135. For this reason, they were considered prestigious and relevant actors.

In-degree centrality is easy to understand and visualize, but the information it provides refers solely to local and specific areas in the network (an actor's direct links), without regard to its global structure, for which it is necessary to turn to the other centrality indexes.

Figure 8. Individuals with a high in-degree centrality.
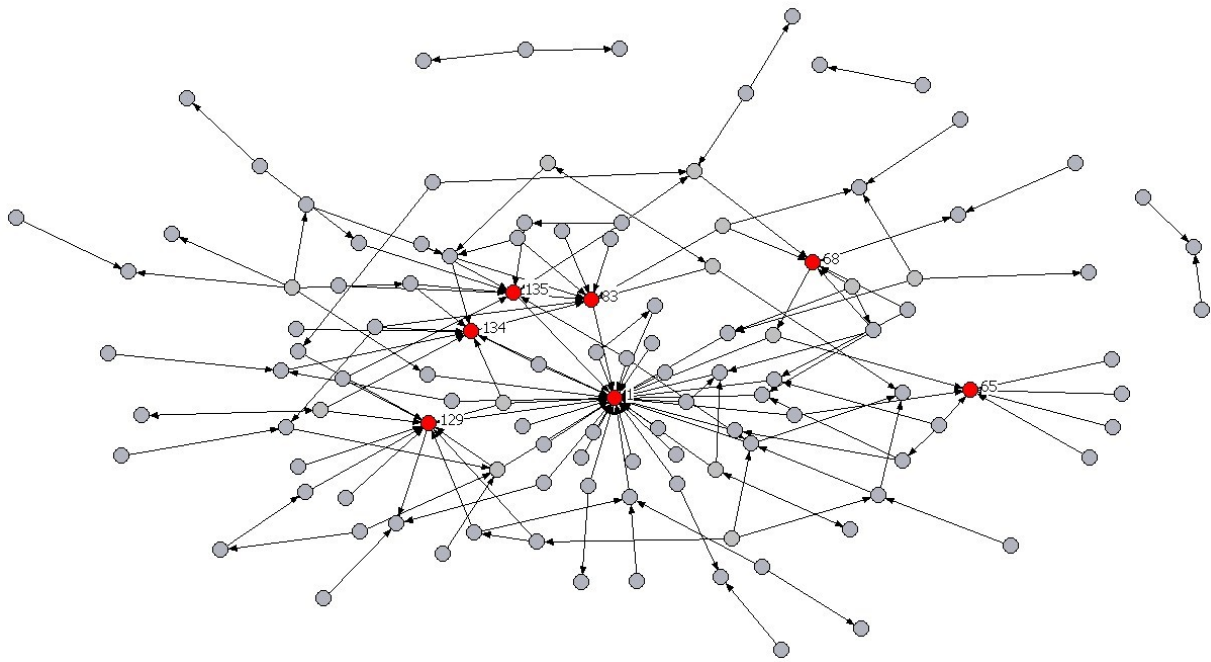
Source: Authors (Netdraw 2.082).

Figure 9. Individuals with a high betweeness centrality.
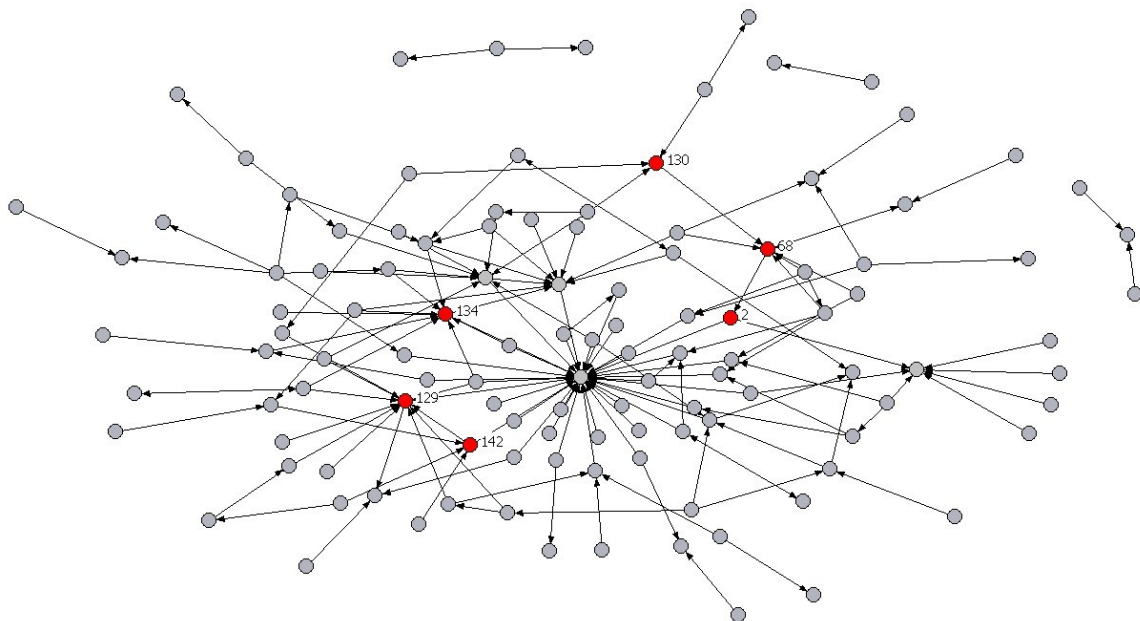
Source: Authors (Netdraw 2.082).

According to betweenness centrality, actors 2, 68, 129, 130, 134 and 142 occupy favored positions in the geodesic paths between all pairs of actors. Given the opportunity, they could dominate the shortest communication routes between individuals.
Eigenvector of geodesic distances (Figura 10)

In the case of the eigenvector of geodesic paths, actors 1, 41, 83, 129, 134 and 135 are most relevant. It is these actors' relationship dimension which fits best with the global relationship dimension of the network, and hence, they are the most central individuals.

Figure 10. Individuals with a high eigenvector.
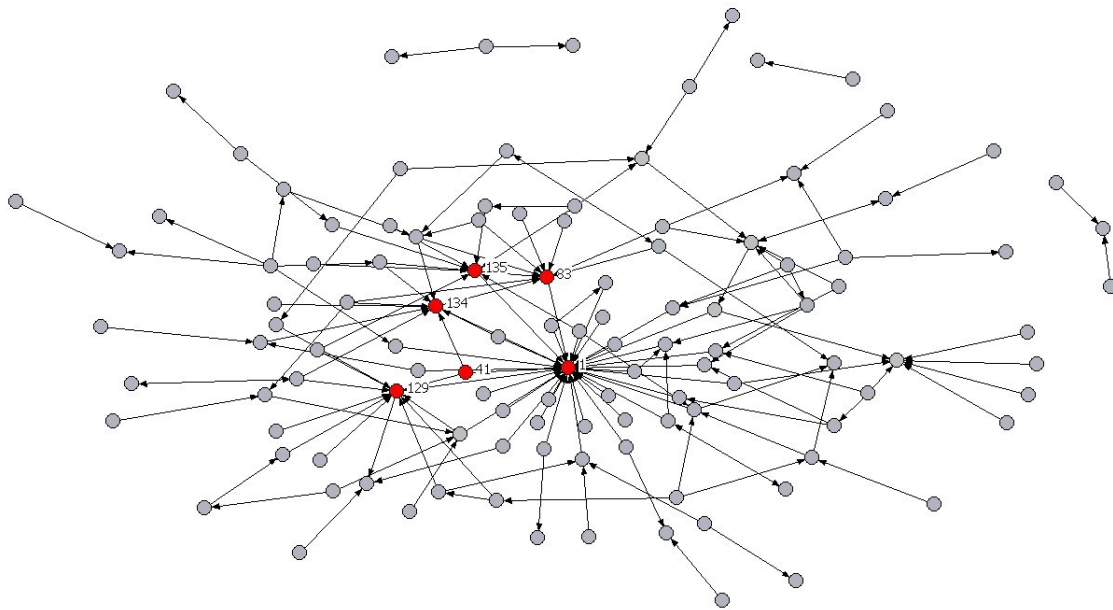
Source: Authors (Netdraw 2.082).

Flow betweenness centrality (Figure 11)
Flow betweenness centrality considers all communication paths between nodes, including the shortest and most efficient as well as the longest and most ineffective. The actors who appear most frequently here are numbers 2, 68, 83, 129, 134 and 135.

