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# **CLOSING THE GAP BETWEEN ACCOUNTABILITY AND DIVERSITY: AN EXPLICATION OF ACCOUNTABILITY, DIVERSITY, EQUITY, INCLUSION, AND BELONGING IN ORGANIZATIONAL TRAINING**

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## **ABSTRACT**

*Accountability is fundamental to proper social functioning, promotes transparency, and directs individuals' actions. This research compares and contrasts major conceptualizations in contemporary scholarship. It presents an overview of accountability, which can be integrated into training regimens in the workplace, and describes what accountability provides regarding individuals' attitudes and work-related behaviors. In addition, this work evaluates research in diversity, equity, inclusion, and belonging. Specifically, we analyze how training and accountability promote these attributes. Ultimately, this research contributes to organizational training literature by bridging the gaps between accountability and diversity-related issues.*

**JEL:** M10, M12, M14

**KEYWORDS:** Accountability, Diversity, Equity, Inclusion, Belonging, DEIB, Training

## **INTRODUCTION**

This work intends to assess the current state of research on accountability and discuss its applicability to diversity, equity, inclusion, and belonging (DEIB). This review incorporates accountability research that goes back several decades and folds it in with recent scholarship (e.g., Tetlock, 1985; Royle, 2013; Sensoy & DiAngelo, 2017). This work intends to identify gaps in DEIB literature related to accountability but stops short of claiming that theories of accountability and the reality of job training cannot address new and evolving societal demands for greater equality. As such, we will explain what accountability and responsibility are and how they differ as well as overlap. We will then discuss issues and dimensions of diversity and how we, societally, answer (or do not) for ourselves and each other. At that juncture, we will discuss different training protocols, how they work, and their potential applicability to enhancing DEIB in our workplaces. Accountability is fundamental for the proper functioning of societies and organizations. Without it, we would find life chaotic and lacking the appropriate directives to promote societal and organizational goals (Ferris, et al., 1995). Furthermore, prior scholarship suggested that organizations would fail to operate effectively without it (Lerner & Tetlock, 1999; Frink & Klimoski, 1998). At the national level, accountability lapses hurt both individuals, in terms of what they can expect by way of reductions in entitlement services, and the macroeconomy as a whole. In fact, such undesirable behaviors doomed Fannie Mae and Freddie Mac, swelled deficits, and put the United States in relatively less favorable credit terms (Altman & Hass, 2010). Furthermore, unaccountable individuals might engage in criminal activity. According to a 2022 publication from Dow Jones, global financial crimes could total nearly \$2 trillion annually. It noted that the abuse of financial systems undermined financial institutions' functioning and reputations. Financial crime lessened countries' attractiveness for foreign investment, increased

fluxions in currency rates, and contorted otherwise normal distributions of wealth and resources. Additionally, in the United States, the consultancy McKinsey & Company (2019) concluded that firms with greater numbers of ethnically diverse employees performed 35% better than their peers whose diversity numbers were only in line with national averages. Furthermore, firms with greater gender diversity augmented company performance by 15% vis-à-vis their competitors with lower levels of participation by women (Hasham et al., 2019). At present, the state of accountability research is well-developed. However, its application to diversity is still evolving. A review of what it means to be responsible would be helpful to better understand accountability. Only by understanding individual responsibility would employees be able to grasp the more abstract notions of accountability. Organizational members need to know their responsibilities and feel accountable for the subsequent behavioral outcomes. One such outcome is the fostering of an inclusive organizational environment. If engendering diversity, equity, inclusion, and belonging (DEIB) is important to a firm, it should enshrine those objectives in training regimens that promote responsibility and accountability. Absent individual accountability for ourselves and others, it is difficult to imagine being able to enhance a firm's attractiveness to an increasingly diverse workforce that values inclusion and equity. If individuals do not answer for either their behaviors or those of others, they are likely to engage in a game of escalating, unproductive blaming when goals related to DEIB are not met (O'Connor et al., 2011). Accountability is a key concept in social justice literature, because it refers to how individuals and groups answer for their actions (Sensoy & DiAngelo, 2017). Diversity, equity, and inclusion are also essential elements of social justice. Belonging relates to the importance of the feeling in a community or group (Wright, 2015). We contend that these concepts are interconnected because accountability cannot easily be achieved without diversity, equity, and inclusion. Similarly, inclusion cannot be achieved without a sense of belonging. Therefore, the primary purpose of this research is to bridge the theoretical gap between accountability and DEIB. Most importantly, this article explores how accountability, diversity, equity, inclusion, and belonging are interconnected and how they can be used together to create effective training regimens.

In order to arrive at our recommendations, we started by looking at the literature on DEIB and identifying barriers in organizations. We found that non-inclusionary organizations have both formal, structural dimensions as well as interpersonal/experiential aspects (Bailey et al., 2017). We noted that accountability too has objective organizational aspects (e.g., Scenker et al., 1991) and informal, experiential facets that apply to how individuals answer both for themselves and others (e.g., Tetlock, 1992; Royle et al., 2009). As such, we propose that by focusing employees, particularly those with policy-making authority, on inequitable policies in their organizations and addressing dismissive interpersonal behaviors, we can frame them both as cases of lacking proper answerability. In order to bolster answerability, we thus suggest training to change employees' behaviors and, ultimately, affect change in the structure of their firms (e.g., by changing rules, eliminating barriers to employee success, and attracting more/better diverse members).

## LITERATURE REVIEW

In order to make our case that accountability models and training regimens can augment diversity in organizations, we will first flesh out the differences between accountability and responsibility. We will then discuss the differing dimensions of accountability. We will then introduce an overview of DEIB and discuss what types of training are likely to promote accountability for diverse individuals in firms.

### The Interface between Responsibility and Accountability

In common conversation, the terms responsibility and accountability are synonymous. Nevertheless, in terms of contemporary scholarship, they are distinct yet complimentary concepts. The opening portion of this research examines these distinctions and discusses how acting responsibly enables individual accountability and, subsequently, how it allows employees to be accountable for others. Responsibility is a pre-condition of accountability which requires that individuals meet explained expectations and

obligations (Schlenker, 1986; Schlenker & Weigold, 1989; Schlenker, et al, 1991). According to these scholars, responsibility models are formal and mostly objective (as opposed to phenomenological as discussed below). These scholars (e.g., Schlenker, 1986, Schlenker & Weigold, 1989; Schlenker et al., 1991) posited that responsibility is comprised of "evaluative reckonings." These judgments are rooted in information related to three interrelated concepts. First, understood *prescriptions* guide individuals' behaviors in different circumstances. Second, there are commonly accepted *events* related to those prescriptions. Lastly, individuals possess *identity images* that relate to those prescriptions and events and that are relevant to their aspirations, qualities, roles, and convictions.

To better understand how these reckonings relate, consider the societal definition of parenthood (or legal guardianship). Parents, due to their identities, are subject to socially prescribed ways to treat their children properly. When they veer from these prescriptions, they risk being socially or, perhaps, legally sanctioned by others (Schlenker et al., 1991). However, they might be lauded for being exceptional parents if they adhere well to those prescriptions. Contextually, evaluations require individuals to consider information about the perceived events themselves, the prescriptions related to the characteristics, and the identities of the individuals involved (Schlenker et al., 1991). Although ostensibly objective, this process is also perceptual and subjective, so tacit miscalculations about responsibility are common. Schlenker et al. (1991) claimed that the combined effects of the three elements determine the degree to which individuals are judged to be responsible. Individuals are deemed responsible if the following conditions are met. First, coherent sets of prescriptions apply to a given event (prescription–event link). Second, others believe the prescriptions apply to specified individuals because of their identities (prescription–identity link). Lastly, individuals are implicated in an event, particularly because others believe they possess some control over the situation and fathom the foreseeable outcomes of their behaviors (identity–event link). These three interrelated elements prompted Schlenker and colleagues (1991) to dub it the "triangle model of responsibility." These authors considered a responsibility to be the adhesive that binds individuals to events, assigns relevant prescriptions, and, thus, influences behaviors. As such, responsibility fundamentally lays the foundations of our collective judgments of others and of potential sanctions (Schlenker et al., 1991). Although responsibility is the basis of assigning judgments, it is the condition of accountability that brings the full power of sanctioning and reward to bear.

#### Accountability for Oneself and Others

If, in the triangle model of responsibility described above by Schlenker et al. (1991), an adjudicator is added to the triangle, it becomes a pyramid. In that case, that person "looks down" on the evaluated audience, thus creating another dimension to the linkages and configurations. The addition of a "judge" (i.e., an evaluating audience) to the triangle model changes the dynamic from a two-dimensional triangle to a three-dimensional construct (Schlenker, 1986). The inclusion of an individual who can reward or punish makes responsibility become accountability. Although the pyramid model of accountability is prevalent in the literature, it is not the only noteworthy contemporary theory in accountability scholarship. The phenomenological view of accountability (Lerner & Tetlock, 1999) also provides important insights into its dimensionality. The scholars contended that accountability involves individuals' implicit and explicit expectations that individuals might have to defend, explain, or justify their beliefs, decisions, and treatment of others. Concomitantly, researchers contend that accountability describes individuals' levels of guilt when they violate established protocols and/or engage in inappropriate activities (Cummings & Anton, 1990). Individuals who cannot justify their behaviors (whether or not those are unethical, illegal, or prohibited) are deemed accountable. Individuals who cannot provide adequate explanations to the outside evaluating audience should expect sanctions ranging, potentially, from social alienation, job loss, or fines and imprisonment in more extreme circumstances (Stenning, 1995). Conversely, those who can justify their actions could experience positive outcomes (or at least mitigate sanctions).

The phenomenological view of accountability takes its roots in the social contingency model (Tetlock, 1985, 1992). Theoretically, this view contains several unique components. Scholars contend that there are four quintessential conditions that relate to individuals and their accountability. The first is simply being observed by others (Zajonc, 1965; Zajonc & Sales, 1966). They demonstrated that individuals behave differently when they believe they are being observed. Identifiability is the second element. When employees grasp that their utterances and actions reflect on them personally, they are likely to be more circumspect when deciding what to do or say (Zimbardo, 1970). The third component of the model relates to what norms individuals perceive in a given situation that either reward or punish them. When individuals believe that identifiable rules, either explicit or implicit, could implicate them, they tend to comply with those expectations (Geen, 1991). The last theoretical element is reason-giving. If called upon to do so, most individuals are willing to give the rationale and justification for their actions (Simonson & Nowlis, 2000). Contemporary scholars posit that accountability is mostly a good thing. In amalgam, accountability focuses members of the organization on their tasks and augments the level of their efforts (Zellars, et al., 2010). Although this is generally accepted, some finite circumstances contradict that conclusion. For example, Zellars et al. (2010) assumed that employees perceive, interpret, and adhere equally to directives, especially those related to accountability.

However, organizational directives are predicated on the assumption that individual differences will not affect members' reactions to conditions of accountability. Essentially, some might believe that what is good for them is also good for everybody else and that differing personalities, for example, are not important. That assumption does not always hold true. Some individuals, if held accountable, find it straining, whereas others find it mostly innocuous (Hochwarter et al., 2005). Those who find accountability anxiety-provoking typically engage in behaviors and coping strategies that reduce their levels of discomfort (Zellars et al., 2010). The social contingency model noted that personal and environmental constraints interact with accountability conditions to predict differential coping choices based on different social pressures (Tetlock et al., 1989). For better or worse, individuals' reactions to accountability differ when they believe they know the views of their evaluators. If they think they know what evaluators want, they will most likely comport their views/actions on those assumptions (Tetlock, 1983; Tetlock et al., 1989). Generally, the authors believe that coping by compliance is fine to the extent that falling in line with the standards and behaviors of evaluators (e.g., superiors) does not contribute to a lack of transparency, unethical behaviors, or illegal practices. In addition to phenomenological and structural views, accountability has both formal and informal dimensions that have deep historical roots going back as far as Roethlisberger's and Dixon's (1939) Hawthorne studies. They found that informal norms influence employee behaviors related to motivation and job performance. Ferris et al. (1995) found that tacit and explicit behavioral rules/norms drive organizational members' conduct. Frink and Klimoski (1998) claimed that the logical extension of that discourse should include accountability. Recent findings indicated that accountability manifests in informal and formal contexts (Frink & Klimoski, 1998; Hall et al., 2017). That stated, their scholarship applied to the dimension that makes individuals answerable to their superiors for their own behaviors or attitudes. Accountability, however, also has a dimension wherein people answer for others.

At present, relatively less scholarship focuses on understanding the consequences (e.g., attitudes, behaviors, and outcomes) of individuals' perceptions of accountability for others. The concept of accountability for others (AFO) includes individuals' beliefs that they are, to varying extents, "on the hook" for others' behaviors and attitudes when they conduct their own jobs (Zellars et al., 2010; Hall et al., 2003; Royle et al., 2008). Furthermore, accountability for others also has an informal dimension (e.g., Royle et al., 2008). Informal accountability for others (IAFO) is an observable set of behaviors (e.g., speaking up for colleagues) that indicates individuals' willingness to answer for the behaviors and attitudes of their peers without regard to rank, tenure, or formal mandate (Royle, et al., 2008; Royle et al., 2009; Royle & Fox, 2011; Royle & Hall, 2012). This view is closely related to the work of Morrison and Phelps (1999). Their research found that individuals are usually motivated to enhance their own organizational well-being, as well as that of others, by proposing beneficial change (Morrison & Phelps, 1999). As such, both directly

or indirectly, these actions affect other relevant constituencies. Part of the IAFO construct relates to the phenomenological view discussed previously (Lerner & Tetlock, 1999). In fact, employees usually believe they answer for their peers' intentions and behaviors (Zimbardo, 1970; Ferris et al., 1995). Accordingly, the observers can leverage reward and sanction power. That said, informal accountability augments individuals' work-related outcomes. Those who signal it understand that they act as proponents for others and intend to take organizationally and personally beneficial actions (Royle & Hall, 2012; Royle & Fox, 2011). That research indicated that answering for others and appropriately shepherding them had many beneficial outcomes (e.g., career augmentation, mobility, and the bolstering of individuals' organizational reputations). Royle, Fox, and Gonzalez (2016) demonstrated that in organizations with traditional career structures (i.e., where workflow is predictable and job descriptions are stable), being informally accountable for others enhanced desirable outcomes for employees. Scholars also suggested that IAFO bolstered both career engagement and inter- and intra-organizational mobility (Greenhaus et al., 2010; Royle et al., 2016). Importantly, employees with higher levels of IAFO were more prolific internal (i.e., within their organizations) career builders. IAFO led to more enhanced opportunities for promotion, training, and assignment to desired jobs. At the same time, IAFO enhanced individuals' career mobility because they were equipped with more experience and thus became more attractive candidates in the labor market (Royle et al., 2016; Greenhaus et al., 2010).

Royle et al. (2009) and Mossholder et al. (1981a, 1982b) reached similar conclusions. Royle and colleagues' work indicated that self-esteem (i.e., individuals' beliefs that they deserve respect and affection) enhances performance in organizational contexts. Mossholder et al. (1982) demonstrated that employees with low self-esteem sought peer and group interaction more than those with high self-esteem. A fundamental aspect of peer interaction is IAFO because it signals individuals' willingness to answer for others. People's choices are based on their beliefs that their capabilities/skills are sufficient to affect positive change and, in their prognostications, that others will appropriately respond. Employees consider the probability that their suggestions will give peers with lower-level organization-based self-esteem (e.g., Pierce et al., 1989) the impetus to carefully attend to and properly act upon their suggestions for improvement. As such, informally answering for others is both prescient and a gamble. Such findings confirm Mossholder et al.'s (1982) premise that those with high self-esteem are more proactive problem solvers. Thus, signaling IAFO is a proactive behavior because it promotes compliance and predictability by aligning the behaviors of those for whom the accountable party informally answers with organizational expectations and norms of performance.

Although being accountable for others is an individual act, it is not entirely individualistic. Circumstances in the organization can precipitate it. Royle (2013) found that the degree to which individuals are embedded in their organizations predicts their decisions to answer for others. Embeddedness involves the degree to which employees believe they fit (e.g., are compatible in terms of the utilization of their skills, values, and ethics) within the organization, the degree to which they are linked (e.g., centrally situated in the organization's social network and hierarchy), and the extent to which their jobs provide their desired "life-space" conditions (e.g., their appreciation of local amenities, weather, local schools, etc.) (Mitchell et al., 2001; Lee et al., 2004). Royle (2013) found that "life-space" did not predict IAFO. That may be because it exists outside the organization itself and is driven by personal choices for free-time activities that would not often involve coworkers. However, the other facets of embeddedness (i.e., links and fit) prompted employees to answer informally for others more often (Royle, 2013). The findings suggested that if employees feel they belong in their organizations due to a common belief in the mission statement, a shared sense of ethicality, and compatibility between job requirements and their skill sets, they exhibit higher levels of IAFO. Additionally, those with more linkages to others (e.g., have many committee assignments or are central to organizational communication) informally answer for others more often than those who are relatively distant at work. Avoiding risk and reducing uncertainty are fundamental drivers of IAFO and could be brought to bear on a dominant group's view of DEI. Naturally, the future is, to varying degrees, both uncontrollable and unforeseeable. Nevertheless, future uncertainty is deeply problematic for many

people. Pacini and Epstein (1999) described uncertainty avoidance as individuals' general preferences for situations, wherein information is precise enough to gauge future events, while understanding unforeseen circumstances is inevitable. Other findings (e.g., Pacini & Epstein, 1999; Hofstede, 1980) indicated that individuals generally seek to hedge the downside risks of uncertainty. Essentially, employees act as rational actors who attempt to obfuscate uncertainty in order to cope with their fears of unattractive future outcomes. At the individual and aggregate levels, national cultures and individuals differ in uncertainty avoidance (Pacini & Epstein, 1999; Hofstede, 1980; 2001). Pacini and Epstein (1999) noted that uncertainty aversion differs from risk. Risk implies individuals have fairly well-developed notions of the probability of future events (e.g., a 70% chance of being rained on). Royle et al.'s (2016) findings indicated that employees know that their career trajectories are non-linear and that jobs are often unpredictable in the wider labor market (Capelli & Neumark, 2001). Furthermore, their research indicated that employees believed IAFO helped reduce risk. In fact, employees believed IAFO helped reduce the risk of being terminated but simultaneously augmented the ability to change jobs if they chose to do so.

When individuals answer for others, it is something they do of their own volition, but it has emotional consequences (Royle et al., 2008). When employees engage in behaviors that signal IAFO (e.g., acting as a liaison between peers and supervisors or championing a disaffected coworker), others in the organization take note (Royle et al., 2008). In fact, being noticed is crucial to understanding why employees choose to signal IAFO. They understand that answering for others does not occur in a vacuum. The public nature of demonstrating IAFO hints at another fundamental theoretical driver: the norm of reciprocity (Gouldner, 1960; Meyer & Allen, 1997). This theory contends that when people do favors for others, they expect something in return at a later time. When employees believe a coworker signals IAFO (e.g., they informally mentor them or promote their work-related interests) they believe that because a peer did a favor for them, they should reciprocate. They can do so by aligning their behaviors and attitudes with those of the peer who signaled IAFO (Royle et al., 2008). Additionally, when individuals believe others have provided a benefit to them, they try harder to meet others' expectations related to organizational goals and take steps to address substandard performances. For those who signal IAFO, it enhances their reputations within the organization and bolsters their promotion chances (Royle et al., 2008).

### Diversity, Equity, and Inclusion (DEI)

The most common understanding of diversity relates to the state of being "different" (Byrd, 2014). This description was first applied to those who were mentally disabled, deformed, overweight, or deemed morally deficient. All those groups were socially stigmatized for being "different," but the list has expanded over the decades. It includes others of different ethnic backgrounds, religions, and sexual preferences/identities (Byrd, 2014; Crocker & Major, 1989). The recent focus on diversity in the United States has its roots in the civil rights era circa 1950-1964 (Ciszek, 2019). U.S. Supreme Court rulings like those that banned school segregation (i.e., *Brown v. Board of Education*, 1954) and interracial marriage (i.e., *Loving v. Virginia*, 1967), laid the groundwork for eliminating "Jim Crow" racial segregation. Case law led to further federal legislation, which included passing the Civil Rights Acts of 1964 and 1968 (Title VII) and the Education Amendments Act of 1972 (Title IX), enshrining equal access under the law. Subsequently, organizations and intuitions of higher learning developed programs to allow an equitable opportunity for individuals to go to college and for diversification of its workforce, including affirmative action in admissions and hiring, the expansion of women's intercollegiate athletics, and nondiscrimination policies. These legal requirements expanded over the next five decades as differing groups (e.g., the disabled, those in the LGBTQ community, veterans, and racial/ethnic minorities) fell under that umbrella. Thus, diversity and the associated notion of multiculturalism became codified. As such, different organizations sought to incorporate diversity into mission statements. These entities are as varied as corporations, for-profit firms, universities, and academic libraries (Ciszek, 2019).



Individuals who promote diversity may face some push-back, because some others might believe their group is inherently superior to others. As such, for them inclusion is not a priority. Indeed, some contemporary organizations prosper by embracing the notion that employees outside the dominant group deserve marginalization, exploitation, and disenfranchisement and, thus, treat at-risk individuals dismissively (Hardiman et al., 2007). Nevertheless, Cruz (2019) claimed that our contemporary, politically-charged environment, wherein bystanders routinely upload instances of racially- or homophobically-motivated aggression to the Internet, has made awareness of and sensitivity to diversity issues critical. Cruz (2019), however, lamented that with the rise of hate groups, authoritarianism, and "fake news," the overall political climate often negates recent steps organizations have made to enhance DEIB.

Another impediment to inclusionary practices relates to institutional inertia. When firm members try to address problems in organizational life (e.g., a lack of awareness or DEIB protections), the opposition can be muted avoidance but is sometimes starkly bigoted (Kohlburn & Gomillion, 2019). For example, Case, Kanenber, Stephen, and Tittsworth (2012), researched a campaign by members of a university community to amend its nondiscrimination policy. Faculty, staff, and students sought to incorporate gender expression into the code. Their research noted constraints such as long debates over minutiae in the phrasing of the policy, instances of false claims, religious proclamations, and 'zero-sum' thinking (i.e., meaning that by expanding diversity the majority group loses some of its power and prestige (Case et al., 2012). Ultimately, that effort was successful, but Case et al.'s (2012) research provided a cautionary tale for those trying to advance LGBTQ issues in their communities. LGBTQ individuals, especially those who identify as gender-nonconforming and transsexual, encounter not only interpersonal challenges related to access and parity but also subtler institutional obstacles which can trigger gender dysphoria as well as anxiety and depression (Ems, 2010). We note that the LGBTQ community, in particular, feels depressed, marginalized, and often suicidal (Seelman, 2014). Furthermore, they are at heightened risk of sexual and domestic violence (Seelman, 2014). This is particularly true for transsexual women of color, who are about four times more likely to experience sexual abuse (Forestiere, 2020).

In fact, they face discrimination on several identity metrics (e.g., being transsexual, African-American, and female). Gonzales and Henning-Smith (2017) used the Behavioral Risk Factor Surveillance System to create a large cohort of 300,256 individuals, 8,920 of whom identified as LBGTQ. They found differences in mental health and identity problems between lesbian/gay/bisexual and straight respondents. Bisexual respondents were more than twice as likely to report psychological difficulties related to alcoholism and depression vis-à-vis both straight and gay/lesbian respondents (Gonzales & Henning-Smith, 2017). Their findings further indicated that bisexual individuals felt tangibly higher levels of psychological distress than either lesbian or gay respondents. Although bisexual individuals were less likely to disclose their preferences to coworkers, those who did experienced considerable discriminatory backlash (Sawyer et al., 2018). Uniformly prior scholarship predicted the negative health consequences for such at-risk communities (Gonzales & Henning-Smith, 2017). To adequately address such disparities, Scott (2014) suggested using a "critical theory" lens to promote cultural and organizational change and address these problems. The first step is to educate members of organizations and the public about important aspects of racism and other inequitable treatment. The second is to address the recurrent nature of these issues. The third is to identify and develop strategies to address and fix the underlying structures of racism in order to adjust our cultural dialogue. If organizations wish to promote social justice by implementing beneficial diversity programs, their human resource managers take all of these steps. Concomitantly, Scott (2014) contended that diversity education is necessary to promote social justice. Furthermore, to actually experience felt change, it is necessary to look at the benefits of diversity training. HR managers should be involved in the change process and understand how current training methods either do, or do not, promote accountability for individuals and others as well as the consequences for DEIB.

### Belonging: The Fourth Dimension

One way to overcome these challenges is to create a culture of belonging within the organization. This can be done by fostering a sense of ownership and responsibility among all members for promoting diversity, equity, and inclusion. In doing so, organizational leadership may need to provide adequate resources and training on these topics and create opportunities for dialogue and discussion. Holding all members accountable for their actions and words is essential to create a culture of belonging. When done effectively, creating a belonging culture can help promote diversity, equity, and inclusion within the organization (Adejumo, 2021). This can ultimately lead to a more positive work environment and a more productive workforce. Belonging is an important concept that can be found in everyday life (Bennett, 2013; Guo & Dalli, 2016). The literature on belonging is, to say the least, diverse (Wright, 2015). The concept is also mobilized in many ways (Mee & Wright, 2009). Many theorists (e.g., Antonsich, 2010; Yuval-Davis, 2011; Fenster, 2005) elaborated on different aspects of belonging. For example, Antonsich (2010) suggested belonging may range from a ‘personal, intimate, private sentiment of place attachment’ (place-belongingness) to a ‘discursive resource which constructs, claims, justifies, or resists forms of socio-spatial inclusion/exclusion’ (politics of belonging). Yuval-Davis (2011) followed a similar schema, distinguishing belonging, which relates to emotional attachment, and feelings of being “at home.” It is rooted in a politics of belonging bound up with the construction of particular collectivities with specific boundaries. Fenster (2005) differentiated between a personal place attachment, a sense of belonging, everyday practices of belonging, and more public-oriented formal structures such as citizenship. Baubock (2005) and Krzyzanowski and Wodak (2017) further posited that there is a distinction between the more personal/affective/ intimate dimensions and the structured/public/ political aspects of belonging.

That said, the notions of belonging encompass multiple scales, sites, practices, and domains, from the affective to the structural. Indeed, how belonging plays out at multiple scales is an important point (Morley, 2001). Scholars of belonging have discussed belonging from the scale of the home (Walsh, 2006) to a national homeland (Ho, 2009; Westwood & Phizacklea, 2000) and a global community or transnational network (Bromley, 2000; Beck, 2003). As an emotion, belonging is implicated in the production and reproduction of the ‘ordinary,’ including ordinary racism and day-to-day experiences of exclusion (Ho, 2009). Organizational studies argued that firms constrain their members and make employees feel isolated and insecure (Alvesson & Willmott, 2002; Paraque & Willmott, 2014; Parker et al., 2014). The emphasis on economic interests makes it difficult for employees to gain a sense of social acceptance or validation or to build relations with others (Collinson, 2003; Paraque & Willmott, 2014; Parker et al., 2014). That said, firms’ attempts to mobilize employees’ sense of belonging through mission statements have been criticized, often because leadership failed to address the exclusionary character of their organizations (Alvesson & Willmott, 2002; Collinson, 2003). We contend that training regimens could augment the beliefs that employees foster, and those could augment the sense of belonging contained in mission statements that often ring hollow. Research in belonging encompasses the skills and sensibilities by which people actively orientate themselves toward and connect with the concerns of others, thereby gaining a sense of social acceptance or validation. Latour’s (2013) work highlighted the need to develop this idea and to explore the active construction of belonging as an organizational practice. Yet, developing them in organizations implies practical work (Latour, 2016). Therefore, this research provides insights into integrating accountability, DEIB in the context of organizational training.

### DEIB Explained and Accountability in Training

Most organizations have some form of accountability structure in place, whether it is a formalized process or simply an informal understanding among members. However, accountability structures are not always effective in promoting diversity, equity, inclusion, and belongings within the organization. This may be due to several factors (e.g., a lack of understanding of the importance of these concepts, a lack of commitment to implementing them, or a lack of resources). In other words, despite the rich literature on

the subject, the current practice of accountability and DEIB in training is lacking. Organizations often fail at their attempts to deliver on strategic diversity plans (El-Amin, 2022). In this respect, the roles of human resource managers and training interventions are crucial when bridging the gap between what is and what could (or should) be. Almost every employee could claim to be diverse on some level, although they likely have unique biases that they might not readily admit (Tetteh, 2021). When individuals with various surface-level diversity traits (e.g., ethnic, age, sexual orientation, or religious backgrounds) interact in the workplace, they often feel uncomfortable with the differences they perceive in others. Typically, this is because they are put off by non-conformity in others and/or feel threatened by change (Tetteh, 2021). When this happens, it becomes apparent that diversity within the organization is not well-managed. The problematic consequences of poor diversity management in firms include productivity losses, declining revenue, higher rates of turnover, increased absenteeism, miscommunication, interpersonal conflict, and difficulties recruiting new employees (Allen, 2006; Arai et al., 2001). Fundamentally, diversity training helps employees better understand, anticipate, and adapt to the inevitability of change (Ivancevich & Gilbert, 2000). That, of course, relates directly to changes in organizational diversity. There is wide variation between organizations with respect to diversity training methods and goals (Tetteh, 2021). According to Ragins et al. (2012), in order to bolster training effectiveness, the goal of diversity training must link with organizational effectiveness and embrace all groups, even those most historically privileged (e.g., white males). Diversity training programs should be thoughtfully considered, with their rollouts timed to avoid as many negative reactions as possible (Tetteh, 2021). Generally, in order to avoid withdrawal or backlash, organizations should not immediately make participation mandatory and should avoid forcing individuals into diversity training programs arbitrarily (Ragins, et al., 2012). Ragins et al. (2012) further asserted that executives and line managers should, in public view, attend the training sessions and emulate the prescribed behaviors. Additionally, every member within the organization should be taught to identify and avoid discriminatory behaviors and advised of the disciplinary consequences for failure to comply (Tetteh, 2021; Ragins et al., 2012).

Diversity training can be both formal and informal (Tetteh, 2021). Gowan (2022) noted that several overlapping concepts should be covered. Training programs are generally comprised of one or a number of the following concepts: skill building, cultural awareness, an overview of diversity, sexual harassment, and other forms of aggression in the workplace, and group interventions/therapies for teams experiencing excessive conflict (Berzkova et al., 2016; Lindsey et al., 2017). Sarkar (2021) indicated that effective diversity training only occurs when it is targeted to both awareness and skill development, incorporates larger diversity initiatives, allows/requires trainees to set diversity-related goals, and requires that trainees engage in perspective-taking activities. Sarkar (2021) also found that when people met in small groups to discuss the nature, prevalence, and detrimental effects of stereotypes, they were less likely to act on those negative preconceptions. As such, all employees should simultaneously be advised by their HR managers about state and federal laws related to discrimination (Sarkar, 2021).

According to a study published in *Harvard Business Review* (Carr et al., 2019), companies might experience substantial bottom-line benefits if employees feel like they belong. That research indicated substantial increases in job performance (56%), reductions in the risk of turnover (50%), and fewer claimed sick days (down 75%). In firms as large as 10,000 employees, companies could accrue cost savings of about \$52M annually. Although these findings are attractive, they are not guaranteed or automatic. In order to include belonging in the training process, managers may need to leverage emotional intelligence (i.e., the ability to empathize, control emotions, express those emotions properly, and manage interpersonal relationships) (El-Amin, 2022). Furthermore, Robbins and Judge (2018) proposed that organizations utilize the three-step model of unfreezing, changing, and refreezing (Lewin, 1947) to enhance organizational change in order to facilitate the training process. This model presents an appropriate, unpretentious, and applicable standard for understanding the DEIB or an organizational change process. The three-stage process model involves the unfreezing stage that shows employees that change is necessary. The change stage involves moving toward the preferred level of behavior by helping them learn a new conceptual framework. This might also

require the beneficial development of a role-model program complete with mentors, specialists, benchmarking outcomes, and coaching. The refreezing stage involves solidifying new behavior as the standard. Changes are reinforced and stabilized (Robbins & Judge, 2018). In fact, organizational changes must endure until the inevitable need for revision occurs (Hayes, 2014).

Essentially, training and development can leverage human and structural diversity, optimizing knowledge management and improving organizational outcomes (e.g., Raggins et al., 2012; El-Amin, 2022). Advocating for diversity education and initiatives with individuals who do not see the merit of DEIB training is critical. One strategy to introduce diversity to individuals who have only experienced a limited number of cultures is to schedule regular training consisting of in-person, practical scenario-based, computer-based training. Another strategy is to diversify programs, courses, and learning objectives to maximize the value of DEIB training. That said, we propose proactive approaches that make DEIB relevant and valued. HR managers, with the espoused support of top leadership, are likely best placed to change organizations' cultures as well as to promote diversity (Clement, 1994; Tetteh, 2021). In order to resolve conflicts and enhance cross-cultural communication, HR managers need to carefully implement, assess, and improve diversity programs and affect company policy to enhance organizational performance (Phillips & Gully, 2019; Olian & Rynes, 1986). They should also identify individuals in firms that can champion the cause of diversity and promote beneficial change and innovation (Lockwood, 2005; Hewlett et al., 2013). We, thus, propose that those individuals who signal IAFO are the ones HR should seek to involve. Furthermore, because HR managers frequently network with other professionals in the field, they can augment their own firms' performances by learning what works best for others (Manning & Decker, 2021). Diversity initiatives are daunting for some leaders because they require them to place employees who may resist into diverse groups (Tetteh, 2021).

When this happens, conflict often arises. Nevertheless, both managers and subordinates need to understand that conflict is a necessary part of the process and, when navigated appropriately, creates better outcomes (Caleb, 2014). Clearly, HR managers should be good conflict negotiators. However, negotiation skills alone are not sufficient. In order to address issues related to DEI and belonging, they also need to model proper behavior, gather useful feedback, and effectively communicate interpersonally (McCarter et al., 2020). Current research suggests that HR professionals should routinely interact with executives and top management team members to reinforce the strategic importance of diversity (Tetteh, 2021). For a diverse organization to succeed, leaders must be accountable for the outcomes of their initiatives (Tetteh, 2021). Commitment to diversity must be championed and demonstrated by top-level executives (Martinez-Ferrere et al., 2021). Clear responsibilities and roles for executives should be codified, and diverse employees should be assigned to teams charged with the diversity management. Further, researchers indicated that senior managers should be involved in diversity council themselves (Tetteh, 2021; Martinez-Ferrero et al., 2021). Like Tetteh (2021), we underscore the need for executives to answer for the progress of their DEIB initiatives individually. Belonging is a key component of inclusion. If employees actually feel included, they usually believe that their employers care about them as individuals (Wiles & Turner, 2022). Although firms have made progress with respect to DEIB, not all employees feel entirely vested in and valued by their organizations. This complicates authentic interpersonal interactions with coworkers when they deem it necessary to suppress their true feelings or hide aspects of their identities (Gartner, 2022). In order to avoid that and to enhance a culture of belonging, Gartner (2022) proposed emphasizing diversity in succession planning and holding events (e.g., Women's History Month) that acknowledge and celebrate the contributions of underrepresented groups within the organization. Additionally, providing employees with benefits that honor their unique contributions is directly linked to whether or not employees feel like they belong. It is crucial for organizations to LUV (listen and understand views) from employees (Jungle, 2022). When employees know their views are important and can influence and shape the organization, it helps create a sense of belonging. HR departments along with their training would, thus, augment belonging.

## RESULTS

The primary goal of this research is to integrate the literature on accountability, DEIB, and training. Researchers and practitioners alike would be well-served to ask the following questions related to accountability and DEIB. Leaders, HR professionals, and employees would do well to address the following questions: When do organizations look at the linkages identified in the pyramid model of accountability (e.g., Schlenker et al., 1991)? Could they identify those failing and needing attention? What mechanisms (i.e., those that are transparent, objective, and equitable) and parties exist to evaluate employees' behaviors, and what are the associated rewards or punishments? Can the organization facilitate training that helps approximate and integrate the felt experiences of minority employees? What aspects of an environment also augment employees' willingness to answer for others? Are employees placed in diverse work groups regularly? Based on Schlenker's and colleagues' work (e.g., 1989, 1991), we contend that in the absence of personal responsibility, accountability for oneself or others is impossible. As such, investigating the links in responsibility is essential for training purposes. As noted earlier, individuals judge responsibility based on prescriptions, events, and identity images relevant to participants (Schlenker & Weigold, 1989; Schlenker et al., 1991). With respect to prescriptions, a clear understanding of the firm's goals, as well as the legal responsibilities of its managers and employees, is an essential training element (Skaggs et al., 2020). Absent clear prescriptions for behavior, it is unlikely that employees will behave uniformly in their job obligations.

