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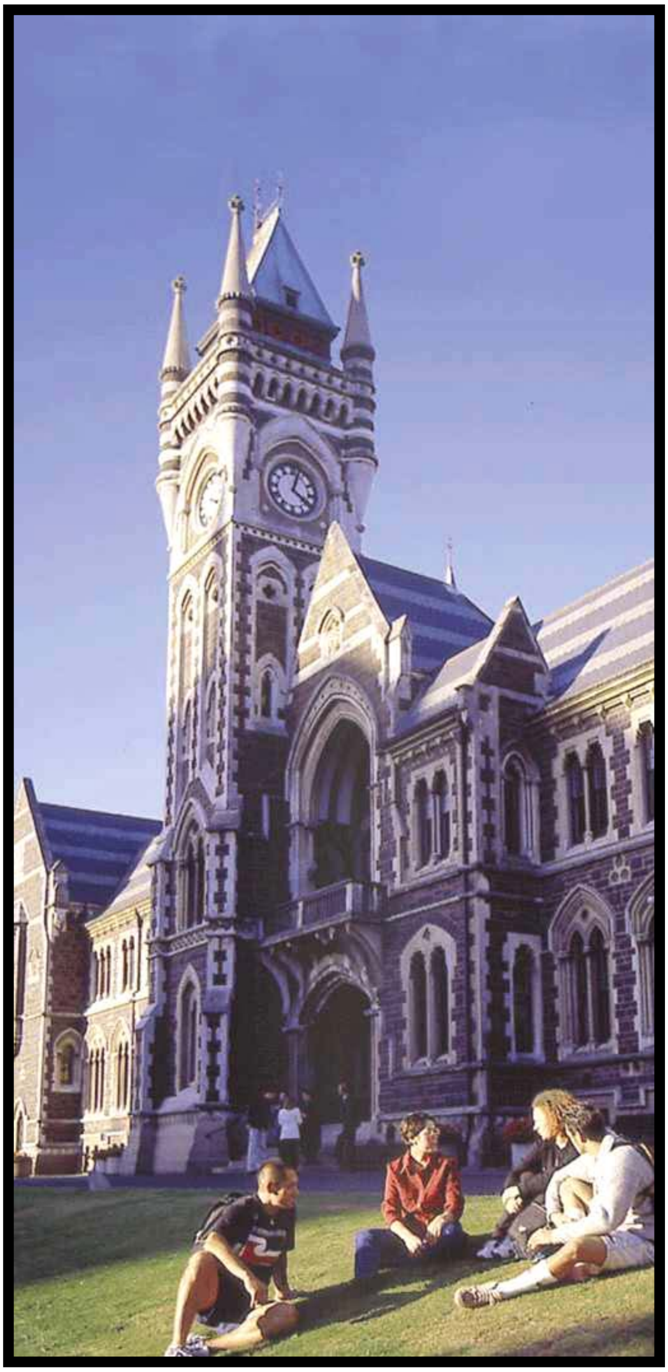

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EDITORIAL

This journal is once again proud to publish some of the best pieces of work by graduate management students at the University of Otago.

The articles in this volume were written by students taking 400 level papers for BCom(Hons), Postgraduate Diploma, MBus (papers plus thesis), MCom (papers plus thesis) or international students crediting to a Master's degree at their home Universities.

Full time honours students took combinations of four 20 point papers, plus a 20,000 word research paper worth 40 points; MBus and MCom students took 20 point papers totalling 120 points, plus a thesis.

All students at this level are free to submit papers for this Review, subject to the supervising staff member having graded the paper at A or A+.

The editorial board each year comprises staff whose students have work represented in the Review.

Alan Geare
Editor

A Market Level Analysis of Innovation

Joel Clarke

Introduction

Strategic management literature and entrepreneurial theory alike, pay particular tribute to the necessity of developing a competitive advantage. This competitive advantage refers to the value proposition of an organisation and the way in which it seeks to create and capture value. However, ever changing market conditions mean that competitive advantage can only be sustained if organisational strategy can be crafted to reflect the changing conditions (Mintzberg, 1987). Accordingly, the necessity to craft strategy points to the need to innovate, as only innovation can reflect the changing conditions of the market.

The province of this article is to demonstrate the effects of innovation on the wider market. The article begins by defining the innovation context, which then leads to the investigation of innovative diffusion. The diffusion is tracked from market inception through to the stage of market renewal. Innovative patterns are then analysed and evaluated to determine their relevance to the broader market. The article primarily addresses the concept of innovation at a macro[1] level, however, in doing so synthesises micro[2] level exemplars to contribute to a greater comprehension.

Defining Innovation

Perhaps the most widely accepted definition of innovation within an organisational context is held to be the act which endows resources with a new capacity to create wealth. In order to create such wealth these designs must be simple, as innovative behaviour can only be sustained by entrepreneurship (Drucker, 1985). As mentioned above, generally innovation is undertaken as a means of extending ones competitive advantage.

The viewpoint that innovative behaviour can only be sustained by entrepreneurial nous is somewhat validated throughout the literature. The dominant view across business strategy literature is that both innovation and entrepreneurship are sub processes within the one cycle (Berkhout et al., 2010).This cycle details that entrepreneur's use knowledge that has been acquired through scientific exploration to innovatively create new products or services to match the changing market conditions [see Figure 1]. Therefore, it would seem that innovation is part of an interdependent three-part process, which seeks to react to market conditions with a means of achieving a sustainable competitive advantage (Ormiston et al., 2011).

[1] Macro refers to macroeconomics, which studies the behaviour of the general economy.
[2] Micro refers to microeconomics, which is the study of the individual behaviour of the firm.

This assignment was for MANT451 Strategic Thinking
Supervised by Dr Jing (Annie) Zhang

The knowledge, from which the innovation is founded upon, is acquired in two ways: technology push or market pull (Von Hippel, 1976).Von Hippel proceeds to theorise that technology push innovation is based off technologies or techniques that have been developed by an organisation and which are then imposed on the market. It is generally seen as proactive with a view to change the markets preferences. Von Hippel then contrasts this to market pull innovation, which is a reactive style of innovation, whereby technology and techniques for development are instigated by those that use the products, rather than those who create them.

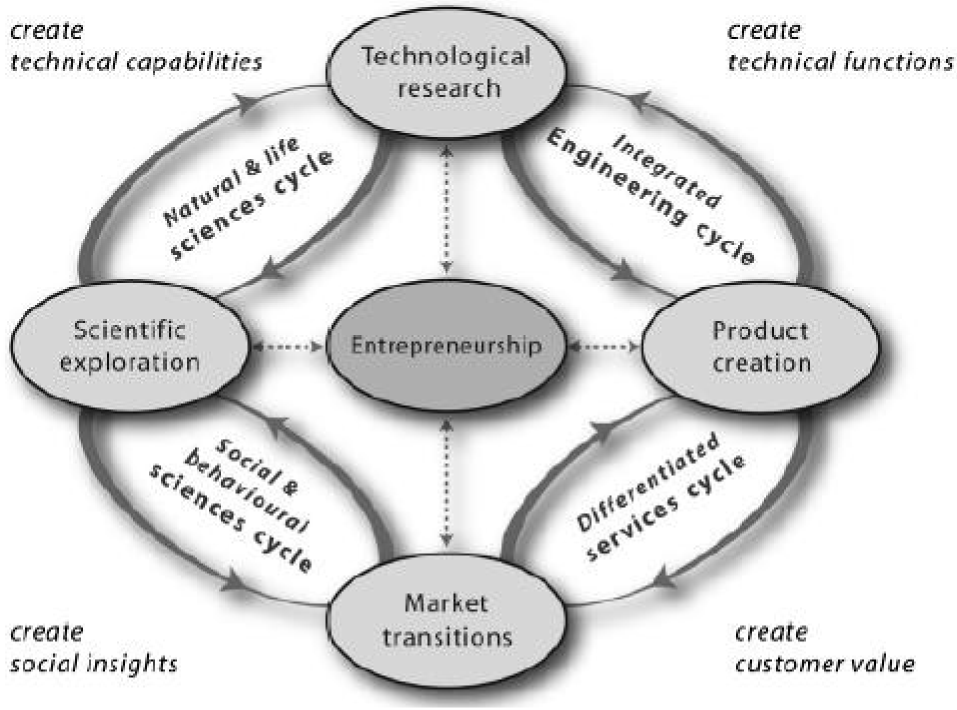

Figure 1: Innovation Framework Model (Berkhout et al., 2010)

Furthermore, when discussing innovation it is integral that the extent to which innovation takes place. Innovation alone can be incremental or radical, varying on the extent to which the innovation influences the development of strategy and the risk inherent within the particular course of action. This is largely suggestive of the fact that radical innovation is alteration to the business model, whilst incremental innovation can be something as simple as adaption of products or processes (Garcia et al., 2002). Supporting literature suggests that such typologies of innovation will yield different results. Product and process innovation satisfy market demands by either increasing functionality or decreasing the cost. Whilst business model innovation is undertaken with a view to shifting strategic focus often resulting in the creation of a new market (Johnson et al., 2011).

In summary, innovation is a process which encompasses the acquisition and manipulation of knowledge in order to endow resources, in an incremental or radical manner.

The Emergence of New Markets

Punctuated equilibrium theory acknowledges the role of organisational change in process of knowledge accumulation. This theory details that organisations evolve incrementally over lengthy periods of stability or equilibrium; however, there are relatively short bursts over its existence where it will undertake fundamental change (Tushman et al., 1985). It is here that the constant evolution of the organisation will result in the accumulation of a wider scope of knowledge (Berkhout et al., 2010). As noted, knowledge is the cornerstone of the innovation process, whereby its accumulation enables entrepreneurs to identify opportunities for innovative solutions.

Inherently, emergent markets or categories are fraught with risk and financial instability. Typically, before emergence, such categories will possess a number of qualities. These qualities range from a lack of clarity in terms of demand, a deficiency of formal governance, unreliable infrastructure and lastly unfamiliar technology (Thompson et al., 2010). The emergence of categories stems from a greater comprehension of such variables. Thompson finds that this knowledge is used by pioneers to define niche market boundaries and establish methods of growth to mitigate the effects of uncertainty and risk.

As noted, micro level innovation leads to the creation of new markets at macro level. The term used to describe this course of action is blue ocean strategy. Here the new market is seen as an unknown market space, with competition yet to exist and the rules of the game yet to be defined (Kim et al., 1997). Kim et al. find that the attraction of blue ocean strategy is that there is significant potential for growth, as the focus of the pioneers is on exploiting a category without competitors. The findings further point to blue ocean requiring value innovation. This is where organisations look to pursue a low-cost and differentiation strategy concurrently to create value for the customer and encourage consumption. Kim states; pursuing concurrent value propositions (low-cost and differentiation) is essential to the growth of the category as it is imperative to establish a customer base. This is perhaps indicative of why newly formed organisations are willing to sustain an initial loss at the time of start-up.

The best example of blue ocean strategy is demonstrated in the case of Nintendo with the development of the Wii. Instead of focusing on product innovation with the development of greater technological capabilities, Nintendo sought to innovate their business model to attract an additional target demographic through tailoring video games to suit the elderly. As such, this required the development of games such as Wii Sports and an entirely different marketing strategy (Hollensen, 2013).

New categories do not emerge from simple identification of a blue ocean and entry. A blue ocean industry will only completely emerge if the pioneer is able to first develop it and distinguish it (Lindič et al., 2012). Lindič et.al find the potential for growth doesn’t hinge on the industry but rather the growth of the pioneers, as the growth of the pioneers should largely mirror the initial growth of the market. To a large extent, this is where Nintendo failed. The category did not develop any clear boundaries, which led to it being cannibalised from the very market that it emerged from (Hollensen, 2013). As Hollensen notes this is because it did not reinvest in the continual development of the market, thereby not establishing it a distinct category, largely resulting in the ocean once again becoming red.[3]

Conclusively, it seems that accumulated organisational knowledge is the catalyst for market emergence and its subsequent growth. This is attributable to the fact that a new category or blue ocean cannot be established without innovative solutions to either a problem or opportunity. But, as detailed previously, in order for innovation to take place, knowledge must first be acquired, processed and then manipulated by innovators and entrepreneurs alike.

The Growth of the Market

In accordance to the findings above, once a blue ocean is uncovered, pioneers must work on growing the market. As evidenced in the case of Nintendo growing the market is an essential component to achieving distinctiveness and avoiding cannibalisation from the foundational market. This is largely verified by extant literature, which points to the attention of the organisation being focused upon the development of corporate strategy rather than competitive strategy (Tushman et al., 1986). Tushman details; this focus facilitates the development of a distinct market identity, which is evidenced with the emergence of a dominant design. These identities are usually epitomised by the labelling of the category through a key word(s) that describe homogenous qualities, for example "PC" or "smartphone". In the context of entrepreneurship theory, the corresponding notion is addressed in the form of market legitimacy. Legitimacy is a term used to describe the universal acceptance of the category by interested parties such as investors, consumers and the media (Navis et al., 2010). Navis suggests that pioneering organisations work to develop the niche rather than employ competitive tactics to undermine competition. Yet upon achieving legitimation, the attention of the organisation moves toward business model innovation (Christensen, 1997).With Christensen advising that such an approach is required to compete, as new entrants flood the distinctive market category in search of growth.

From a purely innovative lens, the theory of innovative diffusion largely mirrors the entrepreneurial drive for legitimacy. Diffusion is considered to be the rate and volume at which innovations spread amongst their users (Rogers, 2003). Given the cost of research and development, innovation is a largely expensive process; therefore, the pace at which a product/service is diffused can be essential to its commercial attractiveness (Johnson et.al, 1999). Organisations are able to affect innovation from the supply side through the degree of improvement, the compatibility with forces that govern the market, the complexity of strategy and lastly through social capital. On the supply side, diffusion is affected by market awareness, network effects and customer innovativeness (Rogers, 2003).

Rogers details that diffusion is underpinned by the rate of adoption, as the product category will ultimately become diffused over five separate adoption categories. The first set of adopters is called the innovators who tend to be open to the risk of adoption, and compose 2.5% of all adopters.

[3] A red ocean is a market that has become saturated with competitors (Kim et al., 2005)

This is then followed by the early adopters; they make up 13.5% of all adopters. The ensuing set of adopters is labelled the early majority who compose 34% of the total market. The late majority trails the early majority and also compose 34% of the market. The final category is that of the laggards (16%), who tend to have a low social status and also lack of financial liquidity. What is important to note is that every innovation passes through this process; it is the volume of adopters that determine if a distinct category is to emerge.

In this sense the early adopters' category is perhaps the most important category in terms of legitimacy as they determine acceptance of the dominant design and the size of the market (Gibbons, 2004). This is because they are seen as the opinion leaders due to their high social status. As such, it is this group who are able to determine if an innovation is able to become their own distinct market category and achieve legitimacy or whether the innovation will simply remain an extension of an existing market. Take for example the case of the Apple iPhone. Smartphone technology was largely pioneered by the likes of Blackberry and Palm One, however, these innovations were largely rejected by the early adopters. This was attributed to their lack of functionality, as consumers were seeking phones that did not have the complexities of PC's. The iPhone essentially delivered this, and would become the dominant design within the market (Burrows et.al, 2007). This led to widespread adoption and legitimation of the smart phone market.

Christensen posits that the S-Curve is perhaps best suited to describe aggregate demand within the market, thus making it a perfect demonstrator of the role of innovation within the market context. This is because it plots product performance against the time or engineering effort, illustrating a specific innovations performance in the context of the market [see Figure 2] (Christensen, 1992). This is unlike the stages of adoption model which depicts the proportionate size of adoption categories, therefore, only being useful for micro-level analysis. The shape of the curve indicates a rate of slow adoption of innovations early on, until it hits such a point that it rapidly accelerates in dispersion. It proceeds to round off in a plateau which symbolizes the limit to demand (Johnson et al., 1999). The point at which the curve sharply rises is called the tipping point. This is the point at which the technological innovation becomes legitimate (Foster, 1986). At the point of legitimacy the volume of adoption greatly increases, which also indicates that from this point onwards the threat of new entrants increases. As the market plateaus the curve passes the tripping point at which the industry declines. This presents a strategic choice for firms; market exit, technological innovation to extend the curve, or employ blue ocean strategy to develop a new distinct category in its own right (Aldrich et al., 1994).

However, the S-Curve does not consider such innovations in light of the market the innovation emerged from. Therefore, the curve does not fully consider the implications of market innovation. It is suggested that a multi-curve model is perhaps the best way to alleviate such complexity bias [see Figure 3] (Christensen, 1992).

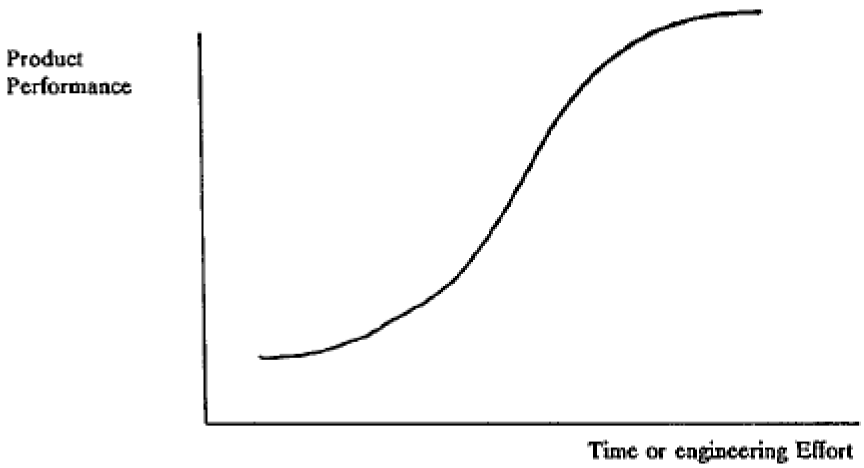

Figure 2: The S-Curve of Innovative Diffusion (Christensen, 1992)

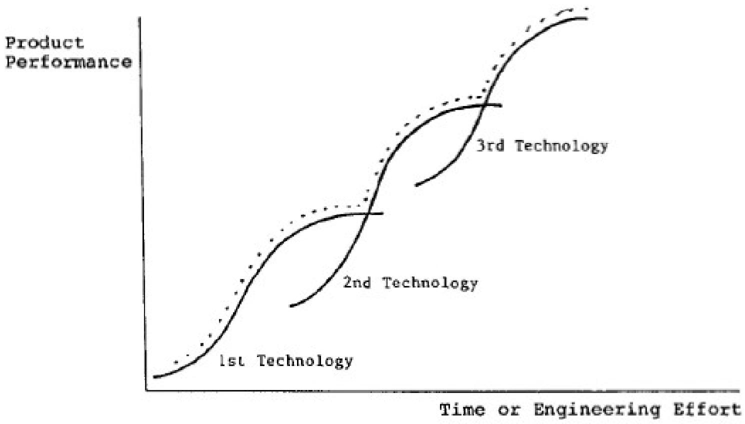

Figure 3: S-Curve for Technology Renewal (Christensen, 1992)

By tracking market growth it would seem that innovation is exhibited in two forms; market development innovation and competitive innovation. In achieving legitimacy, pioneers must produce a dominant design worthy of the early adopters' endorsement by undertaking market development innovation. The focus must then shift to competitive innovation to establish dominance in what is likely to become a saturated market, as new entrants flood in seeking to exploit the remaining 84% (early majority, late majority, laggards) and capture the largest market share.