Figure 11. Individuals with a high flow betweenness centrality.
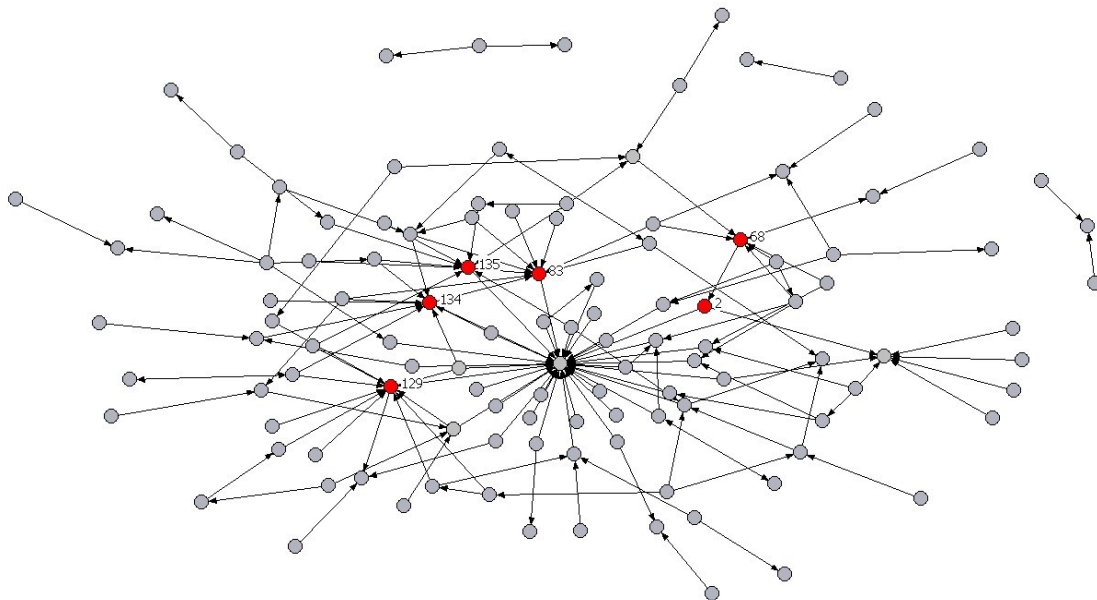
Source: Authors (Netdraw 2.082).

Figure 12. Central individuals according to Bonacich.
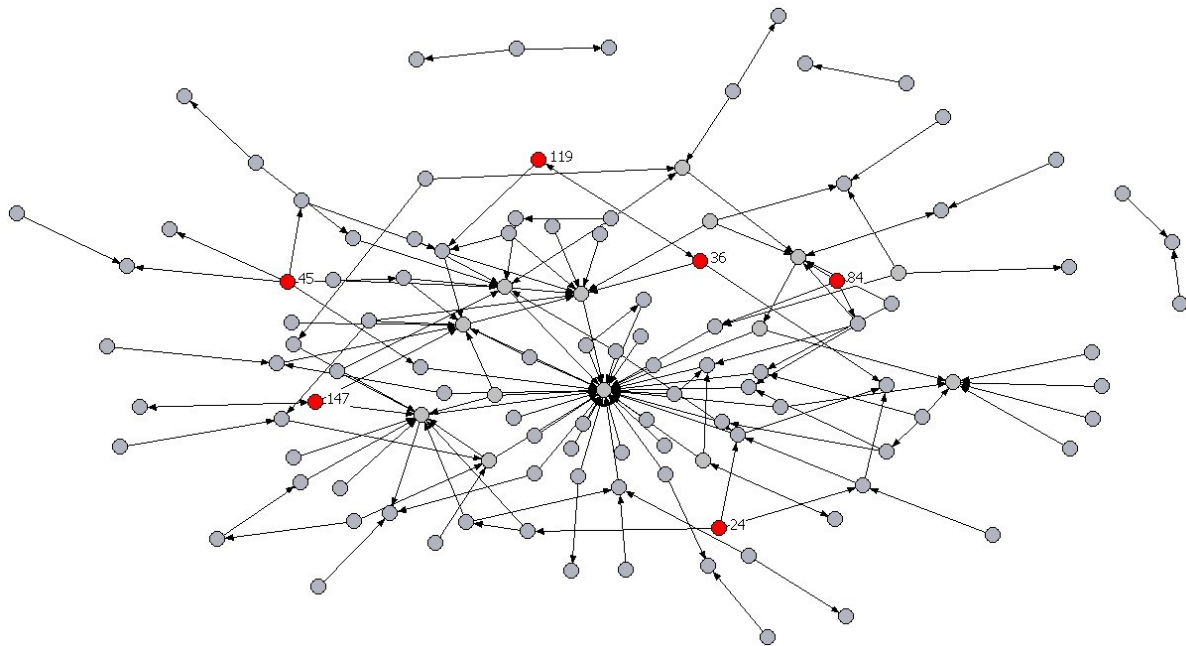
Source: Authors (Netdraw 2.082).

According to Bonacich, actors 24, 36, 45, 84, 119 and 147 are the most central in the network since they relate directly to other actors who in turn maintain a large number of relationships.

Power according to Bonacich (Figure 13)

Figure 13. Powerful individuals according to Bonacich.
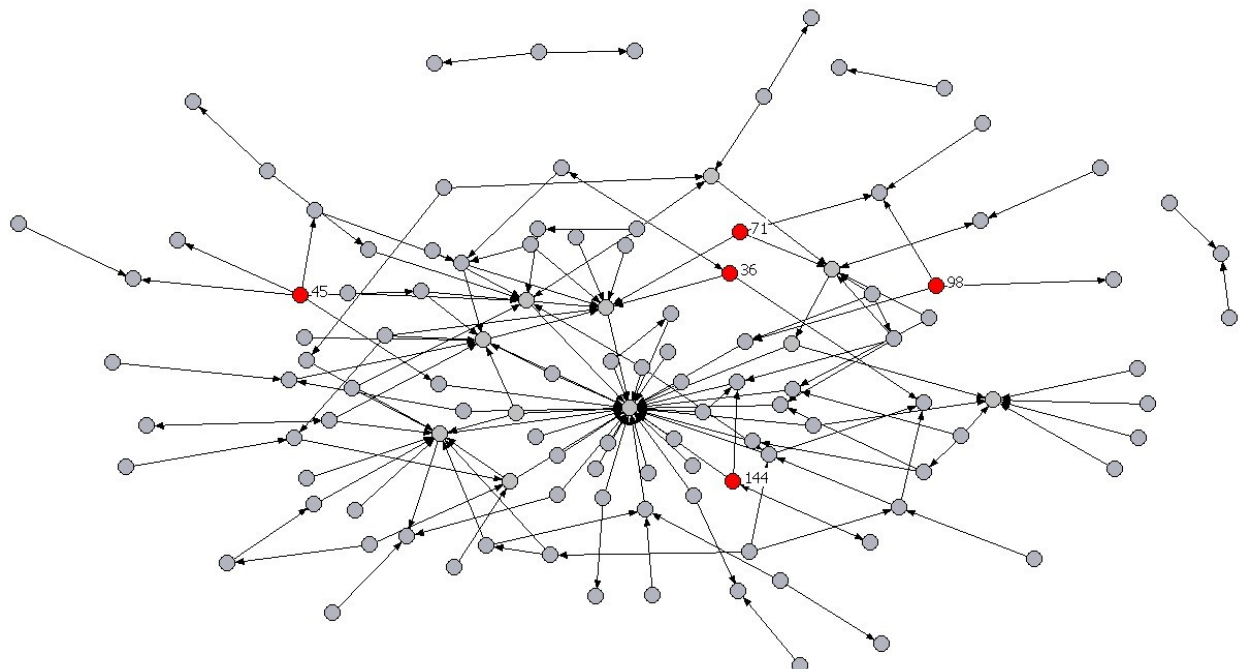
Source: Authors (Netdraw 2.082).

In contrast, actors 36, 45, 71, 98 and 144 emerge as the most powerful because the actors to whom they direct their links are weakly connected and for that reason, depend

on these actors to stay in the network communication flow.

Conclusions

Comparing the centrality and power indexes as proposed by Bonacich with the other centrality measures, a considerable difference can be observed in the selection criteria for relevant actors. Bonacich's measures tend to be more peripheral in contrast to the rest, focused to a greater extent on nuclear and core relational structures.

Table 1 shows the actors previously identified as central and the centrality measures with which they were identified.

Table 1. Summary of central individuals and centrality measures.
Source: Authors.