With respect to events, cultural sensitivity training should focus on a collaborative, uniform interpretation of social occurrences, and small group training and cultural simulations would be helpful to allow all employees to judge events in a similar way (Rynes & Rosen, 1995). If employees do not conform to the training protocols, they will likely revert to the cultural biases and stereotypes that taint the relationships they could have with diverse coworkers. This undermines organizational DEIB efforts. With respect to identity images, it is crucial to address the two levels of diversity: surface vs. deep (Greenhaus et al., 2010). Heretofore, most of this discussion has centered on surface-level traits (e.g., the Title VII Civil Rights classifications). Indeed, that is important. However, for organizations to thrive, they should also embrace deep levels of diversity (Greenhaus et al., 2010). That said, it could be difficult for companies to achieve because the training involves interpersonal interaction with dissimilar coworkers (Paul et al., 2022). Diversity training should focus on promoting what values individuals have in common (e.g., the value of their work, how best to provide for their families, or hoping for a better future). In fact, research indicated that when individuals can relate to their coworkers in such a fashion, they experience more profitable and synergistic outcomes (Smith & Smith, 2008). Simply having an organizational oversight mechanism is insufficient to ensure accountability. The phenomenological view applies in this circumstance. If formal oversight cannot overcome inherent political pressures, what can? We believe that a better understanding of the lived experiences of others might provide insights. Tetlock (1983, 1985) wrote about the phenomenological view. The philosophical branch of phenomenology describes how humans develop self-awareness and consciousness (Costello, 2012; Heidegger, 1972). These authors noted that phenomenology also indicates a direction. It does not relate just to what we believe is real, but also, to what is possible (Heidegger, 1972). Scholars working in DEIB and its impact on HRM might find this heartening. In fact, many of the training methods noted in this article encourage individuals to empathize with others deemed different in order to build a possibly more inclusive future.

Extending the notion of appropriate HR training to IAFO, this research suggests that the previously described methods will likely increase the likelihood that employees will informally answer/support each other. For example, provided diversity training is not a one-off, individuals are likely to get to know each other well because of the frequent interpersonal interactions. As such, employees are likely to view others as predictable, trustworthy, and, perhaps, friendly (Royle, et al., 2009; Royle, 2013). In fact, prior research demonstrated that informal answerability is contingent on reciprocity, trust, and the likelihood that others will change their behaviors (Royle et al., 2008). As such, these training protocols could help employees

better understand their peers' job-performance difficulties and may promote fidelity (Royle et al., 2016). Thus, this research posits that based on such training protocols employees would be more willing to speak up on behalf of their coworkers and exhibit higher levels of informal accountability for others.

## CONCLUSION

This paper evaluates the present status of accountability research and discusses its relevance to diversity, equality, inclusion, and belonging (DEIB). It combines past studies on responsibility with more recent findings (e.g., Tetlock, 1985; Royle, 2013; Sensoy & DiAngelo, 2017). That being said, the primary purpose of the research is to bridge the theoretical gap between accountability and DEIB. Most significantly, this study investigates how responsibility, diversity, equality, inclusion, and belonging are interrelated and how they may be used in conjunction to develop successful training regimens. Primarily, we observed that accountability involves both objective organizational features (e.g., Scenker et al., 1991) and informal experience dimensions that pertain to how individuals respond to both themselves and others (e.g., Tetlock, 1992; Royle et al., 2009). This study uncovered the importance of DEIB and accountability in training. Most importantly, it is vital to foster a sense of belonging inside the organization. Lastly, this research extends the concept of adequate HR training and implies that the previously outlined approaches will likely boost the possibility of workers supporting each other informally.

Therefore, practitioners or HR professionals may need to give enough resources and training on these themes (e.g., DEIB, accountability) and establish chances for discourse and discussion. It is critical to hold all members accountable for their actions and comments in order to foster a sense of belonging. Further, creating a culture of belonging may foster diversity, equity, and inclusion within a business when done correctly (Adejumo, 2021). Nevertheless, there might be a limit to which diversity training will impact employees and promote organizational well-being. One crucial obstacle to promoting DEIB is the intransigent belief that others are different and, thus, not equal (Kedia & Mukherji, 1999). Communication becomes, thus, more complex. As such, organizational leadership may be better able to foster DEIB by providing their members with regular communication opportunities. The nature of this research is theoretical. Therefore, there is a dearth of empirical evidence to support our assertions. In addition, the researchers assume that people connect with one another in order to assist socialization and awareness of accountability, and that these connections require interpersonal contact that is mostly face-to-face in nature. We also did not consider variables such as trustworthiness, corporate culture, demographics, or leadership styles. Going forward, empirical research that includes both qualitative and quantitative data might give evidence to validate our conclusions. A future study might also investigate an implicit yet crucial aspect of responsibility. Researchers may also consider variables such as trust, organizational culture, and leadership to access the process and results of training. Moreover, it is essential to assess if remote/distance working enhances or detracts from the study's findings. Remote employment might provide difficulties for firms trying to enhance accountability via training. Changes in work-life conditions, such as access to digital connection and housing settings may pose risks to the well-being and mental health of a substantial number of workers (e.g., Bertoni et al., 2021). Therefore, scholars may wish to study if the alienation resulting from remote employment affects attempts to promote diversity and accountability.

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# START-UP ABROAD: AN ABDUCTIVE ANALYSIS OF AMERICAN EXPAT-PRENEURS IN GERMANY

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## ABSTRACT

*The purpose of this paper is to explore the motivations and concerns of the expat-preneur and the German government's actions and plans to attract them. This paper uses an abductive research approach using a 'case-pool' investigative design. Thirty depth interviews were conducted of expat-preneurs, government officials, innovation leaders, and entrepreneurship academics within Germany. Expat-preneurs were found to be a distinct group of self-initiated expatriates and were also quite distinct from typical American domestic entrepreneurs. Quality of life, business opportunity and government incentives were important for the expat-preneurs. The strengths and weaknesses of the German community-driven entrepreneurship apparatus were also discovered.*

**JEL:** M13

**KEYWORDS:** Expatriate Entrepreneurs, Transnational Entrepreneurs, Expat-preneurs, German Start-Ups, Abductive Research, Entrepreneurial Culture

## INTRODUCTION

Starting a small business can be a daunting proposition even for those with adequate planning, resources, funding and an attractive product. Now, consider this same challenge in a foreign country with a different language, culture, laws and markets. Why would anyone make an already difficult endeavor even harder? Despite the obvious challenges, this is exactly what many entrepreneurs are seeking to accomplish. (Vance, McNulty, Paik & D'Mello, 2016). Entrepreneurs that have decided to leave their home countries to start a business in a foreign nation are often referred to by the portmanteau Expat-preneur, a combination of expat and entrepreneur. (Andresen et al., 2014).

Given the importance of entrepreneurship as a source of economic development and greater international mobility, it has become important to identify expatriate groups such as the expat-preneur more clearly. (Doherty et al., 2013). Further, scholars have called for a better understanding of expat-preneurs and how they are differentiated in characteristics and motivations from traditional entrepreneurs (Despotovic et al. 2015). This research seeks to advance this research agenda using an abductive research process of primarily interviewing expat-preneurs and those that work with expat-preneurs to identify the important and defining characteristics of this important and growing group of transnationals.

Estimating the number of expat-preneurs is difficult. Expat-preneurs can be considered a subgroup of the often-studied Self-Initiated Expatriate (SIE). This group, for various reasons, decides to move to another country to find a job in a new place and/or explore a different culture. SIEs are estimated to make up 60% of the globally mobile workforce (Andresen et al., 2014). The scale of movement of the current mobile workforce is estimated to grow to 1.75 billion by 2022, an increase of almost 25% since 2014 (Luk, 2015). If even a small portion of this group are entrepreneurs, this means that there are likely millions of expat-preneurs. Another way to estimate the number of expat-preneurs is to look at the

numbers available from the United States. Every year, America adds another 650,000 new startup businesses (US Census Bureau, 2022). Of this group, about 1-2% of those entrepreneurs expatriate (65,000-130,000) annually (Wadhwa, 2012). And, the rate of expatriation of entrepreneurs is increasing (Brewster, 2016). Given the large numbers of expatpreneurs and the formidable impact that they have on the global economy, the lack of research on this group is somewhat surprising.

Since academic research on expatpreneurs is in a nascent state, this research is meant to establish a foundation on which other studies can build. Thus, we have taken a broad focus and chosen an abductive research method. We explore the motivations, characteristics and priorities of expatpreneurs and how these may differ from traditional entrepreneurs. We examine what kinds of government policies have been attractive as well as how governments and companies have been able to leverage the expertise and energy of expatpreneurs. Finally, we explore some of the cultural shifts that may be happening as American entrepreneurs bring disruptive change to German business practice.

This article is structured as follows. We begin with a literature review. Then, the methodology and research questions are detailed. The findings are presented. Then we discuss those findings including their limitations and opportunities for future research and we conclude with a summary of the overarching narratives and their implications for international entrepreneurship.

## LITERATURE REVIEW

Research about expatriate's entrepreneurial practices is of interest to both governments and corporations. (Vance et al., 2016). That said, the literature in the area is still scattered, and there is a lack of consensus on many categories or characteristics between self-initiated expatriates and expatpreneurs (McNulty & Brewster, 2017). Studies of the expatpreneur phenomenon have ranged from adjustment factors to preparation, cultural distance, difficulties with family assimilation, work expectations, technical ability to be effective and dozens of other factors (Hyounae et al., 2012).

One country that has identified a need to boost entrepreneurship is Germany. The German government is seeking to address the problem that "Germans don't view entrepreneurship that positively" (Breugst et al., 2015). The fear of failure, the shame that would come with it, the "firmly anchored longing for a secure job" and shunning risk (Brandhorst, 2016) have caused a lessening of the entrepreneurial spirit in German business. In response to these shortcomings, the German government has made entrepreneurial activity a government priority by directing cabinet ministers to work with senior public servants to shape and empower entrepreneurial policies, programs and agencies (Arshed et al., 2014). The German government realizes the importance of developing policies that address the needs of the entrepreneur by recognizing that small business strategy is often 'transactional' while entrepreneurship approaches tend to be 'relational' (Mazzarol et al., 2007). These strategies have created an attractive environment for entrepreneurs in general, and expatpreneurs in particular. Recently the World Economic Forum rated Germany as the top country for foreign entrepreneurs, exceeding the United States.

Connelly (2010) surveyed 160 expatriates to establish a four-quadrant typology of expatriates, comprised of traditional expatriates, transnational entrepreneurs, ambassadors and worldchanging entrepreneurs. Expatpreneurs fits squarely within the transnational entrepreneur quadrant in that they are profit-seeking and do not have the backing of a multi-national corporation like traditional expatriates. We heed Connelly's (2010) call to "consider even more specific groups of expatriates based on common embedded values and underlying organizational principles" (p. 51). On one level, our research explores the business and cultural challenges that expatpreneurs experienced operating within the context of Germany. At a deeper level, we uncover the common values and motivations of expatpreneurs.



## METHODOLOGY

This paper uses an abductive research approach using a ‘case–pool’ investigative design. Abductive research has been used in exploratory business research. (Dunne and Dougherty, 2016) (Lukka and Modell, 2010) Abduction allows the creation of a typology and taxonomy of the subjects to be studied. It also allows the separation of their activities and begins the process of theory formation from repeated observation. *Abductive* reasoning examines phenomena from a holistic perspective to drive initial theory. Abduction allows subject identification and theory generation *as part and result of* the investigative process. (Dubois and Gadde, 2002).

We created research pools for investigating the primary concepts of interest, the building blocks of theory (Strauss and Corbin, 1990). From these pools (Figure 1), the study developed categories (Expatriatepreneurs, German Government, Hochschule/Innovation Leaders and Entrepreneurship Academics) to identify the key elements of interest. Assumptions (not theory or hypotheses) about relationships from previous taxonomy and typology work as well as related background research provided a starting point to begin this investigation (Padgett, 2016).

A series of repeated in-depth conversations with key experts, along with in-situ observation of the activities of all players interacting in the environment, provided a solid basis for the evolution of the abductive work (Martinko and Gardner, 1985; Noordergraaf and Stewart, 2000). The addition of ‘shadowing’ (or unobtrusive participant observation) created the most comprehensive approach possible within the limits of this study’s purview (McDonald, 2005). As we conducted our interviews, additional and more specific research questions were added as is typical with the abductive research process. These additional questions were also explored in depth and allowed for more specific findings.

Figure 1: Research Pools by Research Question Area



*This figure shows which research pools were interviewed according to the research area of interest. All four research pools were interviewed for Research Area 2 and 4. In Research Area 1 and 3 only 3 pools were interviewed. Hochschule/Innovation Leaders and Entrepreneurship Academics were interviewed for all 4 research areas.*

The researcher conducted in depth interviews until saturation was achieved. This resulted in a total of 30 interviews across the four target groups of interest. See Table 1. These were combined with other less formal discussions with key individuals in an ad hoc fashion. Studies with similar sample plans are not without precedent. Stubbs and Cocklin (2008) used 11 abductive interviews in developing their analysis of

sustainable business models in banking. Cifarelli (1999) used only five subjects in an abductive report regarding problem solving by college students. Taylor *et al.* (2009) using abduction in studying social context as a determinant of motivational strategies used 22 total interviews of male teachers to create and publish a paper. Aarikka-Stenroos and Jaakkola (2012) employed 25 total interviews in their abductive investigation of value co-creation in knowledge-intensive business services.

Observation research was ongoing both while working with subjects as well as German entrepreneurs. Shadowing with expat-preneurs lasted 2-3 hours per session or as appropriate to each situation. These research activities were largely unscripted and focused on the operations of foreign entrepreneurs and interaction events between American expat-preneurs and foreign nationals.

Additionally, the interviewer had ad hoc conversations with both American and German entrepreneurs as appropriate during the observation process. The study developed two sets of procedures: one for items to be cognizant of while interacting in different situations and another system for pure observation. Protocols were also modified for each group (similar to but much less detailed than IDI guides and shadowing procedures).

By centering research areas (shown in Figure 1 above) as key starting points, it was possible to begin advancing through the initial topics to develop more detailed and relevant understandings of the reality on the ground versus extant beliefs. As each round of investigation proceeded, evaluation of results led to sample type changes and new lines of investigation. The nested semiotic triads surfaced more relevant and revelatory conditions as well as new lines of questioning.

Interviews and information-gathering missions were conducted largely in person (two initial and follow up questions by telephone) in Germany during three in-country research periods during September 2018, March and June 2019.

The discussions were free-form, without a formal topic guide and allowed to cover new topics as areas of interest appeared. This approach not only provided support for rigor in the scientific character of the method, but it also allowed the interviewer to rethink data collection and make heuristic fixes throughout the process to guide and adapt theory construction (Madill and Gough, 2008).

Table 1: Total Interview Count by Sample Group

	Expat-preneur	Academic	Innovation Leader	Government Representative	Total Interviews
Interview Count	9	9	9	3	30

*This table shows the number of interviews conducted in each of the identified research pools of interest. A total of 30 interviews were conducted across 4 distinct categories of interviewees. This resulted in 30 total interviews across the four target groups of interest*

The analytic process began with four initial research areas informed by the literature review and secondary sources. While information was created in the initial two iterations of the research, the resultant research areas determined the research path driving final conclusions. (See Table 2.)

Table 2: Abductive Analysis Process Map

Iterations	Research Area 1	Research Area 2	Research Area 3	Research Area 4
<b>Initial</b>	Why do expat-preneurs decide to startup in Germany?	What are the issues and challenges?	What are the motivations of the German government to attract American entrepreneurs?	Can the manner in which American expat-preneurs startup companies positively affect German business practices?
<b>Consequent</b>	Who are expat-preneurs as opposed to other American entrepreneurs?	How do expat-preneurs navigate the German system?	What are the underlying drivers for Germany to attract expat-preneurs?	Is Germany's goal really focused on changing German entrepreneurial culture?
<b>Resultant</b>	What are the specific reasons expat-preneurs go to Germany?	What are the mechanisms and practices that help or hurt expat-preneurs during initial transition to the German business environment?	How is the government trying to become more effective in incorporating entrepreneurial thought into how they assist companies?	What are the things German business is doing to assist expat-preneurs, learn from them and change their marketing practices? What are the specific ongoing and logistic hurdles that expat-preneurs must address?

*This table shows the evolution of research questions from initial to consequent to resultant for each research area of interest. Note how the research questions become more specific and focused as the study proceeded. While information was created in the initial two iterations of the research, the resultant research areas determined the research path driving final conclusions.*

Reassembly utilizing qualitative data analysis software (MaxQDA) for initial data entry and coding followed the interviews themselves. The analytic software allowed analyses by category, layered cross-tabulation, word frequencies and quotation by each categorical breakdown and respondent. Word and code clouding added more to each change through semiotic triads and final data analysis with resultant findings.

## FINDINGS

### Research Area 1: Differences Between Expat-preneurs and Domestic Entrepreneurs

Much of the literature regarding entrepreneurs have tended to consider domestic and international startup businesses as largely the same (Vance et al., 2016). Studies comparing domestic entrepreneurs with expat-preneurs have attempted to categorize them based upon the assumption of mutual priorities and activities (Przytuła and Strzelec, 2017). While there are certainly similarities in all types of entrepreneurial activities, this research uncovered several differences. The expat-preneurs perceived opportunities in Germany to be superior and were willing to move at least in part for this reason alone. Specifically, they perceived networking and sales opportunities, as well as innovation capacity in Germany to be superior.

*I believe that Europe has things that the [United States] doesn't. Europe has the infrastructure that is actually there because entrepreneurial collaboration is stronger than in the [United States]. Government and business are investing in infrastructure to help entrepreneurs. Collaboration is one version of capacity, innovation capacity. For innovation capacity you need synergy, you really need collaboration. By default, we have it here. I think that really attracts people.*

In addition, the interviewees considered the German economy to be stronger and more stable than the United States. One expat-preneur stated,

*It's amazing how many people come here for just the strength of the economy.*

Further, all four sample groups (expat-preneur, academic, innovation leaders, and government representatives) cited quality of life issues, such as a lower cost of living than New York or Silicon Valley. This emergent theme was explored in greater depth in our next stage of research.

### Consequent Research Area 1: Differences Further Examined

Since initial results indicated definite differences between expat-preneurs and American (domestic entrepreneurs) the next stage of the research project sought to further investigate this phenomenon.

This round of study showed a difference between how expat-preneurs and domestic entrepreneurs view quality of life. It is generally accepted that the American domestic entrepreneur is highly tolerant of ambiguity and low liquidity, less engaged in planning, more aggressive in pursuit of risky endeavors, and willing to work long hours (Begley and Boyd, 2007). Findings indicated that the expat-preneur, by contrast, seems to prefer a somewhat more relaxed pace of business development. They tend to plan in more depth. They focus on building strong cash reserves or financial backing. They are more tolerant of bureaucracy as it tends to put natural breaks in the development process. And, they prefer not to give up personal time to the extent seen in America. This finding is somewhat counterintuitive, as one might think that expat-preneurs (due to their adventurousness to venture overseas to start a business) would be more tolerant of ambiguity and risky endeavors than the domestic entrepreneur not less tolerant.

Another finding at this stage of the research was also somewhat counterintuitive. Since expat-preneurs are willing to make personal sacrifices to relocate to a different country, it would seem to follow that while overseas they would continue to sacrifice personal time, working long hours and they would change their products at a frenetic pace. However, this was not the case.

*You can experiment more, let's say, for your customer exploration phase. I'd say you have a lot more time and less pressure. And let's say, as compared to Silicon Valley, it's not that competitive landscape. The Germans want their free time, not working 80 hours per week. (sic)*

### Research Area 2: Issues and Challenges Facing Expat-preneurs

The second research area (R2) attempted to refine concerns expat-preneurs face when attempting a German startup. The vast majority of comments in this area fell into the following categories: navigating challenges, business practices, and cultural challenges. The challenges comments seemed to bifurcate into concerns regarding personal requirements for the startup (language assimilation, minimum financing, finding information, slower pace of business) and difficulties in dealing with government bureaucracy.

The third series of comments centered again around quality of life issues, such as the physical cost of living and adjusting to foreign living practices. At this point, quality of life still seemed to indicate that navigating challenges represented the intersection of work and personal life. For example, one expat-preneur commented,

*I think the bureaucracy has a lot of ties, to like, if I have a big idea it's going to take so long to get done and there's all this paperwork. People don't really want to go through that. Even Germans. They're like, I don't want to do that. It can really burn you down, I mean personally, if you keep hitting these walls..*

### Consequent Research Area 2: How Do Expat-preneurs Navigate the German System?

R2 revealed that navigating challenges was a key theme. At the same time, there was little in the way of specific outcomes as a result of pursuing that research question. The consequent research topic became, how do expat-preneurs navigate the German system? Using a diagnosis of the processes and practices of expat-preneurs in navigating the specific challenges they face in German startups allowed clearer sub-themes to emerge.

Among the strong sub-themes that emerged were business opportunities, German business practices, and

once again quality of life. Quality of life continued to be an important element across categories that still needed to be untangled to find its clearest meaning. The business opportunity category was also an element, but interview comments were focused on the advantages of more developed networking opportunities and entrepreneurial ecosystems. For example, an innovation leader said,

*We have several programs to connect innovation and startups with funding and connections. Subcontracting to the government or corporations as well as representing angel investment.*

Expatpreneurs also seem to focus on adjusting to German business communication practices. For example, in Germany, email is still king. Virtually every aspect of the German business process from introductions, sales, process updates, and so forth is handled by email and at arm's length. Plus, communication speed is slow. Businesses expect a single contact and then leave the entrepreneur to wait. A return email may take days or even weeks, but frequent communication creates an impression of impertinence or rudeness. It can be a difficult hurdle for even the most patient American entrepreneurs to handle. One expatpreneur interviewed confirmed,

*Email is big for all communications, but be ready to wait. Timing on communications is slow. Germans think this is normal, so don't push them or they'll cut ties.*

Once again, quality of life issues came into play. Quality of life seems to be a constant background to virtually all other aspects of the expatpreneur experience. At this point, it seems safe to say that quality of life permeates much of the expatpreneur drive. A government agent who was interviewed noted,

*Some [American entrepreneurs] get very frustrated with the pace of the government or the pace of the business practice, but I do think there are some that like it. We are very hard workers in Germany, but we also make sure we enjoy the free time. Some Americans have said this to me.*

### Research Area 3: German Government Objectives and Motivations to Attract Expatpreneurs

This study aimed at understanding two sides of one system; how and why American entrepreneurs expatriate to start up a new business (R1 and R2), and why the German government would want those entrepreneurs to come to Germany (R3 and R4).

Initial research area three (R3) was specifically designed to uncover the specific meanings of those categories. The research question (what are the motivations of the German government and German businesses to attract American entrepreneurs to start up in Germany?) led to an uncovering of two separate narratives: the stories of the governmental goals and development and the reaction of the German business community to government efforts to encourage foreign entrepreneurship and investment in Germany. Also, it seemed clear that since the inception of the organized German entrepreneurship outreach programs, there has been a divergence of goals between government and business.

In this iteration, comments regarding attraction to expatriate had to do with the government having a vested interest in entrepreneurial growth to strengthen the German economy over the long term versus some of the laissez-faire, do-or-die attitudes of the American government. Attraction to expatriate is how the Germans see what they are doing for entrepreneurs. In an interview, a representative from the Landing Pad agency stated,

*I can also say that the purpose for the future is also to invest even more into supporting startups and to fund startups. The government understands the importance of this topic and has a really, a many-sided approach to supporting startups. It's not just about money. It is about using entrepreneurship as a tool to strengthen the entire German economy over time.*

The second key element to R3 lies in the area of business opportunities. The German business community seems to believe that the synthesis of German business and American risk-taking and opportunity identification is a winning combination. This is not discussing personal cultural change as alluded to earlier, nor is it business conditions seen by the American expat-preneur as opportunities to influence. It appears to be more of the German view that American entrepreneurs can not only have an effect on boosting the German economy but represent an opportunity for German businesses to jointly provide opportunity while exploiting American approaches to strengthen the business or the economy. An innovation leader interviewee commented,

*I think actually, what the great combination usually says is like Americans are great, great salespeople. And Germans are really good engineers. So, when you put them together actually, it's a great combination. Then the American(s), they're magic on this. I think that's the great combination of mixing diversity of cultures and business here. I think that's what makes it the idea(l) and the new company unique.*

### Consequent Research Area 3: German Drivers to Attract Expat-preneurs

While the stated goals of the German government may be to attract entrepreneurs to change German entrepreneurial culture and increase economic development, this consequent line of investigation led to discussions regarding how German businesses were truly open to entrepreneurial thinking and valued disruptive change in their organizations. Our findings indicate that companies in Germany are starting to adopt the tenets and lessons of entrepreneurial marketing aggressively.

Information gathered regarding changing German culture spoke almost solely on how American entrepreneurs are adding and bringing disruption to larger corporations. Companies not only see the Americans as introducing or leading larger marketing concepts but also adding complementary aspects to existing German change movements. One innovation leader remarked,

*An entrepreneur can really add value to the society in reality. Entrepreneurs are also those people that create jobs and are there to help the society. Disruptive change means many times to break through the walls of stagnant(ion), to become innovative and to change how companies work. It almost feels like the Americans are the only ones that can do this. It goes against German practices, but it is advice from outside of Germany.*

The sub-theme seems to concern German business views of threats to the economy from outside sources. German business owners worry about the effects of growing economies and the revitalization of right-wing populism. The belief seems to be that the combination of American adventurism with German professionalism and competence may be a powerful force in improving German ability to compete. One of the academics interviewed commented,

*Before it was more of a problem to be able to compete [at] such [high] levels within the Germany economy. Now, I think the most eminent [threats] economically, even though from a cultural perspective, [are] situational foreign issues like the Chinese economy and [the fact that] technology development is so strong.*

Regarding underlying drivers to import American entrepreneurs, the discussion turns toward German businesses feeling like they must search for outside risk-takers as they are not finding them in Germany. These businesses would like to see more aggressive actions and big ideas coming from an internal place, but those ideas and traits do not seem to be there. In general, our findings indicate that companies believe that real change can come from the entrepreneurial mindset, but they believe that German entrepreneurs are not innovators. Businesses see German entrepreneurs as improvers molded by the expectations of German society. The motivations German entrepreneurs need must be larger and more aggressive. As one of the academics interviewed put it,

*We have entrepreneurs who are like Germans busy with inventions, which are really innovations, which are really just improvements. The risk that they are taking is really not about inventing something new. It's really about improving what's already there, and I think there has been the realization that that is just not enough.*

With the realization that this internal-external perception exists among German businesses, the next logical line of inquiry pointed at building a better understanding of the true goals of German business. The resultant and final line of inquiry in this research area became, how are governments and businesses trying to become more effective in incorporating entrepreneurial thought into how they assist companies?

#### Research Area 4: Outcomes for German Business Culture

One of the stated goals of the original entrepreneurship assistance programs was specifically to help remove the stigma of entrepreneurship in society. Our findings indicated that German entrepreneurs were not seen as risk-takers as they had to contend with both personal risk and social risk. That is, not only did an entrepreneur risk financial well-being and reputation but also that of the entrepreneur's family and even community. For example, one of our respondents (an expat-preneur) stated,

*In Germany, if you fail, it's personal. It's not that your business failed; it is that you failed. And people look at you as that and look down at you for that failure."*

This feeling was thought to have caused a culture of derision among the general population toward both successful and failed entrepreneurs. Aside from the mandated goal of economic development, a secondary objective of the government was to remove some of the uncertainty in entrepreneurial endeavors and change the views of entrepreneurs overall.

Response to this research area was overwhelmingly in the cultural change category code. However, it was clear that this category was a limited descriptor as sub-themes appeared within the classification. On the one hand, there was significant discussion around how American attitudes were changing perceptions of German entrepreneurs. Others spoke of how German entrepreneurs operate, to create individual innovations versus modifications or additions to existing projects. It was even discussed as to how German entrepreneurs study an issue, seek permission and approval, and only then begin to pursue development in small steps. One expat-preneur stated,

*One of the most distinctive factors I have found in the [United States] is entrepreneurs are closer to each other than Europe. If you have an idea, you first do it. If someone doesn't like it, you apologize. When in Europe, if you have an idea, you first start asking around, and very often in Germany...I have the feeling asking for permission is asking for denial. Because if you want to create a new idea, you don't ask people who never had an idea in their lives.*

Lastly, in no small measure, there were both hints and open discussion regarding whether both government and business were looking to increase entrepreneurship or were more focused on looking at entrepreneurial thought as the disruptive change to larger German businesses. The first inkling of this was the increased ubiquity of specific German business changes to recruit entrepreneurs outside of the governmental system, help them establish businesses, and act as process consultants for German companies. The government consultant who was interviewed stated,

*Almost every...big company in Germany has its own accelerator program or some form of program for investing into startups. They can learn their (entrepreneurs) ideas and approaches and apply them to the larger company.*

This additional comment spoke to the need to refine the initial R4 from exploring whether Americans change the entrepreneurial culture to exploring if that was the goal of the German government at all. This led to the next semiotic adjustment.

#### Consequent Research Area 4: Is Germany really Focused on Changing German Entrepreneurial Culture?

The abductive process uncovered clues that begged clarification as to the actual goals of German efforts before developing further specifics regarding activities. How could the investigation determine what entrepreneurs could do in Germany without understanding Germany's intentions? It seemed that the most appropriate avenue of research at this point was in determining if pursuing entrepreneurial change was the government's actual goal.

This research area seemed to drive the resultant signs necessary to complete the analysis. The resultant research groups initially revealed some conflicting information. The findings presented keys to these phenomena through discussions around how the German government is trying to become more effective in incorporating entrepreneurial thought into how they assist companies. Interviewees and informal discussions seemed to point to inconsistencies between the government's stated position of attracting entrepreneurs to reinvigorate the German entrepreneurial spirit versus deeper needs of the government and German business.

Exploring this research area led to attributes describing practical business issues as one of the driving forces behind Germany's efforts rather than cultural change. An innovation leader suggested,

*It's a way for (German) corporations to have access to cheaper research and development. And get in contact with the startup ecosystem, get the right talent. So, they feel incorporated and added value working with a startup and maybe find the right people to get this entrepreneur culture inside their corporate culture.*

Other themes arising from this research area included discussion of business opportunities for expatpreneurs with German corporations and ways in which the American expat-preneur could change German business culture and practices versus simply affecting changes in attitudes toward entrepreneurialism. One academic stated,

*So, what we see now in German markets for corporations, entrepreneurs acting as consultants would be very good people to work with. So, now companies are looking for people that have built something, that have run something in terms of scaling a startup because they know marketing very well. They know sales very well. And they know how to run a company and then how to be leading innovative programs, thought leaders. They bring them into almost every big company in Germany has its own accelerator program or some form of program for investing into startups. They can learn their ideas and approaches and apply them to the larger company.*

This yielded a significant amount of evidence pointing toward government goals being much more aligned with the promotion of business goals and seeing how entrepreneurs can work to help adjust corporate systems. One respondent noted that the government has even begun to reimburse companies' portions of their investments in bringing entrepreneurs into their organizations.

## **DISCUSSION**

This study explored two major issues: why are American entrepreneurs expatriating to Germany to start up new businesses, and why is Germany enticing them to do so? These questions seem straightforward on the surface, but upon examination proved to be more complicated than was commonly believed. In exploring the entrepreneur and expatriate literature, definitions of expat-preneur were unclear. Some



sources saw them simply as entrepreneurs operating overseas as they would domestically while others tried to focus more on the issues that drove or constrained expatriation startups. Our findings help to create a much more nuanced and detailed perspective on the American expat-preneur in Germany.

The literature likens the expat-preneur to the self-initiated expatriate, but this is a misnomer. Self-initiated expatriates (SIEs) include individuals seeking work with a foreign company. The expat-preneur is truly an entrepreneur looking to start up a new small business in a foreign country. And, their motivations versus the American domestic entrepreneurs appear to be different in notable ways.

Quality of life in both the personal and business sense is critical to the expat-preneur approach to expatriated startup. This finding converges with recent findings that macroeconomic stability and quality of life are important attributes for SIEs (Ryan and Silvano, 2021). Many expat-preneurs are attracted to start their businesses in Germany as much for lifestyle reasons as business opportunities. They are careful planners in every facet of their businesses and seem to be somewhat more solvent than entrepreneurs in the U.S. Plus, they are patient. In Germany, bureaucracy with governmental assistance programs can create prolonged timeframes to receive licensing and benefits. The patience of the expat-preneur is better suited to the prolonged waits that can occur due to the bureaucracy and ongoing hurdles in navigating the German business environment.

Determining the true goals of enticing expat-preneurs to Germany was the other general aim of this research. Under the direction of the EU, Germany developed an extensive program of assistance to entrepreneurs, much of it aimed at attracting foreign (mainly American) investment and startups. The programs are generous but mired in bureaucracy. This system has gotten to the point where it is somewhat self-defeating with broad requirements for application and long wait times for action. While this has not been too much of a problem for true expat-preneurs, it has become a frustration for German businesses.

The German government developed entrepreneurship assistance programs with the overt goals of increasing economic development and foreign investment. Secondary and less publicized government goals were to foster change in the German entrepreneurs' approach to risk-taking and changing public attitudes toward entrepreneurs. Seeking relief from bureaucratic hurdles, expat-preneurs became more involved with established German businesses. This catalyzed change in established German business views. More German corporations started to sponsor individual expat-preneurs. By streamlining the expatriation and startup process they were able to lay the groundwork for the possibility of a joint venture with these new expat-led companies. These programs appear to be operating regionally or even by city. Academics, innovation leaders, and local economic development authorities have become important elements in facilitating business networks and connections with expat-preneurs.

Businesses also changed the purpose of the expat-preneur in Germany. Corporations are seeing significant changes in consumer value propositions and government regulation. Companies have become much more open to significant process change as they begin to realize that previous corporate structures may not be adequate to address new consumer requirements and competitive adjustment. German companies are seeking disruptive change in processes and are beginning to help expat-preneurs set up and then are using them as change agents for instituting entrepreneurial marketing techniques.

### Limitations and Future Research

One limitation is that the study focused on American expat-preneurs in Germany. Opening up the interview process to expat-preneurs from and within other countries could have yielded other interesting findings. Another limitation is that results from this study are not meant to be generalizable. The depth interview process is meant to provide insights into expat-preneurs' lived experience. While not generalizable, the results from this study should provide insight and an initial framework for future research in this

understudied area.

This process revealed a number of interesting pathways for future research. First, we recommend further investigation into the distinction between personal and business quality of life among expatpreneurs. It is common practice to discuss work-life balance in companies, yet the idea of separating the character of the work life in terms of satisfaction and self-actualization seems a different comparison and could be an area for further examination. Another area of future research would be further investigations into the changing culture of German businesses. Corporations are becoming concerned with competitive advantage and new requirements from customers and government. Companies are opening the doors and their minds to new views of disruptive change and see the American view of entrepreneurial marketing as a vehicle for that change.

The German government established extensive entrepreneurial assistance programs to ostensibly increase economic development as well as drive cultural change in German entrepreneurship. As time has passed and German corporations have voiced their needs, German government processes have evolved to accommodate. While not specifically stated, government assistance programs have turned toward partnering with business to bring in entrepreneurial thought. Study around government processes could provide beneficial findings. In Germany, this is particularly interesting because our results have found that the government incentives initially attracted entrepreneurs, but at the same time, the grinding bureaucracy in the country emerged as a common theme in our findings.

Lastly, future research could certainly be extended on the abductive research process itself. Induction is by far the most widely accepted and utilized form of qualitative research. But, the power of abductive analysis lies in its ability to uncover initial concepts in under-researched areas and provide topics for further examination with inductive or quantitative analysis.

## CONCLUSION

In conclusion, we contribute to the literature in two main ways. First, expatpreneurs are not the entrepreneurs described by much of the literature. They have different motivations, processes, and priorities than traditional American domestic entrepreneurs. They operate from a different set of priorities than traditionally associated with entrepreneurship. They are patient, planned, and not willing to sacrifice quality of life in business or personal life. Second, this research uncovers the complexity of the German community-driven entrepreneurship apparatus. This community-based approach provided the support needed for American expatpreneurs. Once expatpreneurs became members of this community, they were able to bring much-needed change and fresh business perspectives to both the German economy as well as to individual German firms who partnered with these expatpreneurs.