The Saturation of the Market

As markets become red oceans, the focus of the organisation changes to employing competitive tactics. This ultimately leads to a dramatic transformation of the market, as firms can no longer sustainably focus on the delivery of value innovation. Organisations must pick an appropriate innovation strategy in order to maintain or acquire market leadership (Navis et al., 2010). By acquiring market leadership, organisations inherit what is labelled first movers advantage. This is expressed in three forms; technological leadership, pre-emption of scarce assets and the imposition of buyer switching costs (Lieberman et al., 1988). A market leader is often able to exercise its technological leadership through slowing the pace of innovations in the market through techniques such as strategic disclosure (Pacheco-de-Almeida et. al 2012). Lieberman suggests leaders are often able to pre-empt scarce assets and exert full control over them, this is particularly the case with things that require governmental contracts such as mining. The imposition of switching costs is a further benefit that can be derived from leadership also, as organisations can impose financial and non-financial costs upon users to switch providers. The manipulation of these benefits allows organisations to exercise a degree of control over the market resulting in a greater market share.

With the legitimation of the market, incumbents/pioneers automatically inherit market leadership. However, the arrival of disruptors and imitators signals a necessity to employ competitive tactics to protect the benefits enjoyed from first movers' advantage (Ansari et al., 2012). To do so, it is widely accepted that continual innovation is the best means of protection, as the more often an incumbent introduces a product innovation to the market the greater its market share grows (Banbury et al., 1995). Many strategists point to the need to go further than this and innovate and adapt the business model altogether (Teece, 2010). This is largely due to the fact that changes in the structure of the market with new entrants means that the knowledge base is going to vastly grow, and so to the scale of innovations (Mina, 2009). This is perhaps why many strategists call for the employment of dynamic capabilities or meta-capabilities, as the agility these provide can assist the organisation with a fluid reaction to a change in market forces (Doz et al., 2010) (Teece, 2012).

Apple is perhaps the best demonstration of this, as the organisation is able to retain market leadership and remain ahead of the game due to two reasons: Firstly, Apple consistently undertake product innovations as means of retaining market leadership. This is of particular note in the MP3 and Smartphone industries, whereby, the company has developed new generations of the iPod and iPhone (Burrows et.al, 2007); The second reason is that they are also able to innovate their business model to react to changing market forces. One need not look any further than the recent development of Apple Music for this, as Apple were able to react to the threat imposed by Spotify's and Youtube's music streaming services to create their own streaming platform, even if it did cannibalise their traditional iTunes/Apple Store product.

Moreover, for new entrants seeking to achieve market leadership, the option of innovative disruption can be undertaken. Disruptors will typically have three basic features: They will possess an advantage over market leaders in either cost leadership or differentiation; they will possess a degree of proximity to the leaders (they must be targeting a major portion of the existing markets niche); and they must have a way of impeding market leader retaliation (Porter, 1985). Further, the only way in which an organisation can protect themselves from such retaliation is once again through business model innovation (Christensen, 1997) (Markides et al., 2012).

A common place market disruptor emerged in the form of Ryan Air. Ryan Air were able to challenge conventional airlines cost-leadership models by undertaking business model innovation which saw the basis of their service flying to main cities' secondary airports at a reduced price. Accordingly, market leaders were powerless to respond given that it would be unsustainable in the long term to try and match Ryan Air's prices (O'Kane, 2014).

The final method of market entry new entrants have is to imitate. Notably, imitators do not enter the market to achieve market leadership, but rather market parity (Lieberman et al., 2006). Those who imitate tend to develop a greater understanding of their respective resources/capabilities and the way that they interact to create value (Posen et al., 2013). This often leads back to a reorientation towards the developing innovative capabilities, as the imitator is able to exploit the knowledge that they developed through imitation and accordingly innovatively develop their own unique niche (Jenkins, 2013). As a result of this imitation is largely seen as a transitional strategy, and can remain a short term solution in fast moving industries (Pacheco-de-Almeida, 2010).

A glaring example of an imitator is Samsung. Throughout the 1990's Samsung were seen as the poor man's option, they were present in many electronics markets but masters of none, simply due to the fact that they imitated. However, with the rise of the smartphone market, Samsung believed they had developed the capabilities to be able to compete. This led to the development of the Samsung Galaxy and other derivatives, which have ultimately come to dominate the Asian smartphone markets.

With the above in mind, it would seem that no matter what the strategy for competing, innovative behaviour based on knowledge accumulation is central to attaining market leadership.

Conclusion

A synthesis of the findings point to the fact that market development is dependent on the presence of competition. Competition is necessary for product and process innovation within the market, resulting in increased efficiencies. Further, competition is necessary to encourage the exploration of alternative markets through blue ocean strategy. In accordance to punctuated equilibrium theory, change is a necessary process of an organisation at micro level, which ultimately redefines the boundaries of the market at macro level through the development of wider knowledge bases (Mina, 2008). An investigation into innovation strategies to combat market saturation somewhat validate this, as each strategy emphasizes the requirement to innovate ones business model in order to maintain market leadership (Banbury et al., 1995). This largely points to the interconnectedness of competitive innovation and blue ocean strategy as they are essentially one of the same thing. This article provides a solid foundation for greater exploration of the relationship between micro-level innovation and macro-level market development in accordance to capitalist theorem. It further implores readers to focus the course of the literature on the styles of business model innovations available to incumbents/pioneers and test whether such defences would ultimately lead to the development of core rigidities within the firm.

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Organizational Ambidexterity, Strategic Purity and Corporate Venture Units

Lennart Hinrichs

Abstract

This essay reviews existing literature of organizational ambidexterity. The two major research streams, structural or architectural ambidexterity and contextual ambidexterity, are portrayed and antecedents described. It is then put into context with the concept of competitive strategy and the idea of Porter's generic strategies, with exploitation being connected to cost-leadership and exploration being connected to product differentiation. It is argued that a potential instrument to combine ambidexterity and strategic purity can be venture units that provide a structural ambidexterity for the whole organization, allowing the core business to maintain strategic purity. To be successful the venture unit itself needs to be contextually and relationally ambidextrous and keep close ties with the core organization. This idea allows to combine the two concepts of organizational ambidexterity and competitive strategy, therefore provides a potential explanation for the ambiguous findings regarding the influence of the two concepts on performance.

Introduction

On August, 10 2015, Google's CEO Larry Page announced a new holding company, named Alphabet. According to Page, by doing this, Google intends to facilitate more independent venture and transparency (Economist, 2015). This move can obviously be interpreted as the institutionalization of a matured Google to address shareholders' concerns about a lack of transparency of the costs of the research. With Google being an innovation powerhouse and the new parent company being divided into existing businesses (e.g. search engine) and new ventures (e.g. autonomous cars), it is also true, though, that this structure will allow innovation outside the bureaucracy of Google's existing business and thus might be the manifestation of (structural) organizational ambidexterity. This research stream argues that a company needs to pursue the distinct activities of exploitation and exploration (March, 1991) to achieve a superior performance (He & Wong, 2004) and secure a long-term competitive advantage (Tushman et al., 2010). In the literature, two distinct ways of organizational ambidexterity are described, one being contextual (Gibson & Birkinshaw, 2004; He & Wong, 2004) and the other being structural (Tushman & O'Reilly, 1996). Google apparently moves from a more contextual ambidexterity towards a more structural approach.

The discussion about organizational ambidexterity has only developed in recent decades and is still quite fragmented and ambiguous about the effectiveness of the concept and its antecedents (Junni et al., 2013; O'Reilly & Tushman, 2013; Raisch & Birkinshaw, 2008). This essay will, in the light of

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the recent restructuring of Google, address the latter linking it to competitive strategy to answer the following question:
How can venture units provide means to maintain strategic purity and stay competitive in the long term based on the ambidexterity premise?

Research has addressed organizational ambidexterity through numerous theoretical lenses, such as organizational learning, organizational design and strategic management, this essay takes the perspective of the former with particular focus on technological innovation. Of course, important implications of other research streams will also be addressed. Organizational ambidexterity is, furthermore, put into context with competitive strategy, to show possible ways of connecting the concepts to achieve superior short- and long-term performance.

This essay will address the distinction and relevance of exploitation and exploration, before providing about an overview about the literature about organizational ambidexterity.
The concept will then be evaluated in the context of competitive strategy providing venture units as possible solution to maintain strategic purity.

Theory

Although not coining the term ambidexterity in the context of organizational learning, March (1991) was the first to distinguish between exploration and exploitation. This distinction will be provided in the first section of this chapter. A general overview about organizational ambidexterity and the distinction of contextual (Gibson & Birkinshaw, 2004) and structural (Tushman & O'Reilly, 1996) will be given afterwards, before going into more detail regarding the antecedents of organizational ambidexterity and relevance for corporate venture units.

Organizational Ambidexterity

Differentiating between the "exploration of new possibilities and the exploitation of old certainties" (p.71), March (1991) laid the foundation for the concept of organizational ambidexterity. He argues that they are in a constant competition for scarce resources, be it explicitly in the form of investment or implicitly in the form of organisational decisions. Cao et al. (2009) highlight this problem for cash-constraint companies, coming to the conclusion like March that a careful balance of the two is required for a system to be successful and survive in the long-term. March elaborates on the differences, stating that they "vary not only with respect their expected values, but also with respect to their variability, their timing, and their distribution within and beyond the organization" (p.71).

A sole focus on exploration, in terms of inventing a new technology, as opposed to exploitation, in refinement of an existing technology (p.72), holds the danger of sacrificing today's business for an uncertain future. March describes exploration as "systematically less certain, more remote in time, and organizationally more distant from the locus of action and adaption" (p.73), making exploitation the more natural choice in the distribution of resources. With the opposite extreme, focusing on exploitation entirely, a firm risks its long-term survival. Small exploitation successes generate path dependencies that can prevent optimal outcomes, a concept also known as success or competency traps (Wang et al., 2015).

Danneels (2002) explores the idea of exploitation and exploration in the context of product innovation, stating that “product innovation drives organizational renewal by exploiting and exploring firm competences” (pp.1095f). He describes exploration as the development of new competences whilst exploitation is based on existing resources (p.1104). He relates the degree of novelty to the dimensions technology and customers. A pure exploitation within this framework is a competence existing in the firm for both dimensions and a pure exploration a competence new to the firm in both dimensions. Otherwise, a company is either leveraging their customer or their technological competence (p.1105).

Lavie et al. (2010) define exploitation and exploration as a continuum (p.114f) and observe that organisations might move between the two in cycles. It has also been argued that there are synergetic effects between exploitation and exploration (He & Wong, 2004, p.482). Despite definitions that see exploitation as the mere reuse of ideas, implying all learning is achieved by exploration, it is reasonable to stick to the original definition by March (Lavie et al., 2010).

The idea of simultaneously pursuing exploitation and exploration led Tushman and O’Reilly (1996) to introduce their so-called ambidexterity premise that highlights the importance ambidexterity in achieving superior firm performance (p.24). They define the nature of exploitation as a (short-term) increase in alignment and fit of strategy, structure, and culture in an evolutionary way. They argue that managers must in the long run destroy this very alignment in order to maintain their competitive advantage or achieve a new one, potentially cannibalising existing business. An ambidextrous organisation is, therefore, required to have contradictory structures, processes, and cultures under the same roof, creating high tensions and putting a lot of pressure on the managers.

Tushman and O’Reilly suggest an architectural (structural) approach, separating the units that are exploiting from the one that are exploring. The structural ambidexterity can be achieved through either spatial separation or parallel structures, though (Raisch & Birkinshaw, 2008, p.391). Spatial separation means that units should be physically and culturally different without sharing management or incentive systems. The combining factor is the senior management team and the corporate culture (O’Reilly & Tushman, 2011). Parallel structures exist within a unit, providing different structures depending on the task (Gibson & Birkinshaw, 2004). This means that actors focus either on exploration or on exploitation (Andriopoulos & Lewis, 2009).

Gibson and Birkinshaw (2004) argue that the context is more important than then structure of the company in order to achieve superior financial performance from organizational ambidexterity. Exploration and exploitation should not be separated structurally and put in different business units. They define it as “the behavioural capacity to simultaneously demonstrate alignment and adaptability across an entire business unit” (p.209). The context provides guidance for individual behaviour. It consists of systems, processes, and beliefs. The idea is that there should be a balance of hard (discipline and stretch) and soft (support and trust) elements in order to provide a supportive context rather than a fixed structure. A shared vision is an example for providing a context. So with the contextual approach, ambidexterity is, generally, achieved by behavioural and social means (Andiopoulos & Lewis, 2009).

Thirdly, leadership was introduced as a means to achieve ambidexterity. The senior management or top management team is considered an important factor in providing the environment for organizational ambidexterity by providing social networks and interactions (Cao et al., 2010). The link between individual top management ambidexterity and organizational ambidexterity is magnified by contextual ambidexterity in the organization (Carmeli & Helevi, 2009). Thus, the concepts are of contextual and leadership-based ambidexterity are closely connected. In terms of organizational adaption and the balance between continuity and change, the top management is regarded as a promoter of discontinuous change, whilst the middle management is viewed a supporting incremental change and facilitating adaption by providing emotional balancing. (Raisch & Birkinshaw, 2008, p.380). Andriopoulos and Lewis (2009) find paradoxes of innovation such as strategic intent (profit vs. breakthroughs), customer orientation (tight vs. loose), and personal drivers (discipline vs. passion) that they suggest should be resolved with integration and differentiation tactics. This means that both extremes should either be embraced put into a context (integration) or be split into different units and, thus, structurally separated (differentiation). They also argue in a later study (2010) that paradoxical management approaches are required to overcome the innovation paradoxes, but that those differ from company to company. Overcoming cognitive contradictions is also present in Smith and Tushman's (2005) research in which they suggest building coordination mechanisms to do this.

The idea of organizational ambidexterity contradicted several papers suggesting the simultaneous pursuit of exploitation and exploration is impossible (e.g. Hannan & Freeman, 1977; McGill, Slocum, & Lei, 1992; Miller & Friesen, 1986; according to Raisch & Birkinshaw, 2008, p.378), leading to the idea that firms should focus on one or the other (Burns & Stalker, 1961; Denison, Hooijberg, & Quinn, 1995; Ghemawat & Ricart i Costa, 1993 according to Raisch & Birkinshaw, 2008, p.378). Furthermore, some research suggests that knowledge should be sourced outside the company or that companies should switch between the exploitation and exploration, highlighting the aforementioned cyclical nature of the concept (according to Raisch & Birkinshaw, 2009, p.390).

There are several moderators to the concept of organizational ambidexterity such as the dynamism of the environment and then competitiveness of the environment (Jansen et al., 2006). Since dynamic environments make existing products obsolete (Jansen et al., 2005b), such situation lead to higher financial returns from exploration and decreasing returns for exploitation (Jansen et al., 2006, p.1664).

Despite the ambiguous empirical findings on the impact of organizational ambidexterity, the concept provides valuable insights into how a company can achieve exploration and exploitation at the same time. The concept does not give an indication how the innovation achieved by this can be embedded into the corporate strategy, though.

Organizational Ambidexterity and Competitive Strategy

The Jansen et al. findings lead us to the idea how ambidexterity can influence a firm's strategy. The original postulate of Porter's (1980) generic strategies says, that companies should either focus on cost leadership or product differentiation. In terms of innovation, this means that they should either focus on exploitation (improving processes, achieving more efficiency) or exploration (superior and unique product) (Thornhill & White, 2007). He and Wong's (2004) study finds that indeed exploration is connected to product innovation while exploitation is connected to process innovation. Numerous studies have found weaknesses in Porter's line of argumentation, though, pointing to the fact that a hybrid strategy does not necessarily translate into a 'stuck-in-the-middle' situation (Pertusa-Ortega et al., 2009). He and Wong (2004) on the other hand argue that companies might indeed end up worse trying to implement organizational ambidexterity if it is not properly managed, although, concluding that appropriately managed it generate superior results. Other research also found that strategic purity translates into better performance (Thornhill & White, 2007). Santos-Vijande et al. (2012) argue that organizational learning allows companies to pursue both a cost leadership and a differentiation strategy, with organizational ambidexterity as a possible way to prevent the 'stuck-in-the-middle'-problem.

Applying the March (1991) idea that it is absolutely necessary to pursue both exploitation and exploration to stay competitive in the long term, it is, therefore, important for all companies, even those who follow a pure cost-leadership strategy, to find ways to achieve exploration without harming the exploitation of current resources. Corporate venture units might provide such an opportunity.

Venture Units and Ambidexterity

Corporate venture units, such as the Google 'moonshots' ventures, are a common vehicle to achieve exploration. Mudambi and Swift's (2014) argument of cyclical spending peaks that occur when an organisation switches from exploitation to exploration, also known as temporal separation (Hill & Birkinshaw, 2014, p.1902) can be put into this context. Although, organizational ambidexterity suggests the simultaneous pursuit of both exploration and exploitation, setting up new venture units to pursue explorative innovation creates initial costs that might become visible in the form of increase research and development spending. This does not necessarily translate into the transition from exploitation to exploration that Mudambi and Swift assume, though. Ambidexterity could still be present, especially as argued before within the newly founded venture.

According to Hill and Birkinshaw (2014) the success rate of the venture units is little, since they behave too exploratory, being too far from the core business or not fit to being integrated into the operations. The argument is that because they are no independent venture capitalists they are required to exploit their parent company's resources, creating the very tension within the venture unit that makes organizational ambidexterity so difficult. Hill and Birkinshaw suggest that this can only be achieved by "nurturing a supportive relational context" (p.1901) which derives from the idea of contextual ambidexterity. In doing so a venture unit can overcome the social and cognitive obstacles that are associated with exploration and innovation and achieve the necessary optimal distinctiveness (p.1904). They use the survival of an entity as indicator for the success, coming to the conclusion that the relational context is most important. It refers to ties with other parties that are long-term and subjectively judged. They argue that the relational context in which the unit is embedded provides resources and enables the unit to develop capabilities. Especially, interaction of the managers of the unit with senior executives, other business units, and members of the venture capital community increases the probability of a venture unit's survival (Hill & Birkinshaw, 2014, p.1921). Besides the social or relational aspect of organizational ambidexterity, Hill and Birkinshaw (2014) highlight the importance of integration innovations created in the venture units into the existing product portfolio in order to achieve legitimacy.

Discussion

For companies that focus on cost-leadership strategy those venture units might provide a good alternative, allowing them to keep strategic purity in their core-business, focusing solely on process-optimisation (exploitation). Organizational ambidexterity should – following the ambidexterity research – clearly be present within venture units. Although, the outcomes of exploration are commonly perceived as something completely new, they rarely are. To use Google as an example again and one of their more prominent moonshots, the autonomous or self-driving car, which is to some degree indeed a radical innovation, one can quickly see how it is based on Google's existing capabilities such as their satellite navigation (Google Maps) and their experience with augmented reality.