Node number	In-degree	Betweenness	Eigen vector	Flow Betweenness	Bonacich's Centrality	Bonacich's Power
1	Yes	No	Yes	No	No	No
2	No	Yes	No	Yes	No	No
24	No	No	No	No	Yes	No
36	No	No	No	No	Yes	Yes
41	No	No	Yes	No	No	No
45	No	No	No	No	Yes	Yes
65	Yes	No	No	No	No	No
68	Yes	Yes	No	Yes	No	No
71	No	No	No	No	No	Yes
83	Yes	No	Yes	Yes	No	No
84	No	No	No	No	Yes	No
98	No	No	No	No	No	Yes
119	No	No	No	No	Yes	No
129	Yes	Yes	Yes	Yes	No	No
130	No	Yes	No	No	No	No
134	Yes	Yes	Yes	Yes	No	No
135	Yes	No	Yes	Yes	No	No
142	No	Yes	No	No	No	No
144	No	No	No	No	No	Yes
147	No	No	No	No	Yes	No

Actors 68, 83, 129, 134 and 135 emerged as central on a larger number of occasions (129 and 134, and 68, 83 and 135 in four out of six occasions, and 68, 83 and 135 in three out of six occasions). Contrary to what one would expect a priori, actor 1 is not the most central, appearing in two out of six criteria together with other three actors, despite occupying the graphic core of the network. Rather, it is the actors on the periphery of the network who have better connections (Figure 14). This represents a finding which is hidden by the visual network structure.

Figure 13. Central individuals on more occasions.
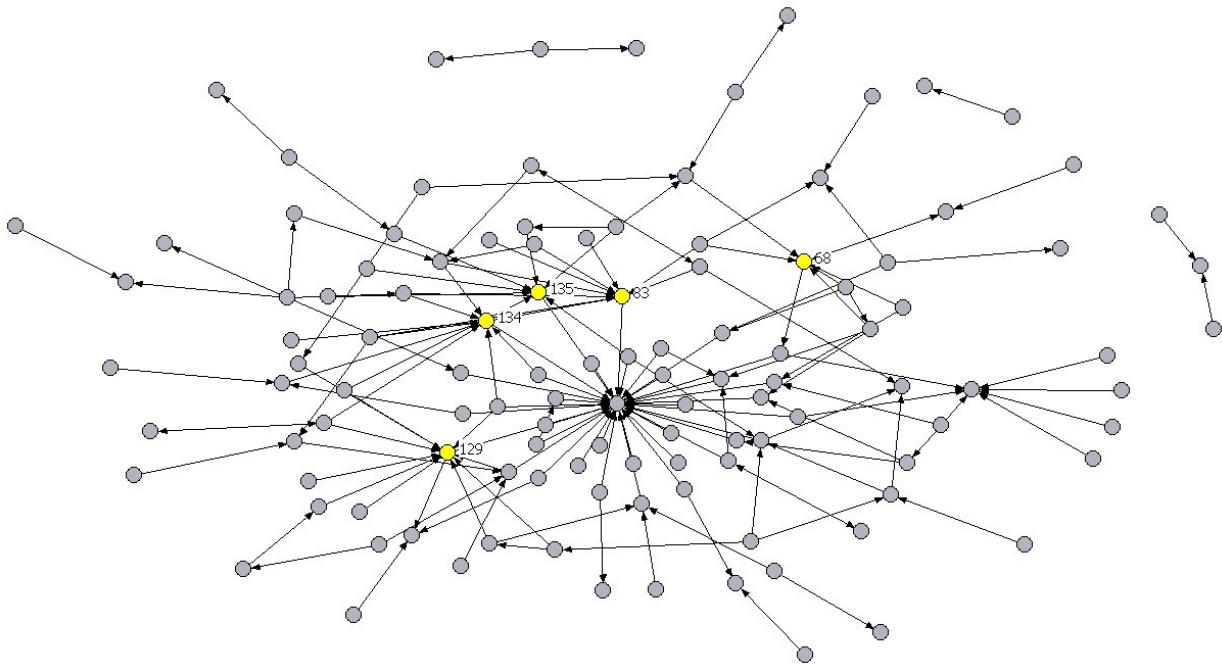
Surce: Authors (Netdraw 2.082).

Actors 68, 83, 129, 134 and 135 are properly connected individuals who embody the link between the network core and the periphery, enabling them to profit from a doubly favored position: on one hand, they are located next to the network core (actor 1), where communication flows are more continuous, stronger and less redundant; and on the other, they perform a role as mediators in the paths which join the network core with the rest of the nodes, meaning that the information the peripheral nodes receive will have previously passed through mediation positions.

Value and managerial implications

At this stage, one of the main advantages of the proposed methodology is evident. SNA is a simple and helpful research technique, rendering it accessible and attractive to a variety of communities. Despite dispensing with the statistical procedures for estimating validity of results integrated in other techniques, the scientific quality and accuracy of SNA is beyond reasonable doubt.

With respect to marketing and business research, the study of centrality and online social networks encompasses two aspects that businesses cannot afford to ignore in the current context.

Direct observation of online social networks allows companies to identify the consumers who talk about their products and services, to determine their profiles and to obtain first-hand information about comments with so much impact on their corporate image, and thus, on their results. By gaining knowledge of eWoM in this way, businesses will be able to dominate and control complex situations and, if necessary, to emit a suitable response to the market.

In particular, centrality analysis makes possible the identification of those actors who, due to their positions, are the most prominent in these macro-networks composed of thousands and thousands of individuals, facilitating the efficiently targeting of communication efforts toward concrete goals.

In turn, central actors can perform other attractive roles for the company, providing the link between this latter and the end consumer:

Thanks to them, knowledge of new products and services can be disseminated more rapidly, representing savings in advertising.

These actors can provide a greater amount of non-redundant information necessary to develop new product ideas, since they form the core where customer opinions converge.

Limitations and further research

Bearing the above in mind, this study presented two main limitations.

The first aspect to consider is the expiration of these kinds of study. Social networks, in this case personal weblogs, constitute transient and changeable populations that grow and decrease constantly with emerging and vanishing individuals. As a consequence, relationships between actors can reflect different information in the short-term.

In addition, the limited sample size renders it difficult to generalize the final results across such a huge population.

These problems imply the need to increase the sample size in order to achieve a higher scientific strength.

Working with a larger group would produce more representative and stable results in terms of population and time.

Another possible option for minimizing bias would be the construction of a more global and holistic model which considers the variables governing the behavior of those consumers who share contents on the Internet, in accordance with the line indicated by Brass (2002) and by Borgatti and Halgin (2011) when they talk about the antecedents and consequences of networks.

References

Adamic, L. A. and Adar, E. (2003). Friends and neighbors on the web. Social Networks, 25(3), 211–230.

Bisgin, H., Agarwal, N., y Xu, X. (2012). A study of homophily on social media. World Wide Web, 15, 213–232.

Bonacich, P. (1987). Power and centrality: A family of measures. American Journal of Sociology, 92, 1170–1182.

Bonacich, P. (1991). Simultaneous group and individual centralities. Social Networks, 13, 155–168.

Bonacich, P. (2007). Some unique properties of eigenvector centrality. Social Networks, 29 555-564.

Borgatti, S.P. (2002). NetDraw: Graph Visualization Software. Harvard, MA: Analytic Technologies.

Borgatti, S.P., Everett, M.G. and Freeman, L.C. (2002). Ucinet for Windows: Software for Social Network Analysis. Harvard, MA: Analytic Technologies.

Borgatti, S. P. and Halgin, D. S. (2011). On Network Theory. Organization Science, 22(5), 1168-1181.

Brass, D. J. (1985). Men's and women's networks: A study of interaction patterns and influence in an organization. The Academy of Management Journal, 28(2), 327–343.

Brass, D. J. (2002). Social Networks in organizations: Antecedents and consequences. Unpublished manuscript.

Brown, J. J. and Reingen, P. H. (1987). Social ties and word-of-mouth referral behaviour. Journal of Consumer Research, 14(3), 350-362.

Casciaro, T. (1998). Seeing things clearly: Social structure, personality, and accuracy in social network perception. Social Networks, 20(4), 331–351.

Chan, Y.Y.Y. and Ngai, E.W.T. (2011). Conceptualising electronic word of mouth activity: An input-process-output perspective. Marketing Intelligence & Planning, 29 (5), 488-516.

Cheung, C. M. K. and Thadani, D. R. (2010). The Effectiveness of electronic word-of-mouth communication: A literature analysis. 23rd Bled eConference (eTrust: Implications for the Individual, Enterprises and Society). June 20 - 23, 2010; Bled, Slovenia.

Coleman, J., Katz, E., and Menzel, H. (1966). Medical Innovation: A Diffusion Study. Nueva York: Bobbs-Merry.

Crandall, D., Cosley, D., Huttenlocher, D., Kleinberg, J., and Suri, S. (2008). Feedback effects between similarity and social influence

in online communities. In: Proceeding of the 14th ACM SIGKDD International Conference on Knowledge Discovery and Data Mining, pp. 160–168. New York: ACM.

Datta, P. R., Chowdhury, D. N., and Chakraborty, B. R. (2005). Viral marketing: New form of word-of-mouth through Internet. The Cambridge Business Review, 3(2), 69-75.