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# **UNITED NATIONS COMMUNICATION ON PROGRESS EMERGES AS THE PRIMARY ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORTING CENTER**

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## **ABSTRACT**

*This paper will identify the growing demands for transparency of social and sustainability behavior by business. It will review the new regulations for business by governments and how the information is being reported. The problem identified in the reporting mechanisms is the fact that they do not provide results that can be compared because the reports focus on different measurements. The reporting mechanisms will be discussed, and the paper will then describe a new reporting website, Communication on Progress, produced by the United Nations that will solve the problem. It will make reporting Environmental, Social and Governance (ESG) goals and results more accessible at a global level and will allow comparisons among companies.*

**JEL:** M00

**KEYWORDS:** Environmental, Social, and Governance, Reporting, ESG, UN Global Compact

## **INTRODUCTION**

Given the increasing concerns about poverty and global warming by citizens and governments, and the increasing demands for transparency of business by citizens, governments are now requiring companies to report their goals and progress in environmental, social and governance (ESG) areas as a means to provide data on how each company is serving “the long term goals of transparency” (World Economic Forum, 2017, para. 1). This paper will review new regulations for business by governments and the reporting mechanisms being used by businesses to demonstrate their adherence to the regulations. Because the current reporting mechanisms measure different elements of ESG, it will focus on the development of a new program by the United Nations that is focused on the Ten Principles for Business and the UN Sustainable Development Goals of UN Global Compact. This new program Communication on Progress will make reporting ESG goals and progress easier at a global level and will allow comparisons among companies. The rest of the paper is organized as follows. The next section contains a literature review. The following section shows the methodology and Results. The paper closes with concluding comments and suggestions for future research.

## **LITERATURE REVIEW AND BACKGROUND**

In 2017, the International Business Council (IBC) of the World Economic Forum sponsored The Compact for Responsive and Responsible Leadership, which declared that “society is best served by corporations that have aligned their goals to serve the long-term goals of society,” and identified the UN Sustainable Development Goals (SDGs) as the roadmap for that alignment. (World Economic Forum, 2017, para. 1):

The European Commission, the executive branch of the European Union, adopted a proposal for a Directive on Corporate Sustainability Due Diligence on February 23, 2022 that requires

bringing to an end, preventing, mitigating and accounting for negative human rights and environmental impacts in the company's own operations, their subsidiaries and their value chains. In addition, certain large companies need to have a plan to ensure that their business strategy is compatible with limiting global warming to 1.5 °C in line with the Paris Agreement. (European Commission, 2022, para. 5)

On June 16, 2021 the U.S. House of Representatives passed the Corporate Governance Improvement and Investor Protection Act (H. R. 1187) that requires periodic disclosure of environmental, social, and governance (ESG) goals and progress by publicly traded companies, including direct and indirect greenhouse gas emissions and fossil fuel-related assets, that “are reflected in their operations, activities, and supply chains” (Mirza, 2021, para. 1). It was sent to the U.S. Senate, which referred it to the Committee on Banking, Housing, and Urban Affairs, on June 17, 2021, where no action has been taken as of December 2022. The Act established the Sustainable Finance Advisory Committee (SFAC) to advise the Securities and Exchange Commission (SEC) on ESG metrics, standards, and disclosure. (Congress.Gov, 2022).

The SEC has announced rules that require public companies to “enhance and standardize climate-related disclosures,” on risk management processes, including plans for severe weather events (Steinhaeuser, 2022, para. 2). One rule would help investors compare funds that identify funds as ESG or sustainable funds by requiring them to “to commit at least 80% of assets under normal conditions to investments that meet their ESG criteria. The other proposal would require funds that use ESG in their investment process to disclose more about how they do so in their prospectuses and annual reports” (Hale, 2022a, para. 4). The ESGs are increasingly becoming a political issue in the United States as politicians see them as an attack on fossil fuels. (Hale, 2022b).

ESG investing is growing as investors are now concerned about the impact of climate change and social problems. ESG is not just a major economies issue; countries around the world are scored for ESG to enable investors to make choices. One, Robeco, provides reports on 150 countries using its proprietary tool to “offer insights into the investment risks and opportunities associated with each country and provide investors with a better frame of reference for making comparisons among countries and regions from a risk/return perspective” (Robeco, 2021, p. 2). Others like S&P Dow Jones, Bloomberg, Morningstar, and PwC have ESG rankings of companies.

A wave of sustainable funds launched in recent years to meet that demand, and many conventional funds have adopted ESG criteria in a more limited way. We now count more than 550 funds available to U.S. investors in which ESG plays a central role. The universe has more than doubled over the past five years and has grown more than fivefold over the past decade. (Hale, 2022a, para. 5)

## **METHODOLOGY**

We first describe the advances and reporting related to Environmental Social and Governance (ESG) from inception to present. We used data from United National Global Compact and Global Reporting Initiative for the analysis of the reporting, including what is missing from the documents. We tracked UN Sustainable Development Goals (SDGs) and Results, Communication of Progress reporting and the new Communication of Process Platform as a new focus for ESG reporting. Then, we present the results for three companies, KPMG, Nike and LM Ericsson who use the UN SDGs to report their ESGs.

## **RESULTS**

There have been goals to develop models that companies could follow that would allow comparisons and increase transparency and accountability. Back in 2009 Rasche developed a model of accountability that

included the United Nations Global Compact for interested parties to discuss, but it did not result in an adopted model. Now, the UN Secretary-General has called for companies to use the Ten Principles and the Sustainable Development Goals of the UN Global Compact as the model.

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption. Our ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development Goals through accountable companies and ecosystems that enable change. With more than 15,000 companies and 3,000 non-business signatories based in over 160 countries, and 69 Local Networks, the UN Global Compact is the world's largest corporate sustainability initiative — one Global Compact uniting business for a better world. (United Nations Global Compact, 2022d, para. 7)

The Ten Principles for Business were developed by the UN Global Compact. They have their roots in the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption (see Table 1).

Corporate sustainability starts with a company's value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another. By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success. (UN Global Compact, 2022d, para 1)

Table 1: Ten Principles of the UN Global Compact

Area	Principle
<b>Human Rights</b>	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
<b>Human Rights</b>	Principle 2: Businesses should make sure that they are not complicit in human rights abuses.
<b>Labour</b>	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
<b>Labour</b>	Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour;
<b>Labour</b>	Principle 5: Businesses should uphold the effective abolition of child labour;
<b>Labour</b>	Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.
<b>Environment</b>	Principle 7: Businesses should support a precautionary approach to environmental challenges;
<b>Environment</b>	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility; and
<b>Environment</b>	Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.
<b>Anti-Corruption</b>	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

*United Nations Global Compact (UN Global Compact, 2022c, para. 3)*

Given the variety of reports companies use to report their ESG goals and performance, it is difficult to find comparable information. Back in 2005 Fussler, Cramer, and van der Vegt saw the need and created a model based on total quality management (TQM) to assist businesses in putting the Global Compact into practice. However, it was difficult for companies to implement a model created by researchers:

The growing demand for this alternative type of reporting has led to two important developments. First, the view that sustainability reporting should be mandatory is gradually gaining ground (unlike financial information, non-financial information is reported on a voluntary basis). Second, there is a growing perception that we need to improve the consistency and comparability in sustainability reporting. (Ormazabal, 2021, para 1)

Today, companies use the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), which is now part of International Financial Reporting Standards (IFRS), and Task Force on Climate-related Financial Disclosures (TCFD), and social responsibility reports of most companies now address all of them in the appendices, although completing all three is expensive for companies. Sustainable Accounting Standards Board (SASB) is a non-profit organization that has standards that identify the subset of environmental, social, and governance issues most relevant to financial performance in each of 77 industries. “The SASB standards were primarily developed to provide guidance for financial disclosure by companies” (Frigo & Whittington, 2020, para. 5). The goal of Task Force on Climate-related Financial Disclosures (TCFD), created by the Financial Stability Board, was to develop a set of climate-related financial disclosures that would allow financial groups to assess climate-related risks to allow investors and others to correctly value financial assets. Global Reporting Initiative (GRI) is an organization created by business leaders to enable “any organization – large or small, private or public – to understand and report on their impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency on their contribution to sustainable development” (GRI, 2021, para. 1). Table 2 shows the UN Sustainable Development Goals, Targets and Indicators:

However, one can only compare companies that use each measure, and thus it is difficult to compare the ESG performance of companies. A global reporting mechanism that is easier to complete and provides a means for comparison is needed. The United Nations Global Compact and its Sustainable Development Goals (SDGs) are a solution, but currently it is a complicated process, and Schembera (2018) found that although there was a positive impact of companies participating in the UN Global Compact, the initiative’s accountability structure was weak. It has developed Targets and Indicators for each SDG, but these are focused on solving the problems identified by the SDG and may be difficult for companies to follow. The table below illustrates examples of Targets and Indicators for each SDG. SDG 3 has a target to “substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.” This is one that most companies that own or outsource to factories can adopt as a goal. However, for SDG 7, only certain companies can help “ensure universal access to affordable, reliable and modern energy services” or “increase substantially the share of renewable energy in the global energy mix.”



Table 2: UN Sustainable Development Goals (SDGs) and Results, Targets and Indicators

SDGs	Examples of Targets and Indicators
<b>SDG 1 No Poverty</b> End poverty in all its forms everywhere	By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day.  Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.  By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.
<b>SDG 2 Zero Hunger</b> End hunger, achieve food security and improved nutrition and promote sustainable agriculture	By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round.  By 2020, maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed.  Note: not met by 2020
<b>SDG 3 Good Health and Well-Being</b> Ensure healthy lives and promote well-being for all at all ages	By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.  By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.
<b>SDG 4 Quality Education</b> Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes.  By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.  By 2030, substantially increase the supply of qualified teachers, including through international cooperation for teacher training in developing countries, especially least developed countries and small island developing States.
<b>SDG 5 Gender Equality</b> Achieve gender equality and empower all women and girls	End all forms of discrimination against all women and girls everywhere.  Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.  Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women.
<b>SDG 6 Clean Water and Sanitation</b> Ensure availability and sustainable management of water and sanitation for all	By 2030, achieve universal and equitable access to safe and affordable drinking water for all.  By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.  By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.  By 2030, expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies.
<b>SDG 7 Affordable and Clean Energy</b> Ensure access to affordable, reliable, sustainable and modern energy for all	By 2030, ensure universal access to affordable, reliable and modern energy services.  By 2030, increase substantially the share of renewable energy in the global energy mix.  By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.

Table 2: UN Sustainable Development Goals (SDGs) and Results, Targets and Indicators (Continued)

SDGs	Examples of Targets and Indicators
<b>SDG 8 Decent Work and Economic Growth</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.  By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.  Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.
<b>SDG 9 Industry, Innovation and Infrastructure</b> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.  Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.
<b>SDG 10 Reduced Inequalities</b> Reduce inequality within and among countries	Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020 ( <i>In 2019, an estimated 96.5 per cent of the global population were covered by at least a 2G network</i> ). By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average.  By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.  Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies.
<b>SDG 11 Sustainable Cities and Communities</b> Make cities and human settlements inclusive, safe, resilient and sustainable	By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent. By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.  Strengthen efforts to protect and safeguard the world's cultural and natural heritage.  By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.
<b>SDG 12 Responsible Consumption and Production</b> Ensure sustainable consumption and production patterns	By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities. By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.  By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment ( <i>between 2010 and 2019, global generation of e-waste – discarded electronic and electrical equipment – grew from 5.3 to 7.3 kilograms per capita, while the environmentally sound recycling of such waste increased at a much slower pace – from 0.8 to 1.3 kilograms per capita</i> ).  By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
<b>SDG 13 Climate Action</b> Take urgent action to combat climate change and its impacts	By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.  Integrate climate change measures into national policies, strategies and planning.  Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

Table 2: UN Sustainable Development Goals (SDGs) and Results, Targets and Indicators (Continued)

SDGs	Examples of Targets and Indicators
<b>SDG 14 Life Below Water</b> Conserve and sustainably use the oceans, seas and marine resources for sustainable development	<p>By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.</p> <p>By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information (<i>As of December 2019, over 17 per cent (or 24 million square kilometres) of waters under national jurisdiction (0 to 200 nautical miles from shore) were covered by protected areas</i>).</p> <p>Increase scientific knowledge, develop research capacity and transfer marine technology, taking into account the Intergovernmental Oceanographic Commission Criteria and Guidelines on the Transfer of Marine Technology, in order to improve ocean health and to enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries.</p> <p>Provide access for small-scale artisanal fishers to marine resources and markets.</p>
<b>SDG 15 Life on Land</b> Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation and halt biodiversity loss	<p>By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.</p> <p>By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.</p> <p>By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world.</p> <p>By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development.</p> <p>Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.</p> <p>By 2020, introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species on land and water ecosystems and control or eradicate the priority species</p> <p>End abuse, exploitation, trafficking and all forms of violence against and torture of children.</p>
<b>SDG 16 Peace, Justice and Strong Institutions</b> Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	<p>Promote the rule of law at the national and international levels and ensure equal access to justice for all.</p> <p>By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime.</p> <p>Substantially reduce corruption and bribery in all their forms.</p> <p>Develop effective, accountable and transparent institutions at all levels.</p> <p>By 2030, provide legal identity for all, including birth registration.</p> <p>Promote and enforce non-discriminatory laws and policies for sustainable development.</p>
<b>SDG 17 Partnerships for the Goals</b> Strengthen the means of implementation and revitalize the global partnership for sustainable development. These partnerships provide a forum for companies to share best practices	<p>Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection.</p> <p>Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda.</p> <p>Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries.</p> <p>Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships Data, monitoring and accountability.</p> <p>By 2030, build on existing initiatives to develop measurements of progress on sustainable development that complement gross domestic product, and support statistical capacity-building in developing countries.</p>

Table 2 illustrates the UN Sustainable Development Goals (SDGs) and provides some examples. (UN Sustainable Development Goals, Targets and Indicators, 2022).

Communication on Progress (CoP) Platform 2023: A New Tool for Investors

The solution may be in a new initiative that the UN Global Compact is launching: a new Communication on Progress (CoP) platform 2023 that will allow companies to upload all information pertinent to ESG performance translated into Sustainable Development Goals (SDGs) and how they are included in their business processes. It provides information that will allow companies to be compared by investors, consumers and other stakeholders in terms of their commitment to ESG.

The UN Global Compact requires participating companies to produce an annual Communication on Progress (CoP) that details their work to embed the Ten Principles and the SDGs into their strategies and operations, as well as efforts to support societal priorities. The Communication on Progress website provides information, resources and examples of best practice on how businesses of all sizes can align their business strategies with the Ten Principles. It has information on best practices, resources and networking events. It has a list of Global Compact Patron and Sponsor companies that support the initiative through programmatic accelerator programmes, peer learning groups, think labs, and e-learning tools on the SDGs. To be eligible for Patron and Sponsor recognition, companies must demonstrate a commitment to the UN Global Compact and its Ten Principles, display strong performance in the sustainability area they are sponsoring and commit to funding and working on the program for a minimum of two years. (United Nations, 2022d).

It has created a new version of its platform for 2023 that will make it easier for companies to communicate their goals and programs by using a standardized questionnaire rather than requiring a narrative explaining what the company is doing. Companies may chose not to address some questions, but the minimum information is (see Table 3).

Table 3: Minimum Information required for the New Communication of Process Platform

1	A statement by the Chief Executive expressing continued support for the UN Global Compact and renewing the participant’s ongoing commitment to the initiative.
2	A description of practical actions the company has taken or plans to take to implement the Ten Principles in each of the four areas (human rights, labour, environment, and anti-corruption).
3	A measurement of outcomes.

*(United Nations Global Compact, 2022a, para 7)*

The website provides a list of companies that currently are included on the site. (United Nations Global Compact, 2022e) Companies will address each of sixteen criteria and each criterion has seven to nine elements. The criteria below are general, but they require systems and processes by companies to demonstrate that the companies’ actions meet the criteria (see Table 4).

The list of companies is ordered according to the date they joined the Global Compact. The list identifies the Type of company: small or medium sized enterprise (SME) or company, and the Sector such as Pharmaceuticals & Biotechnology, Travel and Leisure, Financial Services, Food & Drug Retailers, General Industrials, and Household Goods & Home Construction. It then identifies the Country of the company and the date it joined. The list is alphabetical according to the year it joined. The earliest year is 2010 when companies such as Unilever, Royal Dutch Shell, Rio Tinto, Nike, Cisco, Tata Steel, DuPont, Deutsche Bank, and Nestlé joined. As of October 2022, over 21,000 companies from 160 developed and developing countries had joined the UN Global Compact. Over 100 of those companies joined in October of 2022; over 3,049 have joined since January of 2022. (United Nations Global Compact, 2022e)

When a company name is highlighted, information on the type of company, the country, sector, ownership, global compact status and year it joined appears. A link leads to the CEO’s Statement, another leads to

Yahoo and Google Finance information, and another to information from the Business and Human Rights Resource Centre. There are links to Engagements. The UN Sustainable Development Goals symbols are listed and companies highlight the ones they have adopted. They include symbols for the Principles and the Global Goals of Human Rights, Labor, Environment, and Anti-Corruption the company has addressed in the most recent CoP report. Most companies list the icons for United Nations Sustainable Development Goals and highlight the ones they support. Finally there are links to all the Corporate Social Responsibility or Sustainability reports since the company started on CoP. Unilever as a video of its most recent CSR report. Knudsen(2011) noted that CoP will delist companies that do not meet the requirements. Since 2007 15,612 have been delisted for failure to report, although some companies may not exist any longer and thus did not report. For example, Unilever has Business Ambition for 1.5°C, Business for Peace Signatories, Carbon Pricing Champions, Caring For Climate, CEO Water Mandate, CFO Principles, Founding Companies, GC 100, Human Rights and Labour Working Group, Responsible Climate Policy Engagement, Target Gender Equality, and Women's Empowerment Principles.

Table 4: Communication on Progress Criteria

<b>Strategy, Governance and Engagement</b>	
Criterion 1	Mainstreaming into corporate functions and business units
Criterion 2	Describes value chain implementation
<b>Human Rights</b>	
Criterion 3	Robust commitments, strategies or policies in the area of human rights
Criterion 4	Effective management systems to integrate the human rights principles
Criterion 5	Effective monitoring and evaluation mechanisms of human rights integration
<b>Labor</b>	
Criterion 6	Robust commitments, strategies or policies in the area of labour
Criterion 7	Effective management systems to integrate the labour principles
Criterion 8	Effective monitoring and evaluation mechanisms of labour principles integration
<b>Environment</b>	
Criterion 9	Robust commitments, strategies or policies in the area of environmental stewardship
Criterion 10	Effective management systems to integrate the environmental principles
Criterion 11	Effective monitoring and evaluation mechanisms for environmental stewardship
<b>Anti-corruption</b>	
Criterion 12	Robust commitments, strategies or policies in the area of anti-corruption
Criterion 13	Effective management systems to integrate the anti-corruption principle
Criterion 14	Effective monitoring and evaluation mechanisms for the integration of anti-corruption
<b>UN Goals and Issues</b>	
Criterion 15	Core business contributions to UN goals and issues
Criterion 16	Strategic social investments and philanthropy

Table 4 shows the UN sixteen criteria. (United Nations Global Compact, 2022e)

### Three Examples

A sampling of the information on the CoP website demonstrates the ability of companies to provide the information that is relevant to them, but also to see what elements they are not responding to. The information is self-reported ( see Tables 5, Table 6 and Table 7).

Table 5 : KPMG

Company Information	Year Reported and Status	Relevant Policies Connected to CoP Criteria	SDGs for Which It Has Programs	Engagements for CoP Criteria
United Kingdom International Financial Services Sector	2022 Active Letter of Commitment from the CEO stating his continued support for the UN Global Compact and its ten principles. Meets all criteria for the GC Advanced level	Human Rights, Labour, Environment, Anti-Corruption. Included is a measurement of outcomes	SDG 3, 4, 5, 7, 8, 9, 10, 12, 13, 14, 15 and 17 For SDG 3, it lists Every Woman Every Child, which has data on women and children’s health, GBCHealth, which is a program it supports	Anti-Corruption Working Group, Human Rights and Labour Working Group, Responsible Climate Policy Engagement, Target Gender Equality, and Women's Empowerment Principles, each of which has a link

Communication on Progress (CoP) Platform 2023

KMPG has good descriptions of actions and engagements; an example is for SDG 3 in the chart above, which corresponds to CoP 3, 4 and 5. For the 16 CoP criteria KMPG only has the first item checked as ‘addressed,’ and the others are in progress. There is a link to a copy of its *Impact Report 2022: Planet People Prosperity Governance*. That report identifies diversity and environmental goals and accomplishments: its Global Board is comprised of four females and five members that identify as members of underrepresented social groups. Its goal is to have one of the categories represented at the leadership level by 2025. It has had an 18% reduction in net emissions since 2019. One issue is that KMPG checked that it ‘Applies’ the GRI Sustainability Reporting Guidelines or the GRI Standards, but did not check the items that were required to show it was in accordance with the GRI standards. This is an example of ‘in progress’ that may not be evident in other reports but is evident in CoP.

Table 6: Nike

Company Information	Year Reported and Status	Description of Actions or Relevant Policies	SDGs for Which It Has Programs	Engagements
United States of America Personal Goods Sector Publicly Listed	2022 Active Participant since July 26, 2000	Refers to CSR Reports	SDG 3, 5, 8, 12, 13 and 17	CEO Water Mandate, Founding Companies, and SBTi (Approved)

Communication on Progress (CoP) Platform 2023

For the Communication on Progress Nike lists all of its CSR reports from including the 2022 one, Communication on Progress\_Nike FY21 Impact Report. From 2004-2007 it has its CSR reports, but from 2008 to the present, it has CoP reports, with two Grace years during which it did not submit a report. For each SDG it has links to the CoP SDG website, “How Your Company Can Advance Each of the SDGs,” which has suggestions for companies. For example, for Goal 12, Ensure sustainable consumption and production patterns, it has links to sites for “Why business should support supply chain sustainability,” “Global Compact Management Model,” “Global Reporting Initiative,” and “Additional Tools: SDG Compass; SDG Matrix.”

Table 7: LM Ericsson

Company Information	Year Reported and Status	Description of Actions or Relevant Policies	SDGs for Which It Has Programs	Engagements
Sweden Personal Goods Sector Publicly Listed	2022 Active Participant since July 26, 2000	Refers to CSR reports	SDG 4, 5, 8, 9, 12, 13, 16 and 17	Business Ambition for 1.5°C, Caring For Climate, CEO Water Mandate

Communication on Progress (CoP) Platform 2023

LM Ericsson belongs to the Global Compact 100, which is a stock index of UN Global Compact companies that are implementing the Ten Principles and have shown base-line profitability in doing so. It has links for Communication on Progress reports each year since 2007. For 2003 through 2006 it refers to its Sustainability Reports.

For the newcomers to CoP like Petlove, a Privately Held company from Brazil whose sector is General Retailers and has been a participant since November 2022, there is little information, except for a CEO Letter of Commitment.

## CONCLUDING COMMENTS

The new Communication on Progress website is mandatory in 2023. It is the answer to the need for transparency, accessibility, and accountability in the area of company ESG goals, progress, and actions. It already has the majority of global corporations on board, plus small and medium sized enterprises from 160 developed and developing countries. It provides significant amounts of information on companies at the 'click of a mouse,' and thus is easy to use for investors, consumers, researchers, other companies, and stakeholders at large. The fact that the information is being monitored and companies are being expelled indicates third-party evaluation. It is the answer to the need for quality information to improve the responsibility of companies to its stakeholders.

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## **BIOGRAPHY**

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# THE SOCIAL IDENTITY DYNAMICS OF THE EUROPEANIZATION OF BULGARIA: RECONSTRUCTING GRAMSCIAN HEGEMONY IN A POST-NEOCOLONIAL BALKAN NATION-STATE

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## ABSTRACT

*This analysis proposes that a significant source of the systemic sources of so-called grand corruption and strategic corruption in Bulgaria lies in its long-term history of imperial and colonial subordination. It raises the epistemological issues of the perceptual basis for the identification of corruption. Corruption is a weaponized political label favoring particular political topographic characteristics and trends that support a regional international political hierarchical order, in this case American hegemony. The Bulgarian national community's complex component community identity profile is a product of generations of external domination which this analysis highlights. This legacy includes authority legitimation challenges that contradict establishment authority claims that their domination and control provide an invisible public good in terms of social order. Institutionalized habituated attitudinal predispositions among the public emphasize functionally the state authority as self-serving in its domestic control. The national state authority represents the control interests of an external hegemony. This domestic control ultimately serves the hegemonic interests of an external power, e.g., the Ottoman sultanate, the Soviet Union, or NATO/EU. Bulgarian constituency group and individual acquisition of greater social status via social creativity in relation to the state authority displays orientations towards serving the domestic national representative of the alien imperialist/colonialist hegemon.*

**JEL:** D73, F54, H11, H41, H56, H83, H87, M48, N44

**KEYWORDS:** Bulgaria, Corruption, European Union, Hegemony, Imperialism, Social Identity Theory, Soviet Union, United States

*“Is it fair for an enforcement agency to not enforce a law [the Foreign Corrupt Practices Act] on the books for 25 years, and then one day announce to the world that it will begin enforcing the statute in connection with conduct that occurred during that 25 year period?” Andy Spalding, senior editor of The FCPA Blog, said in an email. “In many ways, that is the Giffen question.” (Re: late CIA operative James Giffen’s prosecution for bribery of Kazakhstan President Nursultan Nazarbayev “to grease the wheels of global commerce, especially with the CIA’s endorsement” Clay, 2022, paras. 28-29),*

## INTRODUCTION

This paper critiques the de facto equation of Europeanization with submission to American hegemony. It asks, what choices were made that allowed the EU to be equated as one of side of the same coin with NATO. France’s rejoining the NATO command structure in 2009 encouraged this perception. It comports with the claim that American liberal hegemony made the European integration process feasible. It highlights the consequences for national conflict resolution of the Europeanization process being equated with attitudinal orientation towards accepting American hegemony. Bulgaria is a case study of this process on the level of indirect conflict and influence competition between Moscow and Washington, with each

seeking to contain the other. The outbreak of this competition into violence is occurring in Ukraine. Independent variables in this case study include Bulgarian nationalism. The attitudinal institutionalization of Bulgarian nationalism through the Bulgarian state despite frustrated irredentism acquired predominance under the Communist regime. Shifting this orientation towards the North Atlantic Community is problematic in that the EU functionally favors stability and stabilization to maintain existing borders.

European integration's focus on developing vested economic and bureaucratic interests has tied it to American hegemony. The source of the anti-Moscow influence tendency institutionalized in European integration is to be found here. Challengers to these vested interests include Russia, stereotyped by Washington as the threatening rogue headquarters of so-called strategic corruption. It reflects a mirror image of neo-Stalinist stereotyping in Moscow of Washington and London, i.e., "the Anglo-Saxon world," as the imperial headquarters or heartland of politically threatening globalization (Medvedev, 2023). Communist Bulgaria was the most loyal ally of the Soviet Moscow, closely modeling and integrating its economic institutions with those of the USSR (Spenner and Jones, 1998). Becoming European means becoming coopted into the Washington-centric international political economic system (Vassilev, 2006). It is an intergenerational challenge in Bulgaria, with so many generations socialized into Russophile attitudes. Bulgarian defense minister Stefan Yanev lost his post after publicly rejecting the "war" label for the Russian February 2022 invasion of Ukraine. He advocated instead the term "military operation," echoing Moscow's rhetoric (Euronews, 2022).

For some national constituencies, to be European incorporates a drive functionally equated with a claim to entering a supraordinate status category (Jugert, Šerek and Stollberg, 2019). Being a European Bulgarian is significantly a desire to achieve individual social mobility. How to achieve this mobility in terms of how one ought to behave, i.e., what is ethical, is at the foundation of Bulgarian societal dissonance and dissensus. To be a European means to tolerate the traditionally derogated Other in Bulgaria, i.e., Greeks, Turks, Roma, Macedonians. "Cardinali et al. (2015) defined ethics as a moral code of norms that exist in society externally to a person, depending on culture and time, while ethical decision making is considerably challenging and complex (Spector, 2016)" (Dimitrios and Stavros, 2021, 1103). "European identity and attachment seem to satisfy a fundamental psychological need for people to be associated with positive identity" (Hadler, Chin and Tsutsi, 2021, 4). Being publicly acknowledged as a moral actor is equated here with acquisition of comparatively greater social status in the subjective actor's social self-perception.

Medarov places the current Bulgarian struggle over historical narratives regarding totalitarian Communism within the context of the global passage of so-called memory laws. "Although memory laws have different political motivations (left, right, conservative, liberal or nationalist), what they share, paradoxically, is the common attempt to overcome the rise of diverging identities (ideological, ethnic, religious or others). They are all provoked by the states' inability to contain their symbolic monopoly over national memory" (Medarov, 2020, 37). Diverging historical narratives reflect differing perceptions of the relative significance of historical experiences as contributive to contemporary national identity. They are selectively perceived to justify a particular vision of the most ethically proper authority norm system today and tomorrow.

The paper begins with a brief overview of social identity theory as the theoretical framework for conceptualizing the role of status anxiety in driving individual and collective national behavior. It then highlights the function of American hegemony in shaping global institutional opportunity structures for maintaining social status view collective social creativity and individual social mobility. Social competition, i.e., viewing a social relationship status as zero-sum, characterizes a source of violent nationalist conflict as between Ukraine and Russia in 2022. American hegemonic pretensions include a labelling of individual and state actors' behavior as being so-called corrupt. The paper proffers that the European Union's so-called Europeanization function has its foundation in the regional institutionalization of American hegemony. The interaction of the centuries-long legacy of imperialism and colonialism in what had been components of the Ottoman empire interacts with this Europeanization process.

The multigenerational challenge of corruption illustrates the component complexity of the national identity of these post-colonial nation states, e.g., Bulgaria, Greece and Egypt. Europeanization's roots in the Cold War under American hegemony incentivizes rejection of Russian political influence in polities previously under Soviet imperial hegemonic domination. The paper highlights Bulgaria as a case study of this battle against corruption, conceptualized as threats to the rule of law under Euro-Atlantic auspices. The paper proposes policy strategies focusing on Europeanization of professional codes of ethics in civil society and state agencies, with socialization in them being an emphasis in educational institutions. The paper concludes with a discussion of the implications of this approach in regard to prospects for peaceful conflict resolution between Moscow and the so-called West.

## LITERATURE REVIEW

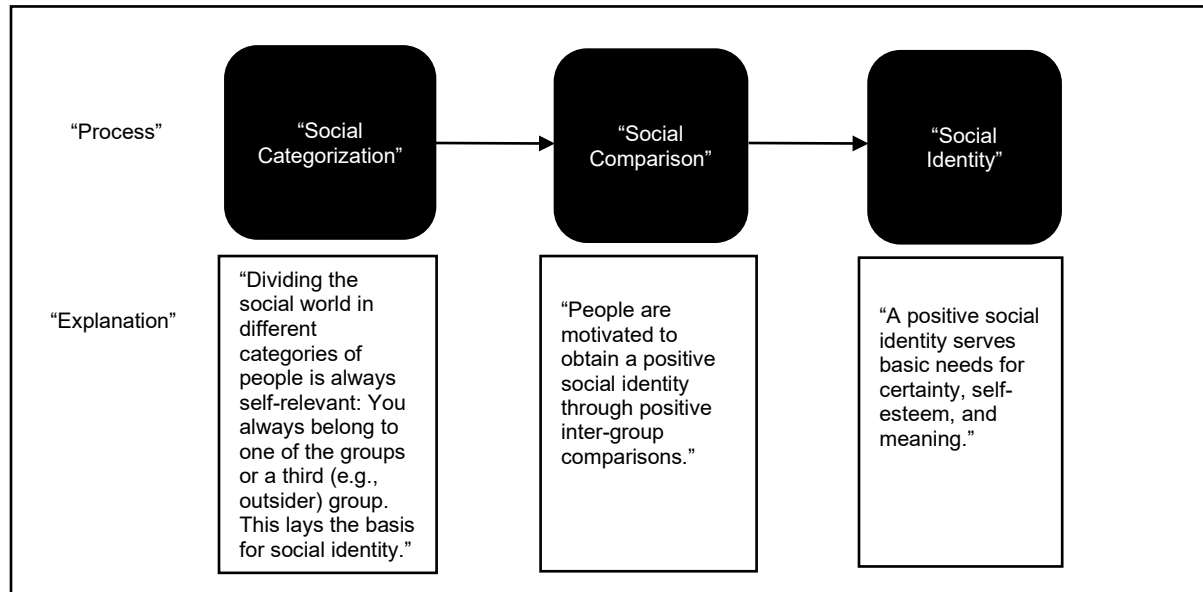
### Social Identity Theory

Social identity theory highlights a critical societal process in the evolution of “imagined communities” (Anderson, 1983). Legitimate authorities oversee the construction and elaboration of complex state institutional infrastructure to facilitate functional pursuit of group social creativity and individual social mobility acquisition. They respond to the functional exploitation of expanding perceived transnational interdependency. It thus lays the foundation for elaboration of awareness of global interdependency and the construction of global infrastructure as a public good.