The findings of Hill and Birkinshaw's (2014) study state that the survival rate of corporate venture units is connected to relational context of the unit and indeed its managers, concluding that this constitutes a successful ambidextrous unit. Their findings are limited with regards to the actual innovative output, though, and the relational ties a unit has to their parent company do not necessarily give insights into the intra-unit ambidexterity. Despite the idea of separating the core-business from the venture unit to allow strategic purity, it must still be considered important for the venture unit to connect to the core-business and maintain close ties, increasing the legitimacy, though.

Combining research on intra-unit and this research of inter-unit / unit-parent ambidexterity could provide a valuable research area. Ambidexterity research has highlighted the importance of the top management team and so have Hill and Birkinshaw for their study of corporate venture units. This is providing insights into the contextual and leadership dimension of the ambidexterity in the context of venture units. But venture units by nature are structurally separated from the rest of the organization. Emphasising the importance of exploiting existing resources and using existing knowledge within that organization, no research has yet specifically addressed how the exchange of ideas can be secured with consideration of strategic purity. While the contextual approach provides the idea of social connectedness as means to exchange and foster ambidexterity, venture units are more remote and, thus, more likely to fail at providing this. At the same time, it is important to test empirically how venture units work as a vehicle for organizational ambidexterity in companies that follow a pure strategy.

Putting all those ideas together, it can be argued that corporate venture units can provide a vehicle with which companies that follow a pure cost leadership strategy can achieve exploration without harming their core business. This should exploit the current resources. This structural ambidexterity should be supported by a contextual and relational environment that allows the venture unit to access the firm's resources and facilitates the integration of innovations into the existing business. This whole approach does still require managers to provide a supportive environment. It although means that the venture unit itself will be ambidextrous. Applying this idea to other contexts as technological innovations might prove difficult, though, because the disadvantages of separating exploration from the core business might overweigh the advantages of strategic purity.

Conclusion

Despite ambiguous findings by several studies regarding the impact of strategic purity on the financial performance of companies, the concept still has strong advocates. This essay attempted to connect this theorem to organizational ambidexterity, that highlights the importance of pursuing exploration and exploitation at the same time, contradicting the strategic purity idea. It is suggested that this problem can be overcome by introducing venture units that are independent enough to allow the company to follow a pure strategy but enable the organization to stay competitive in the long term. Although, this means advocating structural or architectural ambidexterity, it is important to note that a venture unit can only be successful if contextual ambidexterity in the form of a close relational context is achieved.

Coming back to the initial example of Google, it can be argued that the new structure of the company creates freedom for exploration in completely new ventures that are relatively unrelated to the core business and allows the latter to advance by exploitation. Of course, such a structure complicates knowledge transfer from existing to new ventures, potentially leading to redundancies. Talking of intra-unit ambidexterity, one cannot yet determine whether Google will not – despite the new structure – still foster simultaneous exploitation and exploration within the business units, due to the specific nature of its business model.

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Social Enterprises, Hybridity, Stakeholders, and Social Capital

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Introduction

Research on social entrepreneurship is relatively young. Many researchers consider social enterprises hybrid organisations (e.g. Battilana & Lee, 2014), leading to a legitimacy problem and tensions in the pursuit of its dual mission. Stakeholder theory, which moved the focus from a pure profit orientation to a broader consideration of interests and demands by multiple individuals and organisations, provides the necessary foundations to introduce social capital in order to answer the question:

How can a social enterprise achieve legitimacy and overcome stakeholder tensions arising from its hybridity to reach its conflicting goals?

To answer this question, this essay begins with an introduction into social entrepreneurship and its definition as a hybrid organisation. An analytical framework in the form of stakeholder theory is provided to evaluate in-depth the effects of social capital in the context of social enterprises. The ideas developed in this section are then discussed and put into context by applying them to the “SMS for Life” program.

Theory

In this section, the current literature about social enterprises is examined to provide a precise definition of social enterprises including challenges that such a definition might pose for both, practitioners and researchers alike. Stakeholders are introduced to enable an analysis of the concept social capital in social enterprises.

Definition of Social Entrepreneurship

There are plenty of definitions of social entrepreneurship. Some highlight the value creation and impact on the society side while others focus on the entrepreneurial side. The definition is commonly tautological, stating that social entrepreneurship is entrepreneurship with a social mission of some kind. Dees (1998b) talks about entrepreneurs with a social mission, whereas the mission is explicit and central. In is defining article (1998a), combining several researchers from different backgrounds, he concludes that:
“Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,

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- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created." (Dees, 1998a, p.4)

Other authors (Mair & Martí, 2006; Austin, Stevenson & Wei-Skillern, 2006; Peredo & McLean, 2006; Seelos & Mair, 2005) also base their definitions on entrepreneurship and the idea of some sort of social value. This of course always leads to a tautological definition. Some include social change (Mair & Martí, 2006) into their definition whilst other authors only include social value creation (Peredo & McLean, 2006; Austin et al., 2006; Seelos & Mair, 2005) without being specific about the meaning of it. Whilst the entrepreneurship side is well defined in most of the papers, particularly in Dees (1998a) and Peredo and McLean (2006), the definition of the social aspect remains unclear. This led to Santos' (2012) efforts to redefine social entrepreneurship as the "pursuit of sustainable solutions to neglected problems with positive externalities" (p. 335). Relying on the economic concept of externalities, this definition provides a good alternative of the aforementioned tautological definitions presented in earlier stages of the social entrepreneurship research. Nevertheless, this definition is quite broad and a combined definition of Peredo and McLean's (2006) elements on entrepreneurship and Santos' (2012) economic definition of social value seems reasonable to fully understand the concept of social entrepreneurship as it defines in more detail what social value consists of. Considering this, it is suggested that a definition of social entrepreneurship could be:

Social entrepreneurship is about pursuing sustainable solutions that either exclusively or in some prominent way aim to create positive externalities (social side) and pursue that goal through a combination of recognizing and exploiting opportunities to create this value, employing innovation, tolerating risk, and declining to accept limitations in available resources (entrepreneurial side).

Analysing those definitions, one can conclude that we are talking about a twofold concept of social value or charity and entrepreneurship or business. This is recognized by a number of researchers (Battilana & Lee, 2014; Doherty, Haugh & Lyon, 2014; Pache & Santos, 2013; Moizer & Tracey, 2010; Battilana & Dorado, 2010; Kraatz & Block, 2008) by identifying social enterprises as hybrid organisations that neither fit in the charity logic nor in the business logic. Santos (2012) argues that social enterprises or indeed enterprises in general always face the decision whether they should create value or whether they should capture it. According to him this decision should be made early on in the development to prevent unnecessary confusion about the mission and identity of an organisation. Value capture in this concept refers to the ability to internalise, i.e. achieve financial goals, value created through an enterprise's operations. Value creation on the other hand describes the economic concept of adding to the welfare or wealth of society.

Generally, this leads to several trade-offs between economic goals, i.e. value capture, and social goals or impact on society, i.e. value creation. This starts with the incorporation of the enterprise as either charity (not-for-profit) or for-profit business. Implications of this decision are clearly visible in tax exemptions for charities but also the means of funding available (e.g. sale of equity for for-profits) (Battilana & Lee, 2014). Such trade-offs can lead to issues related to legitimacy among the stakeholders and their competing goals. It is, therefore, as Dees (1998b) argues, important to balance between commercial and philanthropic activities and engage all of the relevant stakeholders in order to survive.

Pache & Santos (2013) found in a study that opposite to prior research hybrid organisations such as social enterprises do not actually compromise or decouple elements of the social and economic logic in order to be successful but rather couple intact elements of both logics. They describe that companies or entrepreneurs coming from the commercial side tend to enact a predominantly social welfare logic in order to gain legitimacy. The opposite is true for charities moving towards the commercial side, relying on their a priori legitimacy. Looking at those findings it becomes obvious that legitimacy of the enterprise and its key individuals play an important role in becoming successful. Pache & Santos (2013) highlight the importance of a strong identity in order to combine the two logics and keep or gain legitimacy from the stakeholders. This idea will be further evaluated and critiqued in the following sections by introducing stakeholder theory to provide the subject of analysis, the individuals and organisations that need to be convinced in order to achieve legitimacy, and social capital afterwards in order to evaluate the network of stakeholders, the ties with them, and the cognitions they are embedded in.

Stakeholder Theory

The stakeholder theory was most prominently introduced by Freeman (1984) in his landmark work “Strategic management: A stakeholder approach”. Opposite to the previously dominant stockholder or shareholder view it puts an emphasis on the management of multiple stakeholders with the shareholder only being one among many (Freeman, 1984). Stakeholder theory then “views the corporation as an organizational entity through which numerous and diverse participants accomplish multiple, and not entirely congruent, purposes“ (Donaldson & Preston, 1995, p.70).

Donaldson and Preston (1995) criticise the lack of precision of stakeholder research and identify three research directions. First, there is the descriptive stream of research that focuses on analysing the constellation of cooperative and competitive interests and their respective intrinsic value. Second, the instrumental direction that examines the effects of stakeholder management by looking for and analysing the potential connections with various performance goals, most prominently financial goals in for-profit enterprises. In the context of social enterprises the goals are more likely to be associated with the social impact or value created. Last, the normative stakeholder research that identifies the individuals or groups with legitimate interests into an enterprise, be it its processes, impact, or any other aspects of its activities. All have in common that stakeholder theory is always managerial. This means that besides explaining it also always produces recommendations of some sort for the attitudes, structures, and practices that should be applied, which Donaldson and Preston (1995) link to John R. Commons‘ famous ‘going concern’ idea.

Although, Donaldson and Preston (1995) provide a good framework to structure stakeholder theory, the concept ‘stakeholder’ is still quite ill-defined. An early definition from the Stanford Research Institute (SRI) definition states that stakeholders are "those groups without whose support the organization would cease to exist" (SRI, 1963; quoted in Freeman, 1984, p.31). Freeman himself applies a broader definition by including “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (1984, p.46). Generally, one has to conclude that the definition of stakeholder highly depends on the enterprise. Particularly in social enterprises, the relevant stakeholder will be more closely related to the impact an enterprise has on society rather than to its financial returns.

Mitchell, Agle and Wood (1997) provide a framework that helps defining and prioritising stakeholders. It is based on three dimensions.

First, stakeholders can be determined by looking into the power they exert over the enterprise. This dimension is closely related to the definition of stakeholders by the SRI (1963). Three types of power are identified in Mitchell et al.’s paper. Coercive power describes the ability to use physical resources of force to achieve the respective goals. An example of such force would be the government by imposing regulation (and enforce it by its law enforcement agencies). Utilitarian power on the other hand describes the power exercised through financial or material resources. A typical stakeholder possessing utilitarian power would be the shareholder. Lastly, the normative power consists of symbolic resources that some stakeholder can apply. This kind of power is available to most stakeholders regardless of their participation in the processes of the enterprise. An NGO for example can exercise a lot of power over a company by creating attention through for example demonstrations in front of a site of the company.

The second dimension to analyse stakeholders is legitimacy. This idea closely correlates with the normative stakeholder research stream. Suchman defines such legitimacy “as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (1995, p.574). This dimension takes into account the societal level and the impact of an enterprise in that regard.

Third, the urgency of a stakeholder claim defines how important it is to address or consider it. The urgency is determined by two criteria. The time sensitivity of a claim is particularly important in deciding when to address or consider the claim. The importance or criticalness of the claim to the stakeholder, on the other hand, determines how much attention should be paid to this claim in general.

Typical stakeholders of a company, deriving from the classical value chain, are the suppliers, employees and customers, also called economic stakeholders (Johnson, Scholes & Whittington, 2011). Obviously, the shareholders or more generally spoken capital providers hold a large stake in every enterprise. Not necessarily directly connected to the company but commonly identified as stakeholders are the government, other political groups (e.g. NGOs), communities, and trade associations (Freeman, 1984).

Due to the nature of social entrepreneurship (chapter 2.1), stakeholders vary drastically compared to for-profit businesses. Whilst the power dimension is the most commonly used method to determine a stakeholder in for-profit companies (Johnson et al., 2011), social enterprises will be more likely to consider the legitimacy and the urgency of the claim into closer consideration. This leads to the fact that shareholders, which is one of the strongest and most powerful group among the stakeholders of a for-profit enterprise due to the utilitarian power they possess, are secondary for social enterprises. With the mission being defined as creating some sort of social impact (see chapter 2.1) the communities and other societal organisations move to the centre of interest.

Coming back to the question posed in this essay and the tensions arising from hybridity as described above, one has to highlight the importance of addressing stakeholders of both the commercial and of the social side of the enterprise. In order to further evaluate the management of the different stakeholders of social enterprises the concept of social capital is introduced, allowing a more detailed view on the nature of the connections with the stakeholders and providing more detailed insights into how to manage such relations.

Social Capital Theory

Social capital as an idea dates back to the beginning of the 20th century, but the current theory is based on works of Bourdieu (1985) who provided a first definition. More influential were Coleman (1988) connecting social capital to human capital and most prominently the image of the lonely bowler put forward by Putnam (1995) that gained a lot of attention and sparked new research on the topic.

Bourdieu saw social capital as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (1985, p.248, cited in Portes, 1998, p.3). This definition therefore defines social capital as the resources that can be accessed through the network of relationships and not as the network itself. This perception changed with later researchers considering the network itself and the relationships as the social capital. Putman states, that "social capital refers to features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (1995, p.67). Portes as another example defines social capital as "the ability of actors to secure benefits by virtue of membership in social networks" (1998, p.6).

Three dimensions of social capital are commonly identified in the literature. First, structural capital describes the overall network of relations, including the network ties, the network configuration, and appropriable organisation (possibility to use networks for other purposes than the intended one) (Burt, 1992). Second, the relational dimension focuses on the kind and quality of the relations (Granovetter, 1974). This includes trust, norms and sanctions, obligations and expectations, and identity and identification (Nahapiet & Ghoshal, 1998). Last, the cognitive dimension is concerned with the shared codes and language, or a shared narrative (Nahapiet & Ghoshal, 1998). According to Nahapiet and Ghoshal (1998) each of these dimensions share that they establish some element of social structure and enable actors within the structure to act more easily.

Granovetter (1974) introduced the idea of the "strength of the weak ties", referring to the fact that in trying to find new employment a network of weaker but farther reaching ties is beneficial. This leads us to the differentiation between "bonding" and "bridging" social capital, a concept originally introduced by Gittell and Vidal (1998). Whilst the former highlight the social capital available to a closed circle of people as internal resources, bridging views emphasise the importance of external resources that are available through the network outside the actual community (Maak, 2007). The latter incorporates the aforementioned weak ties and Burt's (1992) "structural holes", referring to the absence of ties in which an individual can act as an information broker. Whilst some authors highlight one or the other as the better social capital, there is support for an integrative approach (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998).

Portes (1998) identifies two categories of sources of social capital. One is the consummatory source, consisting of value introjection (i.e. norms) and bounded solidarity (i.e. solidarity that is limited by the boundaries of the community). The other source is instrumental, referring to reciprocity exchanges (i.e. expecting some return in the future) and enforceable trust (i.e. knowing that return will come either through the community or be enforced by it). Besides the common perception of social capital as something positive (social control, family support, and network-mediated benefits). Portes (1998) also finds negative consequences in restricted access to opportunities, for example for ethnic minorities, restrictions on individual freedom, excessive claims (e.g. family members requesting a job despite lacking qualification), and downward levelling norms that depart from the mainstream norms.

The concept of social capital has often been linked to entrepreneurship in general, indeed, Gedajlovic et al. (2013) even consider it as the foundation theory of entrepreneurship. Whilst Nahapiet and Ghoshal (1998) argue that social capital facilitates the creation of intellectual capital thus providing an advantage to both newly founded enterprises and innovating companies alike. More specifically, Kwon, Heflin and Ruef (2013) show that social capital can act as a catalyst for self-employment, especially when the social capital derives from the membership in organisations connected to larger communities. Bauernschuster, Falck and Heblich (2010) find in their study that social capital can help overcoming resource constraints, particularly in the face of lacking venture capital. This is an interesting finding as it might be applicable to social enterprises. Because of the problems associated with hybridity, i.e. the lack of funding, the small communities probably react similar as the social enterprise environment. Thus, it can be argued that social capital can provide necessary means to secure required funding.

Since social capital can never be a one-way consumption of resources, it is important for a social enterprise to build relationships with its stakeholders that allow it to access resources embedded in such networks (Maak, 2007). This leads back to the idea of the legitimacy of a social enterprise. One important part is using the resources for mutually beneficial and responsible goals. If the cause is deemed legitimate, it is certainly easier to access the resources. Maak (2007) identifies the leadership of companies as the key to achieve beneficial social capital. The following chapter provides an insight into the combination of stakeholder theory with social capital theory and evaluate this relationship in further detail.

Discussion

This section provides an insight into the application of stakeholder theory and social capital theory to social enterprises to answer the research question of this essay. Furthermore, to conclude the discussion of the findings, they are applied to the case of "SMS for Life".

Maak (2007) points out that while the internal stakeholders of a company, most prominently the employees, are likely to share common norms and values, i.e. the cognitive social capital, especially external stakeholders might hold different beliefs. He argues that it is important to have similarly thinking stakeholders or to employ some bridging if that is not the case. Generally, the key task of a leader is to maintain positive stakeholder relations in order to be able to tap into the vast resources available through this network. In order to achieve this centrality a clear leader is required as its shaping the social capital enabling structures (Maak, 2007; Adler & Kwon, 2002). As the broker within the structural holes, the leader is able to build relationships with the different stakeholder and enable bridging between them.

It is important in this context to choose the stakeholders with which the enterprise is going to engage wisely in order to prevent unnecessary complications, thus a leader should only bridge holes with stakeholders that themselves have aligned interests (Maak, 2007). This leads to the idea that such connections should ultimately always create mutually beneficial outcomes.

Coming back to the initially mentioned tensions arising from the hybridity of social enterprises, one can apply social capital in terms of bonding mechanisms in order to align the internal stakeholders and mitigate such tensions. A potential danger in doing so is the cognitive lock-in which leads to organisational inertia and might prevent outside ideas and opinions from entering the enterprise (Uzzi, 1997). This is particularly problematic in the case of an enterprise that defines itself about the social embeddedness.
Maak (2007) then talks about the leader as a “weaver of value networks”, connecting stakeholders that add value to the enterprise. To clarify how those two concepts work in reality, a case will be presented in the following section.

In 2001, Novartis launched a collaboration with the WHO to provide Malaria medicine without profit in Africa. The Novartis Malaria Initiative distributed Coartem, an artemisinin-based combination therapy (ACT), to the local governments and worked on improving the process in order to lower costs, to improve the treatment, and most importantly to increase the access (Novartis, 2014; Moncef, 2012). The program “SMS for Life” is a venture that was founded to tackle the distribution problem. Text messages are sent to all participating health workers once a week to request an update on the stock situation of Coartem and provide new units if required. This improved the availability of Malaria treatments significantly (Moncef, 2012).

Looking at this case (facts about the program provided by Moncef, 2012), I believe it is safe to say that Novartis or more specifically Jim Barrington (“SMS for Life” program director) acted as a broker between the different stakeholders, providing everyone with the necessary information and also creating legitimacy. Whilst the former is mostly achieved through the connection of the business contacts of Novartis, such as IBM (Peter Ward) and Vodafone (Kevin Ferriday), with anti-Malaria initiatives and Novartis’ (Barrington’s) contacts in the medical industry, the latter was achieved by closely involving local health authorities (i.e. Tanzania National Malaria Control Program in the person of Dr Alex Mwita) and international organisations, such as the WHO-run “Roll Back Malaria” (RBM) partnership. But as an internal venture from Novartis it was important that the “SMS for

Life" program was also accepted by Novartis' internal and external stakeholders, making this a particularly interesting example. Despite working under the umbrella of Novartis, the "SMS for Life" program fulfils all the criteria of the definition provided in section 2.1 and can thus be considered social entrepreneurship.