Dellarocas, C. (2003). The digitization of word of mouth: Promise and challenges of online feedback mechanisms. Management Science, 49(10), 1407-1424.

Dolgova, E. (2011). Birds of the feather flock together 2.0: Is there a personality based homophily? *Proceedings of the 8th International Conference on Applications of Social Network Analysis.* University of Zurich & ETH Zurich, September 13-16.

Feld, S. L. (1981). The focused organization of social ties. American Journal of Sociology, 86, 1015–1035.

Feng, J. and Papatla, P. (2012). Is online word of mouth higher for new models or redesigns? An investigation of the automobile industry. Journal of Interactive Marketing, 26, 92–101.

Fiore, A. T. and Donath, J. S. (2005). Homophily in online dating: When do you like someone like yourself? In: CHI'05 Extended Abstracts on Human Factors in Computing Systems, 1371–1374. New York: ACM.

Freeman, L. C. (1979). Centrality in social networks: Conceptual clarification. Social Networks, 1, 215–239.

Freeman, L. C. (2000). La centralidad en las redes sociales. Clarificación conceptual. Política y Sociedad, 33, 131-148.

Gibbons, D. E. and Olk, P. M. (2003). Individual and structural origins of friendship and social position among professionals. Journal of Personality and Social Psychology, 84, 340-351.

Gil, V. A. and Romero, F. J. (2008), Crossumer: Claves para entender el consumidor español de nueva generación. Barcelona (Spain): Ediciones Gestión 2000.

Goldsmith, R. E., and Horowitz, D. (2006). Measuring motivations for online opinion seeking. Journal of Interactive Advertising, 6(2), 1–16.

Granovetter, M. S. (1973). The strength of weak ties. *American Journal of Sociology*, 6, 1360–1380.

Hanneman, R. A. and Riddle, M. (2005). Introduction to Social Network Methods. Riverside, CA: University of California, Riverside. Free text available at http://www.faculty.ucr.edu/~hanneman/ the 12/07/2011.

Harrison, T., Waite, K., and Hunter, G. L. (2006). The internet, information and empowerment. European Journal of Marketing, 40(9/10), 972-993.

Hennig-Thurau, T., Gwinner, K. P., Walsh, G., and Gremler, D. D. (2004). Electronic word-of-mouth via consumer-opinion platforms: What motivates consumers to articulate themselves on the Internet? Journal of Interactive Marketing, 18(1), 38-52.

Hienerth, C. and Lettl, C. (2011). Exploring how peer communities enable lead user innovations to become standard equipment in the industry: Community pull effects. *Journal of Product Innovation Management*, 28(*1*), 175–195.

Hsieh, J. K., Hsieh, Y. C., and Tang, Y. C. (2012). Exploring the disseminating behaviors of eWOM marketing: Persuasion in online video. Electronic Commerce Research, 12, 201–224.

Hoyt, D. R. and Babchuk, N. (1983). Adult kinship networks: The selective formation of intimate ties with kin. Social Forces, 62(1), 84–101.

Ibarra, H. (1992). Homophily and differential returns: Sex differences in network structure and access in an advertising firm. Administrative Science Quarterly, 37(3), 422–447.

Ibarra, H. (1993). Network centrality, power, and innovation involvement: Determinants of technical and administrative roles. The Academy of Management Journal, 36(3), 471-501.

INKS (2012). Guía Infoempleo Kschool de las Nuevas Profesiones. File available at http://blog.infoempleo.com/wp-content/uploads/2012/02/guia-inks-Vfinal-DIGITAL-OK.pdf (retrieved the 31/07/2012).

Kalish, Y., and Robins, G. (2006). Psychological predispositions and network structure: The relationship between individual predispositions, structural holes and network closure. Social Networks, 28(1), 56–84.

Khammash, M. and Griffiths, G. H. (2011). Arrivederci CIAO.com, Buongiorno Bing.com' - Electronic word-of-mouth (eWOM), antecedences and consequences. International Journal of Information Management, 31, 82–87.

Klein, K. J., Lim, B. C., Saltz, J. L., and Mayer, D. M. (2004). How do they get there? An examination of the antecedents of centrality in team networks. The Academy of Management Journal, 47(6), 952–963.

Lozares C. (1996). La teoría de redes sociales, Papers, 48, 103-126.

Mark, N. (1998). Beyond individual differences: social differentiation from first principles. American Sociological Review, 63, 309–330.

Marsden, P. V. (1988). Homogeneity in confiding relations. Social Networks, 10, 57–76.

McPherson, J. M., and Smith-Lovin, L. (1987). Homophily in voluntary organizations: Status distance and the composition of face-to-face groups. American Sociological Review, 52(3), 370-379.

McPherson, J. M., Smith-Lovin, L., and Cook, J. M. (2001). Birds of a feather: Homophily in social networks. Annual review of sociology, 27, 415–444.

Mehra, A., Kilduff, M., and Brass, D. J. (1998). At the margins: A distinctiveness approach to the social identity and social networks of underrepresented groups. The Academy of Management Journal, 41(4), 441-452.

Mehra, A., Kilduff, M., and Brass, D. J. (2001). The social networks of high and low self-monitors: Implications for workplace performance. Administrative Science Quarterly, 46(1), 121-146.

Munz, K. and Sergiunaite, V. (2012). Electronic word-of-mouth (eWOM): The relationship between anonymous and semi-anonymous eWOM and consumer attitudes (master thesis). University of Jönköping (Sweden).

Newholm, T., Laing, A., and Hogg, G. (2006). Assumed empowerment: Consuming professional services in the knowledge economy. European Journal of Marketing, 40(9/10), 994-1012.

Nowak, K. L. and Rauh, C. (2005). The influence of the avatar on online perceptions of anthropomorphism, androgyny, credibility, homophily, and attraction. Journal of Computer-Mediated Communication, 11(1), 153–178.

Oh, H. and Kilduff, M. (2008). The ripple effect of personality on social structure: Self-monitoring origins of network brokerage. Journal of Applied Psychology, 93(5), 1155-1164.

Park, D. H. and Lee, J. (2008). eWOM overload and its effect on consumer behavioral intention depending on consumer involvement. Electronic Commerce Research and Applications, 7, 386–398.

Pires, G. D., Stanton, J., and Rita, P. (2006). The internet, consumer empowerment and marketing strategies. European Journal of Marketing, 40(9/10), 936-949.

Requena Santos, F. (1996). Redes sociales y cuestionarios. Madrid: CIS, Cuadernos metodológicos, nº 18.

Roberts, S. G., Wilson, R., Fedurek, P., and Dunbar, R. I. M. (2008). Individual differences and personal social network size and structure. Personality and individual differences, 44(4), 954–964.

Rogers, E. M. (2003): Difussion of Innovations (5th Edition). New York: The Free Press.

Ryan, B. and Gross, N. (1943). The diffusion of hybrid seed corn in two Iowa communities. Journal of Rural Sociology, 8(1), 15–24.

Salzman, M., Matathia, I., and O'Reilly, A. (2004). Buzz… Le Marketing du Bouche-à-Oreille. Paris: Pearson France (Village Mondial).

Sasovova, Z., Mehra, A., Borgatti, S. P., and Schippers, M. C. (2010). Network churn: The effects of self-monitoring personality on brokerage dynamics. Administrative Science Quarterly, 55(4), 639–670.

Selfhout, M., Burk, W., Branje, S., Denissen, J., van Aken, M., and Meeus, W. (2010). Emerging late adolescent friendship networks and big five personality traits: A social network approach. Journal of Personality, 78(2), 509-538.

Steffes, E. M. and Burgee, L. E. (2009). Social ties and online word of mouth. Internet Research, 19(1), 42 – 59.

Taylor, D. G. (2010). "I speak, therefore I am:" Identity and self-construction as motivation to engage in electronic word of mouth (doctoral thesis). University of North Texas, Texas (USA).

Verbrugge, L. M. (1977). The structure of adult friendship choices. Social Forces, 56(2), 576–597.

Wasserman, S. and Faust, K. (2009). Social Network Analysis: Methods and Applications (19th Edition). UK: Cambridge University Press.

Xia, L. and Bechwati, N.N. (2008). Word of mouse: The role of cognitive personalization in online consumer reviews. Journal of Interactive Advertising, 9 (1), 108-128.

Appendix I. Definitions of 'electronic Word-of-Mouth'.