*“In Weberian ideal-typical, so-called developed nation states, the authorities are hegemonic. The modal citizenry functionally grants, if not necessarily consciously acknowledges, that the authorities have the moral and ethical right to be the authorities. They regulate the institutions for managing social identity creation and evolution.”*

*“Figure 1 shows the basic principles of social identity theory. Social identity theory underlines processes of societal change in terms of perceptions, attitudes and values of self and other amidst social interaction. Social identity theory is the theoretical foundation for the analysis in the paper. It highlights the significance of human in-group vs. out-group formation as actors strive via social interaction to satisfy their evolving motivations and needs. These needs include positive self-esteem through identity affirmation. In response to a negative comparison of one's self-identity in-group with a relevant out-group, the individual perceiver manages their social identity through management strategies. They include 1) competing with the out-group, i.e., social competition; 2) attempting to join the superior out-group if feasible, i.e., social mobility, and 3) reevaluating the in-group along alternative criteria, i.e., social creativity” (DeDominicis, 2023, 2).*

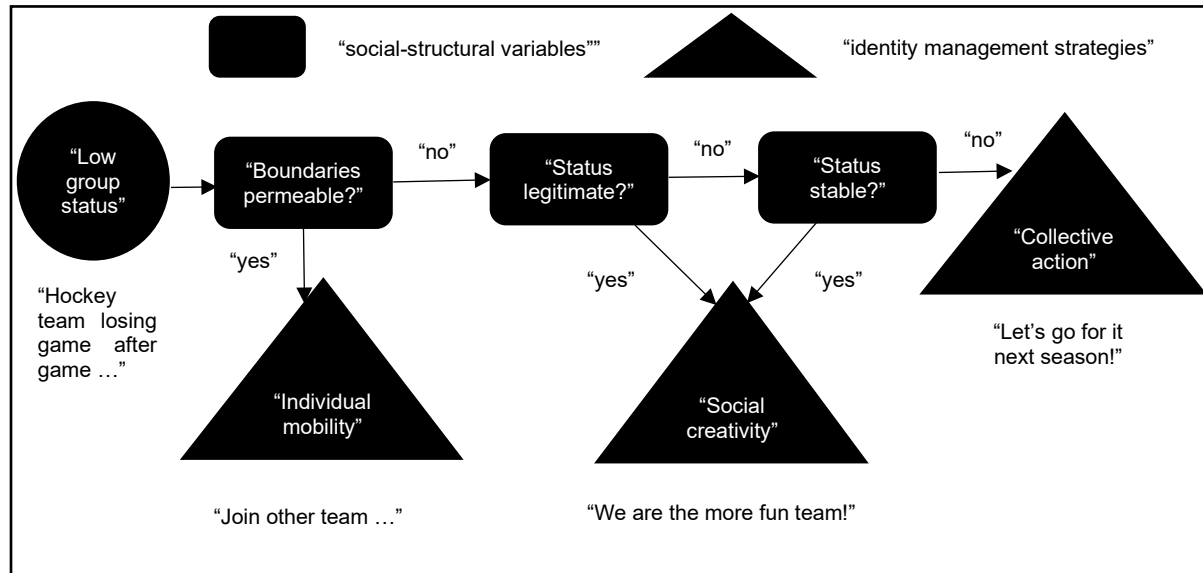
Figure 1: “Social Identity Definition”



*“Social identity theory’s foundational motivational principles are that 1) an innate drive of the individual is to maintain a positive self-image, 2) individuals form ingroups versus outgroups, 3) individuals comparatively evaluate the social status of their ingroups with salient outgroups, 4) individuals tend to equate the comparative status of their ingroup with their self-image. If and when individuals comparatively evaluate themselves negatively within their societal contexts, then they will respond psychologically and socially, individually and collectively (see figure 2). Individuals have varying intensities of self-identification with a multitude of ingroups, but self-identification with a national ingroup is prevalent among homo sapiens and social competition can lead to violence (Fig. 1 from Scheepers and Ellemers, 2019, 8).” [sic] (DeDominicis, 2021b, 40).*

*“Upon comparing one’s ingroup with another and perceiving one’s own status as inferior and therefore one’s self-image as negative, the perceiver can respond with three psycho-behavioral strategies. One strategy is social mobility, i.e., attempt individually to join the perceived superior status group. A second strategy is social creativity, i.e., the perceiver compensates by changing the evaluation criteria, selecting those on which the perceiver views their ingroup as superior over the outgroup. A third strategy is open intergroup conflict, i.e., social competition, in which the ingroup perceiver views the relationship with the outgroup as zero-sum. Any gain by the outgroup is perceived as coming at the cost to the ingroup. National self-determination movements by definition seek to break the relationship through secession to form their own sovereign community (Cottam and Cottam, 2001). Figure 2 [...] schematically summarizes a presentation of social identity theory precepts.” (DeDominicis, 2021b, 41).*

Figure 2: “Social-structural Variables and Identity Management Strategies”



*“Upon perceiving an ingroup negative social status self-evaluation, an individual member may choose three different response strategies. Individual social mobility seeks to join the superior status group if the boundaries are permeable, e.g., “in the United States, [...] classes are permeable but races, in most cases, are not” (Cottam and Cottam, 2001, 92). Social creativity involves compensatory reconfiguration of the comparison criteria to reconstitute the individual perceiver’s positive self-identity ingroup evaluation. If dynamic interactive contexts destabilize social-structural features of intergroup status relations, then social competition, i.e., collective action by the ingroup to supersede the outgroup along the same status evaluation criteria, may be the social strategy response (Fig. 2 from Scheepers and Ellemers, 2019, 12).” [sic] (DeDominicis, 2021b, 41).*

*“This study elaborates on the identity management strategy of collective action as a form of political integration. In addition to collective action being employed in social competition, the collective action may be in the form of additional social creativity. Collective action may seek to supersede the relationship evaluation criteria upon which the zero-sum evaluation is based by fortifying new evaluation criteria. This new evaluation criteria may supplant the status quo institutional context by exploiting dynamic political opportunities.” (DeDominicis, 2021b, 40).*

Professional ethics codes for the legal system as the core of the state are attempts to institutionalize social status through perceived rule of law to define and regulate social deviance. Parochiality is here conceptualized as pursuing so-called clique ingroup interests at the expense of a supraordinate community identity public good (Abrams and Vasiljevic, 2014). Authorities perceiving a challenge to their supremacy from such behavior label it as corruption through institutionalization of ethics via these professional codes of ethics. Those who fight corruption ideally rise in social status through relatively effective societal enforcement of this “frame” (Bartoszewicz and Eibl, 2022, 3). It should be institutionalized, i.e., the realization of the rule of law, to provide this substantive benefit. Social deviance transforms into social creativity through perceived success in global competition on behalf of the primary terminal self-identity community, i.e., the nation. These perceived challengers to national development may include internal and external sources.

### US National Security and Corruption

The Biden administration’s focus on corruption and the “international rules-based order” has its foundation in American post-Cold War hegemony legitimation (Garamone, 2022, para. 1). This legitimation lies in the belief that American global leadership provided the political resources for freedom and prosperity against the Soviet Union, viewed as a totalitarian imperialist power. Moscow’s current attempts to disrupt this

system, according to this worldview includes corruption, i.e., the undermining of the global public good for illegitimate parochial imperial political gain by Moscow. This worldview emphasizes the necessity of the stability of its foundational institutional order under American postwar hegemony that has expanded globally. For example, money laundering, namely international money laundering, is the essence of the subversion of this system, which allegedly facilitates terrorist funding.

The Biden administration issued in December 2021 the “United States Strategy on Countering Corruption,” along with designating “the fight against corruption as a core United States national security interest” (White House, 2021, 4). It presents a typology of corruption:

“Illustrative Types of Corruption:”

“Corruption takes on many forms and is used to further various illicit behaviors. Illustrative types of corruption include, but are not limited to:”

“Grand corruption: when political elites steal large sums of public funds or otherwise abuse power for personal or political advantage.”

“Administrative corruption: the abuse of entrusted power for private gain—usually by low to mid-level government officials—in interactions with citizens and the private sector, including to skirt official regulations and extort citizens in exchange for their basic services.”

“Kleptocracy: a government controlled by officials who use political power to appropriate the wealth of their nation. Can include state capture.”

“State capture: when private entities improperly and corruptly influence a country’s decision-making process for their own benefit.”

“Strategic corruption: when a government weaponizes corrupt practices as a tenet of its foreign policy” [emphasis BD] (White House, 2021, 4).

It highlights Bulgarian actors that the Biden administration targeted for sanctions among the case examples that the Biden administration had already undertaken:

“Spotlight: Global Magnitsky and 7031©”

“Section 7031(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, and the Global Magnitsky Act sanctions program, as implemented by Executive Order 13818, have set the international standard for visa restrictions and economic sanctions regimes specifically focused on corruption. Taken together, these mechanisms have exposed corruption and blocked corrupt officials at all levels of government, including heads of state, members of parliament, governors, and mayors, from visiting and spending their ill-gotten gains in the United States.”

“On June 2, 2021, the United States executed the single largest anti-corruption action to date in the sanctioning of three Bulgarian individuals for their extensive roles in corruption in Bulgaria, as well as their networks encompassing 64 entities. The Treasury sanctions were complemented by actions taken by State to publicly designate two of the individuals, and three other Bulgarian public officials, under Section 7031(c), due to their involvement in significant corruption. This coordinated interagency action demonstrates the United States’ commitment to hold accountable those involved in corruption and to impose tangible and significant consequences on those who



*engage in corruption as we work to protect the global financial system from abuse” [emphasis BD] (White House, 2021, 27).*

The “three Bulgarian individuals” are “Vassil Kroumov Bojkov, a prominent Bulgarian businessman and oligarch; Delyan Slavchev Peevski [referenced below in relation to 2013-14 social protests in Bulgaria who would also be a focus of 2020-21 Bulgarian protests (BD)], a former Member of Parliament; Ilko Dimitrov Zhelyazkov, the former Deputy Chief of the Bulgarian State Agency for Technical Operations who was appointed to the National Bureau for Control on Special Intelligence-Gathering Devices; and the companies owned or controlled by the respective individuals” (U.S. Department of the Treasury, 2021, para. 3).

Section 7031(c) highlights that the executive branch of the US government determines who is corrupt:

*“Sec. 7031(c), P.L. 116-94 (H.R. 1865, pp. 331-334)”*

*“FINANCIAL MANAGEMENT AND BUDGET TRANSPARENCY*

*SEC. 7031. (a-b) Not Shown (c) ANTI-KLEPTOCRACY AND HUMAN RIGHTS. (1) INELIGIBILITY.*

*(A) Officials of foreign governments and their immediate family members about whom the Secretary of State has credible information have been involved, directly or indirectly, in significant corruption, including corruption related to the extraction of natural resources, or a gross violation of human rights shall be ineligible for entry into the United States.*

*(B) The Secretary shall also publicly or privately designate or identify the officials of foreign governments and their immediate family members about whom the Secretary has such credible information without regard to whether the individual has applied for a visa” [emphasis BD].*

[...] (US State Department, n.d.).

The Trump administration issued Executive Order 13818, “Blocking the Property of Persons Involved in Serious Human Rights Abuses or Corruption,” on December 20, 2017. Trump declared in the order that “serious human rights abuse and corruption around the world constitute an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States, and I hereby declare a national emergency to deal with that threat” (Trump, 2017, para. 3). The Global Magnitsky Human Rights Accountability Act authorizes the US president to place sanctions on “any foreign person” that he “determines” to be engaged in systematic human rights violations and corruption (“Global Magnitsky Human Rights Accountability Act,” 2016, sec. 1263(a)).

The Biden administration reiterated its commitment to the “rules-based” international system in its October 2022 National Security Strategy. It highlighted the fight against corruption as a US “core national security interest” (White House, 2022, 18). So-called strategic corruption referenced in the US Strategy on Countering Corruption implies that corruption undermines the domestic political authority of US-allied regimes. Thereby, the diplomatic bargaining leverage of Moscow towards the target state is potentially enhanced.

As such, the competitive interference in the internal politics of third actors in the post-Cold War era, utilizes in Washington this discourse of corruption. It aims to resist Moscow’s influence generation efforts, but this competitive interference pattern of behavior was the hallmark of the so-called Cold War in the postwar nuclear setting (Cottam, 1967). Avoiding direct violent conflict between the so-called superpowers was an overriding imperative. The US and USSR competed indirectly but intensely within the internal political policy making processes of third actors everywhere. It was often undertaken covertly and informally to avoid provoking costly nationalist backlash resistance to the locally-perceived imperial interference (DeDominicis, 2019).

### The European Union: American Hegemony's Subaltern

Haine and Solloum (2021, 57) assert that EU expansion into Ukraine in 2013-14 “was not geopolitical but technocratic” but “[o]f course that Europe was mistaken does not justify the Russian reaction.” The EU itself publicly intervened in Ukrainian domestic politics to encourage Kyiv street demonstrations against President Yanukovich’s late 2013 refusal to sign an EU association agreement. Lady Catherine Ashton, the EU’s first high representative for its Common Foreign and Security Policy and vice-president of the European Commission visited the Maidan demonstrations on the square (Riegert, 2013). Other demonstrations of Western political establishment elite solidarity with the Euromaidan protestors included senator John McCain who shook the hands of the protestors on December 15, 2013 (*Guardian*, 2013). US Assistant Secretary of State Victoria Nuland made her notorious private recorded dismissal of the EU and its favored Ukrainian candidate for president (BBC, 2014). She publicly distributed food to protestors on Maidan square in Kyiv immediately after meeting with Yanukovich (EUObserver, 2013, CBS, 2013)). Nuland would return to the more senior position of Under Secretary of State in the Biden administration. This historical timeline provokes speculation as to whether Moscow would have ordered its 2022 invasion of Ukraine had Trump been re-elected in 2020.

European integration’s focus on developing vested trans-Atlantic economic and bureaucratic interests has tied it to American hegemony. High profile challenges emerged during the Cold War to American foreign policy dominance. French President Charles de Gaulle departure from the NATO military command structure and West German Chancellor Willy Brandt’s Ostpolitik, were “largely unsuccessful” (Chrysogelos and Martill, 2021, 1). The source of the anti-Moscow influence tendency institutionalized in European integration is to be found here. It associates with nationalism because the prevailing (but not the only) view in Europe was that postwar Moscow was the enemy of European national self-determination while the US allied with it (Danner, 1997, Christiaens, 2017). French president de Gaulle sought to counterbalance American hegemony, but the French accommodated after the Cold War ended and America experienced its unipolar moment (Bozo, 2014).

Ratti (2014, 373) argues that post-Cold War Paris demonstrated a “relentless effort to develop European defence” through strengthening the EU’s new European Security and Defense Policy (ESDP). Paris was unlikely to gain support from the EU’s more “pro-Atlantic” members unless France first rejoined the NATO command structure from which de Gaulle had originally withdrawn France in 1967. Paris first had to address the political fragility of the EU over its member states’ relationships with the US. It was glaringly evident in the “acrimonious rift between ‘Old’ and ‘New’ Europe in the build-up to the 2003 Bush administration’s overthrow of Saddam Hussein’s Iraqi regime” (Ibid.) French President Nicolas Sarkozy oversaw France’s formal return to the NATO military command structure in 2009, culminating moves initiated under Mitterrand and developed under Chirac. By February 2022, the prevailing worldview within the Putin regime in Moscow evidently viewed patterns in EU dissent from US-led NATO strategic behavior as at best tenuous (DeDominicis, 2022).

Degenhardt (2020, 140) observes that the label of “criminality” is “applied selectively as a result of the GN [Global North (BD)] preoccupation with security and stability.” The antipode to Europeanization is corruption via Russian actors and influence. Bulgarian Prime Minister Kiril Petkov equated fighting corruption in Bulgaria with resisting illegal foreign influence, particularly Russian foreign influence in the country (Kotseva, 2022).

### Conceptualizing Corruption

Heywood and Rose (2014, 526) survey the literature on measuring the extent of corruption, bifurcating it into two categories: perception-based and non-perceptual approaches. They note the drawbacks of both perspectives, including that the literature elaborating perception-based measures has been relatively inert

in regard to elaboration of these concepts and indicators. They note that the literature utilizing non-perception-based approaches to measuring corruption are critically deficient in capturing the features of specific contexts essential for policy prescriptions. They state, “the focus on measuring corruption at the national level and producing league tables or other rankings is always likely to be misleading: corruption takes place in specific sectors and contexts – local, regional, national and increasingly, transnational – and that very variation is one of the key reasons that it is so difficult to develop appropriate measures.”

This study suggests a focus on regime legitimacy as the perspective to analyze corruption. It specifically focuses on how Gramscian hegemony is constructed to generate the public’s willingness to grant legitimacy to the authority of the ruling class. It is essential for the perception of corruption to emerge, or not to emerge within a national polity that displays full adult population political awareness. The nature of this acceptance can be comparatively evaluated and measured in terms of the mobilization base of the authorities regarding the public. A ruling elite that the modal citizen in a nation state perceives as foreign-imposed, i.e., a quisling regime, will display less mobilizational power potential *ceteris paribus* (Downes, 2009). The collapse of the American client regime in Afghanistan in 2021 illustrates the delegitimizing impact of foreign installation of a ruling elite (Moldovan, 2021). Foreign-imposed regime change creates daunting obstacles to the creation of a collective prevailing view that the state authorities represent the Gramscian “national-popular” will (Monshipouri and Dorraj, 2021, 204). In such an ideal-type polity, participatory, autonomous public opinion formation among the citizenry manifests corruption’s existence as a normatively negative, politically weaponized label for behavior. As such, the relative pervasiveness of corruption equates with the relative degree of normative dissensus on norms and values within a national polity.

The prevailing view in the North Atlantic community is that the Bulgarian polity manifests a comparatively weak administrative state capability as evidenced by its relatively high levels of corruption (Papakostas, 2013). Papakostas explains his focus on Bulgaria first because it

*[...] “has been the recipient of the most comprehensive, to date, EU anti-corruption policy through the Coordination and Verification Mechanism and its activation in 2008. Second, because it is the laggard EU country with regard to its effectiveness in addressing corruption. Third, because as a result of EU pressure Bulgaria has introduced one of the most comprehensive anti-corruption legal frameworks in the world and is thus providing an opportunity to examine limitations of legal constraints as an independent variable for fighting corruption. And fourth, because it clearly imprints a political and social culture that derives from distinct pre-communist historical origins more than the other recent EU Member States”* (Papakostas, 2013, 53)

In the 1989 Eastern European “demonstration effect” environment, mass protests also occurred in Bulgaria to bring down the Communist regime on 10 November 1989 (Pop, 2013). Prior to the late 1980s, Communist Bulgaria did not manifest a mass protest movement. “[U]ntil the late 1980s, dissident activities in the country consisted rather of separate, uncoordinated acts of individuals or groups, sufficient for raising concerns among the authorities who answered with immediate suppression, but not nearly enough for undermining their position” (Dineva, 2019, 43). In sum, the pro-democracy social movement in Communist Bulgaria emerged relatively late. It gestated comparatively less institutional social capital to support the transition to the post-Communist liberal regime. Lustration, i.e., publication of Communist secret police documentation of individual past collaboration with the security services, has partly compensated. It aims “to tackle the vestiges of the secret police networks in current business activities [which] resonates with similar regional attempts to use lustration as anti-corruption measures” (Horne, 2015, 139).

Explaining the relative absence of organized public dissent in the Bulgarian as due to exceptional levels of coercion is necessary, but not sufficient. Hardline post-1968 Czechoslovakia and the German Democratic Republic developed significant sustained dissident-led social movements (Desposato and Wang, 2020). An explanation should include the paradoxes and dilemmas in Bulgarian “national” identity that significantly

stem from its largely externally dependent, colonial Balkan historical political evolution. Beginning in pre-modern, feudal conditions, generations of Bulgarians underwent lifetime socialization during periods of imperial intervention. The Orthodox Christian Bulgarian lands were under Ottoman Turkish Muslim control for centuries, before a comparatively brief period of sovereignty saw it pass under Russian Soviet domination. These experiences impacted behavioral attitudes passed to succeeding generations. Policy-relevant understandings of Bulgarian political attitudes towards their own respective state and community can benefit from a theory-informed consideration of the impact of imperialism. Respective national self-determination drives reflect this legacy. Nationalism is this drive for national self-determination through acquisition of the perceived situational political prerequisites for national sovereignty.

### Corruption and Imperialism

Bulgarian normative dissensus derives from differentiated institutionalized, i.e., habituated attitudes for achieving social status as well as security which differ among societal constituencies. These intergenerational attitudinal polarization cleavages reflect early socialization. Accelerated postwar Urbanization was the setting where Bulgarian nationalism was most likely to associate with Communist socialization. Amongst this institutionalized, early socialization dissonance, Bulgarians' habitual default has been towards patron-clientelism. Under communism, this normative attitude institutionalized within a formal framework of Marxist-Leninist democratic centralism in terms of organizing selves. The Communist party institutionalized this pattern nationally. The Party was the institution of the ruling class aristocracy under the de facto ruling family of Todor Zhivkov.

“Corruption is not only an economic term, but according to some authors, it is described as a moral disorder and social behavior handed down from generation to generation [(Aydoğuş, Kutlu, & Yıldırım, 2005: 1-3).” [*sic*] (Çadirci, 2022, 295, Google translated from the original Turkish)]. As such, corruption is a problem of development, a normatively laden post-colonial term evaluatively comparing post-colonial polities with the former, formal imperial metropole. These former metropolises are typically nation states, whereas postcolonial states, display more or less arbitrarily drawn boundaries (Cottam and Cottam, 2001). These externally imposed territorial boundaries often overlap and intersect multiple primary intensity self-identity communities, e.g., so-called tribes. The public to whom the citizen owes primary self-identity allegiance is more often contested. The state authorities attempt to enforce the rule of law without primary representational community authority in the eyes of many. For example, a postwar Serbian nationalist diverting central government resources away from Yugoslav central government-determined policy ends would be labeled corrupt, if not treasonous.

The political weaponization of the concept of corruption promotes the stabilization of the post-colonial state territorial status quo. Developing states are nation-building states. Subversion of this functional end, e.g., via black market transnational smuggling and crime to destabilize existing state authorities, is corruption. The purveyors of this narrative divert attention from the ultimate strategic ends for this destabilization. These functional ends may include dismembering existing states to satisfy pan-nationalist and irredentist movements. Historical examples include the opium trade of the Internal Macedonian Revolutionary Organization (Jovanović, 2018). Contemporary cases include the Taliban's reliance on the opium trade to fund its ultimately successful resistance to American colonial occupation.

The prevailing, evolving national system of dissonant conflictive Bulgarian norms and values reflects partly the end of the totalitarian Communist one-party state amidst Euro-Atlantic integration. Bulgaria ranks relatively highly in terms of prevailing perceptions of corruption within society. According to Transparency International, Bulgarian public opinion perceptions of the level of corruption in their own country stands at 42, with 100 being “very clean.” The global average for 2021 was 43, with 48% of Bulgarian respondents reporting that corruption increased in the previous 12 months. Bulgaria ranked 78<sup>th</sup> among the 180 countries surveyed (Transparency International, 2021). In comparison, Denmark ranked 1<sup>st</sup>, with a Danish aggregate

opinion view of corruption within Denmark at 88 out of 100. Subsystem interactions within social, economic and political spheres of the Bulgarian polity are under Euro-Atlantic overall hegemonic regulation. Various constituencies within the Bulgarian public that perceive themselves as benefitting from Euro-Atlantic integration to differing degrees. For example, European student youth benefit from the European mobility Erasmus+ Program. Research indicates a positive correlation between student participation in this mobility program and the enhancement of European components of self-identity (Öz and Van Praag, 2022).

The first post-1989 Bulgarian government to retain its governing mandate after an election (in 2014) was under Boyko Borisov, leading his party, the Citizens for the European Development of Bulgaria (GERB, i.e., 'shield' in Bulgarian). He appealed directly to the frustrated anti-corruption European self-identification aspirations of the Bulgarian national citizenry perceived as contributing to Bulgarian stagnation. Borisov remains the longest serving prime minister in post-1989 Bulgaria (Spirova and Sharenkova-Toshkova, 2021). "While GERB completed several major infrastructure projects and followed the austerity policies prescribed by the EU and the IMF, it was not successful in creating growth and combating corruption" (Barzachka, 2020, 780). Noteworthy is that the trigger for large-scale public support social movement protests that emerged in 2013-14 was the implementation of so-called government budgetary austerity cuts. In a comparative study of 2009-11 social movements protests in Slovenia and Bulgaria, Dinev (2022) found that

*"[m]ost of the largest events during the ascending phase in Bulgaria and Slovenia were organized by trade unions against the privatization of formerly state-owned companies, pension reforms that increased retirement age, austerity measures in the public sector (specifically budget cuts in education and healthcare), and in favor of increasing salaries and for economic justice. In the same period, farmers and agricultural producers in Bulgaria mobilized blockades against budget cuts in the agricultural sector and informal groups held nationwide demonstrations against fuel prices, while academics and students challenged reforms in higher education"* (Dinev, 2022, 18).

A bifurcation within the 2013-14 protests emerged to include an explicitly anti-oligarchic, pro-reform, pro-European urban elite-centered concentration. It targeted the Bulgarian National Assembly's confirmation of the above-mentioned Delyan Peevski, a Bulgarian media mogul and former Turkish minority establishment party MP, as head of the State Agency for National Security (DANS). The "#DANSwithme" protest featured an explicitly stronger political reform set of demands that anti-protest media narratives exploited. Nikolov (2016) highlights an example of the national identity polarizations among the Bulgarian national public, showcasing

*"[t]he text that most clearly extends this discourse of bifurcation is an article by journalist Velislava Dareva (2013) entitled 'The rebellion of the well-fed' (in Bulgarian). In it she draws a clear between the 'February' [2013] protests, seen as a reflection of 'the despair of an entire nation', and the 'June' [2013] protests led by the few privileged, well-educated, and rich Bulgarians; by those who 'don't worry about electricity and bread. Who don't care about heating bills, child benefits, pensions. Who have their wonderful jobs and European salaries, who are sure and insured, glossy and glamorous, with outstanding CVs, with the overachieving curriculum vitae that was conceived once upon a time in the totalitarian corridors of power'."* (Nikolov, 2016, 134).

Bulgarian traditional comparative stereotypes of Bulgaria and European great powers tend to elevate the latter (Curticean, 2008). Europeanisation advocates are more likely to perceive Bulgarian co-national resistance to conformity with European behavioral ideals as nationally detrimental, if not corrupt. Generational differences within the Bulgarian public since would intuitively seem to display greater support for Euro-Atlantic integration among the younger who more readily exploit mobility options (Rone and Junes, 2021). Their temporal position would reflect greater career and self-identity attitudinal predisposition

investments more broadly within the hegemonic Euro-Atlantic order. Older generations socialized to behaving as so-called good citizens within Communist Bulgaria would presumably have more invested in the remnants of the old order, in terms of norms and values. These *ancien regime* system values assumed the fusion of economic and political structures as the foundation of postwar, Communist-led modernization of Bulgaria. The collectively self-perceived relative inefficacy of the Bulgarian authorities to oversee systems of accountability triggered mass demonstrations in 1997 and again in 2013-14. ““Stop Communism” was a slogan found in Sofia’s urban spaces during the 2013-2014 protests [...], which also saw protesters characterizing Bulgarian politics and politicians as “red trash,” a label used variously since the 1990s” (Kofti, 2016, 69). The student movement eventually took the lead in the latter spontaneous mass demonstrations. “Especially for the younger activists, the struggle for social accountability had been clearly about their own future as a generation” (Pirro, 2017, 785).

Appealing for broader Bulgarian public opinion support appears comparatively problematic. Mihailova (2019, 185) tentatively concludes, “[a]s the results of the content analysis of 69 public positions of intellectuals in the period 2005-2019 show, the Bulgarian intellectual responds to political events but does not offer synthesized explanations of the present, projects, visions, strategies for the future.” This article’s proposition is that attitudinal dissonance and dissensus regarding how a so-called ideal Bulgarian citizen should interact with authority manifests itself partly through this absence. It is a legacy of generations of imperial, even colonial, domination. Unlike, e.g., Poland, Bulgaria’s democratization was not primarily a consequence of mass level social movement resistance to the Communist regime:

*“According to writer Georgi Gospodinov [(...) 2013 (BD)], Bulgaria provides a particularly interesting case of post-socialism because it lacks a ‘rectifying revolution’ (Habermas, 1990, [183 (BD)]) as seen in, for example, Poland. Gospodinov (ibid., p.65) argues that in Bulgaria, ‘on 10 November [1989] we were told through the television that we were now free.’ He follows an interesting Foucauldian approach in his work, arguing that bodies have memories and that Bulgaria’s quite distinctive totalitarian regime caused a lack of a memory of resistance within the body” (Nikolov, 2016, 128).*

This Bulgarian public attitudinal orientation tending towards authority avoidance and circumvention reflects the legacy of centuries of imperial-colonial control by the external, superordinate Other. Both the US government and the urban protesting leadership perceived the decade-long rule of GERB as overseeing the rise of “endemic” corruption in Bulgaria (Krsteva, 2021, 7). States are vast, complex organizations, of which nation states are one type (Cottam and Cottam, 2001). The Bulgarian nation state case appears to be further evidence comporting with Peter Drucker’s aphorism that [organizational] culture eats [the organizational leadership’s formal] strategy for breakfast (Engel, 2018).

### The Cultural Legacy of Colonial Imperialism

Figure 1 is a schematic representation of the typologies of subjective perception of imperialism and colonialism by a citizenry demanding self-determination for the nation. In this conceptual framework, a nationalist values sovereign self-determination for the nation as a primary intensity motivation which shapes perception and behavior. Perceived threats to sovereignty are most obvious in over/formal direct imperial control, i.e., foreign conquest and occupation by an invading force. In the present era of near complete adult global political awareness, formal, direct imperialism generates the most resistance from local nationalists, raising the cost of the intervention. It was more common when popular awareness of the political sphere was limited to small percentage of the population, with the mass of the population politically engaged at most at the parochial, village level. To lessen costly nationalist resistance, interventions are masked with a patina of local agreement. For example, the foreign-imposed collaborationist ruler signs a formal legal agreement for military basing rights and legal immunity for the intervenor forces, as in 2001-21 Afghanistan. Obscuring foreign control further through avoidance of formal legal agreements while

working through a collaborationist local elite, e.g., a traditional local ruling family, constitutes indirect, informal control.

Figure 1: “Variance in Perceptions of Foreign Policy” from *Foreign Policy Motivation: A General Theory and a Case Study*, by Richard W. Cottam, © 1977. Reprinted by permission of the University of Pittsburgh Press.

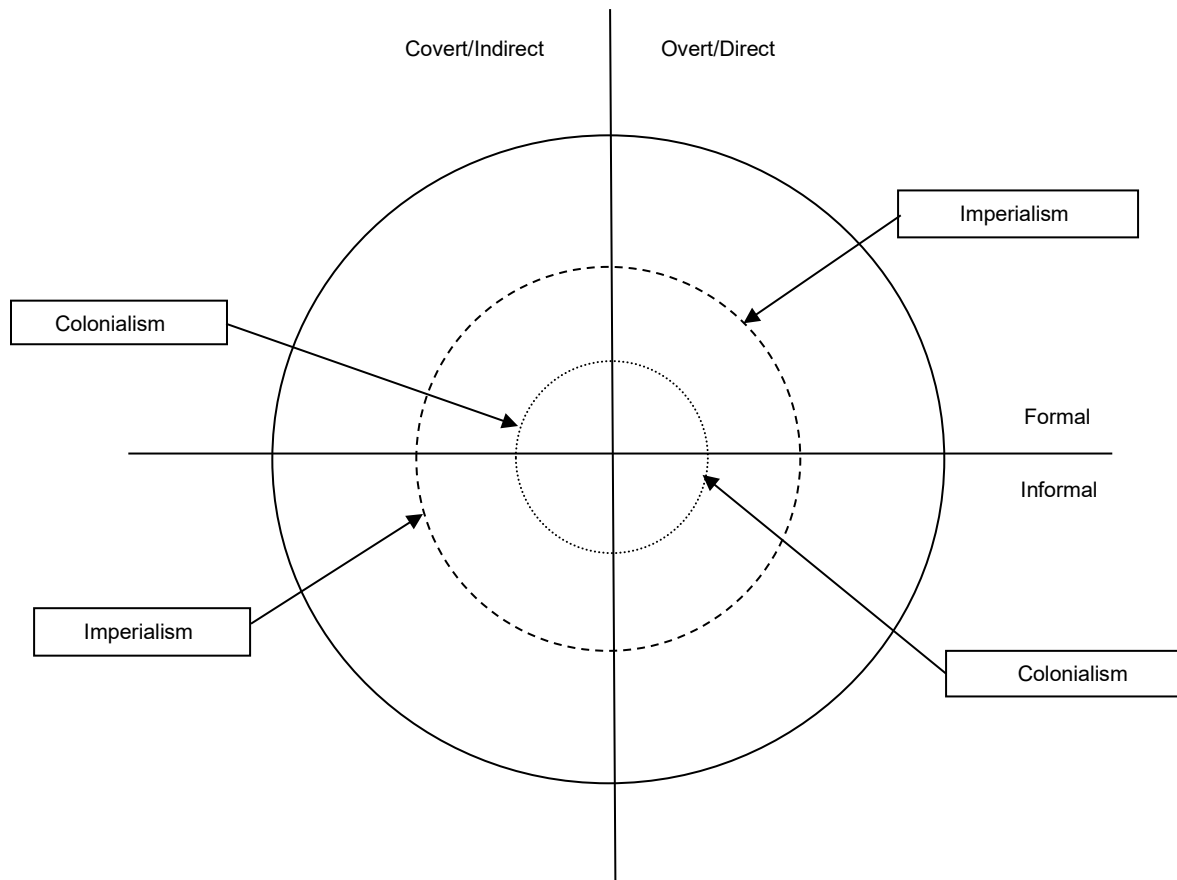


Figure 1 is an inclusive typology of the forms of imperial control that reflects the rise mass popular political awareness in the modern era incentivizing occupying powers to engage in what today is called neo-colonialism. It consists of informal, indirect control to obscure the foreign ultimate authority over local government policy as so perceived by local nationalists. Other constituencies, e.g., business classes, may not resist this foreign domination if they perceive the latter as protecting and promoting their economic interests. The traditional elite threatened by the radical pro-change nationalistic forces may also collaborate with the foreign imperial power. The latter is a colonizing power if the local nationalist citizenry views it as aiming to assimilate and erase the nationalist's primary, terminal self-identity community.

Table 1 highlights the history of Bulgarian national identity community development. It reflects the impact of extended periods of external imperial domination of Bulgaria from its ancient foundation as a polity by the Thracians. Early medieval period migrations culminated in the establishment of a recorded medieval state under the Proto-Bulgarian khans that eventually adopted Byzantine Christianity. The early medieval Bulgarian state was a first-rank power in Europe, evident in the creation of the Cyrillic alphabet and the translation of the Bible into Old Church Slavic. Bulgaria eventually alternated between direct control by and vassalage towards Constantinople. The Ottoman Muslim conquest in the late medieval period would not end until the latter half of the nineteenth century along with imperial Russian direct military intervention. The latter claimed hegemonic leadership of the Slavic and Orthodox communities (Tumanova, 2014, Miller and Resnick, 2003, Gorun, 2015).

Table 1: Imperialism and Colonialism in Bulgaria

	Formal	Informal
Direct	1) Macedonians/Greeks 2) Romans 3) Byzantines I 7) Ottomans	4) Slavs 5) Proto-Bulgarians
Indirect	6) Byzantines II 8) Russians	9) Soviets

*Post-World War II Communist Bulgarian incentives to acknowledge and exploit Soviet Russian claims to hegemony include frustrated Bulgarian irredentism. The obstacles to Sofia’s unification of the so-called Bulgarian lands lie in Cold War de facto or de jure alliance of Belgrade, Athens and Turkey with NATO. The resurgence of EU/NATO conflict with post-Soviet Moscow has intensified Bulgarian national component community identity evolution to channel Bulgarian irredentism into EU mediation channels. Russian influence is therefore informal and to the extent it undermines pro-Euro-Atlantic policy and orientation, it is labeled as corrupt and a threat to Europe more broadly. Democratization permits expression of Bulgarian irredentism but Bulgaria’s collective self-awareness of its minor power status constrains it.*

For this study, neo-colonialism consists of informal-indirect control. In sum, the nationalist subject perceives the imperial power concealing its control through utilizing local collaborators who maintain the public image of representing the sovereign authority of the nation. Historically, it typically involves working through a local ruling family dynasty, e.g., the Shah’s regime in Iran (US) and the Zhivkov regime in Bulgaria (USSR). Since 1989, Bulgaria is a post-neo-colonial nation state.

*“The impact of these imperial experiences shapes the subsequent socio-political mobilizational processes of national identity value formation and behavioral political attitude expression. They include the ethnic, sectarian, racial or territorial identity community foci for nationalism as well as the prevailing attitudinal self-expression that associates with a particular national case (Rock, 2008). In direct, formal colonial rule, the imperial power imposes its ultimate control through placement of a supreme political ruler publicly representing the sovereign authority of the imperial state. This type of colonial experience has a greater potential to unify the native pro-reform elite of different constituencies in the community in the development of resistance to this form of imperial control. It is probably the least detrimental in terms of its community polarization legacy for state-society relations; the local population at least can more clearly ‘see’ who the enemy is. Japanese imperialism in Korea and Ottoman control of Bulgaria may be categorized as such. In contrast, indirect-formal rule is in place when local, traditional elites rule in the community with the ‘advice’ of the imperial power in the form of advisors, security arrangements, etc. Today, it may also be attempted through formal legitimation of an external intervention by international organizational mandates granted, for example, by NATO, the EU, ECOWAS or the UN Security Council” (DeDominicis, 2013, 50).*

*“Indirect-informal imperial control is maintained without the overt presence of imperial personnel. Local nationalist actors perceive the imperial power exercising ultimate control over the policies of the local ruling elite. During the postwar period, Moscow exercised control through its client elite in local Communist parties and the respective security apparatus in each Warsaw Pact country. If these control mechanisms collapsed, the USSR would intervene militarily, as in East Berlin in 1953, Hungary in 1956 and Czechoslovakia in 1968. In 1989, the USSR had no military bases in Bulgaria and Romania, unlike in Poland, Hungary, East Germany and Czechoslovakia. A current topic of media speculation is whether the People’s Republic of China would militarily intervene to prevent the collapse of the DPRK regime so as to prevent reunification with the US-allied South (Lim, 2012). In this case, the nature of the North Korean regime would change with the overt presence of Chinese soldiers supporting the DPRK authorities. Such a scenario would constitute another test of the strength of pan-Korean nationalism today in the DPRK. Finally, in informal, direct imperial control, the imperial power invades and becomes the ruling class (e.g.,*



*Arabs into Egypt, Normans into England). In the contemporary era, one case that may plausibly be moving in this direction is the Israeli colonization of Palestine” (DeDominicis, 2013, 51).*

*“Informal imperial rule typically means that the imperial power does not acknowledge that it has ultimate authority within the country; the embassy of the imperial power works through the local bureaucracy (Chandler, 2010). Chandler (2010) focuses on Africa. David Chandler (2006), focusing on Eastern Europe, argues that imperial powers today do not admit that they are hegemonic because it is no longer acceptable to global public opinion. Chandler highlights the greater divide between the state authorities and their European and American international patrons, on the one hand, and the mass public in post-colonial states, on the other hand. The inference is that indirect control aims to reduce the costs of imperial control by lessening resistance to it through attempting to obscure it. This obfuscation can be promoted through a dependent, compliant local elite that has formal sovereignty. Whether or not the political influence of an external imperial power is intolerably high is a subjective judgment by different interest groups and evolving constituencies within the target community. One unfortunate legacy particularly of informal imperial intervention is a stronger propensity for the emergence and crystallization of local community identity cleavages. Consequent, polarizing stereotypes and intense suspicions are more likely to emerge within the previously subjected community regarding who ‘collaborated’ with the imperial powers in the past. In political competition, they are more likely to be portrayed as prone conspiratorially to ‘collaborate again’ in the perceived contemporary machinations of the imperial powers in the area. During intense conflicts, these tendencies may contribute to acts of genocidal violence against suspected ‘traitor.’” (DeDominicis, 2013, 50-51).*

Socialist modernity reinforced traditional scapegoating of Bulgarian Muslims as the local inhabitant imperial legacies of neighboring Turkey. It functionally facilitated a coercive process of Bulgarian nation-building that the authorities equated with “building a socialist Bulgarian society” (Ivanov and Önsoy, 2022, 38). Rejection of neighboring postwar Macedonian national identity after 1960 also facilitated this functional role of establishing a foreign Other to oppose against modern Bulgarian identity (Maleska, 2013). The prevailing view in Sofia held the traditional neighboring rival Belgrade as responsible for this creation (Georgievski, 2020). It further incentivized Sofia’s national self-identification with Moscow as Tito’s Belgrade became officially non-aligned (Nehring, 2022). Sofia’s irredentist competition with neighboring Greece was transferred to the focus on the Warsaw Pact versus NATO. Athens would come to see Yugoslav Macedonia as an irredentist threat in reaction to its independence in 1992 (Nimetz, 2020). Sofia maneuvered to boost its influence towards Skopje by becoming a de facto defender Macedonian self-determination amidst the latter’s conflict with Athens (Lefebvre, 1994). The Athens-Skopje accommodation produced the 2018 Prespa Agreement. This agreement aimed to end Athens’ veto on Skopje joining Euro-Atlantic alliance organizations, with the Republic of North Macedonia joining NATO on March 27, 2020. Sofia’s then raised its own voice against Skopje acceding to the EU due to Sofia’s national self-identity demands towards Macedonia. The latter include official recognition of Macedonian as originally a dialect of Bulgarian (Beiber and Dimitrov, 2022).