Taking a specific look at the program and identifying the stakeholders that played a major role will provide the necessary foundation to show how they were brought together and aligned. Since "SMS for Life" as a Novartis project comes from the commercial and not the charity side, it is reasonable to start with the economic stakeholders. Being a for-profit enterprise, Novartis must report to its shareholders who appoint the board of managers. I therefore argue that the board of Novartis is the key player of providing "commercial" legitimacy to the project, i.e. initial funding (e.g. patents) and sustained support. Furthermore, partners that provide necessary resources such as Vodafone and IBM are important stakeholders mostly visible in the form of their respective project managers. Additional stakeholders are the employees of Novartis and of the program itself, other capital providers (e.g. Banks), R&D partners (i.c. Chinese medical R&D companies), and without going into too much detail most other stakeholders of Novartis. More important for the legitimacy of "SMS for Life" are the stakeholders on the social side. First, the stakeholders that are directly affected, including the patients and the health workers in the local African communities, and the government of the target country its respective (health) authorities. Second, there are the international organisations, fighting Malaria directly or indirectly, such as the WHO in the form of the RBM, Global Fund, and UNITAID, not forgetting the numerous NGOs that are engaged in fighting Malaria or illnesses in Africa in general.

After having identified the major stakeholders, that either have power (e.g. shareholders), legitimacy (e.g. WHO), or a large degree of urgency (e.g. patients), allows us to take a closer look at how "SMS for Life" was able to overcome tensions in its hybrid organisation. In order to maintain a reasonable scope of analysis the following section will focus on Jim Barrington as the key individual in enabling "SMS for Life". Prior to his position as director of the "SMS for Life" program, he was the Chief Information Officer (CIO) of Novartis. Through his personal relationship with Silvio Gabriel, the Executive Vice President (EVP) of the Novartis Malaria Initiatives, he learned of the problems in distributing the Malaria medicine Coartem. He sent René Ziegler to Zambia to evaluate the situation. Through him, they tied first connections with the Zambian Ministry of Health and local health worker, giving them the required insights to create a new venture that solves the problem (poor IT infrastructure and no control over the distribution once in the country (Ministry of Health)). Mr Barrington's good relationship with his superior, Novartis CFO Raymond Breu, enabled him to secure his sponsorship for the project, allowing him to resign as CIO and solely focus on "SMS for Life" and securing the support from the board. Mr Barrington and Mr Ziegler then relied on their (business) contacts to IBM and were able to convince Charlotte Newton and Jörg Sprengel for the project. With this set-up in combination with a student group they were able to design the solution which would later be known as "SMS for Life". The social capital of Mr Barrington in the form of numerous connections in the business world helped him to gather the required telecommunications expertise from Vodafone. More importantly he joined forces with Professor Awa Marie Coll-Seck, the executive director of the RBM Partnership. The RBM involvement provided the necessary legitimacy to gain further commercial, political, and NGO partners.

In 2009, the “SMS for Life” initiative consisted of multiple business partners and more importantly was supported by numerous not-for profit organisations. This enabled them to work with the African governments and overcome initial resentments. It also gave them direct access and allowed this project to be a success. This example shows well how social capital enabled entrepreneurship in a for-profit business that operated on a not-for profit basis with numerous commercial and charity partners and has a huge impact on the living standard of the people in Zambia, Tanzania, and other African countries.

Conclusion

Arguing that social enterprises are indeed hybrid organisations that follow social and economic goals simultaneously and that this leads to tensions within the organisation, the author introduces social capital as means to manage stakeholders, to overcome the tensions, and, most importantly, to provide legitimacy. With bonding social capital providing internal guidance and bridging capital bringing external stakeholders with opposing interests together, it can be concluded that both forms play an enormously important role in overcoming tensions and providing legitimacy.

The “SMS for Life” initiative provides a good example of both the facilitative role of social capital in innovation and the legitimizing role. Whilst social capital generally plays a big role in managing stakeholders and achieving an organisation’s goals, particularly social enterprises must rely on this form of capital due to the resource constraints and the conflicting nature of their identity.

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Comparison between Western and Middle Eastern Cultures: Research on Why American Expatriates Struggle in the Middle East

Ebba Ourfali

Introduction

Organisations in general are aiming at reaching as much markets as possible, which means interacting with different cultures and environments. Interacting with individuals with different backgrounds could result in miscommunication. The reason is that people from different cultures perceiving almost everything differently. Consequently, organisations are increasingly interested in people that have experienced and adjusted to different cultures as they are flexible in cultural adjustment. This flexibility helps an organisation in saving money by sending an employee who is capable of carrying over the assignment they were sent on successfully without damaging business relationships overseas. Therefore, this essay will discuss expatriates and their roles, what are cross-cultural issues, the difference between high and low context cultures, and a comparison of American culture and Saudi Arabian culture. This comparison could help in understanding why American expatriates, who are in heavy demand in Saudi Arabia, struggle when trying to adjust to the Saudi Arabian culture.

Expatriates in a Brief Overview

Expatriates are increasingly becoming important and are utilized by corporations all over the world due to global assignment that hold strategic importance to an organisation, such as new market development. For example, a survey of 103 organisations has shown that these organisations have more than 50 high-level managers, and between 200 and 2000 managers on global assignments (Caligiuri, 2000). Caligiuri (2000) claims that it is vital for an organisations to attract, select, develop, and retain employees who can live and work effectively overseas. Nevertheless, Ali and Azim (1996) argue that expatriates have different perceptions compared to individuals who lived in only one society because of their broader cultural backgrounds and experiences. However, scholars argue that due to the lack of competent indigenous workers organisations train employees to be flexible and internationally mobile (Bhuian, Al-Shammari, & Jefri, 2001). Consequently, expatriates started getting hired straight after the noticeable development of international business (Bhuian, Al-Shammari, & Jefri, 2001). Bhuian, Al-Shammari, and Jefri (2001) claim that there are two types of expatriates, organizational expatriates (OE) are sent by organisations overseas to complete specific assignments. The second type of expatriates according to Bhuian, Al-Shammari, and Jefri (2001) is self-initiated overseas expatriates (SIE), who are different to organisational expatriates, are hired individually by overseas companies on contractual basis. The latter is found heavily in the developing regions such as Middle, Eastern European, and

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South-East Asia because of the exodus of ambitious workers (Bhuian, Al-Shammari, & Jefri, 2001). In addition, Bhuian, Al-Shammari, and Jefri (2001) claim that the intense scarcity of capable workforce in some parts of the world, specifically the Gulf Cooperation Council, has increased the demand for expatriates in general. Due to the rapid and sustainable economic expansion of countries in that region a lack of human resources was increasing, which forced these countries to hire expatriates from all around the world (Bhuian, Al-Shammari, & Jefri, 2001).In specific, scholars claim that in the 1985 expatriates made up around 61% of oil-rich countries workforce, and 40% of their population. To clarify, Saudi Arabia is one of the strongest economies, if not the biggest, but the severe lack of skilled human resources forced the country to hire 4 million expatriates, who are mostly SIEs.

Therefore, expatriates were highly important for previously mentioned countries' long and short term strategic development plans, and that was shown in their heavy dependency on expatriates. However, studies have shown previously that expatriates have a different work orientation compared to individuals from the host country, which is due to their cultural experiences (Ali, Taqi, & Krishnan, Individualism, Collectivism, and Decision Styles of Managers in Kuwait, 2010).

Cross Cultural Issues

Expatriates that travel overseas to start working in a completely new environment and culture, which needs cross-cultural adjustment. Individuals from different parts of the world are raised in different ways, environments, languages, and from that they start developing their personality. For example, a person from Italy would be offended if someone else was asked formally to check their work (Hofstede, 1986). Consequently expatriates not only face difficulties adjusting to the host country's environment and culture, but difficulties are experiences when adjusting to the new organisational culture (Ali & Azim, 1996). Therefore, to fit within a new society after an individual starts living in a completely new culture that has different values and norms, they need to cross-culturally adjust. Cross-cultural adjustment is defined as the extent to which an individual are psychologically comfortable living outside their home country (Caligiuri, 2000). Values are defined as "broad tendencies to prefer certain states of affairs over others" (Hofstede, 1986, p. 5). Moreover, Hofstede (1986) claims that values are simply what leads us to feel that a certain thing is good or evil. In other words, Caligiuri (2000) claims that cross-cultural adjustment simply is "the individuals' affective psychological response to the new environment". Nevertheless, in cross-cultural issues there are problems that are subjective and others that are objective and both are influenced by individual's cultures. Subjective problems are focused around individual's qualities and tendencies, such as unwillingness to take responsibility. (Ali & Azim, 1996). Objective problems on the other hand is referring to problems that originate in a civilization, society, or organisation, such as tribal influence (Ali & Azim, 1996). On one hand, studies have shown that cross-culturally adjusted expatriates try to integrate themselves when approaching a culture, they try to absorb the hosting culture, and they adjust and integrate behaviours, norms, and roles to their basic culture provided by their home country (Caligiuri, 2000). Hofstede (1986) claims that since human beings' societies have been in contact with each other and cross cultural learning been happening. On the other hand, scholars claim that cross culturally unadjusted expatriates tend to view the host country's culture inferior to their home culture (Caligiuri, 2000). Furthermore, Caligiuri (2000) claims that they tightly hold on to their cultures whenever they can and they are unwelcoming to the norms, behaviours, and roles of the host country's culture .

For example, culturally-unadjusted expatriates tend to surround themselves with groups of expatriates from their home country's culture (Caligiuri, 2000). An explanation could be that individual's surrounding environment reinforces them in their traditional way, which makes learning hard (Hofstede, Cultural Differences In Teaching and Learning, 1986).

High versus Low Context Cultures

Different cultures around the world have different norms, behaviours, and actions, which in essence are different ways of communicating with one another according to their rules and principles. However, different actions and behaviours carry different meaning depending on the context and the culture. According to Hall and Hall (1987) context is the inseparable pieces of information that is surrounding an event and helps in giving the event some meaning. Different cultures communicate with different context, and that's why cultures can be compared on a scale from low to high context (Hall & Hall, 1987). Hall and Hall (1987) defined high context (HC) communication is where most of the information exist in the person and there is very little explicit information in the transmitted message. While low context (LC) communication has most of the information in the explicit and transmitted part of the message (Hall & Hall, 1987). For example, two lawyers in a courtroom will keep their communication low context and most of the information will be explicit (LC), but for two twins they would communicate more implicitly (HC) (Hall & Hall, 1987). Cultures that favour close personal relationships and have extensive information networks among colleagues, family, and friends are high context, such as Arabs and Japanese (Hall & Hall, 1987). Consequently, most daily activities does not require background information as these type of cultures stay up to date about everything to do with people that they consider important (Hall & Hall, 1987). Hall and Hall (1987) claim that cultures who separate themselves and stay discrete about every aspect of their lives are low context cultures, such as Americans and Germans. As a result, they find themselves in need of detailed background information when interacting with others (Hall & Hall, 1987). Hall and Hall (1987) argue that this difference in cultures will definitely affect each and every relationship if the two members were from the opposite sides of the scale.

Hofstede's Dimension

Hofstede is a psychologist that was working at IBM in the 1970s, and was able to create a statistically derived dimension model that was based on a data set from 64 nations and focused on measuring culture. Initially the results from the interviews were confusing and seemed meaningless, because Hofstede was focusing on an individual level. The breakthrough happened when the focus was shifted to the level of countries, and the correlation then needed an entirely different interpretation. According to Hofstede (2011) the definition of cultures is “collective programming of the mind distinguishing the members of one group or category of people from others.” Furthermore, Hofstede (1986) argues that this “mental programming” is a way to obtain, order, and utilise concepts that represents a culture. Hofstede developed a model that consists of several dimensions that together make up every culture.

These dimensions are power distance, masculinity versus femininity, individualism versus collectivism, long versus short term orientation, indulgence versus restraint, and uncertainty avoidance. That said, each culture falls at a specific point within the spectrum of the dimensions. Hofstede (2011) notes that the concept of ‘culture’ could be changed based on the level of aggregation. Scholars argue that there different types of cultures which are societal, national, organisational, and gender cultures, that are deeply embedded in humans’ brains compared to societal and occupational culture (Hofstede, 2011). According to Hofstede (2011) that societal culture exists in values, which means here the broad tendencies to favour states of affairs over others and it’s often unconscious. On the other hand, organisational culture exists in practices, which is the way individuals see what is happening in their organisational culture and it’s often conscious. In addition, Hofstede (1986) claims that individuals’ environment in which they grew up is what determines cognitive development. To clarify, if an individual has the occasion to do a something that is important to them frequently, then they will be good at it (Hofstede, 1986). More to the point, studies have shown that individuals process information and complement it with guess work significantly different to others from different societies (Hofstede, 1986). Nevertheless, the Hofstede’s model is being used to analyse differences between cultures on a national level, because the majority of the population’s unconscious broad preferences are analysed at this level (Hofstede, 2015a).

Power Distance

Hofstede (2011) has defined power distance as the extent to which the less powerful members of organisations and institutions accept and expect that power is distributed unequally. Furthermore, scholars claim that all societies are unequal, but some will be more unequal than others. Also, Hofstede (2011) argues that power distance may suggest that leaders and followers equally endorse society’s level of inequality. Societies that accept high levels of power distance are hierarchal and each individual has their place with no justification (Hofstede, 2015b). For example, in a high power distance culture subordinates are expecting to be told what to do (Hofstede, 2011). In contrast, individuals in societies with low power distance try their best to maintain equality in the distribution of power and inequalities of power need to be justified (Hofstede, 2015b). For example, subordinates in a society with low power distance would be proactive.

Masculinity versus Femininity

According to Hofstede (2011) the masculinity versus femininity dimension at a societal level refers to the distribution of values between the genders. The masculine side of this dimension represents societies that prefer achievement, heroism, assertiveness and material rewards for success, in general the society is competitive (Hofstede, 2015b). For example, in a masculine society both men and women are expected to be assertive and ambitious (Hofstede, 2011).

On the other hand, the feminine side of this dimension represents cooperation, modesty, caring for the quality of life and the weak (Hofstede, 2015b). For example, both men and women in a feminine society are expected to be modest and caring (Hofstede, 2011).

Individualism versus Collectivism

The third dimension the Hofstede added to his model was individualism versus collectivism. Hofstede (2011) claims that the collectivism side of the dimension measures the degree to which individuals in a society are united in groups. Furthermore, individuals in such societies that fall on the collective side are integrated strongly into groups that are often extended families that protects them, and in return the family expects unquestioned loyalty (Hofstede, 2015b). Moreover, societies that fall on the collectivism side prefer tightly-knit social framework, and individuals' self-image is defined as "We" (Hofstede, 2015b).For example, Hofstede (2011) argues that in societies that are collectivist maintaining harmony is a paramount. Its opposite, individualism, individuals in such societies are expected to look after themselves and their immediate families, and the reason is that ties between individuals are loose (Hofstede, 2011). In other words, individualist societies prefer loosely-knit social framework, and individuals' self-image in such societies is "I" (Hofstede, 2015b). For example, in individualism societies speaking one's mind is healthy even if it ruins harmony (Hofstede, 2011).

Long Term versus Short Term Orientation

Hofstede (2011) paper points out that societies that are at the long-term pole were found to be ordering relationships by status, cautious, and has a sense of shame. Furthermore, long term oriented societies are considered more pragmatic, and they take effort in contemporary education as they see it as preparation for the future (Hofstede, 2015b). For example, long term societies believe that good and evil depends on the circumstances (Hofstede, 2011). Nevertheless, societies that are considered to be short term oriented are usually reciprocating social obligations, respect for tradition, protecting one's face, and personal composure and stability (Hofstede, 2011). Also, short term oriented societies usually value traditions and norms even with the passage of time, they perceive societal change with suspicion (Hofstede, 2015b). For example, short term oriented societies believe that there are universal guidelines about what is considered good or bad (Hofstede, 2011).

Indulgence versus Restraint

Indulgence versus restraint is a fairly new dimension added to Hofstede's model recently. In this dimension indulgence refers to the society that allows unrestricted gratification of basic and natural human desires related to enjoying life and having fun (Hofstede, 2011).

For example, societies that are considered to be indulgent have higher importance for leisure (Hofstede, 2011). In contrast, it is shown that restraint refers to a society that suppresses or restricts indulgence of needs and regulates it by means of strict social norm (Hofstede, 2015b). For example, it's the exact opposite of indulged societies, where in restrained societies leisure has lower importance (Hofstede, 2011).

Uncertainty Avoidance

The final dimension that Geert Hofstede came up with and included in his model was uncertainty avoidance, which is concerned with society's tolerance for ambiguity. Hofstede (2011) claims that uncertainty avoidance indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Hofstede (2011) carried on describing unstructured situations as novel, unknown, surprising, and different from usual situations. In addition, cultures that avoid uncertainty try to reduce the likelihood of such situations by harsh behavioural codes, laws and rules, disapproval of unusual opinions, and a belief in absolute truth (Hofstede, 2011). In other words, the fundamental concept is how society deals with the idea of the future always being unknown, do they try to control it or just let it happen (Hofstede, 2015b). To clarify, a society with a weak uncertainty avoidance are comfortable with ambiguity and chaos (Hofstede, 2011). On the other hand, societies that have strong uncertainty avoidance need clarity and structure (Hofstede, 2011).

Arabs versus Americans

Based on the previous segment, we can assume that each culture scores differently on each dimension. In addition, with the increasing phenomenon of hiring, developing, and retaining expatriates it is important to understand how different cultures could have different effects on a business. That said, individual's national culture is likely to influence their perception and reaction to the world (Ali & Azim, 1996). Consequently, an expatriate with a huge gap between their culture and the host country's culture is likely to struggle in adapting or adopting local values and customs (Atiyyah, 1996). More to the point, Ali and Azim (1996) claimed that expatriate and Arab managers working in the Arab Gulf area demonstrate different work orientation and satisfaction when compared with each other. For the sake of this essay, two very different cultures will be compared, which are Arabic and Americans to help illustrate how different cultures affect business decision. Cross-cultural research has shown that managers' different decision styles are dependent on the pattern of individual, cultural, and organisation characteristics (Ali, Taqi, & Krishnan, 2010). For example, Ali, Taqi, and Krishnan (2010) claimed that in a collective culture decision styles that maintain and reinforce consensus, such as consultative style, is valued and emphasised (Ali, Taqi, & Krishnan, 2010).