Author	Definition
Hennig-Thurau et al. (2004, p. 39), Cheung and Thadani (2010, p. 329), Taylor (2010, p. 15), Chan and Ngai (2011, p. 489), Hsieh, Hsieh, and Tang (2012, p. 202), Munz and Sergiunaite (2012, p. 2)	"Any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and intstitutions via the Internet".
Salzman, Matathia, and O'Reilly (2004, p. 230)	"Transference of information through social networks, frequently in a spontaneous way".
Goldsmith and Horowitz (2006, p. 1), Khammash and Griffiths (2011, p. 82)	"Electronic 'WoM' is base on the concept of interpersonal influence now expanded into cyberspace".
Park and Lee (2008, p. 386)	"Positive or negative statements made by consumers about a product for sale in Internet shopping malls".
Xia and Bechwati (2008, p. 3)	"Word of mouse differs from traditional WOM in that sources of information are individuals who have little or no prior relationship with the information seeker".
Steffes and Burgee (2009, p. 42)	"Various forms of WOM include both offline communication (traditional) WOM and Internet facilitated online WOM".

Source: Authors.

Appendix II. New professional profiles.

Web Analytics Professional	Product Manager
Information Architect	SEM Specialist (Search Engine Marketing)
Web Designer	SEO Specialist (Search Engine Optimization)
Software Usability Expert	Database Administrator
Blogger	Program Developer
Content Manager	Project Manager
Functional Analyst	System Manager
E-Business Consultant	Support Technician
E-commerce Manager	Quality and Testing Manager
Webmaster	Community Manager
Lawyer specialising on the Internet	SMO Manager (Social Media Optimization)
Affiliate Marketing Manager	Social Media Strategist
Online Marketing Manager	Trafficker
Online Media Planner	

Source: Adapted from INKS (2012, p. 98-125).

UNDERSTANDING CUSTOMERS IN CREATIVE INDUSTRIES

Jolanta Tkaczyk & Magdalena Krzyżanowska

Abstract

The purpose of this study is to examine how entrepreneurs in creative industries perceive the needs and preferences of their prospective customers, and how this perception changes over time. It deals with a substantial problem facing creative industries: how do entrepreneurs in this field overcome their tendencies to impose their artistic visions without taking into account their customers' expectations? The main research questions are as follows: (1) How do new venture entrepreneurs perceive their customers just before they start operating their businesses and just after they enter the market? (2) In what way does market experience affect the way customers are perceived? (3) Do the entrepreneurs' earlier market experience and their business education foster customer orientation development? The authors answer these questions based on research conducted among young start-up entrepreneurs taking part in the Entrepreneurship in Creative Industries project in Warsaw (Poland) in 2012. The analysis is based on three sources of data: application forms submitted by entrepreneurs during selection of the project participants, evaluation forms completed during the course of the project by the selected entrepreneurs, and in-depth interviews with the project participants. The qualitative analysis was conducted with the use of Atlas.ti. This study is an attempt to provide useful insights into the barriers to development of creative industries, which stem from misperceptions of customer needs, and to discuss implications for the successful implementation of new ventures' customer orientation.

Keywords: *creative industries, new venture, customer orientation*

Introduction and objectives

Creative industries constitute one of the most promising areas of development in the economy, due to the innovative character of operations conducted in this business. Four areas of creative industry influence can be distinguished: direct participation in the economy, direct contribution to the stimulation of innovativeness, spillover effect, and sociocultural development (Szultka 2012).

Creative industries account for 2.7% of the European Union's export of goods, reporting a larger contribution than chemical products—1.6%, or tobacco products—0.3% (2010). With an aggregate employment level of more than 6 million people, creative industries enjoy about 3.0% share of the total employment of EU-27 countries (Falk et al. 2011). More than half of the employed work in companies involved in information technologies (1.8%), while the remainder falls in industries related to business services (0.9%) and other types of creative activities, such as art and entertainment (0.3%). Taking into account international trade, creative industries report a significant share of EU exports—more than 4% (European Competitiveness Report 2010). The pace of development in creative industries is higher than the rate reported for the entire economy, and employment in these industries in the EU-27 increases an average of 3.5% a year (vs. 1.0% in the entire economy). Creative industries are inter alia the most innovative branches of the economy. Apart from inside-sector effects,

Jolanta Tkaczyk, Kozminski University, Warsaw, Poland
Magdalena Krzyżanowska, Kozminski University, Warsaw, Poland

spillover effects appear, comprising, among others: the flow of knowledge between enterprises, stimulation of demand for complementary goods and services, and inter-industry inspirations. All of these bring about sociocultural development, understood as influencing the residents' quality of life, strengthening their sense of cultural identity and their overall life satisfaction (Szultka 2012). The further growth of creative industries is perceived as an issue of great importance all over the world, and the economic future of Europe is simply tied to the acquisition of leadership positions in the fields of creativity and innovation (The Economy of Culture in Europe 2006). They are expected to contribute, to a great extent, to the implementation of the Europe 2020 strategy, including such initiatives as: the Union of Innovation, the digital agenda, the program for new skills and employment, and industrial policy in the globalization era (Green Paper 2010). The current strength of creative industries is well-illustrated by the combination of data on the export of creative products and services with data on international trade during the financial and economic crisis that began in 2008. While international trade worldwide decreased by 12% during the crisis, the export of creative products and services kept growing, reaching $592 billion in 2008—more than double their 2002 level—indicating an annual growth rate of 14% over six consecutive years (Creative Economy 2010). This indicates that creative industries are not only resistant to crisis, but are also capable of growing in such unfavourable conditions.

Due to their economic and social importance, creative industries gain massive institutional support, as evidenced by numerous international initiatives (e.g., European programmes) as well as national ones. Nevertheless, not all emerging creative ventures have a chance to develop, due to the specific structure of creative industries, including both microbusinesses and large consortiums. Roles of these entities are divided: large enterprises are involved mainly in the distribution of creative goods and services, while microbusinesses and small companies are focused on the production of creative goods

and services (Newbigin 2010). In case of the latter, the creative character of operations, apart from providing a potential source of advantages, may at the same time cause substantial problems for business development. This results from the conflict of two opposing forces: pursuit of originality and the creator's willingness to express individuality vs. desire for recognition and financial gains. When the first force wins, creative ventures face barriers to development, resulting in difficulty in creating a product to attract buyers. This difficulty, and the subsequent activity of microbusinesses operating in creative industries, is the motivating subject of interest of this article.

In order to develop and meet business goals, a new venture in the creative industry must develop a marketing strategy. The first step is to choose the target market accurately. This requires market segmentation, and the recognition of needs and preferences of customers belonging to the identified segments. Creative industries may encounter substantial problems resulting from the size of the enterprise and the lack of market experience.

Development of the marketing strategy for the selected target market depends on the chosen operations orientation of the enterprise. One choice is the innovation orientation, consistent with Drucker's concept (1986) that 'creativity and innovation in product or service development are the hallmarks of successful entrepreneurship,' and which focuses on the generation of new ideas, whose usability are verified by the market. A second choice is the customer orientation, based on the assumption that enterprises analyse buyers' needs and create products that will meet those needs (Kotler&Armstrong 2011; Kotler&Keller 2011; Jobber&Ellis-Chadwick 2012).

The innovation orientation concentrates efforts first on the development of new, unique, and creative solutions that have not yet been offered by anyone else in the market. The enterprise assumes—sometimes tacitly—that the innovation of the proposed solution guarantees its success in the market, and customer needs are identified by presumption rather than as a result of in-depth diagnosis. In a customer orientation, the enterprise conducts

marketing research to identify buyers' needs and preferences on which to develop new products and services.

While researchers have identified the innovative attitude of entrepreneurs operating in creative industries (Chaston&Sadler-Smith 2012) and postulated the need to adopt the customer orientation (normative approach) (Tregear 2003), the issue of orientation evolution has not been explored. In addition, many studies on the marketing aspects of operations regarding creative industry enterprises have been based on one source of data (e.g. Chaston 2008,Tregear 2003). Finally, numerous publications include the openly-expressed conviction that the creative character of operations almost naturally guarantees understanding of their customers' needs. In the research conducted to date, the question of whether the innovation orientation in creative enterprises can evolve into the customer orientation has not yet been discussed.

This paper is aimed at addressing the above research question by first identifying how new venture entrepreneurs in creative industries perceive their customers just before they start operating their business and just after they enter the market. In addition, the paper attempts to explore in what ways market experience changes how customers are perceived, and whether the earlier market experience of entrepreneurs and their business education foster customer orientation development.

Creative industry context

The concept of creative industries is relatively new; it was used for the first time in the 'Creative Nation' report published in Australia in 1994, and was more widely popularized by the activity of the Creative Industries Task Force, founded by the British Department of Culture, Media, and Sport (Creative Economy 2010). Although at first the concept referred

exclusively to activity related to culture and art, at present its meaning is much wider and includes companies from arts and crafts markets, design, architecture, fashion, media and advertising services, software development, the performing arts, publishing, music, movies, and TV (Parkman et al. 2012). The literature includes various approaches to creative industries, including the four most important ones: UK DCMS model, symbolic texts model, concentric circles model, and WIPO copyright model.