Table 2 presents the Egyptian case simply as a comparison case with Bulgaria. Egypt is an Arabic-speaking nation state and as such differs from all other post-colonial Arab states created on the foundations of the 1916 Sykes-Picot Agreement (Kitching, 2015/2016). Its identity profile is complex due to the long legacy of imperial and colonial control, with its ancient urban centers established before the Arab Muslim conquest. The complexity of its contemporary national self-identity component community profile intensifies challenges towards building ruling authority Gramscian legitimacy. The authorities rely on parochial utilitarian incentives via the state coercive control apparatus, along with coercion, to become significant mechanisms for control alongside nationalistic appeals (Yee, 2022).

Table 2: Imperialism and Colonialism in Egypt

	<b>Formal</b>	<b>Informal</b>
<b>Direct</b>	2) Greeks 6) French 8) British	4) Arabs 5) Mamelukes 7) Turko-Albanians
<b>Indirect</b>	1) Persia 3) Romans 9) British (1922-52)	10) USA 1974-1982

*Authority orientation towards the governing apparatus representing the state displays an orientation comparable to other post-Ottoman nation states in the so-called Near and Middle East. Authoritarian regimes today suppress foreign policy behavior orientations giving overt expression to the strong pan-Arab and pan-Islamic component sentiments in Egyptian national identity self-expression. The Bulgarian liberal regime allows for Russophile orientations to express themselves in political party formations while active support for Russian pan-Slavic leadership claims are rejected in favor of Euro-Atlantic hegemony. Expression of these Russophile pan-Slavic orientations are relegated to the informal, often corrupt, commercial sphere. Egypt is a comparative case of a post-colonial nation state with a complex identity profile.*

The legacy of imperialism is the creation of conflicting authority norms institutionalized in culture. Culture is transmitted to offspring and it interacts with new formal institutional orders. In medieval times, the aristocracy of the conquered lands of the Ottoman empire probably converted to Islam. They thereby alienated themselves from the peasantry. The Soviet system slotted into this historical predisposition, to create a ruling aristocracy beholden to Moscow. The Slavic metropole appealed to Bulgarian nationalism which was in dialectical tension with the Ottoman inheritance of authority norms. The abject became associated with the mass in the view of the de facto client aristocracy/elite implementing Soviet control (Karkov, 2018). The abject could be co-opted to satisfy social mobility needs by joining the party. Social creativity needs for deviance were needs of the minorities, which did not really have these options, as they became scapegoated as the abject.

Ruling authority legitimacy emerges through policies and decisions that support national social creativity and individual social mobility. They include national self-determination as foundation upon which to construct social creativity opportunity structures. To rephrase, the developed nation state is one that relatively effectively constructs a Gramscian hegemonic societal functional belief in the rule of law. This analysis construes rule of law broadly, i.e., the internalized, habitual acceptance of prevailing authority norms within a polity. These norms and values comparatively effectively regulate social identity management strategies. These outputs must provide substantive benefits to support constituencies, including the coercive apparatus, while repressing dissenters, stereotyped as deviant outcasts as the prevailing societal view. Manipulation of nationalist symbols functionally aims to legitimize policy make process outputs during periods of mobilization, e.g., during national political crisis events such as war. Coercion as a regime instrument of control operates at a tertiary level, associated with moral and ethical ideals the violation of which generates personal shame, if not necessarily always obedience. Societal opprobrium and censorship is the manifestation of this coercion. This role of coercion characterizes so-called developed advanced liberal democracies.

In so-called developing societies, coercion plays a more significant role, along with utilitarian cooptation of base constituencies for the ruling elite. It contributes to conditions of greater macroeconomic instability. The private good of various constituencies is sacrificed at the expense of macroeconomic systemic equilibrium. Other national macroeconomic systems within the interdependent, globalized international financial system react to these comparative control weaknesses, producing, e.g., sovereign debt default.

Nationalism and Corruption

As a Weberian ideal-type regime, “the rule of law is ultimately an inwardly focused and domestically implemented criterion and aspiration regarding a state’s organization and affairs” (McLaughlin 2020, 164). The belief in the rule of law is a public good if it becomes the politically prevailing public view towards

the behavior of the authorities. In sum, the regime has liberal democratic legitimacy in the collective, prevailing view of the public. Such a prevailing view correlates with reliance upon coercion to maintain control only at a tertiary level. Ideally, the rule of law is understood to be a functional goal that liberal democracy should deliver. Representation through institutionalized forms of public political participation including elections, aims to generate legitimacy of the authorities in the collective eyes of the public. The public, to rephrase, views the output of the policymaking process as representing the public will and therefore represents not the rule of individuals but the rule of law. Under conditions of Gramscian hegemony, to paraphrase Bismarck, the citizenry loves the sausage, but does not and in fact tends to avoid seeing what goes into making it. This critique highlights that modern macroeconomics is also a paradigmatic framework for state building and institutionalization of statewide institutions (DeDominicis, 2021a). It is a means for generating greater power potential base for the nation state authorities who adhere to the policy prescriptions of economic strategists. Thereby they can more readily transform that power potential base into diplomatic bargaining leverage (Cottam and Gallucci, 1978).

Imitation is a “subtle type of conformity” (Frost, 2021, 168). Among *homo sapiens*, a behavioral predisposition is to “mimic both the actions and the intentionality, i.e., the mental states of each other (Riordan, 2021, 243). Riordan references findings of Rene Girard (1923-2015), who labelled this tendency, mimesis. In inferential analysis, Girard highlights mimesis in terms of its contribution to the so-called process of hominization in evolution contributing to the emergence of *homo sapiens*. This process generates scapegoats, the sacrifice of whom for their non-conformity leads to their sacralization. This sacralization, in turn, serves as a symbolic reservoir from which to draw to legitimate social deviance as a form of social creativity in responding to changing community structural conditions. The emergence of Christianity and its diffusion throughout the Roman empire is a high-profile historical case study.

Nationalism’s emergence will tend to associate with a scapegoating tendency. It can be against the perceived contagion of the degenerate outsider when perceiving opportunity, or from local traitors serving the diabolical enemy when perceiving intense external threat (Cottam and Cottam, 2001). They would be targeted as deviance that fails to mime the prevailing norms. The belief that the state’s rule of law is critical for the defense of sovereignty is a modern notion. In post-colonial states, creating, propagating and institutionalizing this statewide orientation is a challenge. The legacy of colonialism includes the explicit and blatant subversion of the rule of law, i.e., the belief that the community is sovereign. With its roots in colonialism, the source of authority for the colonial state lies in comparative negative assessment of Self, relative to the metropole Other. The post-colonial state inherits this legacy of institutionalized disparagement and marginalization of the indigenous population. State authorities seek public legitimation of their rule in part from this legacy of internalized comparative inferiority. This inherited post-colonial institutionalized disparagement of Self may decay. This change process may take generations to create a new prevailing institutionalized community consensus around national sovereignty and self-determination.

The Weberian ideal-type nation state is modern analog to the medieval church. It establishes the moral and ethical order and what is venerated and sacred within it, i.e., romantic stereotypes of the national Self in opposition to the despised Other. What is the common enemy, or should be the common enemy, can become sources of community dissensus around norms and values. This formation of ingroup tendencies appears to be inevitable. The pan-global enemy according to the Americans includes terrorism and corruption violating the so-called international rules-based order. The legacy of colonialism includes dissonance over ideals to mimic regarding so-called moral and ethical behavior. One functional solution may be to develop a functional secular religion of a belief in so-called Europe. This end will require finding a sacred victim scapegoat: USSR/Russia.

A standard, general definition of corruption is the “abuse of public office for private gain” (Asencio, 2019, 263). Ideally, institutions of democratic political participation invest this public authority into individuals and groups acting as agents of the liberal democratic state. Liberal democracy is not an essential

requirement for legitimacy in the collective view of some segment of the public. Charismatic authoritarian populists may be viewed as representing the will of the nation in the eyes of many, if not most (Schmitt, 2005). An actor not perceived as acting in their private interest is not corrupt even if terribly cruel.

In Communist Bulgaria, the public interest became associated with the Party's nomenklatura monopolization of traditional control of the state via patronage. Post-Communist democratization "did little to curb the tradition of packing public administration with public supporters" (Spirova, 2012, 54). The disintegration of this control means lack of consensus today on what is the public interest because of the decaying authority norms system inherited from Soviet-imposed Communism. Creating a new public interest means creating a national community consensus on new community/statewide institutions of public authority generation. Euro-Atlantic hegemonic authorities label it corruption if it does not conform with Euro-Atlantic regional strategic foreign policy objectives. One comparative study of populist versus technocratic rhetoric in Serbia and Bulgaria highlights how Europeanization has been a vehicle for the concentration of power in the national executive (Domaradzki and Milosavljević (2021). A consequence has been the weakening of anti-corruption reforms through their rhetorical trivialization as EU conditionality serves as a vehicle for personal authority legitimation by ambitious state leaders.

In the postwar era, systemic corruption in Greece and Italy rooted in parochiality was tolerated by the Euro-Atlantic authorities. It allied with American hegemonic authority interests in politically marginalizing local actors perceived as more vulnerable to Soviet influence. Noteworthy for this study is the systemic corruption pervasive in neighboring post-Ottoman Greece on the eve of the 2009 sovereign debt crisis despite postwar integration into Euro-Atlantic structures (Papadimitriou and Zartaloudis, 2020). Prior to 2009, Europeanization did not appear to have institutionalized transparency in administrative governance by overcoming elite polarization around patronage dispensing utilitarian benefits. Intervention by the IMF, European Central Bank, the European Commission, i.e., the so-called Troika, illuminated the internal battles over Greek public debt statistics that made them glaringly invalid (Prévost, 2021). As an example of European ethical action, Prévost describes the struggle of one Greek economist to override habitual patterns of parochial opaque behavior to report valid statistics regarding the Greek debt. Andreas V. Georgiou, a former IMF economist, clashed with members of the governing board of the newly-created Hellenic Statistical Authority (ELSTAT). The Troika had demanded to address "the unreliability of Greece's public finance statistics" [*sic*] (Prévost, 2021, 437).

Representing a transnational epistemic community sharing a shared social scientific worldview, Georgiou eventually prevailed. He was subject to legal prosecution for his efforts in overcoming what had been the habitualized norm for managing Greek public finances. One 2011 study reports that Greece has spent more than half of its years since independence from the Ottoman Empire in 1832 in sovereign debt default. "Economists point to several deeply entrenched features of the Greek economy and Greek society in general that have prevented sustained economic growth and created the conditions underlying the current crisis. Chief among these are pervasive state control of the economy, a large and inefficient public administration, endemic tax evasion, and widespread political clientelism" (Nelson, Belkin and Mix, 2011, 373).

Carl Schmitt asserts that all significant concepts of the modern theory of the state are secularized concepts. In sum, political theory addresses the state and sovereignty in a manner analogous to how theology addresses God:

*"All significant concepts of the modern theory of the state are secularized theological concepts not only because of their historical development – in which they were transferred from theology to the theory of the state, whereby, for example, the omnipotent God became the omnipotent lawgiver – but also because of their systematic structure, the recognition of which is necessary for a sociological consideration of these concepts. The exception in jurisprudence is analogous to the*

*miracle in theology. Only by being aware of this analogy can we appreciate the manner in which the philosophical ideas of the state developed in the last centuries” (Schmitt, 2005, 36).*

In sum, the sovereign is that which declares the exception. Schmitt focuses on the state, while this analysis incorporates explicitly the phenomenon of the nation state to conceptualize the normative active political authority of its ruling establishment. The sovereign in the modern era derives its authority from the so-called will of the people as represented by the government apparatus of the nation state. Corruption, i.e., the pursuit of private interest at the expense of the public good, undermines the sovereignty of the people, inferring from the framework utilized in this analysis. In post-colonial Bulgaria, normative habitual consensus is comparatively lacking on what is private versus public. According to, Bratu, Sotiropoulos and Stoyanova (2017, 123), referencing post-Communist Romania and Bulgaria, “[i]n such contexts, the classic public-private divide (on which the definition of corruption is based) loses meaning as there is no clear distinction between state officials and private business interests.”

Imperial domination, as subjectively perceived, by definition places the perceived lawgiver outside of the nation. Formal national self-determination may require generations after its acquisition to generate new prevailing attitudinal behavioral predisposition changes. These national component identity convergences around a consensus on the norms and values of behaving in accordance with a so-called good Bulgarian citizen. In modern Bulgaria the top-down state historically dominated society, including the church (DeDominicis, 2016). The disintegration of Communism left a society bereft of its traditional foreign sovereign whom its local subalterns managed on its behalf. For the nation to become sovereign required acquisition of a belief in national sovereignty as a norm and a value. Post-colonial utilization of the institutional legacy of the decaying neo-colonial national Communist state to acquire social status became a dissonance-generating endeavor. In a post-Communist environment of contingency and dissensus, parochial attitudinal orientation structures became predominant. Becoming European by excluding Russia is a comparatively challenging process in Bulgaria. It perhaps is not as politically difficult as in former Soviet republics and Russian provinces, with their “tenacious webs of patronage running all the way to various powerful patrons in Moscow” (Derluguian and Zhemukhov, 2013, 553). Patronage systems with their summit authorities in Moscow have been in more direct conflict with Euro-Atlantic integration pressures in new EU member states.

One cross-partisan, near-consensus generating issue in Bulgaria today appears to be the national self-identity affirming stereotype that Slavophone North Macedonians are really brainwashed Bulgarians (Gotev, 2022, Todorov, 2022). Bulgarians collectively accept that they do not have the relative power capability to change this situation via irredentist annexation and domination. On the eve of its February 2022 invasion of Ukraine, the prevailing view in Russia is that Russia did have this capability vis-à-vis Ukraine, a nation portrayed as forcibly separated from Russia (Putin, 2021). Echoing Hungarian post-Trianon frustrated irredentism, Serbian irredentism has so far failed to annex perceived Serbian lands 30 years since the collapse of Yugoslavia (Schweitzer, 2021). Corruption is thus likely to be a long-term feature of Balkan orientation towards claims of national authority targeted with dissonant distrust. Historically frustrated irredentism helps prime challenges to hegemonic claims of national authority by state governing apparatus representatives. It increases the instability of the institutionalization of hegemonic claims to effective creation and enforcement of the rule of law.

### Social Deviance

Pan’s analysis highlights Carl Schmitt’s interpretation of the source of law through opposition to the Other on the basis of underlying existing political fault lines. Opposing values systems must exist as “a set of oppositions” that “is both the underlying schema for defining politics in a particular situation and the ideological basis for a set of laws” (Pan, 2009, 59). The Other may occupy the functional political role of the scapegoat. Riordan’s literature survey notes the significance of the “scapegoat mechanism” as one of

the critical components in the development of homo sapiens’ “socio-cognitive complex.” Riordan ranks it among the foundational components of the so-called deep social mind, along with the five other pillars: “egalitarianism, mentalizing, cooperation, language and cultural transmission” (Riordan, 2021, 253).

Victimization strengthens ingroup formation through displacement of aggression and the sacralization of the victim and its ritualization. Amidst modernity in which the ingroup members award status through achievement rather than through ascription by birth, the scapegoat is the internal collaborator with the source of the external threat. Amidst intense mobilization to exploit a perceived marvelous opportunity through external target perceived degeneracy, internal enemies are traitorous degenerates. They are to be sacrificed for the common public good of national ascendancy. Against external threats, internal enemies are traitorous demons to be sacrificed for the common public good of national security. The shift from habitualized ascription to perceived achievement for acquiring social status is intimately connected to perceived cultural differences that become national and automatically competitive. This consequent tendency to form ingroups was the theme of Sherif’s studies of the boys at Robbers Cave. “In this case, the boys in the camp quickly coalesced into competing factions and initial outliers in the groups conformed out of a desire to win competitions (i.e., be right)” (Mallinson and Hatemi, 2018, 3). The clash of civilizations expands this tendency beyond nation states.

The imitation of the European Union attitudes means internal tolerance. It means following the lead of the leadership after the leadership convinces public audiences that the EU is not a neo-colonial German empire (DeDominicis, 2020a). It means mimicking the representatives of the EU. Is it more difficult for Orthodox Bulgaria it is traditionally more oriented towards Russia, the outsider to Europe. Referencing a 2017 Pew Research Center survey, Soroka (2022, 15) notes that “[I]n the arena of international relations, majorities in these [Orthodox Christian] states—Ukraine is again the only outlier—agree that “a strong Russia is necessary to balance the influence of the West.”” To engage in mimesis, this tolerance must generate concretely perceived group social creativity and individual social mobility benefits. Formal and informal supranational institutions, to the extent they are perceived to regulate behavior with real, substantive consequences for choices, must exist (DeDominicis, 2020a). They provide the secular world substance of right and wrong, moral and immoral, ethical and unethical behavior.

## DATA AND METHODOLOGY

### Bulgarian Law and Policy

In the Bulgarian case, modern nation-statewide institution building accelerated under Communism (Mevius, 2009). With post-1989 liberalization, traditional behavioral attitudes of clientelism within the formal framework of Marxist-Leninist democratic centralism disintegrated into competitive patronage systems. Moral and ethical inhibitions become weak without effective belief that a significant likelihood exists that violators of formal regulations seriously risk being identified and prosecuted. The quest for social mobility to lead a safe, secure and dignified individual and family life incentivizes relying on these parochial structures to pursue personal material goals. They manifest as “established corruption channels” as well as “clientelism and favouritism” [*sic*] (Center for the Study of Democracy, 2014, 73).

Digitalization of the economy has increased opportunities for money laundering (Buchkova, 2021). According to Bulgarian law, money laundering is one type of economic crime being an “intentional act” that is “dangerous to the public” (Buchkova, 2021, 2-3). Money laundering is always a “secondary crime” insofar as it seeks to conceal illegally acquired economic material gains. Although Buchkova (2021) repeatedly uses the phrase, “dangerous to the public,” its meaning is not specified. This analysis may extrapolate it to denote being dangerous to the public interest for purposes of analytical clarification in political attitudinal terms.

In the ideal-typical nation state, the public perceives the authorities as legitimate and thus obedience and conformity to their commands is morally necessary. Legality determines what serves the public interest. In this ideal-typical worldview framework, the pursuit of individual gain serves the public interest if it is in accordance with the rule of law. Being a good businessperson equates with being a good citizen in the polity. If legal formulation, adoption, legitimation and implementation of policy is technically incompetent or incomplete, it contributes to cognitive dissonance between the ideal and the reality. Buchkova (2021, 3) continues that in the Bulgarian case, [...] “jurisprudence is united around the view that from subjective point the intent of the perpetrator should be derived not from the knowledge or assumption that the acquired property is result of a crime, but from his attitude to the socially dangerous consequences of the act, namely legalization of the acquired benefit or property in the economic, business or financial sphere” [*sic*].

In sum, the intent to violate the law as part of an ongoing criminal enterprise is the essence of organized crime. Systemic intent to violate the law implies an overriding organizational parochial community primary intensity self-identification. Buchkova (2021, 4-5) notes that in Bulgarian law, any individual who intentionally facilitates the criminal act of money laundering is also engaging in criminal behavior. Providing counsel and assistance as to how to proceed after the criminal acquisition of funds is also engaging in criminal behavior according to the Criminal Code. However, a contradiction emerges in that the Criminal Code does not label such facilitating behavior as itself money laundering. Such actions rather fall under other components of the Criminal Code, while the actions under the Anti-Money Laundering Measures Act are separate and explicit. The Code thereby adds an element of complexity and potential confusion in prosecuting money laundering cases in toto as well as in enacting preventive measures against money laundering.

An ideal-typical legitimate government of a nation state produces public policy that is, by definition, a public good. In this ideal-typical image, the good promotes the public will, which defines also concomitantly the public interest and the public welfare. Public policy, in this ideal-typical image, promotes and supports and reaffirms the legitimacy of the authorities in the collective eyes of the public. The imagined national community includes various international components that can be diverse due to the legacy of imperialism and colonialism. National subcomponents with a lingering loyalty to Russia may become vulnerable conduits for what Euro-Atlantic hegemony labels corruption. According to Madrueño and Silberberger (2022, 37) “[i]n this regard, IFFs [illicit financial flows] can also be understood as a subproduct of inefficient international policies and multilateral regulatory frameworks that have decreased the scope of action of nation-states and reduced the incentives for them to cooperate.” Competitive interference in the internal affairs of states obstructs cooperation to regulate financial markets and international tax collaboration as part of global governance.

The foundation of a product or service constituting a public good is that it must serve the well-being of a primary terminal self-identity community. Soviet Marxist-Leninists argued that labor was a public good because it served the well-being of the working class as supposedly represented by the vanguard of the proletariat, the Communist Party. This claim was arguably a display of Russian/Soviet nationalistic universalism internationally. “In a reality of insecurity and powerlessness, nationalistic universalism offers a false sense of superiority of the nation’s ideological pursuit of seemingly ‘universal’ values, with consequences for irrational, hubristic, pursuits in foreign policy” (Karkour, 2021, 542). In terms of its domestic impact, it was part of the national symbol system domestically to create a primary terminal identity community around the territorial community of the old Russia empire (Cottam and Cottam, 2001). It aimed to transcend the ethno-national divisions around a new identity territorial community as the new state opportunity structure for engaging in group social creativity and individual social mobility.

The Bulgarian Communist authorities repeatedly broached the Soviet leadership about acceding to the USSR (Nehring, 2022). In part, the Bulgarian Communist authorities were building upon the traditional Russophile attitudinal orientation towards Russia (Wenshaung, 2014). Bulgaria’s modern frustrated

irredentist nationalism gave it an added incentive to commit as a national ingroup to the alternative civilizational project led by the Soviet Union. It provided concrete national social creativity and individual social mobility options to a national polity traumatized by its irredentism frustrated by neighbors de jure or de facto allied with NATO.

### Russia versus Europe

“Global asymmetries” within “the dispute over the hegemony of the world economy” delay effective action to counter illicit financial aid flows. They constrain the scope of action of states and reduce their incentive to cooperate in regulating certain areas of financial markets and global governance. They lead to features of the international regulatory frameworks that contribute to international tax loopholes which are of “particular importance for developing countries” (Madrueño and Silberberger, 2022, 37).

One anonymous Bulgarian analyst interviewed by a Slovak research institute highlighted the comparatively strongest pro-Russian attitudes in Bulgaria. Yet a strong majority of Bulgarians favored EU membership. “Similar proportion of those seeing a compatibility with both the EU and Russia can be attributed to the Bulgarians’ historically and geopolitically ambivalent position between East and West. An emotional-cultural affinity to Russia is mixed with an aspiration for emulating the Western economic and political model of success and prosperity, which results in broadly positive attributes towards both” (Milo, Klingova and Hajdu, 2019, 9).

This same 2019 study also finds that only 7% of Bulgarian survey respondents view Russia as a threat to Bulgaria while 86% reject this view (Milo, Klingova and Hajdu, 2019, 16). Similarly, only 9% of Bulgarian respondents see China as a threat while 82% explicitly reject this view (Milo, Klingova and Hajdu, 2019, 17). Further evidence of this relative dissensus is Bulgaria’s lowest ranking among the 7 countries surveyed (with Austria, Slovakia, Poland, Czechia, Romania and Hungary) in viewing NGOs as playing an important role in supporting a democratic society at 45%. 36% did explicitly stated that they did not have an opinion on whether NGOs are unfairly attacked by state representatives and the media (Milo, Klingova and Hajdu, 2019, 19).

The construction of Gramscian hegemony creates the prevailing attitudinal-emotive consensus on morally and ethically right versus wrong behavior. Bulgarian national ambivalence interferes, to rephrase, with the creation of a Gramscian consensus. It interferes, in other words, with the institutionalization of the rule of law. This dissensus apparently is evident in the relatively high degree of unwillingness or uncertainty of Bulgarians to respond to survey questions in a subsequent 2020 survey of respondents in Montenegro, Serbia, North Macedonia, Bulgaria, Slovakia, Hungary, Czechia and Poland. “These figures ranged from 15% on the matter of whether democracy is a good system for the country, 30% on attitudes towards NATO membership to 50% on the issue of threat perceptions” (Milo et al. 2020, 8). Attitudinal identity consensus facilitates the construction of Gramscian hegemony to create consensus stereotype of national norms and values that prevails in salience on how a so-called good Bulgarian behaves. In the ideal-typical Gramscian hegemonic environment, individual actor negative evaluation of Self, versus Other are assumptively presumed to be due to individual flaws and failures. The individual perceiver assumes him/herself to be individually culpable and condemnable. Such an actor functionally does not perceive systemic causation of social marginalization.

Again, mobilization against a perceived shared enemy facilitates the construction of hegemony, summarized by the adage, the enemy of my enemy is my friend. Postwar Bulgarian irredentism facilitated the generation of this common adversary that Russia also shared in the face of NATO. Post-Communist Europeanization ideally facilitates integrating these component identity communities within Bulgaria within this nation state with a complex identity profile. It is similar in its complexity to Egyptian national identity. As such, this identity appears to be strongly territorially focused. Briefly, Bulgarian nationalism



achieved its so-called national ideals of unification of the so-called Bulgarian lands within a Bulgarian state with the Treaty of San Stefano by Bulgaria in 1878. London concomitantly perceived Russia's military intervention to make this outcome possible as a threat to its own regional imperial interests. London perceived the newborn greater Bulgaria as a Russian satellite providing a staging ground for further Russian regional influence expansion at the former's expense. Threats of great power war led to the drastic reduction of the nascent Bulgarian state's territorial and legal status in negotiations at the Congress of Berlin. It set the stage for next half-century of Bulgarian expenditure of vast amounts of blood and treasure to achieve again the San Stefano treaty borders until the conclusion of World War II.

Noteworthy is that these borders corresponded with the borders of the Bulgarian Orthodox Church exarchate that the Ottoman sultan Abdulaziz re-established in 1870 (Hall, 2013, 85). The Ottoman Sultan thereby contributed to the Bulgarian nationalist movement. The Sublime Porte acted under pressure from its Bulgarian subjects to remove subaltern control from the Constantinople Greek Orthodox patriarch. The modern Bulgarian Orthodox Church as an institution was in this sense a creation of what developed into modern Bulgarian nationalism. The Bulgarian Orthodox Church, thus, has been relatively lacking in the autonomous national institutional capacity to serve as a repository of the authoritative ethical criteria for shaping civil society behavior (DeDominicis, 2016).

The Bulgarian post-Cold War authorities adopt administrative civil service institutions and laws that reflect best practice in the West. It adopts systems developed out of their experience but not out of the Bulgarian experience. For example, "[t]he Inspectorate Directorate is the other control body directly subordinated to the Minister of Interior, which assists the structures of the Ministry of Interior in clarifying signals of conflict of interest, verifying declarations under the Counter-Corruption and Unlawfully Acquired Assets Forfeiture Act and counteracting and detecting breaches of the Code of Ethics for civil servants and respectively - the Code of Conduct for Civil Servants - for employees with status under the Civil Servant Act and those under the Labor Code" ("Input by the Republic of Bulgaria," 2022, 14). The Bulgarian government's report to the European Commission under the Cooperation and Verification mechanism highlights reforms to the judiciary. More broadly, Bulgarian nationalism has been institutionalizing in the post-Communist/post-neo-colonial state within the European Union system. This institutionalization of EU member state nationalism is a component of Europeanization within the EU framework. It encourages nationalism's translation into a motive force for building and institutionalizing societal opportunity structures for dialectical group pursuit of social creativity and individual social mobility (DeDominicis, 2020a).

This analysis infers that a focus on civil society via the institutionalization of professional codes of ethics throughout the Bulgarian society is a long-term vehicle for Europeanization. It equates with the fight against corruption (Cooper, 2012). The panoply of institutions necessary for transforming these codes into perceived reality include transparent evaluation and grievance policies and procedures is necessary, i.e., their institutionalization. These projects are intergenerational in their gestation and development. Concomitantly, Europeanized Bulgarian nationalism is a counterpressure to tendencies towards European Union neo-colonialism. On the other hand, the nationalistic predisposition to perceive neo-colonial threat from the EU is also present. For example, at least one Bulgarian observer notes a tendency of wealthy EU member state governments to promote the interests of their respective nationally headquartered companies in the Bulgarian market (Medarov and McDonald, 2019).

"Failed or failing states" are the ideal-typical Weberian category of states with regimes that do not have the capacity to control their resources in accordance with the will of the Euro-Atlantic community (Atanasiu, 2022, 20). These authorities are the government officials recognized by the US as representing the sovereign state. The Biden administration's focus on corruption reflects this focus on the relative inefficacy of targeted state authorities. They are relatively weak in meeting their international obligations because of a relative incapacity exercise relatively effective control over the mass public. As the public fractures and polarizes

and retreats into parochiality, the inability to generate substantive, effective statewide institutions lead to the breakdown of legally regulated economic relations. Poverty and insecurity cause population emigration that generates hostile responses from the American public and America's European allies. The US government is not focused on the corruption of Saudi Arabia and Egypt because they control their populations relatively effectively from the perspective of US foreign policy regional aims (Harb, 2022). It does so through a combination of coercion, utilitarian and normative habitual control (Cottam and Gallucci, 1978). In Moscow's prevailing view, Washington's authoritarian conservative parochial client, Saudi Arabia, from which 15 of the 19, September 11, 2001 hijackers hailed, is a leading supporter of Islamist jihadism (Ziadeh et al., 2012).

Professional ethics codes for the judiciary are attempts to institutionalize social status through perceived rule of law to define and regulate social deviance. For Europeanizing states, behavioral parochiality, i.e., corruption, is to be labelled as corruption through institutionalization of ethics via substantive Europeanization of professional codes of ethics. To rephrase, ideally, those who fight corruption rise in social status. Europeanization has to be institutionalized to provide this concrete benefit. Parochiality becomes social creativity through perceived success in combat on behalf of the primary terminal self-identity community, i.e., the post-Communist nation state. This struggle is with external challenges and challengers in the primitive but powerful international legal system. These challengers may be Russia, stereotyped as the headquarters or heartland of corruption. It is a mirror enemy image of Bolshevik stereotyping of Washington and London as the headquarters or heartland of capitalism (Cottam, 1977). Bulgaria was a neo-colonial outpost of the USSR. Becoming European means becoming coopted into the so-called international rules-based order. It is an intergenerational challenge in Bulgaria, with so many generations socialized toward Russophilia. The perceived Ukrainization of the Ukrainian state through the institutionalization of Ukrainian language-use requirements was a source of perceived threat in the eyes of Moscow (Gye, 2022, Venice Commission, 2019).

## RESULTS AND DISCUSSION

### Legacies of Imperialism in the Balkans

Bulgarian state institutional internalization of the colonial self-image contributes to so-called corrupt behavior as a form of parochialism that undermines so-called professional ethics and ethical codes. Specifically, implementing them, complete with grievance procedures supported by a national legal system is the substantive challenge. These ethical codes are something relatively new. They have not been supported by the notion or illusion of the rule of law based upon the institutionalization archetypes/stereotypes of ideal self-image of the citizen. The Communist citizen obeys the party and its leadership. For example, it does not obey the church and its dictates as an alternative source of ethical behavior. The party becomes the new church, i.e., state theory is the secularization of theology as Schmitt pointed out and highlighted by Agamben (Pan, 2009). The church obeys and serves the state in the form of the authority, and so does the secular citizen. The state leadership declares the state of exception.

The awareness of corruption as a systemic factor undermining economic development became a serious conceptual focus in the latter stages of the postwar era amidst the Cold War: "The main concern is that corruption has a negative impact on the economic development [...] and it should be limited by the means of adequate legal mechanisms because it leads to misallocation of public goods, which undermines public confidence in the impartiality of state institutions, as well as the public confidence in the legal norms" (Krastev, Koyundzhyska-Davidkova and Atanasova, 2020, 2). The portrayal of individual economic actors as reactive acquisitionists reflects a normative assumption about the acquisition of higher social status. Adam Smith's advocacy for this consumerist worldview reflects his challenge to the status quo authorities who appeared to be mercantilist obstacles to a greater national power potential base (Hitchen, 2022). Bratu,

Sotiropoulos and Stoyanova (2017, 147-48) highlight the importance of the ontological and epistemological aspects of corruption as being nationally idiosyncratic and dynamic:

*[...] “[A]nti-corruption becomes a contemporary cultural and political form through which modernization is strategized, control is made manifest and history is dispersed as old institutions fade so that new institutional layers can be added. Furthermore, anti-corruption is a process, contextually shaped by international and domestic factors that relate to political priorities, organizational development, political party competition and a mass media market that dramatizes corruption. Attempts by political figures to gain and hold power are often legitimized through positive association with an anti-corruption agenda. Conversely, the need to discredit political opponents is negatively associated with corruption scandals.”*

Bratu, Sotiropoulos and Stayanova (2017, 150) continue,

*“The empirical implication is that we investigate anti-corruption episodes as processes that, far from being inherent to transitions, have been instrumental to the legitimation of new regimes and whose creation is the result of social and political manipulation. Without disregarding its moral or social benefits, we argue that anti-corruption has more often than not become a site for the negotiation of political agendas whose results have benefited the initiators and local elites. Unlike more traditional approaches, this article does not assume that anti-corruption is ‘good’ or ‘apolitical’ to societies because of its alleged merits.”*

Unfortunately, generating an ontological consensus on authority norms, or at least a self-serving belief and perception of their existence, emerges more readily in perceiving a common enemy. The comparative Bulgarian authority challenges in mobilizing/influencing its public is evident in that Bulgaria has had the highest Covid-19 mortality rate among European states due to low vaccination rates (Statista, 2023). The comparatively lowest level of societal “media literacy,” i.e., the comparatively highest level of vulnerability to “fake news,” explain these comparatively lowest vaccination rates (Open Society Institute Sofia, n.d., DeDominicis, 2020b). Wartime arguably creates greater urgency to maintain the rule of law during a time of national crisis to coordinate more effectively the mobilization of national power capability base resources.

The creation of Europe as an imagined community in which Bulgarian identity is one constitutive national element appeals to tolerance of diversity within Europe. It supports an affectual orientation towards European decision making for those segments of national society effectively exploiting the career benefits of the European variant of globalization (DeDominicis, 2020a). Reinforcing European aims and objectives can provide concrete Bulgarian national group social creativity options for national ingroup intense self-identifiers as well as individual social mobility options. Promising individuals, i.e., pro-Euro-Atlantic prospective elites, may acquire attention from European authorities and receive material career benefits. These gains are presumably generally more sustainable if they are European versus ingroup parochial, i.e., corrupt, gains. The integration of Russia into Europe would facilitate this process, but this outcome appears very unlikely. Corruption is therefore more likely to be an intergenerational challenge in Bulgaria, as it is, e.g., in Greece and Egypt.