On the other hand, research shows that, decision styles that are serving an individual's interest are embraced in individualistic cultures (Ali, Taqi, & Krishnan, 2010). Furthermore, Arabs in general tend to be more collectivist due to Islamic teaching and Arab traditions that has group loyalty, respect for family members, and remaining humble while interacting with others as a paramount, which in turn affects employees and managers in organisations (Ali, Taqi, & Krishnan, 2010). However, local Arabs are afraid of the effects expatriates might inflict on their local culture and identity (Atiyyah, 1996). Furthermore, Ali, Taqi, and Krishnan (2010) study have shown that even with industrialization and economic prosperity traditional civilisations remain collectivist. Scholars have claimed that even if Arabic managers worked in other Arabic countries with different cultures, they still follow basic Arabic culture principles (Ali & Azim, 1996). That said, Taqi, Ali, and Krishnan (2010) claim that Arab culture emphasises consultative and participative tendencies. Even though individuals would assume that an autocratic political atmosphere would create a conflict between the business communities and the political leaders, but on the contrary it supports them. (Ali, Taqi, & Krishnan, 2010). Furthermore, Arabs were found to emphasise consultation and they demand humility when dealing with others (Ali, Taqi, & Krishnan, 2010). Scholars have previously mentioned that due to different values, customs, language, and religion non-Arab expatriate find socializing really difficult (Atiyyah, 1996). Ali, Taqi, and Krishnan (2010) argue that if Arabs were to be treated with arrogance in any context, such as business, it could damage the relationships immensely if not end it completely. Nevertheless, a survey done in Kuwait showed that 60% of the 8,500 Kuwaitis they surveyed had limited and strictly business interactions with expatriates (Atiyyah, 1996). Furthermore, Ali and Azim (1996), which researched British and Indian managers in UAE, found that foreign expatriates expected a rational explanation for the decisions that have been made, which is not necessary in Arab work environment. Nevertheless, western highly-talented expatriates are paid the highest rates compared to other expatriates, but they struggle to adapt to the different managerial styles in host countries, such as authoritarian style (Atiyyah, 1996). More to the point, Atiyyah (1996) argues that the relationship between the expatriate's country and the host country will influence their adaptability to the host country's culture. The reason is that expatriates will fear having their visa or work permit revoked due to bilateral relationships deteriorating (Atiyyah, 1996). Also, a previous research has found that foreign expatriates struggle with subjective problems, such as personal relationships being more important than professional relationships (Ali & Azim, 1996). However, Atiyyah (1996) claims that in general western expatriates have the political relations, pay rate, and living conditions in their favour compared to Arab expatriates; Arab nationals' advantage is cultural continuity (Atiyyah, 1996). Expatriates that are coming from developing, non-Muslim, and non-Arabic countries have no advantages at all (Atiyyah, 1996). In addition, Ali and Azim (1996) claimed that foreign expatriates struggled with Arab managers' weak trust in theory and research, and with Arab managers' carelessness towards time. Atiyyah (1996) argues that the limited social interaction between the local Arabs and the expatriates causes homesickness and social isolation for the expatriates.

For the following segment the Geert Hofstede centre website will be used as a main source of information to help analyse Figure 1, which is a comparison graph between USA and Saudi Arabia. Regarding the first dimension in Hofstede's model, power distance, Saudi Arabia scored 95, which means the people accept being positioned in a hierarchy with no justification and subordinates expect to be told what to do. The USA scored 40 on power distance, which is less than half Saudi Arabia's score, which could mean that hierarchy might be present but the people require justification for their position and oppose inherent inequalities. Americans believe in liberty and justice for all, which is a strong emphasis on equal rights among the entire society. Furthermore, by referring to Figure 1 it is evident that Saudi Arabia is considered a collectivistic society compared to USA with a score of 25 and 91 respectively. In such community, loyalty is crucial for all members of that society and is stronger than any other rules or regulations. However, in the American society they are considered individualistic with a score of 91. These types of cultures are known for looking only after themselves and their direct families, which reflects a great difference in perceptions between the two countries. Nevertheless, both Saudi Arabia and USA scored in the masculinity dimension 60 and 21 respectively. A score of 60 for Saudi Arabia means that the population is driven by success and achievement, which is defined by the winner or the best in the field. Analysing USA's score of 62 in masculinity in a very individualistic society means an American individual will thrive for their individual success. Furthermore, Saudi Arabia scored 80 on uncertainty avoidance, which means the society and their codes of behaviour and belief do not accept untraditional behaviour.

On the other hand, USA scored 46 on uncertainty avoidance, which means they are fairly open to trying new ideas or different ideas. Saudi Arabia scored 36 on long term orientation, which is a low score. Societies that score low on long term orientation tend to focus on short term results and have great respect for societies. Similarly, USA's score is considered low at 26, which means the American society also focuses on short term results. For example, companies in USA measure success on short term basis (The Hofstede Centre, 2015). For the 6th dimension, Indulgence, Saudi Arabia scored 52 which is according to the Hofstede Centre is an unclear preference. However, the USA scored 68, which shows that the American society tends to work really hard but also indulge themselves really hard when it is due.

To conclude, it is obvious that expatriates are becoming increasingly valuable with globalisation growing rapidly, and technology is allowing societies to interact from opposite sides of the world. However, to be a valuable expatriate to the organisation the employee has to be cross culturally adjusted and not allow cross cultural issues to limit their abilities. Also, an expatriate that understands the difference between high and low context cultures and what dimensions make up a cultural helps them find a suitable approach to people from different cultures. Also, understanding the differences could allow an individual to think of a new way to interact with employees from different backgrounds. Finally, many differences were found by comparing the American culture versus the Saudi Arabian one and the only similarity in the two cultures is how competitive they are. However, the other five main dimensions that make each culture are almost opposite to each other, which helps explaining why American expatriates struggle to adjust in Saudi Arabia.

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What Factors Must a Social Enterprise Consider in Order to Obtain a Sustainable Competitive Advantage Through Innovation?

Josephine Tan

Innovation and Social Entrepreneurship

There is close alignment with the theories, characteristics and practices that are seen between innovation and social entrepreneurship. Social entrepreneurship, as defined by Zahra (2009), are the "activities and processes undertaken to discover, define and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organisations in an innovative manner". In order to achieve the social enterprise objective, innovation must be employed. Innovation is defined by Drucker (1985), as the "means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth". Through innovation, a social entrepreneur is able to achieve their goal of alleviating a social problem in the community. Social entrepreneurs act as change agents where they capture innovation in a methodical process where it establishes change in social equilibrium (Phillips et al., 2015). Often social entrepreneurs face innovation challenges that are similar to the traditional entrepreneur. These include limitations in available resources, access to financial capital and venture acknowledgement. Additional similarities between a social entrepreneur and the traditional entrepreneur when undertaking innovative activities is they have the ability to recognise and exploit opportunities to create value, they are leaders, initiative takers and they are committed in achieving their objective (Abu-Saifan, 2012).

To better understand innovation in the context of social enterprises and thus social entrepreneurs, there are a few critical factors that must be explored. These include the rising presence of social entrepreneurship in the literature and industry, the process a social enterprise must endure in order to achieve market recognition, what the implications of market acknowledgment entail and how best a social enterprise can achieve a sustainable competitive advantage through their innovations. From the exploration of these areas, the social entrepreneur will have a better understanding of what factors will contribute to innovative success and how a sustainable competitive advantage could be achieved.

The Significance of Social Entrepreneurship

Between 1998 and 2012, as seen in Figure 1, there has been an increase in the number of publications regarding social entrepreneurship, social innovation, the social entrepreneur, the social firm and specifically, the social enterprise (Phillips et al., 2015). This overall movement suggests the industry is legitimising and there is an increased attention in the topic. Along with this increased attention, however, is the disagreement over a typically

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universal definition for social enterprises. This occurs due to the young nature of the industry as well as the organisational type being subjective to the individual and their personal perceptions and experience.

Figure 1. Number of publications between 1998 and 2012

A critical element to consider in the development of the social enterprise field is that organisations were once typically categorised as for-profit entities where occasionally corporate social responsibility programs are enacted to benefit society, or alternatively, entities were classified as not-for-profit organisations where charity is at the heart of operations. In essence, the hybridised version of the two business models is the social enterprise where a social entrepreneur creates social value of some kind. The social entrepreneur pursues their social value creation goal through recognising and exploiting opportunities, employing innovation, tolerating risk and declining to accept limitations in available resources (Peredo & McLean, 2006). The traditional organisational forms of for-profit or not-for-profit organisations may have increased the recognition for which alternative approaches are needed to address social imbalances that the traditional business models do not accommodate for. It is within this mission that the social enterprise is finding innovative alternatives to alleviate these social issues as their distinct purpose of operations, whilst remaining economically sustainable. In trying to achieve this mission, the social enterprise faces the challenge that many entrepreneurs also endure which is the process of gaining recognition for their innovation.

Social Entrepreneurship: Three Considerations in Gaining Legitimacy

When a social entrepreneur attempts to gain a strong market position and recognition in their industry as a reputable venture, there are three factors the venture must evaluate and endure before they can achieve this acknowledgement. The process of gaining market legitimacy can be lengthy due to lack of information, the innovation not being practical and the last reason being that social enterprises will often experience increasing returns with their innovations (Young, 2011). Whilst the process may require consistent improvement and evaluation, as well as time, effort and financial investment, the social enterprise has the potential of gaining market acceptance. These three elements can be understood in social entrepreneurs, Muhammad Yunus's innovation of Grameen Bank. Yunus established an innovative credit system for the poorest individuals without collateral in rural Bangladesh. As Grameen Bank has the social objective of fighting poverty, it utilises credit as a weapon. The Grameen Bank has the purpose of providing credit to the poor that have been neglected from the banking orbit in which they do not meet the criteria typically required for financial assistance.

Lack of Information

When a market does not immediately recognise that a particular innovation should be adopted despite the product or process being a superior solution in comparison to what is in the marketplace, it could be due to lack of information (Young, 2011). When this occurs, a solution is likely to arise with the accumulation of information and education regarding the innovation. When sufficient information has been gathered by the market users or the community, it may become clear that the innovation is superior (Young, 2011). With this in mind, it is apparent why it would have been a slow process for the Grameen Bank to be accepted. The Grameen Bank has grown since its inception in 1976 to have lent more than $5.2 billion with a repayment rate of more than 98% (Christensen et al., 2006). Initially, Yunus had only 2% of bank borrowers being women; compared to the 98% of women he now attracts to borrow money (Esty, 2011). How information assisted this massive increase in women borrowers, is because Yunus realised that women used loans to improve the situation of their family more often than men did so this became a specific target focus (Etsy, 2011). The lack of information not only by the Grameen Bank but also the bank users curtailed the innovation. The differences between the typical Bangladeshi borrower greatly varies from the typical credit seeking individual in a developed economy. This lack of information results in the need for education and increasing the market awareness of not only the innovation but the concepts behind the credit system in order for the innovation to be accepted.

Practical Innovations

A second reason as to why the social entrepreneur's new innovation may take time to be adopted is because an innovation may not be efficient in practice and it will need to be refined over time. The social entrepreneur will have their social goal in mind but the knowledge, inputs and processes that are used to achieve their objective will need to be continuously reviewed to ensure it is feasible and practical in the marketplace (Young, 2011). How Yunus developed the Grameen Bank in a practical manner began with a field trip to learn about poverty. Yunus loaned small amounts of money to the impoverished villagers where he discovered that the poor were true to their word and paid him back. In addition to this, he discovered through months and years that they also pay back loans even without any collateral at higher rates than what the commercial banks imposed (Etsy, 2011). This is the initial moment where Yunus discovered he could implement a social entity with the purpose of alleviating poverty in an innovative and sustainable manner. With the combination of information and a practical innovation, Yunus evaluated his social enterprise and systems so that the innovative activities he planned to implement aligned with the marketplace dynamics he conducted his business within.

Increasing Returns

Thirdly, social innovations tend to experience increasing returns. This occurs as the social enterprise will find that their social objective requires coordinated change in expectations and behaviour by various individuals (Young, 2011). This further complicates and extends the innovation legitimisation process when the enterprise is directly dependent on multiple individuals and groups within the industry. There must be facilitation and interrelation between the parties for progression to be achieved. As Yusuf developed this new form of credit lending to the poorest Bangladesh citizens, the social entrepreneur is unable to simply institute the system on his own (Young, 2011). Firstly, the other parties and essential players in the market must enter into the banking concept and secondly, in order for the Grameen Bank to enforce the policies and models developed by the enterprise, there must be a level of acceptance by the Bangladesh society.

Achieving a Sustainable Competitive Advantage Through Innovation

When the social enterprise is able to overcome these market and implementation challenges, the market will have increased their awareness regarding that particular ventures objective and cause. In some innovations, this increase in knowledge and understanding brings the arrival of new market entrants and new competitors (Lee et al., 2003). These new players have recognised the chance to exploit the resources and opportunities that the entrepreneur has identified perhaps through imitation (Lee et al., 2003). Specifically to social enterprises, the diffusion of innovation and thus arrival of new entrants occur when a social innovation gains a foothold in a relatively small subgroup of individuals who are closely linked by geography or social connections to the service or product that the social enterprise is offering (Young, 2011). Once the innovation has become firmly established and legitimisation has been recognised within a local social community, it disseminates to the rest of society either through a purposeful or natural social network (Young, 2011). This is where the arrival of new competitors is apparent and the arrival has the potential to saturate the market.

The result of competition influx is that the social entrepreneur must continuously and regularly innovate all of their activities so they remain ahead of the new market players (Christensen et al., 2006). If the social entrepreneur fails to innovate their services and activities, the competitors will encroach upon their market space; obtain market share and potentially customer loyalty (D'Aveni, 1994).

One way in which the entrepreneur can protect their venture and thus market position, is through business model innovation (Christensen et al., 2006). Without a comprehensive business model, innovators will fail to deliver and capture value from their innovations (Teece, 2010). When a social entrepreneur consistently reviews their business model, they are able to better identify potentially successful new opportunities. A social entrepreneur, regardless of their mission, must develop a business case that further defines their product or service in detail so when they look at their business justification, they will have a detailed plan that will guide them in decision making situations where their market position or innovation is threatened (Christensen et al., 2006). When this is achieved, the social entrepreneur will have taken into account their position of legitimacy as well as guarding their position and innovation.

The S-Curve

A subsequent consideration that the social entrepreneur must evaluate in terms of gaining market legitimacy, and protecting their position against competitors, is their placement along the S-Curve. The S- Curve of innovation depicts the performance and growth of an innovation in relation to the variable of time. If a social enterprise can assess and evaluate their S-Curve positioning against their intended positioning, as well as where other market entrants may be placed, the entrepreneur is able to develop an innovation strategy that is suitable for their enterprise. With this information and understanding, the social enterprise will be aware of market changes, where their venture is located in response to external threats and ensure they are leveraged against their competitors. The firm is also able to reinvent themselves, or make the necessary changes against externalities before it is too late (Nunes et al., 2011). When the S-Curve location has been identified, it will provide the social enterprise with the justification they require in making certain decisions as the necessary information in formulating a justified strategy will be acquired.

Innovation Strategy

An innovation strategy is a method in which the venture can ensure they protect and defend their existing competitive position and it is a guide to the enterprise regarding the roadmap of where they want to go and how they will get there. When the entrepreneur is clear in terms of the direction they would like to achieve, the social enterprise will have a much greater competitive position in terms of current positioning and future viability. This is critical for social enterprises when their resources and financial aid may be limited. Pisano (2015) explores how the development of an innovation strategy can be useful in improving innovation efforts when the innovation objective aligns with the social business strategy. The implementation of an innovation strategy ensures a company employs more than just the organisation's best practices as the capacity for innovation derives from the systems of an innovation approach. This is a coordinated set of interdependent systems and structures that dictate how the venture searches for alternative problems and solutions, deduct ideas into actual practical concepts and screens which projects get funded (Pisano, 2105). A social enterprise who fails to develop an innovation strategy will not be able to make the necessary trade-offs required in decision making. This is particularly important for the social enterprise due to the often conflicting double bottom line mission they seek to achieve which is their social and economic objective. An innovation strategy can assist the venture in decision making when conflicting priorities arise.

Along with the traditional S-Curve, social entrepreneurs must be aware of the hidden competition curve (Nunes et al., 2011). This curve records how competition in an industry may be changing. The successful social entrepreneurs will recognise the changes in customer needs that are developing and that are not being met by society (Lee, 2003). They will create the next foundation of competition in their market even as they exploit existing businesses that have not necessarily been accepted yet (Nunes, 2011). This is highly applicable to social entrepreneurs because whilst their purpose is to serve a social goal and to provide social value of some kind, they also aim to be economically sustainable and with this comes the inevitable arrival of competition.

Consistent Innovation for Protection Against New Competitors

When a social enterprise conducts consistent reviews and analyses the external and internal environment, this continual innovation process will become institutionalised. The innovation process includes assessment, design, development, systemisation and finally institutionalisation (Herrera, 2015). What this looks like to a social enterprise, is an assessment of the environment and business situation where capabilities and an opportunity analysis is conducted based on the resources available to them. For example, this could be expanding the community groups to which the enterprise currently serves based on the growing employees and capabilities they possess. During this stage, also known as “active sensing”, the employees may develop innovative ideas that are the foundation for the design or ideation stage (Herrera, 2015). From here, a select number of employees from the venture may “prototype” the innovation so the design can be tested. Then, the development stage will ensure the innovation is evaluated, improved upon if necessary and perhaps streamlined.

For example, if New Zealand based social enterprise FoodShare created a new food processing system, a select group of employees could implement the system on select working days or with select food departments. This ensures the team are able to identify any challenges or threats that may prevent effective operations and they are able to test the new system against the innovation strategy which would help the team define whether it aligns with the strategy the venture has developed. The third stage of the innovation process, as seen below in Figure 2, employs systemisation. This is where the FoodShare team working on the new system has decided to accept the new process in reference to the innovation strategy and if there is business alignment, documentation, organisation mapping and process integration will be undertaken (Herrera, 2015). Finally, the last stage involves institutionalisation which is embedding and scaling up across the entire venture.

With a social enterprise, institutionalisation may be challenging and time consuming as capabilities which may include the ability to learn new skills and processes, as well as resources to fund the new innovation may be limited. Timing, however, is essential in terms of when to invest and when to kill a project (Pacheco-De-Almeida et al., 2008). The social entrepreneur will need to facilitate the innovation process that is conducive to their working environment and their individual business situation, just like the traditional entrepreneur would need to do when undertaking innovative activities. In saying this, Herrera (2015) goes on to explore the importance of innovation being the most powerful when the firm is able to implement organisational systems and structures to institutionalise the innovation. This crucial element is the distinguishing factor between social enterprises and entrepreneurs who establish sustainable practices and potentially competitive advantages opposed to the enterprises which do not (Herrera, 2015).