Under the UK DCMS model, creative industries are defined as those requiring creativity, skill, and talent, with potential for wealth and job creation through the exploitation of their intellectual property (Creative Industries Mapping Document 2001).

The symbolic texts model associates creative industries with the processes of creation, transfer, and consumption of cultural contents, such as symbolic texts or messages, which are conveyed by means of various media such as film, broadcasting, and the press (Hesmondhalgh 2002).

The concentric circles model presents the layer structure of creative industries, composed of a core of creative arts in the form of sound, text, and image, and a series of layers, or 'concentric circles', with the proportion of cultural to commercial content decreasing as one moves further away from the centre. These types of activities are involved in reproduction and distribution of creative products on a mass scale (Throsby 2001).

The WIPO copyright model classifies creative industries according to the level of their engagement in the creation of intellectual value, making a distinction between those that are directly or indirectly involved in the creation, manufacture, production, broadcast, and distribution of copyrighted works (Guide on Surveying 2003). The above models are presented in Table 1.

Table 1. Classification systems for creative industries derived from different models

UK DCMS Model	Symbolic Texts Model	Concentric Circles Model	WIPO Copyright Model
Advertising	Core cultural industries	Core creative arts	Core copyright industries
Architecture	Advertising	Literature	Advertising
Art and antiques market	Film	Music	Collecting societies
Crafts	Internet	Performing arts	Film and video
Design	Music	Visual arts	Music
Fashion	Publishing	Other core cultural	Performing arts

UK DCMS Model	Symbolic Texts Model	Concentric Circles Model	WIPO Copyright Model
Film and video	Television and radio	industries	Publishing
Music	Video and computer games	Film	Software
Performing arts	Peripheral cultural	Museums and libraries	Television and radio
Publishing	industries	Wider cultural industries	Visual and graphic art
Software	Creative arts	Heritage services	Interdependent copyright
Television and radio	Borderline cultural	Publishing	industries
Video and computer	industries	Sound recording	Blank recording material
games	Consumer electronics	Television and radio	Consumer electronics
'	Fashion	Video and computer games	Musical instruments
	Software	Related industries	Paper
	Sport	Advertising	Photocopiers, photographic
		Architecture	equipment
		Design	Partial copyright industries
		Fashion	Architecture
			Clothing, footwear
			Design
			Fashion
			Household goods
			Toys

Source:, Creative Economy Report 2010, Creative Economy. A Feasible Development Option, UNCTAD.

The specific character of creative industries—resulting from the crucial factor of creativity, whose imminent feature is originality—is marked by intuition, informality, and speed of decision making (Powell, 2008). Therefore, in creative industries, conventional thinking about management and innovation may be considered fallible, especially with regard to how entrepreneurs generate new ideas (Howkins, 2005 in Chaston, Sadler-Smith 2012). The consequence of this situation, in terms of setting valuable research directions (from the market practice viewpoint), is the need to focus on individual participants of these industries (Wilson 2009). For that reason, the entities chosen for this research study were selected from among micro entrepreneurs starting their market operations.

Creative industries comprising the activity of microbusinesses can be associated, in the normative approach, with the concept of entrepreneurial marketing, which results from the enterprising character of creative activity and, usually, the small scope of operations. Entrepreneurial marketing is interpreted as, 'the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging, and value creation' (Morris et al. 2002), and treated as 'the marketing of small firms growing through entrepreneurship'

(Bjerke&Hultman 2002). According to this concept, the pursuit of development of market orientation, and strong interdependence of the personality of the entrepreneur and the firm's environment, are the primary characteristics of enterprises relying on entrepreneurship (Carson&Cromie 1989).

A small scope of operations can be a liability of small firms in terms of limited financial and human resources, slight market power, and a small customer base. In such ventures the business owner, who makes all decisions on his or her own, plays a crucial role. Likewise, the newness of the venture may be a liability, characterised by the lack of experience, market recognition, and customer trust. In both cases, these liabilities may make conducting marketing operations very difficult (Kraus et al. 2009). Yet, the 'entrepreneurial spirit', which is related to creativity, can help overcome these liabilities and can be used, the authors believe, to explain how these enterprises operate in creative industries.

Theoretical postulates expressed within coherent concepts are not always confirmed in practice. As the research indicates, entrepreneurial business owners often behave against marketing principles, which require them to first identify buyers' needs, then design a product to meet those needs. They start with product development, then look for customers to buy the product (Stokes 2000). Instead of

following the course of action recommended by all marketing textbooks (Kotler&Armstrong 2011; Kotler& Keller 2011; Jobber et al., 2012), which includes segmenting the market based on carefully selected criteria, then evaluating the attractiveness of each segment and choosing the target market, entrepreneurial business owners follow their intuition.

The research also reveals the common practice of choosing the target market according to a 'bottom-up' scenario, or starting operations from a small group of incidental buyers and then expanding it, gaining market experience and accumulating resources along the way (Stokes 2000). Although this method is less capital-intensive than the classic STP sequence (segmentation, targeting, positioning), and therefore may be appreciated by entrepreneurs just beginning operations, it is reactive way of functioning in the market, extending the period needed to attract a satisfactory group of buyers, and consequently slowing the growth of the business.

In view of the above-mentioned problems encountered by microbusinesses in the course of implementing the marketing concept, including the development of a customer orientation and taking into account the specific character of activity in creative industries, the question appears: can creativity pose an obstacle to the recognition of buyers' needs?

Finding answers to these previously formulated research questions was possible thanks to participation of the project conducted by Kozminski University: Entrepreneurship in Creative Industries, designed for years 2011–2013.

The main objective of the project was to stimulate the development of new, dynamically-growing companies representing so-called creative industries in the metropolitan area of Warsaw. The target group included individuals intending to start their own business. Preference was given to persons professionally inactive, unemployed, permanently unemployed, women, persons aged 45+, and/or disabled. As the project was financed from the Human Capital Operational Programme funds, measure 6.2—support and promotion of entrepreneurship and self-employment—the classic framework of support

was adopted in the programme for use in this measure. The project consisted of five basic phases:
-Recruitment
-Selection
-Diagnosis of training needs
-Training, and
-Advice for established enterprises.

In the recruitment phase, 2,100 applications were accepted, of which 160 individuals qualified for the second stage. Of these, 81 persons were awarded non-repayable financial support in the form of a grant worth PLN 40,000 to start-up the business. Among the project participants were 48 females and 33 males, 29 married persons, including 23 with children to support, 43 unemployed, and 37 graduates of art schools. The average age of the participant was 38 years (median 35 years). The average job seniority was 10 years (median nine years). Seventeen persons had previous experience running their own businesses.

In April 2013 the project is in the fifth phase of realisation.

Research approach and methods

Due to the explorative nature of the research, both qualitative and quantitative analyses of content were selected to examine how microbusinesses operating in creative industries choose their target markets. The content analysis can be understood by the technique of reasoning through systematic and objective identification of each particular feature of the text (Stone et al. 1966). The process of analysis was as follows: 1) 81 applications were submitted by the participants during the first phase of the project; 2) 81 evaluation forms were completed during the fourth phase of the project; 3) individual in-depth interviews were conducted with 16 selected participants. For the purpose of analysis, Atlas.ti software was used.

The analysed applications were filled by the project participants in the first stage and were used for selecting the most promising businesses. Business plans, which were required for obtaining the grants, were developed only after the training phase of the project. The analysis included applications submitted by only those participants who won grants at the end of

the fourth stage. This resulted in the opportunity to compare the change of business concept and consumer perception between the stages of applying for participation in the project and its implementation.

The entrepreneurs who qualified for the project (and therefore for the analysis) planned to start businesses in a variety of branches of creative industries, as shown in Table 2.

Table 2. Creative industries branches represented in Project Entrepreneurship

Branch	Number of participants
film & video	12
art & graphic design	9
architecture	8
publications & publishing activity	8
electronic media	8
handicraft	7
music	7
fashion design	7
photography	5
industrial design	4
antiques & art market	3
theatre	2
computer games	1
Total	81

Source: own

The recruitment application consisted of 18 parts to be completed by each participant. For the purpose of this article, two descriptive sections were selected for further analyses: business concept, and market and participant demographics. In the descriptive sections, each candidate was asked to present answers of up to 1,000 characters, including spaces, to the following questions:

-Describe the core of your idea. What does it consist of? (business concept)

-Who will be your customer? How many potential buyers of your offer are there? (market)

The evaluation forms were completed by the same group of participants in the fourth stage of the project. The form comprised five parts, examining changes in the business concept as influenced by the training process, the perception of environment (including customers), and the financial, technological, human, and relational resources and competencies of the project participants.