The USSR attempted to provide social creativity gains for its constituent national peoples, but it failed because of the de facto equation of the USSR with Russian core culture political dominance (Cottam and Cottam, 2001). Acquisition of supreme social status therefore required joining the Party and demonstrating loyalty to it by willingness to function as a secret police informer (Zabyelina, 2017). The Party became a separate ingroup identity community, deriving from Russian core culture, into which members assimilated. Bulgarian nationalism did not have as much of an issue with Russian nationalism because Bulgaria was traditionally a Russophile community not territorially contiguous to Russia. Bulgaria needed allies against

traditional nationalist adversaries in the form of Greece and Turkey and Serbia. For Bulgarian nationalism, modernity acquired its cognitive reconciliation with Russian Communist hegemony in opposition to the Western hegemony under which fell these traditional adversaries. Belgrade's Communist regime helped mitigate the historical hostility towards Sofia over Macedonia (Dragostinova, 2018).

## A PATH FORWARD

The transnational components of corruption relate to international hegemony. Insofar as national self-determination is assumed to be a de facto human right, then frustrated nationalists will view these political obstacles as forms of corruption. In sum, treason against the nation constitutes sacrifice of the public good for private profit. The West does not allow itself to perceive militant pan-Arabism and pan-Islamism as national liberation movements. It is thus prone to overlook vast corruption in the US-allied parochial conservative authoritarian Arab monarchies (Reda and Proudfoot, 2022, Barany, 2020). Political Islam in US-allied Egypt historically has been to a significant degree a national liberation movement against perceived neo-colonialism. It focuses particularly on those subalterns that are stereotyped as the corrupted henchmen or puppets of the neo-colonial occupier. The religious faith component views these perceived collaborators as not only criminals, but sinners against God who deserve death (Tarța, 2021). The bifurcation between state and ummah, i.e., the community of Muslim believers, will lead to predisposition to view opponents as corrupt.

In terms of perceiving a shared threat, the ontology of corruption will reflect this tendency to perceive derivatively perceived allies as not corrupt will also manifest. Their corruption and brutality will be seen as the instruments of cold war in the nuclear setting against the conspiracies of the enemy. The imagined community they serve in terms of its public interest, may be positively stereotyped, e.g., the Cold War's so-called Free World. Augustine and Aquinas gave the world the notion of committing a lesser evil to avoid a greater one. An intense self-identifier with the imagined community does not consider a lesser evil, e.g., killing in pursuit of defeating a greater evil, e.g., colonial occupation, as a corruption or a sin. The lesser evil serves the public interest, the public good, the greater good against the evil malefactor. The latter is ultimately to blame for the corruption and cruelty in the world because it aims to erase the perceiver's imagined community ingroup.

The belief is in the existence of a holistic entity greater than the sum of its parts, i.e., a community. Religion, the belief in God, is a manifestation of this process at the normative habitual level of parochial identities. It interacts within a commonly perceived institutional context, e.g., the Roman Catholic church. Modern ethical codes emerge on the basis of the creation of national community identities insofar as the rule of law is desired and believed to exist, or at least to be possible. They serve to actualize the value ideals of a community. A national community is a primary intensity and terminally large self-identity ingroup for actors seeking positive social status within the international community. Parochiality again becomes corrupt when loyalty behavior on its behalf is perceived as threatening the sovereignty of the imagined national community. To rephrase, hegemonic discourse portrays this behavior as pursuing private interest at the expense of the public good. Evolution in this hegemonic discourse reflects prevailing attitude and belief change through effective social movement creation and institutionalization. In sum, it requires radical reform of the state, broadly construed as the system of authority norms within the community. Sustained contentious politics means creating and sustaining community identity creation for pursuit of justice.

Religion involves community rituals for the affirmation of ethical ideals, or values, in traditional societies. In modern, i.e., achievement-based status award societies, the legal system is the public ritual for affirmation of community identity in terms of ethical norms affirmation. Just outcomes are supposed to resolve disputes while affirming the claim to representation of the community by the authorities. To rephrase, conflict resolution ideally affirms the community authority itself as a public good. Outcomes that are perceived as unjust are therefore perceived as corrupt.

Collective consensual obedience to authority norms reflects the prevailing consensus emergence that moral and ethical behavior is in accordance with community expectations. In this ideal-typical context, the hegemonic belief emerges that it will generate social mobility for the ambitious seeking status enhancement. The imagined community including its ethical ideals reflect differing historical legacies from different colonial experiences. These colonial control mechanisms tend to emphasize exploitation of different component elements of the community. Again, consensual agreement has to exist on the primary terminal self-identity community the actors share. It is a prerequisite foundation for creating the institutional expectations of what a good citizen should do to uphold the public good or public interest.

Social identity theory provides a useful framework for conceptualizing the collective and individual motivational drivers behind social change in terms of Europeanization as professional socialization. “Research on the link between personal and social responsibility in higher education, for instance, shows that individual students’ values, beliefs, and aspirations tend to converge with those dominant within their student peer groups,” [...] (Maribel, 2021, 282-83). Early adult professional socialization therefore plays a critical role in accommodating notions of professional ethics. Higher education should inculcate awareness of the relevance of public and private citizen professional codes of ethics as a core concept. Europeanization of codes of ethics can be part of the curriculum.

Regarding enforcement of professional ethics through the corporate audit, it requires a European-wide Kuhnian paradigm shift. It “appears extremely timely and necessary to activate scientific community towards ‘gathering’, integration and systematization of existing elements of audit science, building up and developing of its structure, internal and external communications, identifying and filling in lacunae and gaps therein” (Baranov, et al. 2017, 1086). “For CEE [central and eastern European] countries, the concept of auditor independence is perceived as novel, being imported into legislation and Codes of Practice as part of the country’s preparation to join the European Union” (Sucher and Kosmala-MacLulich, 2004, 279). As subsequent professional experience, e.g., “[a]uditor independence has for many years been seen as a crucial aspect of the credibility of the external audit function, as a monitoring device. Similar assertions to that above are included in professional Codes of Ethics in other countries or within the European Union (Eighth Directive, 1984; ICAEW, 1999)” (Sucher and Kosmala-MacLulich, 2004, 277).

Corruption in Bulgaria and the Balkans more generally highlights the lack of a societal consensus on the norm ideals regarding differentiation of the personal from professional obligation. This lack of consensus of how one satisfies one’s obligations to the public, i.e., non-private, arena, is the issue focus. Maribel (2021, 283) surveys the literature’s findings on professional socialization: [A] “robust professional identity is usually considered essential in assuring responsible professional behavior.” Professional socialization is the foundation of ethics. Maribel continues, “[t]aken together, these cognitive and cultural dimensions may be said to constitute prototypes, following social identity theory, which disciplinary in-group members use to represent themselves and distinguish themselves from others” (Maribel, 2021, 284).

The importance of disciplinary specialization creates social opportunity structures for engaging in individual social mobility and ingroup social creativity. Professional socialization is a critical component of globalization for the state in its functional focus on developing its power potential base. Developing a professional consensus within the profession in the nation state creates potential for professional adaptation and societal control. Maribel’s utilization of social identity theory highlights the importance of generating consensus, i.e., the construction of institutions, in the minds and actions of people. Those who view themselves in terms of their status under threat from this diversification of norms while lacking the skills to exploit them, e.g., multilingualism, will increasingly perceive a threat, contributing to societal polarization.

In the relative absence of such institutionalization, individuals degenerate into anomie behavior. The ability to award and acknowledge social status degenerates into materiality, i.e., simply material wealth. As Trompenaars and Hampden-Turner (2020) note, norms and values within a community must be shared to evolve and develop. The imposition of European standards implies the importation of globalization standards for status acquisition both for group social creativity and individual social mobility. Without these standards, consensus on how a good Bulgarian national citizen should act does not exist.

## CONCLUDING COMMENTS

The construction of Gramscian hegemony is a forte of so-called developed nation states (DeDominicis, 2023). Neoclassical economics is a strategy for achieving it on behalf of the middle class. The national government budget is an expression of difficult choices in a society. It is a reflection of collective, institutionalized attitudes as stimuli response patterns. Austerity packages as part of conditional sovereign debt reform programs aim functionally to increase the control capacity of the state authorities. This capacity typically includes further commodification of labor. Corruption is a label applied to behavior perceived as disregarding formal legal obligations and also broader perceived community ethical obligations for parochial advantage. It is an ethnical rhetorical symbol that castigates for failure to uphold the imagined community public good as a Weberian ideal-typical notion of authority legitimacy. Macroeconomics as a field is ultimately a strategy for domestic regime maintenance including through an international coordination and cooperation component with other such regimes. The EU is most advanced in institutionalizing it, but it also exists among the so-called developed democracies. Keynesianism is by its essence liberal economic nationalism in the form of a strategy among the community of advanced industrialized states

As a member of the global system of states, any state strategy for generating power capability and influence will interact with other states. Economic policy is a component for developing the power capability of the state while simultaneously strengthening the control of the authorities. Maintaining this predominance requires adaptation to evolving trends in perceptions, attitudes and values domestically and globally. Status advancement through material acquisition is the key factor for a modern economy. National societal actor formulation of strategies for status enhancement is more difficult without a relative consensus on authority norms and values. A belief in demonstrated success in exploiting them individually and as a group indicates the emergence national consensus.

This study notes that the mobilization of North Atlantic resources to respond to the perceived Russian threat that intensified in 2022 has facilitated this Europeanization process. It reflects the impact of political psychological collective attitudinal and affective trends that emerge from perceiving a common adversary. The adage, the enemy of my enemy of my friend, summarizes the essence of this process. It facilitates collective nation state allied polity openness to policy diffusion from these allies. It encourages emulation and mimesis of so-called best practice policy models amongst these allies.

The theme of the Europeanization of Bulgaria requires a conceptualization, if not a definition, of Europeanization. In 2022, several weeks after the renewed invasion of Ukraine earlier in the year, Europeanization appears to have developed to become coterminous with Atlanticism. The normative issues within this conceptualization for this paper revolve under its implications for the European Union as a postwar peace strategy for Europe, if not for the world. In this regard, Europeanization as coterminous with Atlanticism has arguably been tragic. An explanation for Russia's 2022 invasion of Ukraine necessarily incorporates Russian responses to the integration of Ukraine with the so-called West. This so-called West is what Bulgarians label as so-called Euro-Atlantic structures. Europeanization of Bulgaria equates here with development of a societal consensus to pursue integration in these structures. Those Bulgarian post-communist constituencies that transition towards acceptance of the inevitability of this integration, either

acquiesce to it, if not accommodate to it. The costs of this integration include accommodation of Bulgarian Turkish minority political and civil rights.

The collective West's response to the Russia's 2022 invasion of Ukraine has made these Europeanization political debates very loud. The response also explicitly framed Europeanization as opposition to Russian influence. This motivation for European integration's broadening had precedent during and after the Cold War. Bulgaria gained admission into the EU in 2007 despite doubts about its preparedness to support its EU obligations in response to rising Russian influence there.

Europeanization may also assume discursive forms. Legitimacy is the essential factor, meaning the effective incentivization of the public to accept functionally the imperative voice commands of the polity authorities. The authority of the EU to a significant extent derives from it being functionally perceived as a vehicle for national member social creativity and individual social mobility. The Cold War international political system played a critical role in laying its foundations via American support. The North Atlantic alliance against a common perceived foe incentivizes critical constituencies within these alliance members to create broader imagined community with ethical obligations.

Limitations in this article include its focus on secondary sources through a survey of the relevant academic literature. Directions for future research include a sociological focus to operationalize the postulates and inferences in the paper in order to test them. A qualitative methodological approach to discern attitudinal orientations regarding participation in so-called corrupt behavior would be useful. Explanations including self-justifications for this behavior could provide insights into Bulgarian constituency orientations towards authority. They include strategies for constituency group engaging in social creativity and individual social mobility strategies. The conceptualization of Europeanization provided here includes normative construction of codes of ethics in daily professional life. As a phenomenological study, it might provide opportunities for participant observation of the lived experience of Europeanization.

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# **CONSUMER CHANGES INDUCED BY ADOPTION OF THE INTERNET OF THINGS**

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## **ABSTRACT**

*The Internet of Things is experiencing rapid development in China and has huge market potential. There is little existing literature examining consumer cognitive changes or behavioral changes induced by Internet of Things technologies. This study is the first attempt at exploratory analysis. The purpose of this study is to examine the predicted and influential relationships between value perception change, satisfaction change, privacy concerns, and changes in word-of-mouth and loyalty caused by the Internet of Things. The results imply that customer value perception changes and satisfaction changes predict word-of-mouth changes and loyalty changes, and there is a positive relationship between them. The findings have ramifications for businesses, as well as for theoretical and practical Internet of Things research.*

**JEL:** 0310

**KEYWORDS:** Cognitive Changes, Behavioral Changes, Internet of Things

## **INTRODUCTION**

Constantly innovative and evolving technologies are infiltrating all aspects of consumers' lives and influencing their behaviors and decisions (Alimamy & Gnoth, 2022). The IoT has a wide range of important applications, including in healthcare, smart home appliances, smart factories, smart cities, and aviation. Furthermore, researchers have recognized that research on consumer perception of IoT technologies is still needed (Gao & Bai, 2014), and systematic exploration of IoT from the perspective of consumer perception and behavior is necessary (Benamar et al., 2020). Based on the important role of IoT in industry and academia, and recognizing limits on existing literature, this study analyzes the changes that the application of IoT technology will induce in consumers.

Word-of-mouth (WOM) communication is one of the most important roles in marketing, empowered by the various forms of online communication. Therefore, it is essential to understand what factors influence WOM (Cuesta-Valiño et al., 2022). The study of WOM and loyalty have become two important objectives in the discipline of managers and marketing (Cuesta-Valiño et al., 2022). Loyalty is the intention of consumers to return to the retailer (Roy et al., 2017). The previous study focused on the initial stage of customer acceptance of new technology. However, current research on technology-induced changes in WOM and changes in loyalty is inadequate. Therefore, it is necessary to explore which factors can predict changes in WOM and changes in loyalty, and how they are related to each other. To fully understand IoT technology and identify what changes the technology is causing for customers, this study synthesizes the information system (IS), consumer perception, and consumer behavior literature. Based on the above discussion, the objectives of this study are as follows: To analyze how consumer value perception and satisfaction changes are caused by the application of IoT, and how privacy concerns predict and influence the changes in WOM and changes in loyalty.

The rest of this study is organized as follows. Section 2 provides an overview of the theoretical background, including framework and hypothesis development; Section 3 is composed of methodology; Section 4 contains the analysis and result in depth; Section 5 presents the discussion; Section 6 presents the implication, and Section 7 provides the limitations of the study and areas for future research.

## LITERATURE REVIEW

Against a background of the use of smart home devices, IoT led to changes in two elements: value perception and satisfaction, and privacy concerns. These in turn have led to changes in two constructs: WOM, and loyalty.

Figure 1: The Framework of This Study

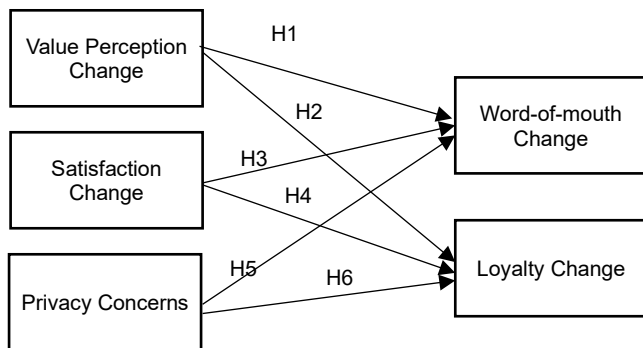


Figure 1 conceptual framework. Figure 1 shows the hypothesized relationships between value perception change, satisfaction change, privacy concerns and WOM change, and loyalty change, respectively.

Value perceptions are defined as customers' overall assessments of a product, based on opinions about the product that has been provided and acquired (Zeithaml, 1988). Value perceptions are important determinants of purchase behavior (Inman & Nikolova, 2017). Satisfaction is defined as a measure of the extent to which a product or service meets consumer expectations (Grigoroudis & Siskos, 2010). One of the most crucial challenges for every commercial organization is measuring consumer satisfaction, which is utilized as a benchmark of corporate success and excellence (Grigoroudis & Siskos, 2010). Privacy concerns include the potential loss of personal information and privacy (Kaur et al., 2020), and they represent customers' doubts about the outcome of their adoption decisions (Arslan et al., 2013). An important indicator of resistance to new services or technologies is privacy risk, which is considered a major obstacle to technology adoption (Lin et al., 2014). Based on the above literature discussion, we believe that studying value perception change, satisfaction change, and privacy concerns is novel and important. WOM is the potential for consumers to promote or speak favorably of a brand to others, and it is one of the elements of consumer loyalty (Tyrväinen et al., 2020). Loyalty refers to customers who are faithful to a specific retail store, and this impression influences consumers' future patronage (Yoon & Park, 2018).

Consumers harvest the information they need during use and will have an overall positive evaluation, in turn sharing positive comments about the experience (M. Talwar et al., 2021). According to Zhang et al.(2017), customers who are both emotionally and cognitively engaged are more inclined to recommend brands. Prior empirical investigations have supported the beneficial influence of perceived value on customers' WOM goals (Mayr & Zins, 2012). In a similar vein, we argue that there is a positive relationship between IoT-induced changes in consumer perceptions and changes in WOM. Therefore, we propose that: H1. The change in value perception has a positive impact on the change in WOM.

Floh et al., (2014) confirmed that value perception is an important factor in determining loyalty. Retail store loyalty is impacted by how customers perceive their value when buying (Adapa et al., 2020). Consumers

complete shopping tasks more efficiently by using IoT technology, therefore consumers will have a higher perceived evaluation of companies that apply IoT, leading to repeat shopping intentions for that retailer. Therefore, we propose that: H2. The change in value perception has a positive impact on the change in loyalty.

Zhang et al. (2019) examined the impact of customer satisfaction on WOM behaviors and attitudes. In social commerce, researchers found that customer satisfaction has a favorable impact on WOM ambitions (Cuesta-Valiño et al., 2022). WOM becomes more important in the service context, as WOM is the intangible nature of the service (Roy et al., 2017), and innovative, unique products may attract interest and may lead to better WOM (Berger & Schwartz, 2011). Furthermore, research has shown that satisfaction has a positive direct effect on WOM towards technology (Roy et al., 2017). Therefore, we propose that: H3. The change in satisfaction has a positive impact on the change in WOM.

Satisfaction can directly affect e-loyalty and online shopping (Pratminingsih et al., 2013). Studies have also revealed that in social commerce, customer satisfaction influences the decision to make a transaction (Cuesta-Valiño et al., 2022). In the hospitality domain, empirical findings also support that satisfaction positively influences behavioral purposes, including revisiting and recommending intentions (Namin, 2017). Based on the above discussion, we propose that: H4. The change in satisfaction has a positive impact on the change in loyalty.

In the case of mobile wallets, scholars highlight that the cognitive uncertainty regarding the use of mobile wallets belongs to consumers' fear of the security of shared information. M. Talwar et al. (2021) find that cognitive uncertainty and WOM is associated. If consumers' risk perceptions are high, they may develop dissonance, and tend to spread negative WOM to others (M. Talwar et al., 2021). Roy et al. (2017) found a direct negative effect of perceived risk on WOM intention. Therefore, we believe that: H5. Privacy concerns have a negative impact on the change in WOM.

Consumers are less likely to recommend their decision to others and are more inclined to switch to other brands when they are unsatisfied with their purchase, according to Grewal et al. (2007). In the context of SRT retailing, Roy et al. (2017) claim that perceived risk negatively influences repeat purchase intention and verifies that perceived risk has a negative direct effect on loyalty. Satisfaction and perceived risk are both seen as major determinants of store loyalty. Therefore, we state that: H6. Privacy concerns has a negative impact on the change in loyalty.

## DATA AND METHODOLOGY

To test the framework, we conducted the construct via a self-completion, an online survey administered to the respondents. The survey method was preferred, as the study required us to capture opinions from customers. At the beginning of the questionnaire, we described the IoT technology in detail in the form of pictures and text. As Xiaomi is a leading company in the Chinese market in the field of IoT smart homes, we used the products of Xiaomi's IoT platform as an example to describe in detail the application scenarios and usage of IoT devices, to illustrate the usage and result showcase. In this way, respondents can understand and grasp the technology regardless of whether they have personal experience with the technology or not. In total, 229 completed surveys were returned. There were 96 males (41.92%) and 133 females (58.08%) in the sample population. Respondents were asked to read the description of the technology carefully to ensure that the respondent fully understood the technology. Value perception is measured using two items adapted from (Cronin et al., 2000). Privacy concern is measured using two items adapted from Inman & Nikolova (2017), and van Doorn & Hoekstra (2013). Satisfaction is adapted from Maxham et al. (2003). The two items used to measure WOM are adapted from Maxham et al. (2003). Loyalty is measured using three items adapted from Gao & Bai (2014). Regression analysis is conducted using the multiple stepwise regression method for the retail technologies. The questionnaires for each retail

technology are identical in content and on a 10-item scale. All the items were adapted to suit the context and measured using a 7-point Likert scale ranging from strongly disagree (1) to strongly agree (7).

**RESULTS**

Predictions are frequently made using regression analysis. By fitting a linear equation using observed data, multiple linear regression models the relationship between a dependent variable and explanatory factors (Liu et al., 2021). This study uses stepwise multiple regression analysis to analyze the predictive and influential relationships between privacy concerns, changes in two elements (value perception, satisfaction), and changes in two constructs (WOM, loyalty). The following regression equations were estimated to identify determinants of WOM change and loyal change.

$$\text{WOM change} = \alpha + \beta_1(\text{value perception change}) + \beta_2(\text{satisfaction change}) + \beta_3(\text{privacy concerns}) \quad (1)$$

$$\text{Royalty change} = \alpha + \beta_1(\text{value perception change}) + \beta_2(\text{satisfaction change}) + \beta_3(\text{privacy concerns}) \quad (2)$$

The results of Equations (1) and (2) are shown in Table (1) and Table (2). From Table 1, we identified that the variables (satisfaction, value perception) have significant predictive power for WOM change. Stepwise regression methods involve criteria, such as the F-test, and adjusted R<sup>2</sup>, to choose explanatory variables automatically (Liu et al., 2021). The two predictor variables (satisfaction, value perception) explained a total of 78.6% of the variance in WOM change. This provides support for H1 and H3.

From Table 2, we identified that among the three predictor variables (satisfaction change, value perception change, privacy concern), these variables have significant predictive power for loyalty change. The three predictor variables (satisfaction change, value perception change, privacy concern) can explain a total of 75.1% of the variance in loyalty change. This provides support for H2 and H4. Although privacy concerns can predict loyalty change, privacy concerns have a positive impact on loyalty, therefore, H6 is not supported.

Table 1 Regression Analysis Model Summary of Word of Mouth and Coefficients

	R Square	R Square Change	F Change	Sig. F Change	F	Standardized Coefficients Beta	Sig.	Tolerance	VIF
(constant)	0.786	0.051	53.984	0.000	414.088				
Satisfaction							0.032*		
Value perception						0.564	0.000***	0.374	2.675
						0.370	0.000***	0.374	2.675

*This table shows the regression estimates of Equation (1). It means that satisfaction change and value perception change can predict and have a positive effect on WOM change. Privacy concerns have no significant effect on WOM change, and it is excluded from the model. \*p<0.05, \*\*p<0.01, \*\*\*p<0.001*

From the standardized regression coefficients (from Table 1 and Table 2), the Beta values of the predictor variables in both the IoT are positive, indicating that the impact of changes in customer perceptions (satisfaction, value perception) triggered by the application of IoT on changes in WOM and loyalty is positive. By convention, multicollinearity is considered to be excessively high if VIF is greater than 10 (Kutner et al., 2004). The tolerance value and the VIF value are less than 10, indicating that there is no multivariate collinearity problem. The hypothesis results are summarized in Table 3.

Table 2 Regression Analysis Model Summary of Loyalty and Coefficients

	R Square	R Square Change	F Change	Sig. F Change	F	Standardized Coefficients Beta	Sig.	Tolerance	VIF
(constant)	0.751	0.007	6.610	0.011	225.773				
Satisfaction									
Value perception						0.559	0.000***	0.373	2.682
Privacy concern						0.305	0.000***	0.350	2.857
						0.096	0.011*	0.803	1.246

*This table shows the regression estimates of Equation (2). It means that satisfaction change, value perception change, and privacy concerns have a positive impact on loyalty change. \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$*

Table 3 Summary of Analysis Result

H	Hypothesized Relationship	Result
H1	value perception change -> WOM change	supported
H2	value perception change ->loyalty change	supported
H3	satisfaction change -> WOM change	supported
H4	satisfaction change -> loyalty change	supported
H5	privacy concerns -> WOM change	reject
H6	privacy concerns -> loyalty change	reject

*This table summarizes the conclusions of the hypotheses, which are supported except for H5, H6*

## CONCLUDING COMMENTS

This study considers the prediction and impact of two customer changes (satisfaction, value perception) and privacy concerns on loyalty change and WOM change induced by IoT. The empirical results confirm the hypotheses regarding satisfaction and value perception, similar to the results of previous studies (Tyrväinen et al., 2020) (Roy et al., 2017) (Cuesta-Valiño et al., 2022). Although privacy concerns can predict loyalty change and there is a negative relationship between these factors, the results are contrary to the hypothesis proposed in this study, and it is different from previous research findings. This study is based on the Chinese market, where the application of IoT technology in the smart home sector is booming and rapidly developing. IoT technology brings great convenience to people's lives, and although people have privacy concerns about the new technology, the value of IoT technology can largely offset the privacy concerns. For companies, it is possible to increase customer loyalty if they adequately protect customer privacy, and further provide explanation to customers of the purpose and security of collecting customer data. Companies can improve customer value perception by adopting IoT, invariably allowing customers to recommend products, services, and brands to other customers, and increasing the company's competitive advantage. Additionally, customer loyalty allows the company to achieve success and profitability (Cuesta-Valiño et al., 2022). Companies can improve customer satisfaction through IoT technologies to influence future shopping behavior, drive repeat purchase behavior, and build long-term sustainable customer relationships.

Previous studies have primarily focused on customer experience, customer perception, loyalty, and behavioral purpose in the context of brick-and-mortar retailing (Roy et al., 2017)(Meilatinova, 2021)(Tyrväinen et al., 2020). Few studies have focused on the changes in customer perceptions and behaviors due to technology. In this regard, this study expands on previous research by focusing on the predictive and influential relationships between perception changes and behavior changes in China. This study, by integrating information system literature, contributes to the literature by providing valuable

insight regarding the predictive analysis of IoT technology. This study provides a beneficial framework for future research in IoT.

IoT-induced privacy concerns can predict loyalty change, and there is a positive relationship between these factors. The results of this study suggest that privacy concerns cannot predict WOM change, which differs from previous findings. Therefore, we believe that there is significant research potential in the field of cognitive changes and behavioral changes, and this study provides new research ideas and directions for the study of customer cognition and behavior under the influence of technology. Finally, our study is based on the Chinese market where IoT is booming and rapidly developing and provides implications for future research on the development and application of IoT in emerging markets in other countries.

This study found that value perception change and satisfaction change triggered by IoT can predict WOM change and loyalty change, and there is a positive relationship between these factors. IoT is simpler to operate and influential to customers, which is beneficial to a company for a number of reasons. Companies adopting IoT can let customers master the use of IoT devices through simple instructions, which is conducive to the rapid promotion of products or services and can improve customer value perception and satisfaction. Thus, gaining positive WOM, cultivating and consolidating a loyal customer base, while quickly harvesting potential customers, establishing long-term customer relationship management, and gaining long-term benefits. Additionally, the study specifically found that IoT-induced privacy concerns can predict loyalty change and that there is a positive relationship between these factors. These are important factors for company applying IoT. We suggest that companies can enhance customer data security through processes and algorithms, and truthfully explain to customers the security and privacy of their data and how it will be used to increase consumer loyalty. Furthermore, we suggest that companies train their sales staff to make them proficient in using IoT, which is conducive to communication and exchange between sales staff and customers, attracting a large number of customers and gaining more revenue. Companies need to apply IoT according to the different characteristics of their products or services so that they can acquire customers in the short-term time, cultivate customers in the long term, establish perfect customer relationship management, and be in an advantageous position in the fierce market competition.

We recognize this study has limitations, for example, this study is investigating the market situation in China and therefore has geographical limitations. Future studies can explore the situation in other cultural contexts. Future research could also focus on other elements such as store reputation, service quality, etc.

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# **INTRAPRENEURSHIP BUSINESS INCUBATORS AND BUSINESS CREATION: EVIDENCE FROM MEXICO**

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## **ABSTRACT**

*The purpose of this investigation is to evaluate aspects that determine the probability an individual presents high levels of intrapreneurship. An intrapreneur worker combines ideas and uses existing resources to promote new lines of business, seeking sustainable economic benefits. The organization is renewed from within improving its competitiveness. Intrapreneur skills and competences were analyzed, as well as education level, gender, type of business activity and parental entrepreneurship influence, in owners and collaborators of companies generated in a business incubator. We examine data from a population sample of 75 companies incubated in the Business Center of the School of Accounting and Administration of the Autonomous University of Chihuahua. The research is an exploratory, applied, field study, with bibliographic support. A logistic regression model was developed. Results obtained indicate that academic degree and the offspring of entrepreneurship indicate a strong probability an individual presents high levels of intrapreneurship.*

**JEL:** D83, H3, I22, I23, M13

**KEYWORDS:** Companies, Intrapreneurship, Skills, Competencies

## **INTRODUCTION**

Since the beginning of globalization, the way we do business has changed. A vital component in the rate of economic growth is entrepreneurship which generates various productive activities that promote progress and improved living conditions of citizens. "Mexico is considered a country with a focus on efficiency, which implies that the size of the market is large, which makes it attractive for entrepreneurial activity" (González, 2014). For this reason, Intrapreneurship research agendas recognize its importance for success within organizations.

Gartner (1988), argues that "business should focus on the study of the activities and behavior of individuals trying to create new organizations." Antoncic and Hisrich (2000) mention that "Intrapreneurship can be defined as the process by which individuals within organizations pursue opportunities without regard to resources currently controlled them." According to the article "Intrapreneurship reviews the theoretical construct its implications and future research agenda." Trujillo and Guzman (2008) conclude that "Companies should seek to generate scenarios in which individuals can act in entrepreneurial way their companies, printing dynamics that facilitate the organization to evolve and consolidate in its market segments".

The objective of this research is to evaluate aspects that determine the probability of an individual presenting high levels of intrapreneurship. The research here measures different skills and abilities of intrapreneurship as well as the level of study, gender, type of business activity, parental entrepreneurship

influence. We focus on owners and collaborators of companies incubated in the Business Center of the Faculty of Accounting and Administration (FCA) of the Autonomous University of Chihuahua (UACH). The objective is to identify significant aspects that an individual presents to develop high levels of intrapreneurship.

This research extends the existing literature by analyzing the impact of education, and generational entrepreneurship in developing new intrapreneurship businesses. It also emphasizes the importance of Incubators in entrepreneurship and intrapreneurship development.

The study begins with a section dedicated to conceptualizing intra-entrepreneur skills and competencies. We identify, through bibliographic review, five constructs. These five constructs were used in our research. The second section describes the methodological design used to analyze the data. Data were obtained by applying a measurement instrument created by the doctors of the Technological Institute of Costa Rica, Dr. Tomás Vargas Halabí, Dr. Ronald Mora Esquivel, and Dr. Berman Siles Ortega (Vargas, Mora & Siles 2017). Their work is the product of the article *Intrapreneurial competencies development and validation of a measurement scale*, which was published in the *European Journal of Management and Business Economics*. The last section describes the results obtained after running a logistic regression analysis using the Minitab 17 statistical analysis software. The paper closes with some concluding comments.

## LITERATURE REVIEW

According to Pinchot III (1985) an intrapreneur is a worker who carries out new business ideas within the organization, using existing resources. These ideas improve the competitiveness of the organization in the market. To distinguish between internal entrepreneur (intrapreneur) and entrepreneur they note: "an entrepreneur (internal) is the person who sets in motion an idea within an organization". "The (external) entrepreneur is the person who does it outside of an organization."

Apertura (1992) and Garzón (1996), point out the following individual characteristics of the intra-entrepreneur: "entrepreneurial spirit, vision and creative and innovative imagination, need for achievement, perseverance, dedication, openness to teamwork, holistic vision of the needs of the company, leadership, s/p". According to Garzón (2004), results obtained that facilitate intrapreneurial work are: tolerance to change, support, identity, individual autonomy, structure, reward performance, tolerance to conflict.

An entrepreneur possesses a set of skills, qualities and behaviors. Gibb and Hannon (2007) argue it is necessary to have the following skills and abilities to be a successful an entrepreneur: search for opportunities, initiative, commitment. Villa and Poblete (2007), mention that having an "entrepreneurial spirit" is the ability to apply knowledge, methods and tools with leadership, innovation, creativity, adaptation to the environment, self-motivation, decision-making, initiative and the vision of the future.

The measurement instrument used for the present investigation works with five constructs previously identified in the literature which evaluate the competencies and abilities of intrapreneurship in collaborators that are part of the companies. These are:

*Promoter of opportunities:* A promoter of opportunities is that person with behaviors aimed at encouraging, using, inviting others to generate opportunities for new initiatives in the company. An intrapreneur visualizes quickly, the environment, and identifies opportunities and threats, discovers those opportunities and works to convert threats into opportunities. They include change when information is scarce (Lombriser, 1994, p.207).

*Proactivity:* A proactive individual directs and promotes actions which generate efforts to obtain new ideas. The article "Intrapreneurial Culture and Innovation" by Gálvez (2011) indicates that "it is teamwork which

reaffirms the importance of stimulating the synergy produced by combining the creative capacity of employees of different levels and / or departments". The author argues the intrapreneurship factor with the greatest effect in companies, is teamwork.

*Flexibility:* To be flexible is to be tolerant, and not to be attached to already established or rigid procedures. Giving freedom to a collaborator in his work makes them feel they are part of the organization, generating autonomy and control over decisions. It is important to take workers into account, delegate authority and responsibility, and tolerate mistakes (Zahra et al., 1999). Productivity-based inventions generate increases in meaningful results and stimulate employees to face new challenges (Kuratko, Hornsby, and Bishop, 2005).

*Driver of Business:* It is the ability of an individual to carry out actions to convince other people to generate new ideas (Tushman and O'Reilly III, 1997). Organizational objectives and strategies are the foundation to manage innovation and change. Meanwhile, establishing the context and the requirements for innovation (Stewart and Fenn, 2006).

*Assumption to risk (Risk Taking):* Accepting risks may contain favorable rewards in case of success, but also severe results if the individual fails (Brockhaus, 1980). The intrapreneur is exposed in areas unknown to the organization, without knowing what the results will be (Covin and Slevin, 1991). Intrapreneurial capacities have different personal characteristics, such as achievement orientation, risk-taking capacity, autonomy or personal initiative (Krauss et al, 2005, Sayeed and Gazdar, 2003).

#### Business Center Incubator Faculty of Accounting and Administration (FCA) Universidad Autónoma de Chihuahua (UACH)

The Business Incubator at UACH was established in 2020 with the goal of assisting individuals (student, former students, members of the community, etc.) in starting a business. For those already having a business the Incubator assists them in agroindustry, information technology or commercial activities.

The Business Incubator offers a variety of services including: 1) generating, modify or improving a business; 2) help in creating a business model and plan; 3) assistance with decision making; 4) project execution; 5) training and advising on issues related to modern entrepreneurship, business model, strategic planning, marketing, production processes, legal aspects, finance and accounting.

Faculty members from the FCA provide training at specific times. They are not responsible for administration of the Business Incubator. They only contribute by providing training and advice. The Business Incubator is managed by a Professor from the FCA, currently, Mr. Carlos Espino Enriquez.