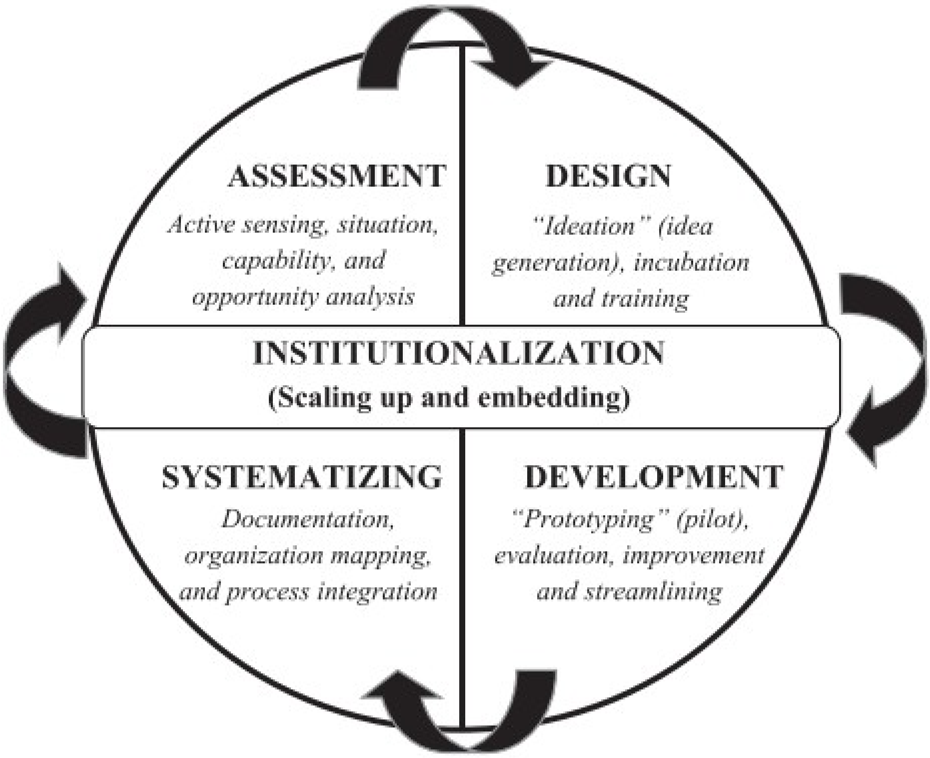

Figure 2: The Social Innovation Process

The Innovation Window

Within each innovation there will be two S-Curves. The first S-Curve entails the original strategy that was used for the innovation and the second S-Curve is used to show the new growth strategy. There is a gap between these two strategies which is known as the "innovation window". Theoretically, the time for successful innovation is within this window as this is where market opportunities are positioned. However, innovators are uncertain of when the innovation window is open due to many unforeseen factors. These could include changes in technology, consumer preferences or economic market crashes. With this in mind, innovation must be a continual process opposed to a 'stop and search' method where the industry and new innovations are periodically reviewed. When innovation is a continuous process, the social entrepreneur can attempt to unceasingly search and identify the window of innovation at all times to ensure they are able to seize opportunities that they may cross paths with.

Open Innovation

One way in which the social enterprise may be able to better identify the window of innovation and new opportunities is through open innovation. This is the process of an organisation commercialising their in- house ideas, as well as the innovations that have been searched for beyond the entity boundaries (Garriga, 2013). Open innovation features initiatives like collaboration with external entities for knowledge creation, crowd-sourcing and access to otherwise unavailable resources (Garriga, 2013). In the context of social innovation, the activity is not undertaken by the single entrepreneur (Phillips, 2015). Innovation is a collaborative process which is influenced by collective sharing of knowledge and resources between various organisations and institutions (Chell, 2010). The social entrepreneur looks to sources such as the individuals directly affected by the social issue, venture capitalists and even other social entrepreneurs.

The reason collaborative innovation is beneficial is explained by Aristotle's quote, "the whole is greater than the sum of its parts". When interaction between different sources is facilitated, it not only promotes the generation of new knowledge, but it also assists the social enterprise in developing new capabilities that can be useful in their innovative activities. Open innovation may be especially relevant to social entrepreneurs as they face limitations in resources, capabilities and funding. When a social enterprise looks to openly innovate, they will increase their opportunities for accessing dynamic capabilities and competences. Dynamic capabilities qualify an enterprise to appropriately respond to changes in the business environment (Gebauer, 2011). When a venture is able to create new strategic options, they are able to increase their performance, and the possession of dynamic capabilities improve competitive advantage both directly and indirectly as the enterprise is able to sense and respond strategically to opportunities and threats (Gebauer, 2011; Herrera, 2015). This results in the social enterprise being able to better serve their specific social cause as they have accessed a greater range of core competences that they can employ in their everyday activities. The social enterprise may also develop more efficient and effective processes in the tasks they employ which ensure the ventures focus can be directed to the significant issues they aim to alleviate opposed to systems and procedural management. In saying this, for the social entrepreneur to achieve these levels of open innovation, it is essential healthy business relationships are developed which requires high levels of trust. In order for the exchange of resources and collaboration to occur, there must be a social system that fosters this connection and purpose.

Conclusion

From the exploration of these various topics including the significance and contribution of the social enterprise, how social entrepreneurs have overcome challenges in legitimising their innovation, what the innovation cycle looks like and how a social enterprise can obtain a sustainable competitive advantage, it is clear there are many interrelated and complex factors regarding innovation in the social enterprise context. Each element discussed has a flow on effect to the next factor and all elements are essential in order for a social enterprise to understand what contributes to innovation success. The social enterprise must assess and take into consideration these concepts in relation to one another so they are able to implement and achieve their social goal. The social enterprise must also ensure each system and activity is tailored to their specific offering as no two businesses will operate in the same manner despite having a similar objective. When these elements have been considered and adapted to the individual social enterprise model, the venture may achieve a sustainable competitive advantage through innovation.

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Zespri in North-East Asia: Analysis of New Zealand Kiwifruit in China, Japan & Korea

Max Westropp

Introduction

This essay will look to explore and analyse the relationships of New Zealand's largest horticultural exporter Zespri with China, Korea and Japan. Due to the fact that both Zespri and these Northern Asian nations are critical to New Zealand's economy, it only makes logical sense to research and analyse the reasons pertaining to their importance to New Zealand.

To be able to critically analyse why Zespri is so profitable within the Asian nations as compared to their own domestic industry, the theoretical model "The Competitive Advantage of Nations" developed by Michael Porter (1990) will be used to show how the New Zealand kiwifruit industry is much more profitable than their Asian equivalents. A comparison will be conducted, followed by recommendations and future growth opportunities that can be taken advantage of in these three different markets by Zespri.

The New Zealand Kiwifruit Industry

Kiwifruit is one of New Zealand's (NZ) more important agricultural commodities, with it being the largest horticultural export for NZ. It is managed and sold by a single desk exporter called Zespri, which accounts for roughly 30% of all internationally traded kiwifruit that supplies 55 countries. It is 100% owned by 2700 current and former growers, and has supply arrangements with over 1200 offshore growers (Zespri Kiwifruit, 2013). In 2014, kiwifruit growers produced approximately 98 million trays for export (New Zealand Horticulture Export Authority, 2015) from 11,250 productive hectares. New Zealand produced kiwifruit exports were valued at $930 million in 2014, showing an 11% decline on sales from the record breaking $1.04 billion worth of kiwifruit sold in 2012.

Season (to 31 March)	2008	2009	2010	2011	2012	2013	2014
Trays submitted (million)	102.0	109.4	107.0	105.9	119.5	105.7	97.69
Trays sold (million)	92.4	100.0	98.6	98.1	109.1	101.3	95.1
Yield (trays/ha)	8,371	8,866	8,546	8,255	9,556	8,621	8,684
Planting (ha)	12,186	12,337	12,525	12,825	12,500	12,263	11,250
Growers	2,727	2,710	2,711	2706	2,662	2,636	2,556
Packhouses	75	71	71	67	63	59	46
Coolstores	83	92	77	83	79	76	77

Source: Zespri Annual Review 2011/2012

Figure 1

This assignment was for MANT439 Management in Asia
Supervised by Prof André Everett

Market	2012		2013		2014	
	Volume	Value	Volume	Value	Volume	Value
European Union	189,891	317,640,919	177,925	285,728,451	162,832	305,343,361
Japan	73,078	325,332,771	68,354	262,350,864	72,035	238,474,945
China	35,831	94,065,458	37,564	107,319,590	40,909	123,005,867
Taiwan	26,556	70,303,326	31,524	81,526,115	25,979	69,368,492
Korea, Republic of	28,130	77,899,572	17,210	43,184,050	17,329	44,300,422
Australia	18,829	45,439,018	17,823	42,195,533	16,444	33,392,197
United States of America	19,783	26,962,155	10,356	21,494,246	9,686	21,472,024
Hong Kong	9,147	28,172,244	8,925	27,897,934	7,072	21,462,466
Malaysia	4,552	12,239,926	4,505	10,795,708	4,579	11,864,023
Singapore	2,757	7,297,966	2,481	6,649,251	3,541	9,944,022

Source: http://www.hea.co.nz/index.php/2012-05-11-03-05-28/kiwifruit-trade

Figure 2: Top ten export destination for New Zealand

As aforementioned, Kiwifruit is New Zealand's largest horticultural export by volume and value, where it reached its peak in 2012 with sales over $1 billion dollars, but has since declined due to the PSA disease affecting crops. Figure 2 illustrates New Zealand's top 10 export destinations for kiwifruit, where the European Union has replaced Japan as the number one export market, and when both are combined, make up 59% of all kiwifruit exported. China is the third most important export destination, with consistent growth in exports valuing 31% over the 3 year period shown, even during the PSA crisis.

Critiquing the New Zealand Kiwifruit Industry

For all the benefits that the Kiwifruit industry provides for New Zealand, there have been a series of scandals involved with Zespri, and calls for an independent enquiry into Zespri, the Kiwifruit Export Regulations, and the Kiwifruit industry from a number of groups have been made. There are six main reasons that the Independent Kiwifruit Growers Association (2013) give as to why there needs to be an enquiry into the Kiwifruit industry:

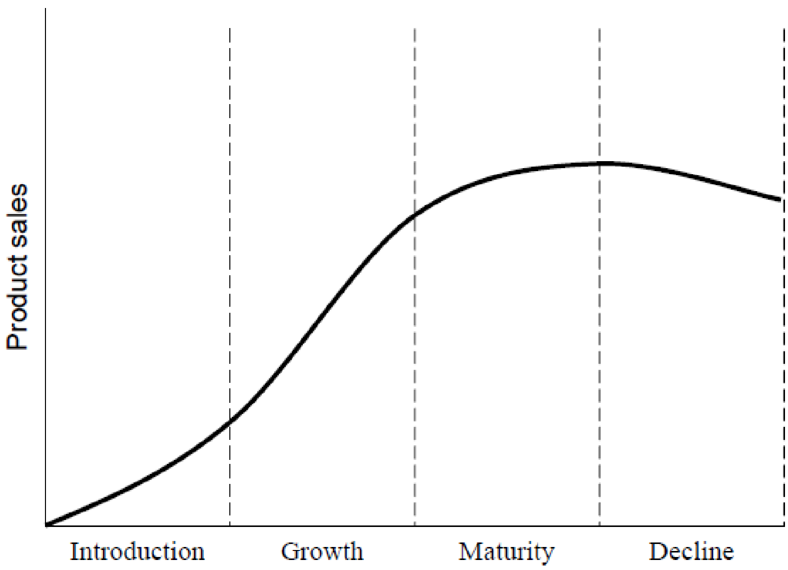
1) Government shortcomings at Zespri – Zespri's subsidiary ZMCC was found guilty of being an accessory to customs fraud in China, where it was fined NZ$1 million and had one of its staff members jailed for 5 years.
2) Less than a quarter of Kiwifruit growers three quarters of Zespri
3) Public good funded Kiwifruit varieties have been privatised
4) Kiwifruit Vine Health refuses to be subject to probity auditing
5) There is no effective regulatory supervision of Zespri
6) The regulations breach World Trade rules and infringe intellectual property rights and deny New Zealand growers access to non-Zespri Kiwifruit varieties.

These critiques are to inform the reader that the New Zealand Kiwifruit is not as stable as some make it out to be, and that this is an indication that future research should be conducted into this sector of New Zealand horticulture.

Product Life-Cycle Theory of Kiwifruit in New Zealand

Raymond Vernon (1966) product life-cycle theory was developed as a substitute to Heckscher-Ohlin's failed model on international trade. It is important to use this theory to analyse the New Zealand Kiwifruit Industry as it can be used to explain how a product becomes international through showing the change of production and costs as the product moves through the different stages. It will also indicate where the New Zealand Kiwifruit Industry is currently and what the future will hold next.

In Lehman's terms, Vernon (1966) argued that a product changes as it innovates from its original form to a mature product. Figure 3 indicates the four stages that a product goes through in its life: introduction, growth, maturity and decline. In its initial stage, there is a high degree of research, development, trials, promotion, slow growth and high costs of production. In its growth stage, sales and profits increase, and there is a level of growth in the domestic market. In its maturity stage, firms expand overseas as the product becomes standardised and the industry in the home country reaches maturity. In the decline stage, there is an expected decline in sales in the home market, which reduces profits and thus volume. However, the duration of each stage varies between industries.



Source: (Bano & Scrimgeour, 2011)

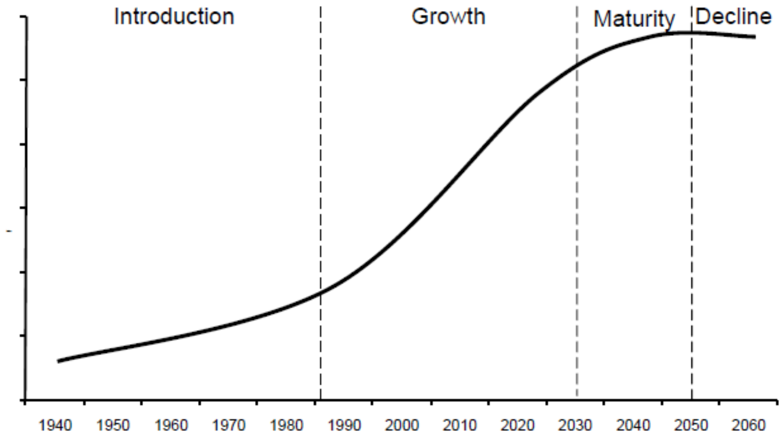
Figure 3: The Product Life-Cycle Theory

In regards to the New Zealand kiwifruit industry, history and current trends suggest that the industry is still in the growth stage of the product-life cycle because there still are falling costs due to economies of scale, increasing sales volume and profitability, and new players entering the market thereby increasing competition and driving down prices (Vernon, 1966).

At a shallow level, one might think that sales volumes of New Zealand Kiwifruit are decreasing and thus show that the industry has met its maturity, with sales volumes of 430,775 metric tons in 2012, to decreasing by 7% in

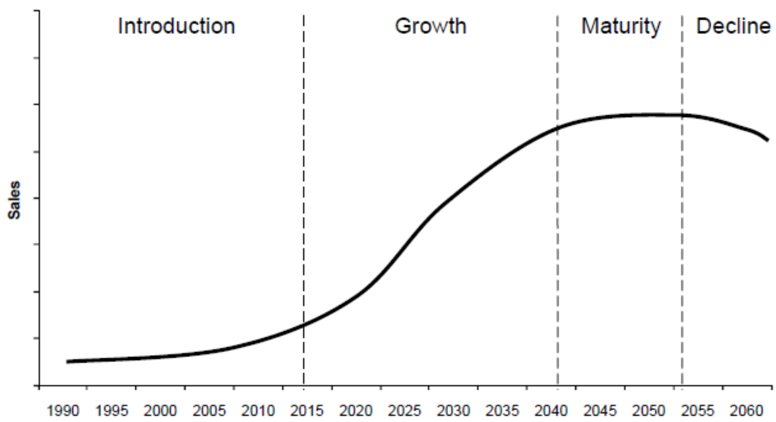
2013 to 399,351 metric tons, to another decrease of 4% in 2014 to 383,983 metric tons.

However, this decrease can be attained to the Psa outbreak that devastated New Zealand Kiwifruit crops in 2012. Nathan Guy, primary industries minister, stated “Psa was a major blow but there has been a good recovery. Forecasts from the Ministry of Primary Industries suggest that export volumes of gold kiwifruit could return to pre-Psa levels in the 2015 harvest season" (Porter D., 2014). Thus it is predicted, and expected, that sales volumes will continue to rise after this major setback. Profitability, like sales volumes, has taken a blow due to the Psa outbreak, but higher sales prices have increased revenue and a look at Figure 1 shows that yield per hectare has increased, thus reducing costs. There is also increased competition in the global kiwifruit industry, particularly from China. Bano and Scrimgeour (2011) from the University of Waikato produced predictions in 2011, based on the current trends at the time, of what they thought the product life-cycle for green and gold Kiwifruit would look like.



Source: (Bano & Scrimgeour, 2011)

Figure 4: Possible Product life-cycle of Green Kiwifruit



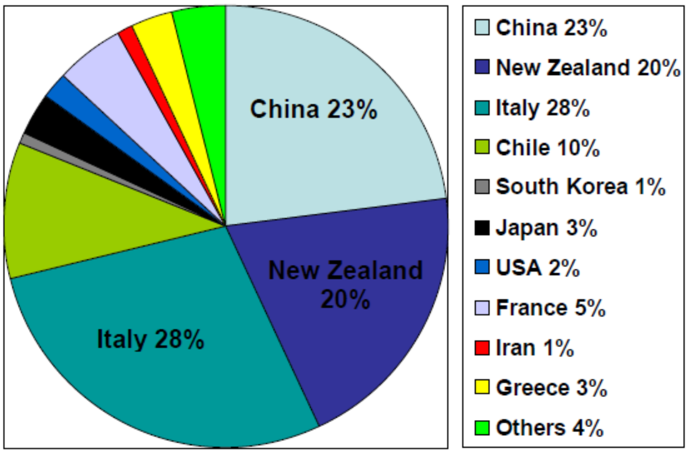
Source: (Bano & Scrimgeour, 2011)

Figure 5: Possible Product life-cycle of Gold Kiwifruit

What these two predictions tell us, is that New Zealand Kiwifruit still have the potential to grow further in the international Kiwifruit trade, for at least another 15 years before its begins to level out for both green and gold Kiwifruit.

The Chinese Kiwifruit Industry

The kiwifruit industry in China is a relative mystery, with the only reliable data coming from the early 2000s. This has limited the amount of information that can be used, but that does not mean assumptions can be made from what information is available.



Graphic: (HortResearch, 2006)

Figure 6: Top ten kiwifruit producing countries 2003-2005

In 1999, the total production of kiwifruit from China amounted to 165,000 metric tonnes and it was estimated to have reached 400,000 by 2006. If this productivity has continued, than Chinese annual production could reach 700,000 metric tonnes per year (Huang & Ferguson, Review: Kiwifruit in China, 2001). As can be seen from Figure 6, China was the world's second biggest kiwifruit producing nation. However, this only includes the harvested amount that have been taken from orchards. When taking into account that 170,000 tonnes was harvested from wild kiwifruit (this data is from 1980), it can be easily seen that China easily produces a significant amount of kiwifruit, potentially more than any of the top producers in 2015. From what is known, almost all Chinese produced kiwifruit is sold domestically with one-fifth to one-third being processed (Huang & Ferguson, Review: Kiwifruit in China, 2001). Chinese exports account for at most 1-2% of total production, but this may change as existing plantings mature (Huang & Ferguson, Review: Kiwifruit in China, 2001). What is most surprising about the Chinese kiwifruit industry though, is the lack of a national organization regulating the industry or coordinating marketing (Huang & Ferguson, Review: Kiwifruit in China, 2001), especially in a communist nation.