The individual in-depth interviews were carried out with 16 participants, purposefully selected from various creative branches within the project. The interviews were of an informal nature and were semi-structured. The participants talked about the history of their businesses, indicating at what stage of the concept development they were at the moment, what successes they had achieved, and what they had found to be their biggest problem.

The content analysis of the collected material proceeded according to the standard sequence of the following stages: (1) definition of the set of analysis categories, (2) assignment of text fragments to the specified categories, and (3) interpretation.

Findings and conclusions

According to the authors' assumptions, the analysis of recruitment applications showed that the majority of future business owners in the creative industries had substantial problems

selecting the target market, particularly the graduates of art schools.

In order to analyse how project participants described the target market, the following codes were applied: very general description, fairly general description, and precise description.

The very general description, in principle, meant a lack of target market recognition. Such a description was found in as many as 37 applications. The characteristic feature of this description is shortness of statement. The applicants tended to use short, simple sentences, mentioned no details, and avoided estimating the potential of the described market.

Selected statements illustrating the very general description of target market are presented in Table 3.

Table 3. Statements illustrating the very general description of target market

Very general description of target market
Every company can be interested in this type of services, from micro and small businesses to big international corporations.
List of potential customers is unlimited.
First clients will be as follows: private collectors willing to obtain independent expert opinion, galleries and investors.
My clients will be the readers interested in tourism.
Customers will be mainly industrial manufacturers, f. e. of porcelain, furniture.
So there are many customers and these are companies from all over the world.
Potential clients of the company are first of all women, but not only.
The business offer will be targeted at all potential clients appreciating handicraft.
The number of clients is big.

Source: own.

The fairly general description appeared in 34 applications. The participants tried to mention the main market segments they intended to serve, presenting the demographic characteristics of segments, and sometimes estimating their potential (15 applications).

Exemplary statements illustrating the fairly general description of target market are presented in Table 4.

Table 4. Statements illustrating the fairly general description of target market

Fairly general description of target market
My client is among others: -A person who has bought an apartment from a developer on a shell-only basis, needs a turn-key services -A person who has bought a flat to renovate -A developer selling turn-key apartments -A person who would like to make some changes inside his/her apartment -Owners of stores, offices, restaurants, clubs, out-patient clinics, spa etc. residential settlements /colour design.
Business clients will be the main segment, including: -Marketing, PR, event, interactive, design agencies and graphic studios outsourcing to us graphic services for their clients (a few thousand of potential customers) -Enterprises of every size from other industries, requiring graphic services for their own use, for promotional and other purposes (several hundred thousands) -Individual clients will be an additional segment, generating lower percentage of turnover.
Customers: -Individuals and educational institutions, young people, children and their parents -Persons with higher education, academic and culture-forming circles, potentially 5-6 million of clients, all over the country.

Source: own.

The description of the target market that can be considered precise, comprising more than one sentence, including the profile of each market segment (demographic and/or psychographic), as well as its estimated potential in terms of quantity or value, can be found only in 10 applications.

Exemplary statements illustrating the precise description of target market are presented in Table 5.

Table 5. Statements illustrating the precise description of target market

Statements illustrating the precise description of target market
Customers are city dwellers, earning above the average pay and concentrated in creative sectors of the industry (advertising agencies, people connected with media, art, architecture, music and entertainment; their remunerations keep growing, by about 10/20 per cent a year – the market potential). They are creative, value individualism and freedom, go beyond conventions. Although they buy products under mass brands, they also want to emphasize their individuality through a unique product from a designer. They appreciate convenience and comfort, high-quality materials and unpretentious design at a reasonable price. The number of customers: Warsaw – about 5,000 and rest of the country – 11,000. Area of operation: Poland, in the future – Europe and the world.
Clients - approximate figures: -15,000 – museums and galleries -15,000 – hotels and spa salons -1,000 – institutions, where presentation of interior is of great importance -10,000 – stores, especially internet stores, for which 3D presentation of product is important -10,000 – art lovers with medium-sized budget
Groups of clients: 1. Age 19 – 46 years This group also includes students, aged 19-24 years, the remainder constitutes the group which most often visits coffee houses (according to Polityka weekly, issue No. 7/2006). In Praga Polnoc district the educational group is estimated at 4,410 people; 52,751 is the headcount of the group aged 15-64 years, excluding the group aged 0-18 years it amounts to 29,301 people; GUS assumptions. Number of clients I intend to gain (daily): 4 students and 10 working persons 2. Mothers with small children. The population ratio per 1,000 people reaches quite a high level, similar to ratios in other districts, i.e. 11.38, GUS attachment. Number of clients I intend to gain (daily): 6 persons. 3. Older people aged 45 years and more. 11,494 is the number above the average as compared to other districts Number of clients I intend to gain (daily): 5 persons.

The precise descriptions of target market more often were provided by people who had once run their own businesses, while the very general descriptions were most often provided by the oldest and youngest applicants, as well as the graduates of art schools.

In the market description the graduates of art schools often started with the product:

'The offer will be diversified. There will be copies for those seeking everyday contact with works of young artists that can be seen only in biggest museums. Original works of young artists that can be also a good investment for the future. Religious paintings will be targeted at believing people, priests, and parishes.'

More frequently than others, the project participants willing to start their business in the film and video industry demonstrated innovation or product orientation in their applications, focusing first on their idea and emphasizing its innovativeness:

'My company's clients will be firstly firms and institutions wanting to make a promotional and advertising film in 3D (or 2D) technology. The second group of clients will be film producing firms, willing to buy single services. The third group of clients will be newly established and establishing TV stations broadcasting 3D channels (nShow TV, Canal+ 3D, Next). I will seek to sell ready-made films or programs to such stations, or produce new ones, if commissioned.'

'3D video mapping is an innovative concept to such extent that I don't have to worry about clients. At this moment I have already a few potential buyers.'

Fashion designers focused on their own success and the development of personal branding, believing it is the best way to win customers:

'I think my success achieved during the "Fashion Designer Awards 2011' in Warsaw, where I won the third place, being also awarded two other

prestigious prizes (the training in Atelier Maciej Zien and the photo session for the "Live Life' magazine) would be the excellent proof of recognition gained among my competitors, media and my target customers.'

A few entrepreneurs clearly demonstrated the bottom-up approach to segmentation. They emphasized that among their acquaintances and family there are surely potential buyers that will later disseminate favourable recommendations:

'Several friends build their own houses and buy apartments; they will take advantage of my services.'

'Friends and family will recommend my services.'

In the fourth phase of the Entrepreneurship in Creative Industries project, the participants went through a range of training on marketing, finance, and entrepreneurship, and afterwards were asked to develop business plans, on the basis of which grants were awarded. Having completed this stage, they were asked to complete the evaluation forms. The analysis of the parts of the forms related to the concept of business and environment perception allowed the researchers to conclude that, in the case of 10 participants, the concept was significantly redefined (e.g. from the art gallery to the coffee house), and the next 35 persons decided to extend their business operations by modifying the product range, adding extra distribution channels, or taking into account additional market segments.

Just after the start-up of the businesses, 16 IDIs were conducted. In these interviews, the substantial impact of training on the participants' perception of the market was clearly evident. The majority of art school graduates assessed this impact as 'big' or 'very big'. The respondents with previous business experience attributed smaller importance to training for customer perception and business concept. Apart from the increased awareness and gained knowledge, many entrepreneurs were still focused on their products and the act of creating, even after the start-up:

'There is no time at the moment to think about the market. I have developed the business plan and now I have to produce goods. Later I will look after sales and clients.'

'At present I wait for machinery, I have a lot of interesting ideas.'

'Until I develop 300 logotypes, I cannot go with business.'

In summary, the results of the applications, evaluation forms, and interviews can be stated as follows:

-The majority of future business owners from creative industries have substantial problems with their choice of target market.

-Only a few of them (particularly those having previous business experience) are capable of describing the target market precisely during the business planning stage.

-Entrepreneurs representing creative industries more often describe clients using demographic categories than psychographic ones.

-The customer orientation is not a dominant one. Although the customer is perceived as a very important element for the business, entrepreneurs often start with the product and only later seek buyers and try to make them interested in the offer.

-In the training process and after the business start-up, the owners are confronted with alternative concepts and reality, which makes them reflect on their business concept and their choice of the target market.