## **METHODOLOGY**

The current research is a mixed, applied exploratory study with field and bibliographic research. A logistic regression model was used to analyze a sample of 75 companies. The sample was obtained using simple random sampling, with a confidence level of 95% of a total of 385 companies. The companies participating in the analysis were chosen from the FCA UACH Business Incubator database. A questionnaire entitled "Competences of the intrapreneur" Vargas, Mora & Siles (2017) was applied. This questionnaire considered the traits of intrapreneurial skills within the company. Specifically, the questionnaire gathers data related to knowledge, skills and competencies and behavior associated with the disposition of an individual to generate, develop and create new businesses for the company. The questionnaire is composed of 20 items classified into five dimensions: opportunities Promoter, Proactivity, Flexibility, Driver of Business and risk assumption (risk taking). Additional data related to educational level, gender, type of business activity and parental entrepreneurship influence were collected. The questionnaires were distributed online in 2019.

## RESULTS AND DISCUSSION

The objective of the present study was to evaluate aspects that determine the probability an individual presents high levels of Intrapreneurship. A logistic regression model was used to determine significance of aspects that influence the probability of occurrence of this characteristic.

To measure intrapreneurial skills, the "Competences of the intrapreneur" questionnaire was applied previously. Additional data were requested such as, gender, age, level of studies, if they were owners or workers of the company, sector to which the company it belongs and if they had parents or grandparents who owned some company (descendants of entrepreneurship). These variables served as predictor variables of the model. The response variable for the model was coded as SUCCESS. We determined a global average equal to or greater than 4, in the questionnaire, corresponds to a high level of skills and intra-entrepreneurial skills. In the first phase of the investigation, we proceeded to analyze information of each predictor variable of the model. Table 1 and Table 2 show the results for level of education by gender and age. Tables 3 and 4 show participants by company sector and entrepreneurial descent respectively. Table 5 provides some descriptive statistics.

Table 1: Gender

Female Population		Male Population	
Level of studies	Total	Level of studies	Total
Bachelor's degree	27	Bachelor's degree	24
Master's degree	7	master's degree	11
Doctor's degree	6	Doctor's degree	0
<b>Total</b>	<b>40</b>	<b>Total</b>	<b>35</b>

*This table shows the education level according to the gender of the surveyed population. The majority of the people surveyed were female.*

Table 2: Age

Age Range	Total
Under 18 years	0
Between 18 and 30 years	29
Between 31 and 40 years	27
Between 41 and 50 years	3
Between 51 and 60 years	16
Equal to or greater than 60 years	0
<b>Total</b>	<b>75</b>

*This table shows the age range of the surveyed population. The age range of most respondents was between 18 and 30 years.*

Table 3: Company Sector

Sector	Total
Commerce	19
Services	28
Industry	28
<b>Total</b>	<b>75</b>

*This table shows the sector to which the company belongs, as well as the surveyed population that owns it or works in the company.*



Table 4: Entrepreneurial Descent

<b>Do your parents or grandparents own a company?</b>	
<b>Answer</b>	<b>Total</b>
No	36
Yes	39
Total	75

*This table shows the number of people who have entrepreneurial descent, to know these data they were asked if their parents or grandparents were owners of any company.*

Table 5: Descriptive Statistics

<b>Construct</b>	<b>Average</b>	<b>Variance</b>	<b>Coefficient of Variation</b>	<b>Minimum</b>	<b>Median</b>	<b>Maximum</b>
Promoter of opportunities	4.12	0.37	14.76	2.33	4.17	5
Proactivity	3.78	0.24	15.67	2	3.67	4.75
Flexibility	3.69	0.55	20.16	1.25	3.75	5
Promoter/Driver of Business	4.06	0.36	14.73	2.5	4	5
Assumption of risk/Risk Taking	3.49	0.69	23.79	1.67	3.33	5
Five constructs Total	3.7	0.29	14.53	2.42	3.67	4.75

*Table 5 shows descriptive statistics for the five constructs that make up the "Intrapreneur Competencies" questionnaire.*

The Promoter of Opportunities construct consists of a total of 6 items. The Proactivity construct consists of three items, The flexibility construct includes 4 items. The business driver construct includes four items and the Assumption risk (risk taking) construct is includes 3 items. In total the survey generated 20 items. We use a Likert Scale where 1 = Never; 2 = Almost never; 3 = Sometimes; 4 = Almost always; 5 = Always. In Phase 2 of the study, a logistic regression analysis was run using the following coding for the study variables.

*GEN*= Gender of the respondent, having two possible levels (male, female).

*ED*= Age of the respondent, having four possible levels since there were no observations of individuals of two age ranges requested in the questionnaire (between 18 years and 30 years, between 31 years and 40 years, between 41 years and 50 years and more than 50 years).

*STU*= Degree of studies of the respondent, having three possible levels (bachelor's, master's, doctorate).

*SEC* = Sector of the company where you own or collaborate, having three possible levels (commerce, service, industry).

*POGP*= Refers to whether the respondent has parents or grandparents who own a company, having two possible levels (no, yes).

*EX*= It is the response variable of the model used to determine success. The respondent should have a global average (considering the five constructs) equal to or greater than four, in the questionnaire "Competences of the intrapreneur".

Once the data matrix was organized, a logistic regression analysis was run using the Minitab 17 statistical analysis software. Results of the first proposed model using all the variables are shown in Table 6. Table 6 shows the Chi-square statistic values. The results reveal that gender, age (*AGE*), and sector (*SEC*) are not statistically significant. Therefore, the variables are not included in the analysis shown in Table 7. We do find variables educational level (*STU*) and parents (*POGP*) (when their parents are entrepreneurs themselves too) to be significant.

Table 6. Variance Analysis

Source of Variation	Chi Square	P -Value
GEN	0.2	0.654
AGE	4.56	0.892
STU	9.82	0.007
SEC	1.42	0.492
POGP	26.09	0

Table 6 shows the values of the Chi - square statistic, to determine significance of variation source of the logistic regression model. The variables gender (*GEN*), age (*AGE*) and Business Sector (*SEC*) do not present statistical significance when presenting values higher than 0.05 in its p-value. Therefore, the analysis is run again without considering these three variables. The results are shown in Table 7.

Table 7 shows the values of the Chi-square statistic. We find the variables study (*STU*) and parents *POGP*, present statistical significance for the logistic regression model by presenting P-values lower than 0.05. The regression intercept presents statistical significance with a p-value less than 0.05. In summary, this table indicates the probability of success of a person interested in starting a business or who has already established a business relates to having an academic degree and if they have relatives who have established a business.

Table 7. Analysis of Variance for Study and Parents

Source of Variation	Chi - Square	P -Value
STU	9.78	0.008
POGP	27.13	0.000

Table 7 shows Chi - square statistics. Results show the *EST* and *PAD* variables have statistical significance for the logistic regression model with p-values lower than 0.05. The data also shows the regression equation intercept presents statistical significance with a p-value lower than 0.05. Therefore, the model remains validated.

After we validated statistical significance using the logistic regression model, the equation is formed as follows:

$$P(Eventexp(Y')/(1 + exp(Y')) \tag{1}$$

$$Y' = -3.02 + 0.0 STU_Doctorate + 1.512 STU_Bachelors + 3.21 STU_Masters + 0.003 PAD_No + 2.956 PAD_Yes \tag{2}$$

Finally, when the logistic regression equation is obtained, we proceed to calculate probabilities of success associated with the model variables shown in Table 8. Table 8 shows the probabilities of success associated with individuals having high levels of intrapreneurship, The best probability for high levels of intrapreneurship, occurred in people having a master degree, who have parents or grandparents who own companies. These individuals obtain a 96.13% probability of success. Individuals having a bachelor's degree and having parents or grandparents who own a business follow with an 81.93% probability of success. Finally, the lowest probability of success, with a value of 4.64%, was for people who have a doctorate and who do not have parents or grandparents who own businesses.

Table 8. Probability of Success

Educational Level (STU)	Parents	Probability
Bachelor's degree	Yes	0.8193
Bachelor's degree	No	0.181
Master's degree	Yes	0.9613
Master's degree	No	0.1636
Doctor's degree	Yes	0.5388
Doctor's degree	No	0.0464

*Table 8 shows the probabilities of success associated with a person having high levels of intrapreneurship depending on the academic degree they have and depending on whether they have family members, grandparents or parents who own a company.*

## CONCLUSIONS

This paper examines factors that associated with a high level of intrapreneurship. In the statistical analysis, this research found two significant factors that predict success: Education level and if an individual comes from an offspring of parents or grandparents who own a company. Factors such as gender, age and the sector of the company in which they collaborate do not imply high levels of intrapreneurship.

The greater probability that an individual presents high levels of intrapreneurship, occurred in people who have a master's degree who have parents or grandparents who own businesses. This combination led to a 96.13% probability of success. Individuals who have a bachelor's degree and have parents who own businesses produced an 81.93% success rate. Finally, the lowest probability of success, with a value of 4.64%, occurred for individuals with a doctorate and who do not have parents or grandparents who own businesses.

Future studies might replicate this study in other populations. Future research might also add other explanatory variables to create a better model.

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# **PERCEIVED IMPACTS OF THE DEREGULATION OF MEXICAN IMMIGRANTS' LABOR COMPETENCIES IN THE USA**

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## **ABSTRACT**

*Increased Mexican migration to the United States has led to policy challenges in both countries, with ethical, social, human, health, and labor implications. For this reason, bilateral relations between these countries have long-standing needs in legal, human, and labor matters. There is an urgent need to find formulas and solutions to confront multiple challenges. This study explores the professional profile of Mexican immigrants in the USA. Its purpose is to describe the job profile of Mexican immigrants. A random sample of individuals was interviewed before crossing from the USA to Mexico, through the Juarez II International Bridge, from Laredo, Texas to New Laredo, Tamaulipas. This qualitative, exploratory, and descriptive study identifies Mexican immigrants' labor competencies. The findings could assist public and private organizations to evaluate and implement public programs for labor insertion and reinsertion of Mexican migrants on both sides of the USA-Mexico border.*

**JEL:** M120, M510

**KEYWORDS:** Labor Competencies, Job Profile, Immigrants, Human Resource Management

## **INTRODUCTION**

**M**igration is a common phenomenon that results as an effect of globalization. The immigration rate among the global population is estimated at three percent and rising. Managing migration is a challenge for all related countries because it involves balancing the security and freedom of the recipient country, and the alignment of international laws and agreements with the recipient country's laws (Sasnal, 2018).

According to Israel and Batalova (2020), in 2019 about 10.9 million Mexican-born individuals were living in the United States of America, representing the largest group of immigrants with about 24 percent of the nearly 45 million foreign-born residents. Compared with other immigrant populations in the USA, Mexican-born individuals tend to be long-time U.S. residents, with more than two decades of residency. However, since more than 60 percent are unauthorized Mexican immigrants, fewer seek to be naturalized U.S. citizens than other groups. They are also more likely to live in poverty and less likely to have health insurance than the overall immigrant population.

Sasnal (2018) considers six actions for taking full advantage of what migration has to offer to countries of origin, transit, and destination. Among those actions, the most relevant to our study are two: the involvement of states in an agreed normative framework for governance and the adoption of the standards and norms for managing migration on a safe, orderly, and regular basis.

This document presents the findings of a qualitative, exploratory, and descriptive analysis resulting from interviewing Mexican immigrants working in the United States of America. We carried out this study in December 2019 as part of the third stage of our research program. Data gathering was held on the night of December 19th, 2019 in the city of Laredo, Texas from a group of individuals who were waiting to cross the International Bridge from Laredo, Texas to Nuevo Laredo, Mexico. Those individuals were on their way to visit their families in Mexico for the Christmas celebration and were driving from different cities in the USA to the crossing point.

The instrument used to interview the immigrants was an 80-item survey developed in a previous research stage: The twelve core competencies in the job profile of Mexican immigrants to the USA (Herrera & Gonzalez, 2019). The research outcomes are perceptions regarding 31 individuals' labor competencies gathered through 12 core competencies factors. We collected their comments, experiences, and perceived feelings while working and living in the USA.

The study findings provide a picture of the immigration diagnosis, as well as key information to address binational migration programs in the US and Mexico. Managers, policymakers, and government officials of both countries could develop legal processes to regulate labor migration for basic and specialized competence profile of Mexican workers. This article is structured as follows. We begin with a literature review. Then, the methodology is detailed. We follow with the presenting of our findings. We finish by deliberating our conclusion and opportunities for future research.

## LITERATURE REVIEW

### Migration from Mexico to the United States

The first massive migration wave from Mexico to the U.S. surged in the 1900s. The Mexican Revolution and a strong U.S. economy brought a tremendous increase in immigration rates. The United States Census Bureau estimates that from 1910 to 1930, the number of Mexican immigrants tripled from 200,000 to 600,000. According to Massey (et. al., 2002 in Hirschman, 2014), the second migration wave from Mexico to the United States of America (USA), both legal and not documented, surged after the Bracero Program, which was a temporary farm worker program that ended in 1964. The United States and Mexico share almost 2000 miles of border, so the bordering states are the most immersed in migration issues.

Currently, an estimated 11 million Mexicans live in the U.S., representing 30% of all U.S. immigrants (Hirschman, 2014). This is an approximation because the real number is unknown due to the absence of a precise record of non-documented immigrants. Hirschman found that highly skilled Mexican immigrants are hired in universities and technology sectors, while the less educated ones are hired in agriculture, food processing, and manufacturing industries.

Peri (2010) found that occupations among more educated US-born workers tend to pursue jobs as managers, teachers, or nurses, while immigrants tend to pursue jobs as engineers, scientists, and doctors. Among the educated, US-born individuals tend to work in manufacturing and mining, while immigrants work in agriculture and services. In general, U.S.-born workers tend to specialize in communication tasks, while immigrants tend to specialize in other tasks, such as manual labor. He also affirms that immigrants expand the US productive capacity, and economy while stimulating investment, promoting job specialization, and boosting productivity with no effects at the expense of jobs for US-born workers. Peri believes that immigration implies great effort for assimilating to a different culture, including assimilation of the language, religion, food, as well as social and educational aspects.



Mexico and the United States have a long-standing need to address immigration regulation. In our view, the agenda needs to consider immigrants' ability to enter legally into the US labor force and match their labor competencies to the US labor market needs with the support of binational governmental organizations.

### The Competence-Based HRM Model: The Immigrants' Labor Competencies

According to Gan and Kleiner 2005 (in Herrera & Gonzalez, 2019), job descriptions help organize and classify the workforce. Defining the position's purpose provides "clearer expectations and responsibilities. After defining the purpose of the position, it will be easier for the job description writer to communicate the employer's expectations of the employee and the employee's responsibilities" (Gan and Kleiner 2005, in Herrera and Gonzalez, 2019). In the same context, Boyatzis (1982 & 2008, in Herrera & Gonzalez, 2019), stated that "a theory of performance is the basis for the concept of competency, "Maximum performance is believed to occur when the person's capability or talent is consistent with the needs of the job demands and the organizational environment".

Beata (2015) argues that a competency model is adaptable to different kinds of research. As Herrera and Gonzalez (2019) note, competency models may provide the framework for significant human resource development. They further argue that job description competencies must include the candidate's qualifications and professional skills. The competencies in academic background terms can be measured with the following levels: no education, primary, secondary, secondary vocational school education, bachelor, master, or Ph.D. degree. Professional skills can be measured in terms of experience, physical fitness and health, PC skills, physical load (muscular, static, dynamic), and psychological effects (stress, isolation, attention concentration, monotony). As part of the professional skills, they included a driver's license and a certificate of good conduct.

One of the precursors in this matter was David McClelland (1973, in Herrera and Gonzalez, 2019) who argued the best predictors of outstanding on-the-job performance were underlying, enduring personal characteristics addressed as "competencies". He stated that "competencies by themselves are insufficient for performance unless defined in behavioral terms." Vazirani (2010, in Herrera & Gonzalez, 2019) affirms that "although different sets of competencies predict success in different roles, there are certain consistent patterns as well". Then, he affirmed that "competencies form the base for effective and superior performance. There are at least five terms in this definition that require understanding: knowledge, skill, self-concepts and values, traits, and motives. Competence thus requires developing skills and knowledge and designing appropriate competency models that tie to current roles and anticipate future skill requirement".

Later, Dubois (1993) posited that competency models are the best approach to help organizations design an effective Human Resource Management (HRM) System. In the same stream, Fogg (1999) said that in any organization or industry, the behavioral job description is a tool to point out the competencies required for a particular job or occupation. Parallely, Shippman said that a job description is generally composed of 7 to 9 competencies.

A precursor in this matter was Boyatzis (1982 in Herrera and Gonzalez, 2019), who stated that a theory of performance is the basis for the concept of competency, "Maximum performance is believed to occur when the person's capability or talent is consistent with the needs of the job demands and the organizational environment." Later, he (2008) stated that "the construction of the specific competency is a matter of relating different behaviors that are considered alternate manifestations of the same underlying construct. But they are organized primarily or, more accurately, initially by the similarity of the consequence of the use of these behaviors in social or work settings". He also affirms that the competencies are the most helpful focal point for the description and study of job performance and that the design of the jobs and roles must

include factors like culture and climate, structure and systems, maturity of the industry, and strategic positioning, as well as economic, political, social, environmental, and religious influences.

In a previous stage of this study, we designed a 12-core competencies model (Herrera and Gonzalez, 2019) to measure and determine the job profile of Mexican immigrants to the USA. The 12 competencies were linked to factors. This characteristic of decomposition in factors allows a clear identification of the labor profile.

The 12 core competencies are “Academic training/profession, Adaptation to labor environments, Acculturation, Specialized equipment handling, Capacity to perform in conditions of risk or extreme effort, Self-management of continuous education, Communication in the English language, Management of information and communication technologies, Entrepreneurship, Decision making, Career planning and Capacity to identify conditions of improvement.” Table 1 shows the 12 core competencies in the job profile of Mexican immigrants to the USA adopted from Herrera and Gonzalez (2019).

Table 1: Competencies in the Job Profile of Mexican Immigrants to the USA

Competencies in the Job Profile of Mexican Immigrants to the USA	
I	Academic Training / Profession
II	Adaptation to Labor Environments
III	Acculturation
IV	Specialized Equipment Handling
V	Capacity to Perform in Conditions of Risk or Extreme Effort
VI	Self-Management of Continuous Education
VII	Communication in English Language
VIII	Management of Information and Communication Technologies
IX	Entrepreneurship
X	Decision Making
XI	Career Planning.
XII	Capacity to Identify Conditions of Improvement

*This table presents twelve competencies for a Mexican immigrants’ profile. These Competencies groups knowledge, skills, and aptitudes that together allow an individual to develop a concrete activity or group of them successfully. Adopted from Herrera and Gonzalez (2019).*

This model includes an 80-item questionnaire designed to link the 12 competencies to the factors that allow us to measure each of them. In the Appendix section of the referred paper (Herrera and Gonzalez, 2019), noted from A to L (p. 73-76) presents the questions that correspond to each competence.

In the frame of the current study, we conducted a qualitative study by applying the competencies 80-item questionnaire under a survey format. Thirty-one Mexican immigrants were surveyed. The purpose was to gather information about their labor competencies. We believe the outcomes of this study will provide a picture of immigrant labor competencies, issues, and needs, as well as key information to address binational public programs. Through its application, managers and government officials in the USA and Mexico could develop schemes to regulate labor migration.

## DATA AND METHODOLOGY

The third stage of our study was programmed to start in December 2019 to conclude by May 2020. Originally, this third stage consisted of the application of the 80-item questionnaire in survey format (Herrera and Gonzalez, 2019), to Mexican individuals working and living in the US, mainly in the Rio Grande Valley (RGV) area, which is located in the South of Texas border with Mexico.

We were at a point when the pandemic affected the continuation of this research stage. Even though, before the pandemic shut down the survey down, on the night of December 19th, 2019 we were able to gather information from a group of documented Mexican immigrants and Mexican American citizens (who entered the US as immigrants, when most of them were non-documented) by interviewing them in the city of Laredo, Texas. These individuals, who migrated from Mexico to the US in the last 40 years were on their way to visit their families in Mexico for the Christmas holiday. They were driving from different cities in the USA to gather at the *Caravana del Migrante 2019* border meeting point, to cross the Juarez II International Bridge, from Laredo-New Laredo, México.

It is important to mention that every December on a specific agreed-upon date and cities, Mexican immigrants and Mexican American citizens along the USA, cross the border to Mexico to travel in caravans to their hometowns. Regularly they stay for a maximum of four weeks in Mexican territory and then come back to the USA. They interrupted this yearly trip in 2020 and 2021, and the fluence of them in 2022 was low.

The original plan for gathering information was the survey application, but since most of the individuals were hurried and impatient with the paperwork of filling out the immigration forms and paying the tax fares, we decided to gather the information through interviews based on the questionnaire. The interviewees were randomly selected from the individuals that were parked at the crossing point.

A total of 31 interviews were conducted and analysis of the responses allowed us to conduct a qualitative study which is presented in the current paper. The purpose of this qualitative study is to explore the Mexican immigrants' labor competencies, by applying the 12-core competency-based model in its 80-item questionnaire format to 31 individuals. This is an exploratory study that focuses on a qualitative description of the immigrants' competencies and does not include quantitative statistical analysis. Currently, a fourth stage of this study is being conducted, and its goal is the completion of a valid number of surveys to proceed with the statistical analysis originally planned for the third stage.

## RESULTS AND DISCUSSION

The interviews measured “standard behaviors” that, in concordance with Vazirani’s model (2010), reveal potential assessments of competencies. This section shows the interview results. Interviewers gathered the answers to the items under each competence but also other information the interviewees shared and is presented under each section. The results are presented in a qualitative, descriptive and exploratory format.

### Demographics

The first section presents the interviewees’ demographics, including migratory status, and other relevant information. Table 2, from Herrera and Gonzalez (2019) shows the 7 items that were used to gather this information.

Table 2: Demographic Data

Demographic Data	
1. Where are you from?	City: _____ State: _____
66. What is your year of birth?	_____
67. What is your gender:	Female _____ Male _____
77. Do you have children?	Yes ___ No ___
78. And if so, how many?	_____
79. How many of your children were born in Mexico?	_____ or in the USA? _____
80. What immigration status in the USA do you currently have?	
	Resident / Green card _____ DACA _____ Citizen _____
	Tourist Visa _____ Not documented _____ Other _____ if so, which? _____
	Prefer not to say _____

*This table shows 7 items that provide Demographic Data. Adopted from Herrera and Gonzalez (2019).*

The interviewees lived and worked in the USA, mainly in cities along the East Coast. They were driving from their current domiciles for one to three days to reach the gathering point, which was Laredo, Texas.

Since many of them live in large cities, airports are a good option for them, but they decided to drive their vehicles for the following reasons: they were planning to stay for two to three weeks in Mexico; they were traveling with their family, friends, and/or acquaintances from the same hometown; besides their luggage, they were carrying new and used bikes, tires, electronic and domestic appliances, toys, gym equipment, and other artifacts, mainly for their parents, family, and relatives in Mexico. A few of them sold the products in their hometowns.

Regarding the question about their migratory status, respondents all reported being originally Mexican. From this group, the majority indicated they were taking advantage of the US government’s actions that allowed them to regularize their migratory status. Most of them reported they got permanent resident/citizen status after working in the US for 10 to 20 years under the non-documented status. Few individuals said they are permanent residents (green card holders) or citizens of the US, after passing the corresponding administrative process by taking the son/daughter of a permanent resident/citizen option, once their parents got a legal migratory status. A few of the individuals did not answer this question.

We assume that all individuals participating in this study were documented and are working legally in the US because they all said that were planning to come back to the US by the end of January (which implies to cross with their vehicles through official roads/bridges from Mexico to USA).

Our assumption lies in the fact that they were about to cross the US-Mexican border in American-registered vehicles, besides American and Mexican customs authorities and catholic priests (local from the US and some from their Mexican provinces), were helping them to register in the *Virgen de Guadalupe Immigrants Caravan* (also known as *Caravana del Migrante*), and they were in the process of toll and tax payments.

Five-sixths of the interviewees were men, and the rest were women. The age range for most of the interviewees was 30-50 years old. Those over 50 years old were paired with someone in the range of 20-30. Interviewees reported being householders in the US. Half of them were traveling with their spouses/partners and children. Most of their children living in the US are born American citizens and generally the first and/or second child was/were born in Mexican territory. Another relevant fact due to cultural reasons is that many male immigrants in the sample said that they have children in Mexico from their first marriage, and the children traveling that night with them are common children with their current partner. The range of children per interviewee was 2-5.

Interviewees were natives of different provinces in the Mexican territory. The closest one to the crossing point is 400 kilometers, and the farthest one is 1600 kilometers. Most decided to join the *Caravana del*

*Migrante* to take advantage of the group administrative process and fares negotiated in advance by the caravan leaders. They reported distrust of the customs Mexican authorities for determining the import taxes for the products that they were carrying as well as for the vehicle permit fares to allow them to drive their American cars in Mexico. Besides, by being in the caravan, the risk of being assaulted is much less.

### I-Academic Training / Profession

The interviewees' academic training and profession were explored with the questions under Competence I: Academic Training/Profession shown in Table 3 (Herrera and Gonzalez, 2019).

Table 3: Competence I-Academic Training/Profession

<b>I. Academic Training/Profession</b>
2. What is your job? _____
3. Where do you work? City: _____ State: _____
5. Have you worked in another profession/trade? Yes ___ No ___
6. If so, which? _____
7. Where? In Mexico _____ or USA _____
8. What completed studies do you have? Elementary School ___ Middle School ___ High school ___ Bachelor ___ Master ___ PhD ___ Other ___ in which are your studies? _____
9. Where did you learn/study your trade or profession? Mexico _____ USA _____
10. Who taught you that trade or profession? Teachers _____ Parents _____ Relatives _____ Friends _____ Others ___ if so, who? _____

*This table shows 8 items that are used for the assessment of Competence I, Academic Training/Profession. Adopted from Herrera and Gonzalez (2019).*

The interviewees' jobs in the US were mainly in maintenance, cleaning, gardening, trucking, factory working, plumbing, furniture upholstery, childcare, sanitation, construction, carpenter, teaching, teaching assistant, nursing (registered nurse, nurse assistant), health care providers, and dentistry.

Since the individuals were crossing through Laredo city, most of them are living on the East Coast and the central East states of the US. We found that they are working and living there because a family member, relative, or friend recommended the city and introduced them to their first employer.

Most respondents reported they were practicing another profession when living in Mexico and had to learn their current profession in the USA. They did not receive any training from their employees, but the family members, relatives, or friends who invite them to work take the responsibility for training them. For the professions that require certification (teachers and medical or medical-related professions), they enrolled in courses and approved the required certifications for working with their own resources.

Except for those working as teachers, medical and medical-related professions, respondents did not know the process of getting their transcripts from any of the certified organizations to do so in the USA.

Most professions worked by the interviewees do not require a secondary or postsecondary degree. As a result, they did not find it necessary to study under any formal program in the US.

### II-Adaptation to Labor Environments

Table 4 shows six items that used for the exploration of Competence II, Adaptation to Labor Environments (Herrera and Gonzalez, 2019).

Table 4: Competence II-Adaptation to Labor Environments

II. Adaptation to Labor Environments	
11. How long have you been working in the USA?	_____
12. What are the ideal cities to work in the USA? (Named up to three)	_____
13. Why?	_____
14. How many times have you entered the USA?	_____
15. In what year was your first entry?	_____
43. Have you a driver's license? ... American? <input type="checkbox"/> Mexican? <input type="checkbox"/> Both? <input type="checkbox"/>	

*This table shows 6 items that are used for the assessment of Competence II, Adaptation to Labor Environments. Adopted from Herrera and Gonzalez (2019).*

In the process of adaptation to labor environments, the interviewees said their family members, relatives, friends, and co-workers were key to their adaptation to the workplace and labor environments. Those “padrinos” (good fathers) as they call them, introduce them to the employer and help secure their first employment. Some of them said that got an employment promise before coming to the US, and many reported getting employed within the first week of arriving.

Most indicated they were ready to learn a new profession to get a job as soon as possible and that accommodating employers' requirements was not a problem for them. Many indicated the key to finding and keeping a job is to work shifts that others do not want (the night one mainly) and be ready for overtime. Some of them said that working hard helps them relieve the pain of living apart from their family and away from their home. They all know the best places for working in the US from word of mouth. The criterion for classification is wage per hour and immigration restrictions. So, they assigned California the first place, Texas the second place, Illinois the third place, and New York City the fourth place.

### III-Acculturation

To gather information regarding the Acculturation competence, we used 13 items from Herrera and Gonzalez's (2019 in Baronas and Miller's, 1994) Short Acculturation Scale for Hispanic Youth (SASH-Y), shown in Table 5.

Most respondents said that they speak, think, sing, and listen to music in Spanish, in the workplace, and at home. Most of them reported a low or basic understanding of English and would like to learn more but had not found the means to do it.

Most relate with people from the same cultural background, which means they prefer Mexican and Latino friends, TV programs, music, and parties, extending those preferences from their child behaviors. Many interviewees complain because their children speak English to them. Many individuals reported feeling like Mexicans living in foreign territory, away from their people, and that after many years of living in the US, they are barely acculturated to America. Some even mention they would like to have the labor conditions of the US in their own country, so they could be working at “home”.

Table 5: Competence III-Acculturation

<b>III. Acculturation</b>						
<b>(Short Acculturation Scale for Hispanic Youth (SASH-Y) taken from Barona and Miller, 1994).</b>						
Answer the next questions, circling the number that you most agree, according to the scale:						
	1 (very weakly identified)	2	3	4	5	6 (highly identified)
44. How much do you identify with American culture?	1	2	3	4	5	6
45. How much do you identify with Mexican culture?	1	2	3	4	5	6
Answer the next questions, circling the number that you most agree, according to the scale:						
	5. Only Spanish					
	4. Spanish is better than English					
	3. Both equally					
	2. English better than Spanish					
	1. Only English					
46. In general, what language (s) do you read and speak?	1	2	3	4	5	
47. What was the language (s) you used as a child?	1	2	3	4	5	
48. What language (s) do you usually speak at home?	1	2	3	4	5	
49. In which language (s) do you usually think?	1	2	3	4	5	
50. What language (s) do you usually speak with your friends?	1	2	3	4	5	
51. In what language (s) are the TV programs you usually watch?	1	2	3	4	5	
52. In what language (s) are the music you usually listen to?	1	2	3	4	5	
Answer the next questions, circling the number that you most agree, according to the scale:						
	5. All Latinos/Hispanic					
	4. More Latinos than not Latinos					
	3. About half and half					
	2. More not Latinos than Latinos					
	1. All not Latinos					
53. Your close friends are:	1	2	3	4	5	
54. You prefer going to social gatherings/parties at which people are:	1	2	3	4	5	
55. The person you visit or who you visit are:						
56. If you could choose your children's friends, you would want them to be:	1	2	3	4	5	

*Short Acculturation Scale for Hispanic Youth (SASH-Y). This table shows 13 items that are used for the assessment of Competence III Acculturation. Adopted from Herrera and Gonzalez's (2019 in Barona and Miller's, 1994)*

**IV-Specialized Equipment Handling**

Table 6 shows four items used for the exploration of competence IV, Specialized Equipment Handling (Herrera and Gonzalez, 2019).

Table 6: Competence IV-Specialized Equipment Handling

<b>IV. Specialized Equipment Handling</b>
16. What equipment do you use to do your work? _____
17. What machines do you use to do your work? _____
18. What tools do you use to do your work? _____
19. What instruments do you use to do your work? _____

*This table shows four items used for the assessment of Competence IV, Specialized Equipment Handling. Adopted from Herrera and Gonzalez (2019).*

Interviewees know how to handle a cutter, saw, drill, and sandpaper (mainly for construction); industrial machinery, lift trucks (factories), scissors-hoe-mower (gardening) and broom-mop (cleaning); trailer trucks, hammer-pliers-screwdriver (maintenance) and cutter-jointer industrial machinery (manufacturing factories); medical equipment; and Learning Management Systems and internet platforms.

V-Capacity to Perform in Conditions of Risk or Extreme Effort

Table 7 shows six items used for the exploration of competence V, Capacity to Perform in Conditions of Risk or Extreme Effort (Herrera and Gonzalez, 2019).

Table 7: Competence V-Capacity to Perform in Conditions of Risk or Extreme Effort

<b>V. Capacity to Perform in Conditions of Risk or Extreme Effort</b>
20. What is your work schedule, normally? Monday-Friday__ Monday-Saturday__ Monday-Sunday__ Other__ if so, which? _____ From _____ am/pm To _____ am/pm
21. In carrying out your work duties, do you face risks or need to use extreme efforts? Yes__ No__
22. What type of risks? _____
23. What type of extreme efforts? _____
24. In carrying out your work duties, do you face stress? Yes__ No__
25. if so, which level of labor stress? Minimum 1__ 2__ 3__ 4__ 5__ Maximum

*This table shows 6 items that are used for the assessment of Competence V, Capacity to Perform in Conditions of Risk or Extreme Effort. Adopted from Herrera and Gonzalez (2019).*

Interviewees reported working at least 8 hours a day with a maximum of 12 hours. They do not mind working different shifts and even rotating shifts if the employer needs them in non-regular, broken, or extended schedules. Many of them said they are here to make as much money as possible to pay for their living expenses and to send funds to their family and relatives in Mexico.

They reported risks and extreme efforts in the performance of their work. Among the main risks mentioned are cuts, burns, falls, run over, and accidents in general. Among the extreme efforts, they mentioned heavy lifting, working at heights, noise, standing for long periods, sleeping at modified times, and patience.

VI-Self-Management of Continuous Education and VII Communication in the English Language

Table 8 shows five items used for the exploration of competence VI, Self-Management of Continuous Education (Herrera and Gonzalez, 2019).



Table 8: Competence VI-Self-Management of Continuous Education

<b>VI. Self-Management of Continuous Education</b>
26. Have you had the opportunity to study in the USA? Yes ___ No ___
27. if so, what? _____
28. Would you like to study or take a class? Yes ___ No ___
29. If so, where would you like to take it? Mexico _____ USA _____
30. What studies or classes interest you? _____

*This table shows 5 items that are used for the assessment of Competence VI Self-Management of Continuous Education. Adopted from Herrera and Gonzalez (2019).*

Table 9 shows six items used for the exploration of competence VII, Communication in English Language (Herrera and Gonzalez, 2019).

Table 9: Competence VII-Communication in English Language

<b>VII. Communication in English Language</b>
31. Do you speak English? Yes ___ No ___
32. Do you read English? Yes ___ No ___
33. Do you write English? Yes ___ No ___
34. Have you taken English classes? Yes ___ No ___
35. If so, where? México _____ USA _____
36. Named the school/institution _____, City _____ State _____

*This table shows six items used for the assessment of Competence VII, Communication in English Language. Adopted from Herrera and Gonzalez (2019).*

Not more than a third part of the interviewees can speak and read English, and just half of the individuals in this group can write in English because they were taking some classes to learn the English language in the US.

Most reported a high interest in learning English under formal courses. But indicated they were not offered by means for learning English by the employer, coworkers, local governments, and the federal governments from both countries (Mexico and the USA). They were also not offered training in other areas like electricity, mechanics, or welding.

A few of them mentioned the local community colleges as the source for helping them continue with their education (say the certifications required for working or the English language). This last group (mainly when living in California) found education options by themselves when searching for paths to improve their competencies. Just a few report no interest in taking classes of any type, arguing that they were almost retired, and when living for more than 20 years under these restrictions on communication and training for their professions, they can continue like that for a few more years.

#### VIII-Management of Information and Communication Technologies

Table 10 shows six items used for the exploration of competence VIII, Management of Information and Communication Technologies (Herrera and Gonzalez, 2019).

Table 10: Competence VIII-Management of Information and Communication Technologies

VIII. Management of Information and Communication Technologies
37. Do you know how to handle computer programs? Yes ___ No ___
38. Which ones (name the most important ones, up to three)? _____, _____, _____
39. Do you use those computer programs in your work? Yes ___ No ___
40. Do you have an email account? Yes ___ No ___
41. Do you have a Facebook account? Yes ___ No ___
42. Do you have a smartphone? Yes ___ No ___

*This table shows 6 items that are used for the assessment of Competence VIII, Management of Information and Communication Technologies. Herrera and Gonzalez (2019).*

All the interviewees reported having a smartphone; no more than a third of them have an email account; no more than a fifth of them have a Facebook account and use a computer in their daily work.

IX-Entrepreneurship and XI Career Planning

Table 11 shows eight items used for the exploration of competence IX, Entrepreneurship (Herrera and Gonzalez, 2019).