The Chinese industry faces a few issues that need to be solved in order for its kiwifruit industry to compete at exporting at an international level. Firstly, the commercially planted varieties are not very popular, and secondly, that the production is scattered among many small sections, managed by individual farmers (Anker-Kofoed, 2015). However, if China does solve its problems, than the effects of increased economic standards and the rapid expansion of supermarkets are more than likely going to create a strong Chinese demand for kiwifruit due to the rise of the middle class, which would benefit New Zealand tremendously as it already exports kiwifruit to China (Anker-Kofoed, 2015). These benefits are being felt, whereas of 2014, New Zealand currently exports 40,909 tonnes to China, which is valued at NZ$123 million and has a 0% tariff due to the FTA New Zealand enjoys with China. Zespri chief executive Lain Jager is now looking at doubling export earnings to NZ$3 billion by2025, where “China is a large and increasingly important market for us and is set to be our number one market by 2018” (Gray, 2014).

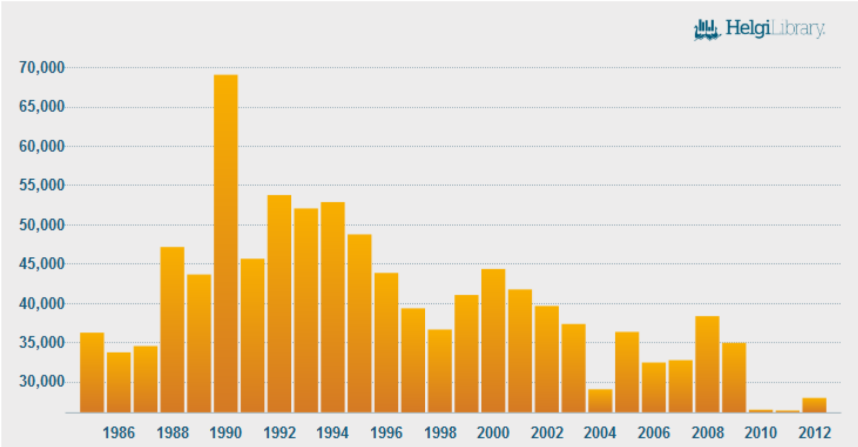
The Korean Kiwifruit Industry

The kiwifruit industry in South Korea is a highly competitive, very mature market that is quite familiar with kiwifruit and is seen with huge market potential for New Zealand kiwifruit. It is a large kiwifruit importer, but also a significant producer as it is counter-seasonal with New Zealand. Zespri made sales revenues of NZ$100 million in 2012-2013 in South Korea, down from the NZ$125 million it made in the previous year (Arrowsmith, 2014). A major reason for this was firstly, SunGold kiwifruit had a reduction in supply (it accounts for 35% of all horticulture exports to South Korea), as well as the significant tariffs New Zealand kiwifruit have to pay to enter the Korean market, which is 45% (Arrowsmith, 2014). New Zealand growers paid NZ$20 million in tariffs to this market in 2014 (Zespri, 2014). What makes this so significant however, is that Zespri’s major competitors already have FTAs in place, such as Chile, that will have 0% tariff by 2014, or the European Union, which will see a 0% tariff over the next 10 years. Compared with New Zealand’s 45% tariff on kiwifruit exports, it does not make much of an even playing field. However, New Zealand recently signed a FTA with South Korea, which will allow New Zealand growers to compete at a level playing field with its competitors like Chile and Italy.

The Japanese Kiwifruit Industry

Japan is a major importer of New Zealand Kiwifruit, which comes as no surprise due to the fact that the Japanese started importing New Zealand kiwifruit in the 1970s and have continued to do so well in to the 21st century without any indication of slowing down. Recent figures show that in 2013, even after the outbreak of Psa, Japan imported 59,426 metric tons of kiwifruit, a slight decrease on the previous year of 60, 297 (Lee-Jones, 2014). Even though the Japanese enforce a tariff rate of 6.4% on New Zealand kiwifruit, it is still New Zealand’s number one export destination, with an estimated value in 2012 of kiwifruit at NZ$325,332,771 million. The average Japanese household consumed 239g of New Zealand kiwifruit, spending ¥202 on the product in 2013, which is well higher than the average of 208g consumed and spending ¥165 respectively (Hey, 2015). These consumption rates come off the back of a record high purchasing price of ¥847 per kg. This indicates that Japanese consumers are extremely satisfied with New Zealand kiwifruit and want to pay more, due to the fact that they paid more despite the higher prices. This is in stark comparison to the local kiwifruit industry, where Figure 7 shows that less than 30,000 hectares of kiwifruit was planted in 2012. Even though this is an increase from the previous two years, the graph shows a continuous decline from 1990, suggesting that growing kiwifruit for the local market is not a viable option in Japan. Coupled with the huge amounts of imports from New Zealand as well as from other nations, it can be reasonably fathomed that the Japanese kiwifruit industry is not performing very well and is not a significant competitor to Zespri, but rather seen as a growing market opportunity.

Kiwi Fruit Production in Japan



Source: http://www.helgilibrary.com/indicators/index/kiwi-fruit-production/japan

Figure 7

Relationship between China & New Zealand

The relationship between China and New Zealand has developed very rapidly since the two countries established diplomatic ties in December 1972, especially in recent years. Within that time, the relationship between New Zealand and China has become one of New Zealand's most important, with the Asian powerhouse New Zealand's largest trading partner for goods and a major source of migrants, students and tourists (New Zealand Foreign Affairs and Trade, 2015).

The New Zealand-China relationship is often characterised by the frequent high level contact between the two governments, whether formal or informal, for dialogue on diversifying trade and economic flows for both nations, while strengthening person to person contacts. The contact between the two nations is regularly marked by official visits from the President, such as President Jiang Zemin visiting in 1999, President Hu Jintao in 2003, and President Xi Jinping in 2014. The current New Zealand Prime Minister John Key has visited China on 5 separate occasions during his tenure, where his latest trip saw Prime Minister Key and President Xi revise New Zealand and China's bilateral trade target to NZ$30 billion by 2020, which replaces the previous target of NZ$20 billion by 2015 (New Zealand Foreign Affairs and Trade, 2015).

As can be seen, trade with China has been greatly beneficial to the New Zealand economy, especially the export sector. This is a result of the establishment of the New Zealand-China Free Trade Agreement (FTA), which would eliminate 96% if tariffs on New Zealand exports to China. The FTA though far exceeded liberal expectations. It was projected that the FTA would increase New Zealand export revenue by NZ$225-NZ$350 million per year, but it in fact increased export revenue by NZ$1 billion in the first year (New Zealand Foreign Affairs and Trade, 2015).

Due to the success of the FTA with China, the New Zealand government launched its NZ Inc China Strategy in 2012, where Prime Minister John Key set out an ambitious 5 year plan that would strengthen political ties, double trade in goods, grow tourism by at least 60% and education by 20% (New Zealand Foreign Affairs and Trade, 2015).

Relationship between Korea & New Zealand

Bilateral ties between South Korea and New Zealand are founded on strong links that dates back to New Zealand's participation in the Korean War. New Zealand's contribution of soldiers was the second highest per capita, with New Zealand supporting the growth and development of the Republic of Korea heavily following the armistice which ended the conflict in 1953 (New Zealand Ministry of Foreign Affairs & Trade, 2014). One of New Zealand's support strategies was to assist South Korea entry into the United Nations, which has resulted in an excellent relationship with the Republic of Korea politically and economically.

Similar to China, high level visits in both directions are frequent. In 2010, New Zealand Prime Minister John Key and President Lee Myung-bak titled 2012 as a year or friendship between the two nations, to celebrate the 50th anniversary of diplomatic relations (New Zealand Ministry of Foreign Affairs & Trade, 2014). In 2013, John Key visited the Republic of Korea to meet the new Korean President Park Geun-hye and attend services marking the 60th anniversary of the armistice.

The importance of South Korea as a trading partner is undeniable, as South Korea's economy is the 13th largest in the world and New Zealand's 5th largest market for exported goods (New Zealand Trade and Enterprise, 2015). Two-way trade totalled NZ$3.485 billion in the 12 months prior to June 2013, with New Zealand exports (NZ$1.585 billion) made up of Primary goods such as logs, kiwifruit, dairy and seafood, and imports from South Korea (NZ$1.9 billion) made up of manufacturing, capital and consumer goods such as cars, electronic equipment and machinery (New Zealand Ministry of Foreign Affairs & Trade, 2014).

In 2009, Prime Minister John Key and President Lee Myung-bak officially announced the decision to negotiate a FTA, which was concluded and signed in November of 2014 at the G20 summit in Brisbane. This deal is being lauded just as important as New Zealand signing an FTA with China in 2008, due to the fact that New Zealand exporters were paying upwards of NZ$229 million per year in duties. Under the FTA, New Zealand exporters will save roughly NZ$65 million in duties in its first year, which will be eliminated completely within 15 years of entry into force (New Zealand Trade and Enterprise, 2015). This will put New Zealand exporters on a level playing field with other exporters who already enjoy FTAs with Korea, such as the European Union, the U.S. and Chile.

Relationship between Japan & New Zealand

Relations between New Zealand and Japan are strong to say the least, with a common view to see stability, growth and development in the potentially highly volatile Asia-Pacific region. New Zealand contributes to extensive Japanese interests through participation in regional security dialogues, as well as involvement in a group of nations who are committed to encouraging and promoting democracy, human rights and sustainable development (New Zealand International Business Forum, 2013). New Zealand and Japan both welcomed the proposed signing of a Memorandum of intent on Defence Cooperation as an example of increased security cooperation in the region.

Both countries also concur that there is significant importance to the successful conclusion of the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), so that closer, more integrated ties can be achieved between the two nations (McCully, 2013). New Zealand has for a number of years sought an FTA with Japan, but was unable to secure an agreement between both governments prior to Japan joining the TPPA. However, Japan joining the TPPA is beneficial to New Zealand as it enhances the possibility of a FTA between the two nations more considerably, as well as cementing the TPPA's credentials (New Zealand International Business Forum, 2013).

In the year ending December 2013, New Zealand exports to Japan were valued at NZ$2.94 billion dollars, which accounted for 5.94% of total New Zealand exports, making Japan New Zealand's 4th largest export market (New Zealand Ministry of Foreign Affairs & Trade, 2014). For Japan, engagement with New Zealand businesses is strategically imperative, as New Zealand supplies high quality goods such as aluminium, coal, wood, dairy products fruit and meat. New Zealand imports from Japan were valued at NZ$2.99 billion, which made up 6.38% of New Zealand imports, resulting in Japan being New Zealand's 4th largest import market (New Zealand Ministry of Foreign Affairs & Trade, 2014). For New Zealand, Japan is a major supplier of high quality vehicles, petroleum and other machinery. According to Japanese figures, the cumulative value of Japanese investment in New Zealand as of 31 March 2012 totalled NZ$6.8 billion (New Zealand International Business Forum, 2013), indicating the value and investment opportunity the Japanese see in New Zealand.

Analysis and Discussion

Porter's Competitive Advantage of Nation's (CAN)

Michael Porter's (1990) Competitive Advantage of Nations is a framework that resulted from a study of comparative advantage between industrialized nations. It is also the basis of this analysis that will look to compare the New Zealand, China, Korean and Japanese Kiwifruit industries.

Porter (1990) seeks to explain national competitive advantage through his theory after growing disillusioned by economic theories of trade in the late 1980s. The overall question that he is trying to answer is why some countries are more successful in a particular industry than others. He breaks down country attributes into four classes that make up that National Diamond, which provide the underlying conditions or platforms for the determination of national competitive advantage of a nation. These four classes are: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. Porter (1990) also proposes two other factors in impact of government and chance as external factors, which support and complement the diamond, yet do not create lasting competitive advantages.

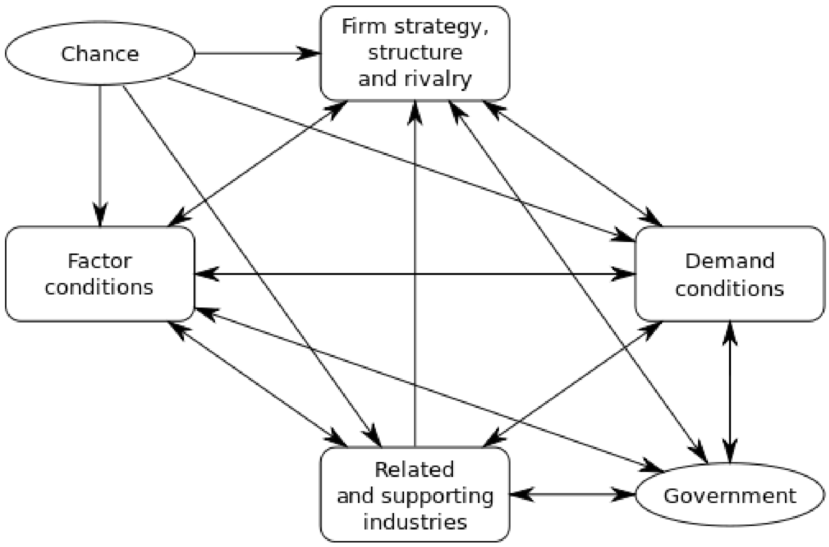


Figure 8: Porter's (1990) CAN model

Factor conditions
In traditional trade theories, factor conditions are defined as land, labour and capital. Porter (1990) however, creates his own categories: human resources, physical resources, knowledge resources, capital resources and infrastructure.
Demand conditions
Porter (1990) perceives demand conditions as a source of competitive advantage for a nation. Porter was not the first to use demand as factor, as it has been used previously in Linder's explanation of intra-industry trade (Smit, 2010). Porter though, focuses on demand differences than on similarities to explain competitiveness of countries. Porter (1990) regards the essential conditions of demand as a home demand that not just anticipates but leads international demand with sophisticated and demanding buyers.
Firm strategy, structure and rivalry
The third class in Porter's Diamond is firm strategy, structure and rivalry. The main condition underlying this class is that the strategies and structures of firms depend heavily on the national environment and that there are differences between business sectors in different countries, which determines how firms compete in a country, that ultimately gives them their competitive advantage (Porter M., The Competitive Advantage of Nations, 1990). According to Porter (1990), he assumes that realistically, firms are who compete internationally, yet it is the international competitiveness of a country that shapes the international competitive advantage of firms. It is the country's competitiveness that determines a firm's international competitive advantage.
Related and supported industries
Porter's (1990) introduction of related and supporting industries as a class of national competitive advantage has been viewed as one of the most important contributions to Porter's Diamond. Porter states that it is the external influence of related and supporting industries that provide the true

source of competitive advantage. It is these localised clusters that are a recurring them among developed economics, but are lacking in a developing countries.

Porter's CAN model applied to the New Zealand Kiwifruit Industry

Factor Conditions

Physical Resources. New Zealand has always been a country that has focused heavily on agriculture, with 42.8% of the country used as agricultural or horticultural land (The World Bank, 2015). The climate is quite temperate, especially in the North Island, making it ideal to grow various types of agriculture and horticulture. With the landscape in the North Island also being quite flat, it allows for more space to farm different types agriculture, hence why 79% of all Kiwifruit is grown in the Bay of Plenty (New Zealand Horticulture Export Authority, 2015). Water is also readily available to Kiwifruit growers, another advantage of this two island nation.

Human Resources. The workforce in the New Zealand Kiwifruit Industry are world pioneers, where each of the nearly 3000 growers for Zespri are using innovative, orchard management systems to produce higher quality Kiwifruit. These growers are well skilled and highly educated in the techniques and practices to produce world-class Kiwifruit (Zespri, 2015).

Knowledge Resources. In New Zealand, the Kiwifruit industry funds an entity called 'Kiwifruit Vine Health Incorporated' which engages in research and development programmes to combat Psa, using researchers from both New Zealand and around the world (New Zealand Horticulture Export Authority, 2015). Zespri is also highly committed to researching best practice growing techniques in the industry, to hand down to their growers to improve growth and yield whilst keeping the world-class taste (Zespri, 2015). For example, Zespri has the Agriculture Research Group on Sustainability to examine the environmental, social and economic sustainability practices of their farms to understand the impact these farms have on the local biodiversity. Growers have also set up the Focus Orchard Network programme to share best practice methods amongst other growers.

Capital Resources. The Global Competitive Index (World Economic Forum, 2013) reported that New Zealand placed 11th out of 144 countries on ease of access to loans, 14th on availability of financial services, and 9th on affordability of financial services. This indicates that New Zealanders, especially horticultural farmers, are well placed for access to extra capital if need be.

Infrastructure. The infrastructure quality in New Zealand is already up to a significant standard, with roads and highways allowing easy access for trucks to pick up trays of Kiwifruit and deliver them to the nearest Port, mainly the Port of Tauranga which is the closest in the Bay of Plenty region. The close proximity of these ports gives the Kiwifruit Industry a significant advantage in its ability to compete with others around the world, as growers can get their product quickly and efficiently to their export markets. Zespri also charters 55 refrigerated ships and 8000 refrigerated containers to carry the kiwifruits to 54 countries around the world (Zespri, 2015).

Demand Conditions

Such is the case with Fonterra and milk, the national demand for kiwifruit is largely underwhelmed by the available supply, thus meaning that in order for the industry to survive, it must export overseas. For example, New

Zealanders spend approximately NZ$26 million a year on kiwifruit, which averages at NZ$16 a household (Statistics New Zealand, 2014), but pales in comparison to the NZ$930 million made from exports in 2014. However, national demand still influences the industry as it illustrates to Zespri and its grower's consumer needs in the Kiwifruit industry far quicker than in overseas markets.

Related and Supporting Industries

Even though there is a large number of Kiwifruit growers present in New Zealand providing world-class quality Kiwifruit, Zespri has also employed 1200 offshore growers that aid in supply arrangements around the world, when the southern hemisphere season for growing kiwifruit comes to an end. Currently, 80% of Zespri's offshore supply originates from Italy and France (Zespri, 2014). However, due to the fact that Zespri operates as a single desk exporter for all growers in New Zealand, there is little competition between growers except when exporting to Australia. But, the government, which will be discussed in depth later, and Zespri play an important role in ensuring that the quality of New Zealand kiwifruit is suitable to fit its title as a premium product. This is done through a strong emphasis by both entities on research and development, and innovation.

Firm Strategy, Structure and Rivalry

As mentioned earlier, the kiwifruit industry in New Zealand has a single desk exporter that markets and sells the kiwifruit produced to foreign markets beyond Australia. This structure is widely seen as very popular, with a recent referendum proposed by the Kiwifruit Industry Strategy Project (KISP) asking growers to vote relating to the long-term grower ownership, funding and structure of the kiwifruit industry. Initial results show 90% of growers support the current industry model, with 60% of growers representing 80% of kiwifruit production turning up to vote (The New Zealand Herald, 2015). This in effect means that there is no rival company or firm to Zespri at an international level. But this is where the importance of local rivalry and home demand play a critical role. Firms are forced to innovate and improve in the New Zealand market, even if it is rather small in comparison to the international export earnings, with the most successful growers passing on these methods to other growers and Zespri, who in turn continue to innovate or take the suggestions on board.