Limitations and further research

The major limitation of the conducted research is the choice of the Entrepreneurship in Creative Industries project participants as the subjects of the research. The basic recruitment stipulations were targeted at people requiring financial support, and without it many of the planned businesses would not appear at all, while others might be started in the future, providing the essential resources were accumulated. The situation of the project participants definitely had a significant impact on their perception of the environment, especially with regard to their choice of the target market and their description of the potential customer profile. The competition formula of the project often resulted in the emergence of excessively optimistic assumptions concerning the ability to gain customers, and also imposed the necessity to demonstrate the innovativeness of the

business, which consequently enforced the adoption of the innovation orientation.

In an attempt to overcome the limitations of the conducted research, the triangulation of data and methods was applied. The material used for the research was collected in two periods of time—before the grants were awarded to the project participants, and shortly after they started their businesses. For the purpose of the quantitative and qualitative content analyses, the recruitment application forms and project evaluation forms, together with the transcripts of the interviews carried out with the selected participants, were used.

In April 2013 the project is still in the realisation phase. Further research is planned with the same group 12 months after the business start-ups. The collection of data during this time will allow the researchers to answer the questions: Do orientations adopted in business operations change under the influence of market experience? Does the precise determination of the target market early in the business planning stage have an impact on the future success of the enterprise?

Comparing the creative industry with other sectors of the economy is another possibility for future research.

References

Bjerke, B. and Hultman, C.M., 2002. Entrepreneurial marketing: The growth of small firms in the new economic era. Edward Elgar Publishing Limited, UK.

Carson, D. and Cromie, S., 1989. Marketing planning in small enterprises: a model and some empirical evidence. Journal of Marketing Management, 5 (1), pp 33-49.

Chaston, I. 2008. Small creative industry firms: a development dilemma? Management Decision, 46 (6), pp 819-831.

Chaston, I. and Sadler-Smith, E., 2012. Entrepreneurial Cognition, Entrepreneurial Orientation and Firm Capability in the Creative Industries. British Journal of Management, 23 (3), pp 415–432.

Creative Economy Report 2010, Creative Economy. A Feasible Development Option. 2010. UNCTAD.

Creative Industries Mapping Document. 2001. Department for Culture, Media and Sport, United Kingdom.

Drucker, P., 1986. Innovation and Entrepreneurship. London: Heinemann.

European Competitiveness Report. 2010. European Commission.

Falk, R., Bakhshi, H., Falk, M., Geiger, W., Karr, S., Keppel, C., Leo, H. and Spitzlinger, R., 2011. Innovation and Competitiveness of the Creative Industries. WIFO

Green Paper on "Unlocking the potential of cultural and creative industries", 2010 European Commission

Guide on Surveying the Economic Contribution of the Copyright Industries. 2003. World Intellectual Property Organization.

Hesmondhalgh, D., 2002. The Cultural Industries. London, SAGE Publications.

Howkins, J., 2005. The Mayor's commission on the creative industries. In J. Hartley (ed.) The Creative Industries, Oxford Blackwell, pp 117-125.

Jobber, D. and Ellis-Chadwick, F., 2012. Principles and Practice of Marketing. McGraw Hill Higher Education.

Kotler, Ph. and Armstrong, G., 2011. Principles of marketing. 14th ed., Pearson Prentice Hall.

Kotler, Ph. and Keller, K., 2011. Marketing Management. 14th ed., Prentice Hall

Kraus, S., Harms, R. and Fink M., 2009. Entrepreneurial Marketing: Moving beyond Marketing in New Ventures. International Journal of Entrepreneurship and Innovation Management , Special Issue.

Morris, M.H., Schindehutte M., and La Forge R.W, 2002. Entrepreneurial marketing: a construct for integrating emerging entrepreneurship and marketing perspectives. Journal of Marketing Theory and Practice, 10 (4) pp 1–19.

Newbigin, J., 2010. The Creative Economy: an introductory guide, Creative and Cultural Economy Series 1. British Council.

Parkman, I.D., Holloway, S.S., Sebastiao, H., 2012. Creative industries: aligning entrepreneurial orientation and innovation capacity. Journal of Research in Marketing and Entrepreneurship, 14 (1), pp 95–114.

Powell, S., 2008. The management and consumption of organizational creativity. Journal of Consumer Marketing, 25, pp 158-166.

Stokes, D., 2000. Putting Entrepreneurship into Marketing: The Processes of Entrepreneurial Marketing. Journal of Research in Marketing and Entrepreneurship, 2 (1), pp 1-16.

Tkaczyk, J. and Awdziej, M., 2012, Market orientation in creative industries in Poland, working paper,http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2185001
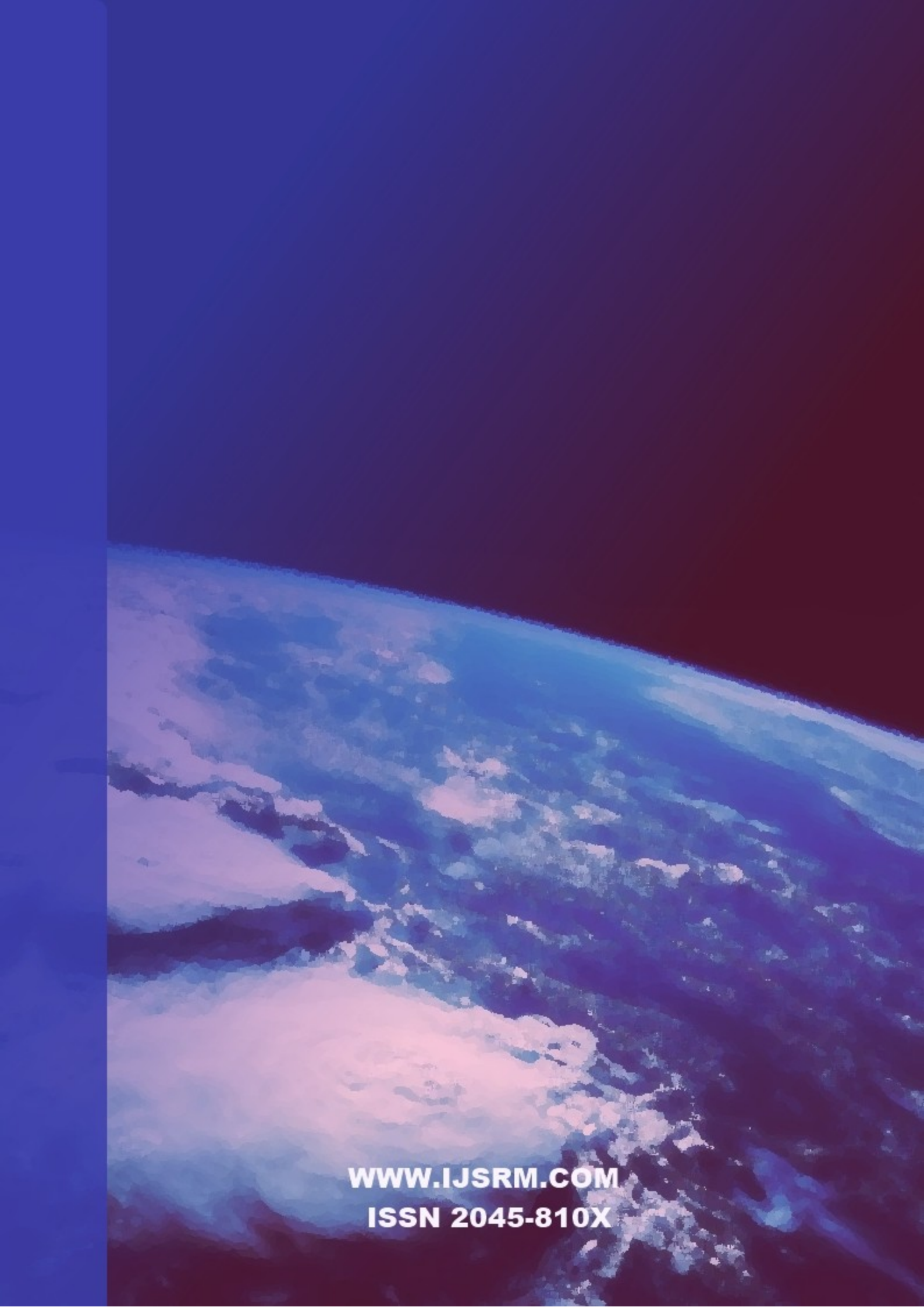
Szultka, S., 2012. Klastry w sektorach kreatywnych – motory rozwoju miast i regionów. Polska Agencja Rozwoju Przedsiębiorczości.

The Economy of Culture in Europe. 2006. KEA .

Throsby, D., 2001. Economics and Culture. Cambridge.

Tregear, A., 2003. Market orientation and the craftsperson. European Journal of Marketing, 37 (11/12), pp 1621-37.

Wilson, N., 2009. Learning to manage creativity: an occupational hazard for the UK's creative industries. Creative Industries Journal, 2, pp 179-190.