Table 11: Competence IX-Entrepreneurship

IX. Entrepreneurship
4. Are you self-employed? Yes ___ Not ___ If so, do you work for a small ___, medium ___, or large business ___?
57. Have you attempted, or would you like to open a business in the USA? Yes ___ No ___
58. If so, what kind? _____ and where? City _____ State _____
63. If you return to Mexico, would you intend to continue working? Yes ___ No ___
64. If yes, what would you do for work? _____
65. Would you like to start a business in Mexico? Yes ___ No ___
66. What kind? _____
67. Where? City _____ State _____

*This table shows eight items that are used for the assessment of Competence IX, Entrepreneurship. Herrera and Gonzalez (2019).*

Table 12 shows three items used for the exploration of competence XI, Career Planning (Herrera and Gonzalez, 2019).

Table 12: Competence XI-Career Planning

XI. Career Planning
59. Do you plan to retire in the USA? Yes ___ No ___
60. Do you plan to return to Mexico to stay? Yes ___ No ___
61. In case you plan to return to Mexico, would you do it before _____ after _____ you retire and get benefits or pension from the USA?

*This table shows three items that are used for the assessment of Competence XI, Career Planning. Herrera and Gonzalez (2019).*

Approximately a fourth interviewees were small business owners in the US, mainly in painting, gardening, maintenance, preparation and sale of Mexican food. Another fourth of them wish to start their own business in the US in trucking, grocery stores, and most of the areas listed in the previous sentence. They said that large cities are best for business.

Approximately half of the interviewees reported that once they retire, they will return home to Mexico. From those, most said they will start their own business in cattle raising, carpentry, agriculture, grocery stores, and trading merchandise from the US to Mexico.

X-Decision Making and XII Capacity to Identify Conditions of Improvement

Table 13 shows three items used for the exploration of competence X, Decision Making (Herrera and Gonzalez, 2019).

Table 13: Competence X-Decision Making

<b>X. Decision Making</b>
62. If you had similar job conditions and salary, where would you choose to work? México _____ USA _____
70. What were the main reasons that made you migrate to the USA? (List up to three). _____
71. What reasons would make you return to your place of origin or to another city in Mexico? (Name up to three). _____

*This table shows three items used for the assessment of Competence X, Decision Making. Herrera and Gonzalez (2019).*

Table 14 shows five items used for the exploration of competence XII, Capacity to Identify Conditions of Improvement (Herrera and Gonzalez, 2019).

Table 14: Competence XII-Capacity to Identify Conditions of Improvement

<b>XII. Capacity to Identify Conditions of Improvement</b>
72. What kind of SUPPORT from the Mexican government or other institutions would you like to be offered if you were to reside in Mexico in the future? _____
73. And what kind of SUPPORT from the Mexican government or other institutions would you like to be available to you if you were to continue to reside in the USA? _____
74. Have you used the services of a Mexican Consulate in the USA? Yes ___ No ___
75. Have you used the services of a Mexican Migrant support Institute? Yes ___ No ___
76. Have you used the services of an American Migrant support Institute? Yes ___ No ___

*This table shows five items used for the assessment of Competence XII, Capacity to Identify Conditions of Improvement. Herrera and Gonzalez (2019).*

Most interviewees indicated they migrated to the US because they lacked opportunities in general in Mexico, they were unemployed, or the available employment only afforded a low-life quality of life for their families (not enough meals to feed, lack of school, and no medical service, mainly). Another relevant reason for many of them to migrate, especially for the young ones, was the lack of safety in their hometowns due to the producer and drug dealer gangs that were forcing landowners to change their traditional agricultural activities for sowing and harvesting drug base plants or to get involved in the “narco” activities by force.

Most had family living in Mexico and a few, because of their affection for their home country, are planning to return to their hometowns after retirement. The rest said they will continue living in the US and will go to Mexico for vacation, weddings, baptisms, funerals, Christmas, and other religious celebrations.

Most of the interviewees said if they had had in Mexico the labor opportunities they currently have in the US, they would have stayed in Mexico, especially because they suffer from discrimination, bad treatment (including the label of criminals and rippers), worse labor conditions than the rest of the workers, the separation from their family (many of them for all the time living in the US and few for an initial period while they earn enough for pay “a pollero” to move their family members to US), the lack of understanding

of the US culture and missing of their own culture. They said that if the Mexican government heard them, they would request, while living in the US, issuance of official documents by Mexico and courier services between both countries, legal advice for US legal procedures (especially for pension purposes), mortgages, loans, and financial support to start their small businesses in the US (many of them lack credit history in the US).

Finally, they said that if the Mexican government heard them, for returning home now or after retirement, they would request availability for loans (they lack credit history in Mexico), counseling and economic support for the startup of a small business, employment opportunities, and safe conditions for living and working (free of “narco” gangs, where they integrity and their family members integrity be assured).

## CONCLUDING COMMENTS

The United Nations Population Division estimates that in 2019 the United States was the destination of 97 percent of Mexicans living abroad. Since migration between Mexico and the United States is a natural and recurrent phenomenon that will continue for future decades, we believe it requires the creation of a broad and consensus-based migration agenda for both countries to find formulas and solutions to confront multiple challenges and opportunities, including the perspective of human resource management.

The goal of this paper is to diagnose the competencies of 31 documented Mexican immigrants living and working in the USA. Consistent with Beeson (2014) we find identifiable and measurable competencies, constitute a reference for providing policymakers, civic leaders, and the public with the facts and figures needed to design policies and programs that increase the economic potential of immigrants in border labor markets.

Data for this qualitative, exploratory, and descriptive study was conducted on the night of December 19<sup>th</sup>, 2019 through 31 interviews with Mexican individuals working and living in the US. Results do not include any statistical analysis. The interview was based on an 80-item questionnaire, framed by the 12-core competency-based model (Herrera and Gonzalez, 2019). The goal was to explore the Mexican immigrants' labor competencies.

Interviewees were randomly selected from the individuals that were parked at the *Caravana del Migrante 2019* meeting point, in Laredo, Texas, USA. They were driving from different cities in the USA to cross the Laredo-New Laredo International Bridge to reach their hometowns and stay there during the Christmas holidays.

Interviewees reported they work in the USA in maintenance, cleaning, gardening, trucking, factory working, plumbing, furniture upholstery, childcare, sanitation, construction, carpenter, teaching, teaching assistant, nursing (registered nurse, nurse assistant), health care providers, and dentistry. Most interviewees indicated that in the USA they work in a new profession, different from what they were working in Mexico. They are not using their previous labor competencies in their current professions and new competencies to find a job in the USA. They did not receive any formal training from their employees, or any Mexican-USA organization. Neither their employers nor organizations in the USA or Mexico let them know about the transcripts and certification processes to use their previous labor competencies and training in the USA.

In Adaptation to Labor Environments, interviewees said that no governmental or organizational actions were taken to help them find a job. The best places for working are identified by word of mouth. The average time for starting work is two weeks. Interviewees said their family members, relatives, friends, and co-workers were key to their adaptation to the workplace and labor environments. They consider that being available for work in any profession, shift, schedule, and place is key to finding and keeping a job.

Most interviewees do not hold the competencies for acculturation into the American culture. They continue speaking Spanish at home and at their workplace and mainly interact with Latino Spanish speakers. Their children support them as translators in personal and working environments, but contradictory feelings arise when they realize their kids are losing their roots. Most of them said they are missing their hometowns, food, family, and relatives, and the feeling of being foreigners is always present in their lives.

According to their professions, they have the competencies for handling the following equipment: cutter, saw, drill, and sandpaper (mainly for construction); industrial machinery, lift trucks (factories), scissors-hoe-mower (gardening) and broom-mop (cleaning); trailer trucks, hammer-pliers-screwdriver (maintenance) and cutter-jointer industrial machinery (manufacturing factories); medical equipment; and Learning Management Systems and internet platforms.

Interviewees have the competencies to perform in conditions of risk or extreme effort, like working different shifts, from 8 to 12 hours a day, in non-regular, broken, or extended schedules. The most common risks they face are cuts, burns, falls, run over, and accidents in general. Extreme efforts reported were lifting heavy items, working at heights, noise, standing for long periods, and sleeping at modified times.

Regarding the self-management of continuous education and communication in the English language, less than a third of the interviewees can speak English as beginners and a fourth can read it. This group said they were taking some classes to learn the English language in the US. The rest said they would like to learn English under a formal program but have not found the means to do it. They affirm that neither the employers, nor the local, state, or federal government in the US or Mexico help them with the language courses or training in the profession field.

Most interviewees lack competencies in the management of information and communication technologies. No more than a third of them have an email account and no more than a fifth of them have a Facebook account and use a computer in their daily work.

A fourth of the interviewees possess entrepreneurship competencies since they are owners of small businesses, mainly in painting, gardening, maintenance, and preparation and sale of Mexican food. Another fourth of them wish to start their own business in the US in trucking, grocery stores, and most of the areas listed in the previous sentence. They said the best cities for business are the big ones.

On average career planning competencies of the interviewees are high since half of them reported they will start a business in Mexico when they retire in the US. The most popular businesses they are interested in are cattle raising, carpentry, agriculture, grocery stores, and trading merchandise from the US to Mexico. Regarding the decision-making competencies, interviewees' decision to immigrate to the US was based on the low rates of employment, the lack of safety, and the lack of opportunities in their home country. The interviewees' capacity to identify conditions of improvement is tangible. Interviewees said they would remain in Mexico if they had the labor opportunities they currently have in the US would hope to avoid discrimination, bad treatment, and marginalization present in the U.S.

Another condition of improvement they identify is support the Mexican government offers to them. They would like to see Mexican offices in US territory offer bidirectional courier services as well as the issuance of official documents. They reported urgently needing legal advice to regularize their migratory status in the US, advice on financial matters, and on legal procedures to get their pension when they retire. They mentioned that if the Mexican government heard them, they would request support for planning their return to their hometowns after retiring in the US, and the most popular needs they mentioned were counseling and availability of loans for startup small businesses, employment opportunities, and safe conditions for living and working.

The research results may be used as a parameter for researchers and policymakers to design and implement policies and programs for the regulation of migration on both sides of the US-Mexico border based on a measurable job profile of the immigrants. The development of legal schemes intended to regulate labor migration for the basic or specialized competence profile of Mexican workers may be designed, for labor insertion and reinsertion of on both sides of the US-Mexico border.

The main limitation of this research is the lack of precise and real data about indicators related to immigration from Mexicans to the US. A second limitation, and probably the most important, is the bias that may cause the attitude of distrust, fear, and segregation among Mexican immigrants, either documented or not documented.

The key opportunity of our research is that managers and politicians can focus on Mexican immigrants as a source of human resources for a wide variety of firms, as well as macro human capital management in both the sender and receiver migration countries (i.e., Mexico and the USA). Future research with a larger sample and a quantitative analysis will diminish bias in the gathered responses.

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# **RELATIONSHIP BETWEEN EXECUTIVE COMPENSATION, ECONOMIC VALUE ADDED, AND ACCOUNTING PERFORMANCE MEASURES: EVIDENCE FROM CANADIAN LISTED COMPANIES**

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## **ABSTRACT**

*This research paper examines the relation between executive compensation and value-added performance measures Economic Value Added, Market Value Added and accounting performance measures Earnings Per Share, Return on Assets, Return on Equity and Tobin's Q. The results of this empirical analysis demonstrate that there is a significantly relation between executive compensation and Economic Value Added and Market Value Added but a weak and mild relationship with accounting return measures This empirical research is used data of 226 firms which are listed on the Toronto stock exchange for the years 2014-2018 using panel regression methodology.*

**JEL:** G32, G34

**KEYWORDS:** Economic Value Added, Executive Compensation, Market Value Added, Return on Asset, Return on Equity, Earnings Per Share, Tobin's Q

## **INTRODUCTION**

The foundation for compensating executives has been studied comprehensively in corporate finance as maximizing shareholders wealth is the paradigm of corporations. Under the empirical study of corporate governance literature; the relationship between key financial performance indicators of a firm and executive pay has been amongst one of the most broadly studied question (Frye, 2004; Jensen & Murphy, 1990; Murphy, 1999; Rosen, 2000). According to Johnson et.al (1985), Stewart(1991) and Ehrbar(1999), accounting measures such as earnings per share (EPS), return on assets (ROA) and return on equity (ROE) has been historically considered as leading indicators of shareholders wealth measurement. Most studies that explored managerial pay and firm's performance have used accounting performance measures ROE&ROA and these measures do not account for the risk taken by the firm's managers who search for growth and profitability (Shiely,1996). Managerial pay and remuneration linked to accounting measures are somewhat obscured by the traditional accounting measures as these measures are not accounted for firm's risk (Lehn & Makhija,1996; Stewart,1991). Firm's wealth is created when earnings are exceeded as compared to the cost of equity and debt capital employed. Value based measurements of firms business performance has its theoretical roots in economic profit, a measure accounted for the opportunity costs (Jakub et al , 2015). Economic Value Added (EVA<sup>®</sup>) is metric, an intrinsic value-added measure, a variant of residual income developed by Stern Stewart & Co. Stewart (1991) introduced another measure of shareholders value called "Market Value Added"(MVA). EVA has been preferred as performance measure and

as an instrument for evaluating executives (Coles et al., 2001). EVA is the internal risk adjusted measure of performance that considers the weighted average cost of capital of a firm; it yields positive result if the organization earns after-tax operating returns that exceed the cost of capital. MVA is associated with the EVA; theoretically, it is the present value of all the expected (or estimated) future EVA.

The linkages between EVA, MVA and Executive Remuneration has been majorly understudied and scrutinized in the Canadian listed companies at Toronto Stock Exchange. The study about executive compensation became possible in Canada only after 1993, where all the publicly traded enterprises were obligated to report the managerial remuneration under the Ontario Securities Regulation. Zhou (1997) acknowledged a positive relationship between executive pay and accounting performance measures of the firm for Canadian Enterprises. Several studies over the decades have already well-established the link between managerial pay and performance of the firm corroborating that managerial pay is tied to the accounting financial performance measures of the entity (Coughlan & Schmidt, 1985; Murphy, 1985; Jensen & Murphy, 1990). Although, a major chunk of the previous researches and studies from applied corporate finance are based on the findings of the pay-performance relationship; it becomes evident to divulge the incentive strength of executive compensation and value-added performance measuring indicators such as EVA and MVA. The purpose of the study in examining relationship between Executive compensation and shareholders wealth creation metrics EVA & MVA and accounting profitability metrics on S&PTSX listed companies, has become very significant with the controversy surrounding executive pay rise by Bombardier Inc. at a time when its stock price was taking downward spiral. The rest of the paper is organized as Literature review, Conceptual framework, Data and methodology, Results & Analysis and Conclusion and recommendations.

## LITERATURE REVIEW

According to shareholders theory, maximizing shareholders value is the fundamental goal of the firm's management, overtaking the precedence of interest of stakeholders such as society, customers, suppliers and employees. Shareholders theory contends that corporation's asset owners are shareholders and thus managers should give high priority in protecting these assets and grow, yielding positive results to the shareholders (O'Connell, M., Ward, A.M.,2020). On the contrary stakeholder's theory, proclaims that business operates in societal settings and hence managers have to act responsibly to both shareholders and stakeholders who are either directly or indirectly bear the potential risks and rewards. Managers needs to ensure the broader interest of stakeholders in their decision making, thus not violating stakeholders' rights and simultaneously pursue maximizing shareholders wealth.

The primary objective of business operations is value creation. It aims to satisfy stakeholders' general interests. Value added is important to shareholders because it allows them to get back their money invested and make the expected profit. Certain salary incentives encourage managers and other employees to act in the direction of generating value. The fact that this indicator is the primary condition for raising the standard of living and quality of life is what drives the general interest of the national economy in increasing the value created. As a result, the process of substantiating managerial decisions and investment options necessitates the identification of factors that can affect economic value added and the analysis of economic value added created by businesses. There are a variety of approaches that can be taken to evaluate a company's performance during the process of creating value; however, these approaches may occasionally provide information that is contradictory or only partially accurate. The indicator Economic Value Added is presented in the paper and can be utilized to evaluate the outcomes of implementation as well as support strategic and operational decisions.

Executive remuneration has been a confounded and dubious topic to be studied in the corporate finance. Over the years' policymakers, and academics have expressed their concerns towards high-end compensation packages being offered to the executives and whether they align with the interests of the

shareholders or investors. The objective of a well unbiased remuneration package to managers is to motivate, appeal, and maintain the interests of the shareholders. The standard economic principle to contemplate the executive compensation packages is the principal-agent concept. The model helps the organizations to design an efficient compensation package. Shareholders circuitously decide the pay through the compensation committee in the agency model. The offer is made to the agent by principal (shareholders) in the form of a contract. The efficacious contract is one which aims at maximizing the net expected economic value to the principal (shareholders) following the transaction costs, and other administrative costs (Core et al., 2003). The principal-agent theory also mentions about the perchance of conflicting interest between the principal and agent due the asymmetric information available which might lead to moral hazard. To avoid the conflicting interest of the agent and the principal, incentives (cash bonus, stock options, no-equity compensation, or pension plans) are attached as part of the contract which are paid off in accordance to the shareholders' wealth maximization. Jensen and Meckling (1978) determined that in a hypothetical case if a manager owns all the shares of respective firm; the manager is unlikely to maximize the worth of the organization. Travlos et al.,(2005) itemized that effective and efficient corporate governance is the key to minimizing the agency costs. Fama (1980) concurs that the efficient form of firm can be achieved if the ownership and control are segregated with clear distinct boundaries. Basu et al. (2007) concluded that as the strength of corporate governance grows strong the executive pay plummets. However, as indispensable the agency theory is; several academicians are skeptical about its validity. Bruce et al. (2005) criticized that the theory fails to articulate the sensitivity of pay-performance and which can be attributable to existence of various other problems presiding within the research itself.

Institutional Shareholder Services (ISS) primary pay-for-performance (P4P) tests, advocated for a single measure "Total Shareholders Return (TSR)" as a performance metric in executive pay (Stewart,2014). Subsequently in response to the criticism of this TSR metric, ISS proposed EVA as secondary quantitative test for P4P tests (Ira Kay, Marizu Madu and Phil Johnson,2020) Stewart (1991) in his seminal research, analyzed EVA and MVA linkages using US firms found strong influence of EVA on stock returns and a strong correlation between EVA and MVA. Later Lehn and Makhija (1997) analyzed correlations among financial performance measures using data from US firms found significant positive correlations between EVA and stock returns. Biddle et al (1997,1999) researched on comparison of stock returns and EVA, residual Income and operating cash flow from US companies for the period 1985-93, concluded that EVA is no superior than traditional accounting measures in stock returns. Machuga et al. (2002) found an evidence of linkages between EVA and future earnings of the firms in US firms, EVA is found to be more correlated with stock returns than residual income, ROE and net Cash flows in Australian firms(Worthington and West,2004).Examining EVA linkage with stock returns in comparison with accounting measures using firms from United Kingdom, found EVA does not explain better the stock returns than net profit after taxes, net income concluding that accruals and operating cash flows have a higher information value than EVA( Ismail,2006).

Information content tests indicated EVA is less information content to stock returns in Greek firms than accounting performance measures (Kyriazis and Anatassis,2007), whereas Taufik et al (2008) concluded EVA is superior to accounting measures ROE, ROA in firms listed at Jakarta Stock Exchange. Cucari et al (2016), examining CEO pay and shareholders return relationship from Italian stock market using panel data regression methodology between 2008-2014, found no significant relationship between CEO pay and stockholders return. Moreover, Kevin J. Murphy (1985) found a statistically positive relation between compensation and firm performance. Murphy data was based on panel data for 73 US manufacturing firms over the tenure of 1964-81. Since the evolution of the financial world a lot of new footings emerged which can influence the empirical study of field area. Tosi, Gomez-Mejia, and Hinkin clinched that Chief Executive's pay is more responsive to firms' performance in proprietor-controlled organizations with predominant shareholders. In yet another study by Conyon et al. (2000) determined that the executive pay is positively linked to the shareholder's return; not to EPS in the sample study of UK listed companies from the period 1985-95.Morris C. Attaway (2000) research is based on specific industry type to define the

relationship between executive pay and ROE (return on equity); the sample is based on 42 firms in the computer electronics segment from 1992-96. Morris concurred with his findings that there is a significantly positive relationship but with low sensitivity levels in the respective sector. Dan Eric Gabay (2005) also concludes the positive correlation between the chief executive remuneration and firm's performance. He articulates that the accounting performance indicator such as EPS is significantly correlated to long term as well as short term financial compensation offered to the chief executives. Fatemi, Katz, and Desai (2003) determine the relation between the market measures such as MVA, and EVA have a positive relation with executive compensation. Although, the MVA demonstrates statistically stronger correlation than EVA. Nevertheless, the links between the MVA and EVA were found to be better than the accounting performance indicators such as ROA. According to Kyriakou (2018) who opined "enlightened approach to shareholders' wealth maximization" in which shareholders are keen about welfare of society in addition to the financial gains and therefore shareholder's value creation is considered important coupled with shareholders wealth maximization. Doaei (2012) found a positive relationship between MVA and executive pay in his research using data from Tehran stock market. Yahyazadehfar et al (2010) examined relationship between accounting measures ROA, ROE, EPS and value added measures EVA and MVA, found that ROE, EVA are significantly influencing MVA. De Wet (2012) examined the relationship value added measures EVA, MVA and top management compensation in South African stock market found a significant relationship but found a stronger evidence of management compensation with ROE and ROA. However, few scholarly articles or journals address how strong and significant the correlation exists between the executive compensation and the value-added measuring metrics in Canadian publicly listed market which this paper will be addressing.

## DATA AND METHODOLOGY

Managers, the sole agents of the firm, they are expected to take business decisions in the best interest of the shareholders and thus creating wealth to all stakeholders. Its possible that managers may create earning stream of cashflows from projects not covering their cost of capital raised from lenders and equity owners leading to destruction of wealth while adding net income streams. On the contrary management may shun the project that can earn cost of capital just to enhance return on equity to protect stock holders. Thus, Stern Stewart & Co., proposed value-based measures EVA and MVA Economic value-added is the measure of the financial performance of any respective firm which is calculated by the product of Invested Capital and Weighted average cost of capital (WACC) subtracted from Net operating profit after taxes (NOPAT). Market value added (MVA) is measure of the wealth created by the firm since the inception of the company. It can be calculated by deducting Total Common shareholder's equity from Market Capitalization. Tobin's Q (TQ) is often used in analyzing the stock valuation and is expressed by the ratio of Total Market Value of the firm to Total Asset Value of the firm. EPS is ratio of firms' Net Income to average outstanding shares and is useful indicator of firms' profitability.

Data for this research is collected using Bloomberg database for 228 publicly traded companies listed in Canadian stock market tracked by S&PTSX equity Index. Accounting for missing data a total 226 companies is included in this study. Panel data is collected for the variables: Total Salary and compensation paid to executives (SALCOMP), Total Bonus (BONUS) paid to executives are collected for the fiscal years 2014–2018 from Bloomberg database. Yearly data for firms accounting performance variables: Return on Equity (ROE), Return on Assets (ROA), Earnings Per Share (EPS), Tobin's Q(TQ) and Value measures: Economic Value- Added (EVA) and Market Value-Added (MVA) are collected for the years 2014-2018. The panel data regression models used in the study are pooled, fixed effect, and random effect model. The pooled OLS regression model is a fit for the balanced panel data which is efficient when the error terms are homoscedastic and are not auto-correlated but the model assumes uniform error variance.

The fixed effect model is a fit for the panel data which treats the unobserved individual heterogeneity which

may be correlated to dependent variable. The model assumes that the correlation between individual heterogeneity and explanatory variable is non-zero. The model is useful for the panel data as it eliminates the individual effect ( $\alpha_i$ ) and yields time demeaned variables. The Random effect estimation model assumes the correlation between the individual-specific effect and explanatory variable is zero. The Panel Hausman test is used to find the appropriate model fit for the regression between the Fixed effect and Random effect estimation models. Panel data regression models are used to test the hypothesis using econometric software EViews.

*H<sub>1</sub>: Executive Compensation is positively related to firms value addition metrics EVA & MVA.*

*H<sub>2</sub>: Executive Compensation is positively related to firms accounting profitability measures.*

## EMPIRICAL RESULTS

Table 1 shows summary statistics of the data covering 203 companies for the years 2014-2018 of the Canadian publicly traded firms under study. For the sample companies the average(median) ROE was 7.95(9.40) whereas ROA was 2.49(2.62) indicates the firms are generating profits for its investors. The average(median) of EVA was -317.25(-10.04) whereas MVA was 31820.59(1091.20). It's possible that firms undertake risky projects, yielding negative EVA in the short run but positive EVA in the long run and MVA is positive as it indicates investors' expectations of firms' present value of future growth opportunities. Incidentally Tobin's Q and EPS have average(median) 1.63(1.25),1.07(0.64) respectively contributing to positive MVAs and hence positive BONUS and SALCOMP of the executives.

Table 1: Common Sample Descriptive Statistics

	EVA	BONUS	MVA	ROE	ROA	TQ	EPS	SALCOMP
Mean	-317.25	372,625.30	31,820.59	7.95	2.49	1.63	1.07	317,6215
Median	-10.04	0.00	1,091.20	9.40	2.62	1.25	0.64	2,807,618
Maximum	2,479.30	7,460,000.	824,940.40	142.21	31.59	11.77	9.56	10,610,000
Minimum	-15,841.71	0.00	-248,994.1	-89.77	-56.70	0.64	-11.18	584,218.1
Std. Dev.	1,847.43	1,095,659.	140,540.2	20.00	9.26	1.33	2.47	171,1049
Observations	226	226	226	226	226	226	226	226

*This table shows summary statistics of variables used in this research.*

To test the hypothesis  $H_1$  Bonus of executives are regressed on EVA and MVA. Results are shown in the Table 2. As F score is 18.12 with probability of F statistic being significant at 1% level the Model 1 is found to be significant. MVA and EVA coefficient are also found to be significant at 1% level indicating variables EVA and MVA are positively associated with Bonuses of executive compensation.

Table 2: Impact of Economic Value-Addition Indicators on Total Bonus Paid to Executives

<b>BONUS</b>			
	<b>MODEL 1</b>	<b>MODEL 2</b>	<b>MODEL 3</b>
	<b>Pooled</b>	<b>Fixed Effect</b>	<b>Random Effect</b>
C	236,727.1	211,975.4	222,172.9
EVA	-100.12 (0.008)*	-148.62 (0.0029)*	-122.57 (0.003)*
MVA	2.92 (0.00)*	3.20 (0.07)***	3.00 (0.00)*
R- Squared	0.1490	0.5335	0.1128
F- Statistic	18.12	3.94	12.97
Prob. (F-statistic)	0.00*	0.00*	0.00*
No. of Firms	226	226	226

*This table shows regression model: Impact of Economic Value-Addition Indicators on Total Bonus Paid to Executives \* represents the significance level at 1% , \*\*represents the significance level at 5% , \*\*\* represents the significance level at 10%*

Fixed effect and Random effect regression model were used to test the hypothesis  $H_1$  and the results are illustrated in the Model 2 & 3 respectively. To choose the model suitability Hausman test is used. Hausman test results shown in Table 3 suggest that Random effect regression model is appropriate.

Table 3: Test of Fitness for Significant Model

<b>Hausman Test</b>			
<b>Test Summary</b>	<b>Chi-Sq. Statistic</b>	<b>Chi- Sq. d.f.</b>	<b>Probability</b>
Cross-Section Random	0.9543	2	0.6206

*This table shows Hausman test results\* represents the significance level at 1% , \*\*represents the significance level at 5% , \*\*\* represents the significance level at 10%*

For Random effect regression Model 3, table 2, F statistic is significant at 1% level. Variable EVA and MVA are also significant at 1% level. The negative coefficient of EVA can be articulated in various scenario's where the executive is being rewarded for the introduction of innovative products to product line of the corporation or by merger and acquisition for market expansion and value addition to the shareholders. The introduction of product or acquisitions' both need to substantial financing often raised by external financing such as debts, and issuance of more equity. In this progression, the costs of capital employed will overweigh the Return on Invested Capital (ROIC) generated and dragging EVA of the respective firm down. A considerable amount of expenses is involved in post-merger, which includes but are not limited to restructuring costs, and regulatory approvals. In this progression the projects take significant amount of time to yield positive returns. Moreover, shareholders perceive these new investments as a positive signal indicating future growth investments and rewards the management with appreciation in the stock prices foreseeing the future growth and value addition to the shareholders. In such scenarios, the board of remuneration committee might find it deem worthy to compensate the executive's not for mere cost-cutting and producing the short-term earnings and yielding positive EVA at the end of financial year but in lieu of the future cash flows and the future growth opportunities for the firm which is statistically proved in the study by a positive relationship between MVA and Bonuses paid to the executives.

Thus, Pooled and Random effect regression models confirm hypothesis 1 suggesting Executive bonus is

positively related to firms Value added measures MVA and EVA it is significant at 1% level. Similar methods are used to test hypothesis  $H_1$  using Total salary and compensation (SALCOMP) on value added measures (EVA, MVA). Results of Pooled regression model are shown in table 4 as Model 1. Fixed effect and Random effect regression model results are shown in Model 2 and 3 respectively; whereas, Hausman test results are shown in Table 5 which supports random effect regression model at 5% significance level. It's found that Pooled regression and Random regression models are statistically significant at 1% level. Coefficients of MVA and EVA are also significant at 1% level. Thus, there is strong evidence in support of  $H_1$ : Executive compensation are positively associated with value-added measures EVA and MVA at 1% significance level.

Table 4: Impact of Economic Value-Addition Indicators on Total Salary Compensation Paid to Executives

	SALCOMP		
	MODEL 1 Pooled	MODEL 2 Fixed Effect	MODEL 3 Random Effect
C	2,929,151	3,078,442	2,990,357
EVA	-316.34 (0.00)*	172.17 (0.0029)*	-210.78 (0.0001)*
MVA	5.90 (0.00)*	2.61 (0.21)***	4.98 (0.00)*
R- Squared	0.2935	0.7510	0.1471
F- Statistic	42.99	10.40	17.85
Prob. (F-statistic)	0.00*	0.00*	0.00*
No. of Firms	226	226	226

This table shows regression model: Impact of Economic Value-Addition Indicators on Total salary compensation Paid to Executives \* represents the significance level at 1% , \*\*represents the significance level at 5% , \*\*\* represents the significance level at 10%

Table 5: Test of Fitness for Significant Model

Hausman Test	Chi-Sq. Statistic	Chi- Sq. d.f.	Probability
Cross-Section Random	5.24	2	(0.0728)***

This table shows Hausman test results\* represents the significance level at 1% , \*\*represents the significance level at 5% , \*\*\* represents the significance level at 10%

$H_2$ : Executive Compensation is positively related to firms accounting profitability measures. To test the hypothesis  $H_2$ , Bonus of executives are regressed on accounting measures of performance ROE, ROA, EPS and Tobin Q. Pooled regression (Model 1) shown in table 6 does not support hypothesis  $H_2$  as the model is insignificant (prob. F score 0.4382) and the coefficients are also insignificant when data is pooled together ignoring heterogeneity of the firms. Hausman test results shown in table 7 supports Fixed effect regression model, results are shown in Model 2 in Table 6. As Prob. F test is found to be significant and coefficients of variables ROA is positive and significant at 5% level which suggests there is a minor evidence of ROA impact on BONUS. The ROA is an indispensable metric used in investigating the operations of any firm by market analysts. The positive relation between the ROA and BONUS can be enunciated when the corporations are involved in the expansion of operations through myriad approaches such as M&A's or introducing new products as well as entry into new market. In such circumstances, the historical trend of ROA plays a vital role as to how the debtors or market perceives this signal. In an inference where a respective firm's management has been able to sustain the ROA over the industry average will be rewarded by the shareholders and remuneration committee in case of expansion which is statistically proved at 5% level. However, only one accounting measure ROA has positive impact on BONUS.

Table 6: Impact of Accounting Indicators on Total Bonus to Executives

<b>BONUS</b>			
	<b>MODEL 1</b>	<b>MODEL 2</b>	<b>MODEL 3</b>
	<b>Pooled</b>	<b>Fixed Effect</b>	<b>Random Effect</b>
C	161,065.50	550,937.8	281,029
ROA	7,279.99 (0.3202)**	16,067.15 (0.0459)**	12,194.07 (0.0715)**
EPS	4,342.18 (0.6423)	-2,914.16 (0.7333)	315.5897 (0.9691)
ROE	-5,602.73 (0.1691)	-13,604.73 (0.0077)*	-9,680.263 (0.0148)*
TQ	65,975.21 (0.1524)	-153,990.1 (0.1424)	1,663.161 (0.9771)***
R- Squared	0.0038	0.4912	0.0064
F- Statistic	0.9429	3.35	1.60
Prob (F-statistic)	(0.4383)	(0.00)	(0.1747)
No. of Firms	226	226	226

This table shows the regression results: Impact of Accounting Indicators on Total bonus to Executives\* represents the significance level at 1% , \*\*represents the significance level at 5% , \*\*\* represents the significance level at 10%

Table 7: Test of Fitness for Significant Model

<b>Hausman Test</b>			
Test Summary	Chi-Sq. Statistic	Chi- Sq. d.f.	Probability
Cross-Section Random	9.93	4	(0.0415)**

This table shows Hausman test results\* represents the significance level at 1% , \*\*represents the significance level at 5% , \*\*\*represents the significance level at 10%

Further to test the hypothesis  $H_2$  executive Total salary and compensation are regressed on accounting measures of financial performance ROE, ROA, EPS and Tobin's Q. Pooled regression model shown in Table 8 under Model 1 supports the hypothesis  $H_2$  as the model is significant (prob F score 0.0275) and the coefficients EPS is only found to be positive and significant at 6% level. Hausman test results shown in Table 9 supports fixed effect regression model results are shown in Model 2 in Table 8. Fixed effect regression model is significant but coefficients of ROE and TQ are negative and found to be significant at 5% level indicating negative market reaction to undeserving compensation to those executives.



Table 8: Impact of Accounting Indicators on Total Salary and Compensation Paid to Executives

SALCOMP			
	MODEL 1	MODEL 2	MODEL 3
	Pooled	Fixed Effect	Random Effect
C	3,039,728	3,333,698	3,177,644
ROA	-5,757.06 (-0.5841)	12,584.37 (-0.1907)	6,855.295 (-0.4209)
EPS	26,229.26 (0.051)***	2,321.376 -0.8204	7,496.347 -0.4506
ROE	4,698.08 (0.4220)	-11,829.69 (0.0523)***	-6,186.14 (0.2271)
TQ	-15,3087 (0.0209)**	-27,9479.7 (0.0261)**	-213,469.3 (0.0109)**
R- Squared	0.0110	0.6501	0.0101
F- Statistic	2.74	6.45	2.52
Prob. (F-statistic)	0.027**	0.00*	0.039**
No. of Firms	226	226	226

This table shows the regression results: Impact of Accounting Indicators on total salary and compensation paid to executives \* represents the significance level at 1 % , \*\*represents the significance level at 5% , \*\*\* represents the significance level at 1 0%

Table 9: Test of Fitness for Significant Model

Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi- Sq. d.f.	Probability
Cross-Section Random	12.77	4	(0.0125)**

This table shows the Hausman test result. \* represents the significance level at 1 % , \*\*represents the significance level at 5% , \*\*\* represents the significance level at 1 0%

## CONCLUSION AND RECOMMENDATIONS

In view of the firm's boards declaring bonuses and compensation for the management when the firms are not generating profits measured by ROE and ROA, this research examines the basis for this executive compensation such as firms value vs accounting performance measures. This research studies the relationship between Executive compensation and Value-added performance measures & Accounting performance measures. Data of 228 firms traded in Canadian stock market which are tracked by S&PTX equity Index for the period 2014-2018 is collected from Bloomberg database and the final sample of 226 companies considered for this research after accounting for missing data. Executive compensation data is collected as bonus, total salary and compensation paid to executives. Firm Value measures data, Economic Value Added , Market Value Added and accounting measures Return on Equity, Return on Assets, Earning Per Share, Tobin's Q are collected and used in this research. Panel data regression model is employed to test hypothesis. It's found that there is clear and strong evidence suggesting positive relationship between Value-added measures EVA, MVA. However, there is a weak relationship between Total salary and compensation and Bonus, Total salary and compensation and accounting variables EPS and ROA. There is

clear evidence that the firms are using value added measures when considering executive compensation rather than mere accounting measures which are likely subject to manipulation. As Canada, a country champion of sustainability it's befitting to note that corporations' executive compensation factoring Economic value measures rather than accounting performance measures. This research contributes richly to academic literature. Authors propose future research on executive compensation tied with firms sustainability initiatives as measured by Environmental, Social and Governance ESG score/risks along with Value added measures.

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