Impact of Government and Chance

Zespri is unique in the sense that it has its own legislation in New Zealand that in effect makes it monopoly, protected from any competition by statute (beyond Australia). This interference by the government would be seen by Porter (1990) as anti-capitalist, with his interpretation when he created the Competitive advantage of Nations model that the role of government should be limited to encouraging companies to raise their performance, stimulating early demand for advanced products, focusing on specialized factor creation and stimulating local rivalry by limiting direct cooperation. The role that the New Zealand government plays in the Kiwifruit industry does not always meet Porter's criteria, but that can be attained to the crisis that engulfed the Kiwifruit industry in the late 1980s. The rapid expansion of orchards that produced large crop volumes went well beyond global demand, as well as a stronger New Zealand dollar and high interest rates at the time, coupled with multiple exporters competing with each other drove kiwifruit prices into the ground. To stop this nose-dive before the collapse of the industry, the New Zealand government and growers colluded to establish a single desk exporter, Zespri. This has provided a united grower-owned platform, like Fonterra's, to deliver world-class New Zealand grown kiwifruit to the world. The New Zealand government's role in Zespri and the kiwifruit industry currently, is to stimulate innovation (due to the lack of any competition). This can be seen through investments such as the 2009 NZ$35.7 million initiative by the New Zealand government into a seven year Plant & Food research programme to develop new kiwifruit varieties (Zespri, 2009). Zespri (2015) also states that government invests in total with Zespri, approximately NZ$20 million per year in research to develop a sustainable, premium product. Zespri has also thanked the government for its help in supporting the industry through the Psa outbreak, outlining how important the government is to Zespri and the kiwifruit industry (Collen, 2015).

Chance also plays a significant role in the New Zealand kiwifruit industry. Many areas in the country are exposed to extreme wind and rain events, where strong winds can damage property and cold fronts can lead to heavy rain, resulting in flooding (United Nations Food and Agriculture Organization, 2007). Droughts also occur, usually, east of the main dividing ranges. All of these factors that are out of human hands can severely affect the kiwifruit industry. Diseases such as the Psa that has devastated New Zealand crops also have a relative degree of chance that it will occur on these shores, that needs to be taken into consideration.

Porter's CAN model applied to the Chinese Kiwifruit Industry

Factor Conditions

Physical Resources. China is a country with vast terrain territory, which includes five different climate zones from the south to the north of the country. It is home to rich plant and animal resources. According to the World Bank (2015), China in 2012 had 54.8% of its land area dedicated to agricultural and horticultural use. China also has easy access to property, plant and equipment that would be required for the kiwifruit industry due to the nature of its industrial economy. It is also the native home to the kiwifruit, where it was estimated that there was 170,000 tonnes of harvested wild kiwifruit alone, in 1980 (Huang & Ferguson, Review: Kiwifruit in China, 2001). It is a fair assumption to make then, that the climate, soil and temperature are perfect growing conditions for kiwifruit.

Human Resources. Within China's total labour force, 35% or 300 million people are dedicated specifically to agriculture (National Bureau of Statistics, 2008). However, the number of workers who are skilled to work on a kiwifruit orchard is unknown. Huang and Ferguson (2001) state that one of the issues facing the Chinese kiwifruit industry though is that there are difficulties in managing production and control of kiwifruit and chemical use respectively, because there is no overarching government organisation maintaining and regulating the industry.

Knowledge Resources. In the Global Competitiveness Report (2013), it ranked China's tertiary education enrolment as 83rd in the world, as well as its availability of research and training services, critical to kiwifruit growing, as 62nd in the world. The report also ranked China's university-industry collaboration in R&D as 33rd in the world, indicating that there is room for improvement for the kiwifruit industry to take advantage of China's brightest minds. China's quality of scientific research institutions were ranked at an above average 41st as well. However, funding for rural compulsory education is fully provided by the government, which exempt students from compulsory fees and provides allowances for poor families (Asia Trade Hub, 2015). This allows for a greater number of people to get some form of education in agricultural training, so that they have the skills to make money for themselves and their families.

Capital Resources. The World Economic Forum ranked China's ease of access to loans as 32nd in the world, which is quite impressive for such a large country. It also ranked venture capital availability as 16th in the world, indicating that the Chinese government supports entrepreneurs and venture capitalists to pursue ideas. This bodes well for people who wish to start a kiwifruit orchard.

Infrastructure. China's total road network is ranked second in the world, where the predominance of rural roads makes up 90% of the total road length in China (Asia Trade Hub, 2015). It also boasts 65,000 kilometres of expressways, key for kiwifruit growers who grow their orchards outside of the main areas to get their product as quickly as possible to their respective markets. The World Economic Forum (2013) also found that the quality of roads in China were ranked at 54th in the world, which is impressive for a country as large as China in terms of size and population. But it also ranked China's overall infrastructure as 74th in the world, which can be improved on to better aid this industry.

Demand Conditions

As mentioned earlier, nearly all of China's production of Kiwifruit is sold domestically, before it is exported, which is why Chinese export for kiwifruit account to around 1-2% every year (Huang & Ferguson, Review: Kiwifruit in China, 2001). This indicates there is a strong home demand. However, China struggles to match even its home demand because one of the major issues facing the kiwifruit industry is the fact that the majority of commercial plantings are of unpopular varieties (generally meaning not Hayward). Also, the lack of competition from other countries means that the home market is not as sophisticated, a critical factor seen by Porter.

Related and Supporting Industries

As China currently enjoys FTAs with kiwifruit rivals Chile and New Zealand, it will also allow the presence of multinationals such as Zespri to drive the Chinese industry to innovate and compete at both an international and domestic level. Other industries such as the apple and pear industry are also competing with the kiwifruit industry for the finite amount of land available to cultivate horticulture (Asia Trade Hub, 2015).

Firm Strategy, Structure and Rivalry

China's kiwifruit industry in not internationally driven, but heavily domestically driven. Its main kiwifruit area is located in Shaanxi, which houses one-third of all kiwifruit orchards by the main kiwifruit cultivar Qinmei (Huang & Ferguson, 2002).

Impact of Government and Chance. As China is a communist state, government will always play a significant role in any industry within its borders. As mentioned previously, it is surprising how little government influences the kiwifruit industry though. There is the most important body, known as the Chinese Kiwifruit Development Association, where its primary role is to regulate production, establish quality control standards, produce guidelines for orchard management and establish marketing strategies (Huang & Ferguson, 2001). However, all these roles that are supposed to be implemented by this body have been the recommendations put forward by academic authors Huang and Ferguson (2001), as they see the infrastructure required to support the industry needing improvement.

China also faces severe flooding, drought and other natural disasters which can be considered as chance.

Porter's CAN model applied to the Korean Kiwifruit Industry

Factor Conditions

Physical Resources. South Korea's total land area accumulates to 98,190 square kilometres, with 17,560 sq km dedicated to agricultural land (Trading economics, 2011). It is a mountainous country with only 18.6% arable land. Its climate is temperate, but with minimal rainfall, not making it ideal conditions for kiwifruit growing when it's in-season. However, Korea is highly dependent on imports of raw materials and capital goods as natural resources are limited (Asia Trade Hub, 2015). South Koreans also have easy access to water, where it was measured that 97.8% of the population had access to water (Trading Economics, 2012).

Human Resources. Out of South Korea's total workforce population, only 6.9% are dedicated to agriculture, with over half of those farmers only involved with the cultivation of rice (The CIA World Fact Book, 2013). That leaves just 3% of the total agricultural workforce available for other agriculture or horticulture projects, like kiwifruit cultivating.

Knowledge Resources. When assessing Korea's educational resources, the Global Competitiveness Index (2013) found that it was the world leader at number one for tertiary education enrolment, meaning that the whole population has been educated in some form or another, thus creating a very knowledgeable society. Nevertheless, its availability of research and training services was ranked at a modest 31st, indicating that it is not a simple task to be retrained into another profession, such as farmers who want to move from rice cultivation into kiwifruit production. However, Korea was ranked 22nd for its capacity for innovation and 24th for its quality of scientific research institutions, illustrating that research into kiwifruit cultivation in Korea can give industry leading advice on crop techniques, ideal growing temperatures, etc.

Capital Resources. The Global Competitiveness Index (2013) also assessed the financial market development in Korea, ranking ease of access to loans at a staggering 118th, with venture capital availability close behind at 115th. This exemplifies that it is extremely difficult to start one's own business or procure funds to move into a new industry.

Infrastructure. As Korea is highly urbanized, the quality of its infrastructure is second-to-none. The World Economic Forum (2013) ranks its overall infrastructure at 23rd in the world, thus making it easier for businesses that are involved in agriculture that need to get their product to their markets as soon as possible.

Demand Conditions

Home demand for kiwifruit is very sophisticated, which in Porter's (1990) opinion is very beneficial to the local industry. This is due to the fact that Korea has signed multiple FTAs with high kiwifruit producing countries like Italy and Chile. This allows the home market to be flooded with various types of kiwifruit and giving the home consumer multiple options, thus making the consumer more sophisticated and driving the industry forward.

Related and Supporting Industries
The fruit industry in Korea is highly competitive, with kiwifruit only making up a small market share. There are also well established networks, as the majority of kiwifruit production takes place on Jeju Island, indicating a mini kiwifruit cluster on the island (NelsonMail, 2010).

Firm Strategy, Structure and Rivalry
The kiwifruit industry is already an established, mature market in Korea, The structure of the horticultural crops is different to other countries, as Korea grows its crops inside a sturdy tunnel house that is constructed with heave galvanised piping. Taking into consideration the minimal amount of available land to grow kiwifruit on, it can be seen that growers have small sized crops, with all these farmers in direct competition of each other.

Impact of Government and Chance
The Korean government's move towards total market liberalisation has been hailed by many industries and countries, as it allows for greater flow of capital and technology; imperative for many industries. The government is seen as getting rid of its protectionist policies through heavy tariffs and quantitative restriction, as well as interventions in the exchange rate (Oh-Seok, 2012).

As aforementioned, kiwifruit orchards are grown inside tunnel houses, primarily to protect it from typhoons that occur regularly in the region, minimising the chance of the orchards getting destroyed (NelsonMail, 2010).
Porter's CAN model applied to the Japanese Kiwifruit Industry

Factor Conditions
Physical Resources. Japan as a whole has very few natural resources, with the country heavily dependent on imports for raw materials. Japan experiences changing seasons, with the average temperature and climate ranging greatly from the north to the south. Currently, 12.5% of the total land area of Japan is used for agricultural purposes (The World Bank, 2015), and access to water is predominant around the country.
Human Resources. As of 2010, the total Japanese population engaged in agricultural activities amounted to 2.05 million people (Godo, 2013). Japan is also a big producer of kiwifruit when it is in season, and Figure 7 indicates that the Japanese are planting and harvesting their own kiwifruit, meaning that there are a sufficient amount of skilled workers in this particular industry.
Knowledge Resources. The World Economic Forum (2013) found that Japan ranked modestly in regards to its higher education and training, ranked 50th for its quality of education, and 37th for its tertiary education enrolment. What is most interesting though, is that in innovation, key for the kiwifruit industry, Japan ranks in the top ten countries in the world for nearly all factors. It is ranked 6th for its capacity for innovation and 9th in scientific research institutions, more than illustrating that Japan is an extremely knowledgeable nation.
Capital Resources. The ease of which a Japanese citizen can obtain access to a loan is relatively straightforward, with the Global Competitiveness Index (2013) ranking it 33rd in the world. The access to venture capital is similar, at 39th ranked in the world.

Infrastructure. Japan is one of the most highly developed nations in the world, with a well-developed network of roads and railways, with expressways that stretch from the north to the south of the country (Asia Trade Hub, 2015). Within the main cities, public transportation is easily accessible and reliable. The Global Competitiveness Index (2013) also rates Japan's infrastructure at 14th overall.

Demand Conditions

Similar to Korea, Japan produces a fair number of its own Kiwifruit (Figure 7), yet it differs as it imports the majority of its Kiwifruit from New Zealand (Japan-Guide, 2010). It is clear that the Japanese have a clear liking for the product, as mentioned earlier, by paying relatively high prices for kiwifruit. This creates sophisticated buyers as the Japanese market demand high quality kiwifruit, which has always been known as a premium market. Even as the overall fresh fruit consumption was stagnating in 2014, kiwifruit recorded its strongest June sales in kiwifruit history (Hey, 2015). This indicates that the home demand is continuing to grow, despite faltering's in fruit as a whole.

Related and Supporting Industries

The fruit industry is a competitive market in Japan, yet kiwifruit seems to be the only fruit that can continue to grow. Other fruits such as bananas have to compete with kiwifruit in order to keep its market share, yet high import prices and a weak Yen have driven up prices (Hey, 2015). The Global Competitiveness Report (2013) also ranks Japan's business sophistication extremely highly, with local supplier quantity and quality coming in 1st and 2nd respectively and its production process sophistication also ranked 2st in the world.

Firm Strategy, Structure and Rivalry

The kiwifruit industry is well known and liked in Japan, yet Japan is known as an importing nation and it's no different when it comes to kiwifruit. There is little to no information on the Japanese kiwifruit industry that does produce the kiwifruit for domestic consumption. It can be assumed that these crops are located in the Ehime and Sage prefectures, which is 800km south of Tokyo, because Zespri's 730 Japanese kiwifruit growers are based there (Zespri , 2011), and because Japan ranks 7th in the world for clusters (World Economic Forum, 2013), yet what firms are located there and how many are yet to be determined.

Impact of Government and Chance

The government plays a small but significant role in the kiwifruit industry, as it upholds a tariff of 6.4% (Arrowsmith, 2014) for New Zealand kiwifruit, but has FTAs with Chile and the European Union. This allows for greater movement for these kiwifruit producing nations than New Zealand.

Chance plays a significant role in Japan for the kiwifruit industry as it is prone to natural disasters such as tsunamis and monsoons, but also human error as well, like the nuclear meltdown that occurred in 2011. However, based on the information above, the kiwifruit growing regions are far enough away that they do not feel the full force of any natural or manmade disasters.

Comparison of New Zealand with China, Japan, Korea

Having applied the Determinants of Competitive National Advantage to the four countries, a comparison can now be conducted to examine the strengths and weaknesses of each individual country in comparison to New Zealand.

New Zealand and China face very different challenges for their respective industries. While the climate for New Zealand and China both suit kiwifruit, the limited home demand in New Zealand has left the country relying on exports for competitiveness while China solely relies on domestic consumption with no plans to begin exporting anytime soon. New Zealand's workforce is highly educated, that is constantly innovating its production, which is similar to Korea's and Japan's industry, but not of China's. However, China, Japan and Korea have greater access to human resources, all because of their larger population size, which will always be a hindrance for New Zealand.

The company structure in New Zealand, with every grower working under Zespri, almost sound like the perfect communist organisation which should be already happening in China, yet the overarching organisation is in disarray.

Access to capital was surprisingly very difficult for Koreans, while New Zealanders had the greatest access to loans compared to China and Japan, but China had the greatest access for its people in venture capital.

As the three North Asian nations are highly developed (China is not, but its infrastructure is very strong) with roads, express highways and access to efficient railroads. New Zealand however, does not have quality of infrastructure like these three nations.

The highest level of sophistication came from Korea, due to the large number of competing countries and firms in its kiwifruit industry. New Zealand, China and Japan also have strong home demand, where in New Zealand growers can compete against one another with their own brand in New Zealand and Australia, yet there is not enough demand to fill supply. In China and Japan, there is room for the home market to become more sophisticated, which would in turn boost their own kiwifruit industry.

All four nations have strong related and supporting industries, helping to give their industry an advantage. In New Zealand, the level of education and innovation boosts New Zealand's competitive advantage. In China, FTAs with Chile and New Zealand are driving the industry to fix its problems. In Korea and Japan, highly developed infrastructure, networks and clusters enable some form of competitive advantage for their industries.

New Zealand's structure of a single desk exporter is extremely beneficial to its kiwifruit industry, as there is a regulated quality on kiwifruit by Zespri, always ensuring only the best kiwifruit is exported. Yet there is absolutely no competition nationally against Zespri. However, to compensate for that, Zespri and the government invest heavily in innovation, so as to always have an advantage over its competitors. China would be the only other nation seen as a competitor internationally to New Zealand, but its focus on domestic consumption rules it out. Korea and Japan are seen as major importers of the fruit, with minimal production from their own industries.

The government in New Zealand is extremely supportive and protective of the kiwifruit industry, taking steps to ensure that the industry is performing to the best of its abilities. The New Zealand government provides yearly grants and investments in innovation for kiwifruit. This all makes sense as Zespri is New Zealand's biggest horticultural earner and the government wants to keep it like that, with the industry looking to double from NZ$1.6 billion to NZ$3 billion by 2018. The government in China as always is involved with their kiwifruit industry, but it's been neglecting it for some time, with changes needed to be made. The Korean government recently dropped its protectionist status on major country producers for kiwifruit, allowing unrestricted access to their kiwifruit market for the major producers of New Zealand, Chile and Italy. In Japan meanwhile, the government still upholds a 6.4% tariff on New Zealand but not for Chile or the European Union, similar to the situation in Korea.

Chance will always play a significant part in terms of natural disasters, where the damage and costs would be similar across these countries. Human disasters must also be taken into account after the nuclear meltdown in Japan.

Future Growth Opportunities

There are several growth opportunities available to Zespri that have been identified through the analysis. Firstly, now that a FTA has been agreed between New Zealand and South Korea, Zespri now has the opportunity to compete against its rival competitors in Chile and Italy in this premium paying market. Currently, Zespri owns 100 hectares in South Korea for growing Zespri SunGold kiwifruit, but this can significantly expand if need be, due to the FTA (Arrowsmith, 2014). South Korea also only makes up 6% of Zespri's total market sales, but it can now aim to be at a similar level to that of China's (10%) and Japan's (18%) (Arrowsmith, 2014). The FTA also frees up approximately NZ$20 million that would be paid as tariffs to the South Korean government, where Zespri can now distribute that money towards making a decisive push into this market.

Another growth opportunity that is presenting itself to Zespri is the potential signing of the TPPA, which will allow certain free trade agreements with Japan. As mentioned in the Japanese-New Zealand relationship section, New Zealand has been pressing for an FTA with Japan, to always be rebuffed. However, assuming the TPPA is signed, New Zealand will then have opportunities to navigate the Japanese market with greater access than previously allowed. However, this is all dependent on whether the TPPA is signed.

Within the Chinese market, Zespri is already taking advantage of the huge demand and the rising middle class by exporting close to 13 million trays in 2014 and 20 million in 2015 (Gray, 2014). However, Gold kiwifruit has been undersupplied in the Chinese market, as it fetches around NZ$9.30 a tray and NZ$5.30 a tray for green kiwifruit. Considering China only imports around 10% of Gold kiwifruit, it is definitely a variety of kiwifruit that can be exploited in the Chinese market (Gray, 2014).

Conclusion

This paper has analyzed and discussed Zespri and its relationship with its North Asian trading partners, China, Korea and Japan. It has been identified that these three markets are critical to New Zealand in terms of general trade and for New Zealand's kiwifruit industry. Using Porter's CAN model, a greater understanding of how these markets operate and the advantage that New Zealand kiwifruit have over these nations have been identified and discussed. Future growth recommendations have also been discussed, as the research identified gaps in the market that Zespri can take advantage of.

Limitations to this research paper predominantly revolve around the lack of information available on the kiwifruit industries of Japan, Korea and China. Research was either not published or heavily outdated. Assumptions had to be made in some cases.

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