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Influence of Strategic Factors on Early Internationalization of Small and Medium Enterprises in Nigeria

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Abstract

The study on strategic factors and internationalization of small medium enterprises (SMEs) has continued to gain attention across the globe as most indigenous organization desire to take their products and services to international markets. As such, this study tried to ascertain the influence of the strategic factors element of the early internationalization process and tendencies of firms going to foreign market within the period of one to five years which signifies early internationalization. Two different objectives emanated from that main goal: The first is to investigate the influence of firm orientation on early internationalization mode, and the second is to assess the relationship between early internationalization strategies and success of SMEs. Two hypotheses were tested in line with the objectives through the data collected from purposively selected twenty companies in various industries through standardized questionnaires. Both descriptive and inferential statistics was explored to evaluate the hypotheses and variable relationships. The findings reveal that strategic factors significantly affect internationalization of firms when organization put into consideration both external and internal factors towards internationalization, it further shows relationship exist between the factors and what affects SMEs from going global. The study finally recommends that SMEs should consider strategic factors as it will help them to avoid pitfalls while going international.

Key words

Strategic Factors, Internationalization, SMEs, Business Orientation

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Introduction

Internationalization has been of great interest to nearly every small and medium size company in Nigeria and strategic factors are those factors ventures needs to understand in order to profit with the key stakeholders, goals and objectives. Strategic factors to internationalize are those factors ventures needs to put into consideration before having a successful internationalization process. Strategic factors can be in form

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of demographic factor, cultural factor, political factor, economic, environment, market knowledge, firms' orientation, internationalization strategy. The purpose of going into international market differs from one company to the other, there are several factors such as the push and pull factors that makes firms go into international markets. The choice of internationalization is one of the important decisions that have a ground laying effect on any firms and its internal and external operations. Internationalization of firms is affected by various strategic factors. Firms view internationalization as a room for great change, making their products and services global and gaining more profit.

Business's orientation affects its internationalization process, failing to acquire proper marketing knowledge of the target market, its orientation, various process and strategies involved in going international will affect the success of it going international.(Javalgi 2011), the situation arrived that a positive relationship exists between the international orientation of the market and the degree of internationalization of the business. Most SMEs in Nigeria want to go beyond the home markets, the problem of the businesses is their ability to meet international standards based on their local product idea conception and that is why going early to international market between five year period becomes difficult based on what they can offer, Morgan, Kaleka, and Katsikeas (2004) point that managerial competences mark the expansion and accomplishment of business's internationalization.

In argument of Leonidou & Katsikeas (2010) holds the point that the organizational internal strategies remain very vital, extremely in a managerial and managerial context for early internationalization within one to five year period. Akinbola, Sanni & Akinbola (2018) state the importance of setting of strategy and the necessity of a prudent execution should not be questioned. Regular occurrence of the factors and operations that direct to the strategy is condition of a firm reaching success in the foreign market. Most firms want to go international; it is prudent to make sure one understand the laws of business in the country of interest plan to expand to. That`s the purpose of this research investigating the extent to which specific factors affect the strategic approach of internationalization of new ventures. With reference to these, the con intends to ascertain through the hypotheses as stated in null forms;

H_{01}: there is no significant relationship between firm orientation and early Internationalization process.
H_{02}: there is no relationship between early internationalization strategies and success of internationalization.

The Concept of Strategic Factors

According to (Escandon et al 2013) Strategic Factors are those things which an association or commercial functional element desires to acquire properly to succeed with the crucial goals, this includes, suppliers, customers, partners, managers, employees and further association, functional entity or key discrete that firms hinge on for reaching its goals. With the strategic factors, there is a set for each main stakeholder, the client, the employees, the customer and the shareholders, and others. Strategic Factors provides for firms a structure for testing diverse strategies concepts and activities together. Examples of a Strategic Factor in the customers are customer service, brand, packaging, product quality, customer relationship, distribution and others. The employees, includes compensation, remuneration, working condition, benefits, prestige for the business, and job security. The Strategic Factors for the shareholders in a public enterprise include dividends and capital growth. Strategic factors not only provide a path to success but also a shared currency that links the way strategic measurement, planning, development and execution are carried out

Strategic Factors also make available tools needed to address the aim of both the private profit seeking organizations, and the nonprofit sectors. It also deed as inquisitor since completely entirely firms has those at their essence. These features also provide the method of communicating from top to department, organization to functional business unit. Strategic Factors provide firm a structure for flow of policy improvement and capacity, when a structure tries diverse strategies concepts and activities altogether it's called the Strategic Factor Structure. Strategic factors of internationalization are those internal and external factors that a venture should consider before going international, according to Suarez-Ortega (2003) identified strategic factors (internal and external) to be considered by business before internationalization.

The Uppsala Internationalization Process Model (U-model)

Mitgwe (2006), investigated the process of internationalization of companies centers on the U-model, the Nordic school, the incremental school. The theoretical framework for this theory was first developed by Johansson and Wiedersheim-Paul (1975) in their research of four Swedish firms, they observed that when firms internationalize, they are moving along a series of incremental steps which they called establishment chain or step by step. This theory focuses on four aspects that businesses should face abroad, namely market knowledge and market engagement, commitment decisions and current phases of business, aspects of change that relate to one another. State aspects include foreign-market resources, market knowledge and commitments that affect opportunities and risks of the company (Johanson & Vahlne, 1977 and 2009). Commitment to the market means those resources and the level of involvement that will be committed. Market knowledge supports the management team in decision-making. There are two main types of knowledge, objective knowledge and experience that can be transferred from one market to another, and learning or execution. Facets of transition are the outcomes of the facets of the State, so that the firm is immediately aware of the market and can determine how to participate in this market and then prepare and execute current actions required in order to end this process by business commitments. Chatterjee and Lim (2000) discourse the correlation among the external factors and internal factors of firms concerning the measure of internationalization and effect on execution. The outcomes agrees that an optimistic relationship exists among internationalization and execution. Das et. al. (2015) lay value on the management intentions in the firm choice of its internationalization strategy, most especially in relation to organizations. Fourcade (2002) the main environmental factor affecting the size, scope and speed of internationalization of the company is market knowledge, technology capacity, competition knowledge, and networking capability. Cateora (2010) adds regulations and institutional bureaucracy to these environmental elements as an aspect which impedes internationalization. Pinho and Prange (2016) analyze the relationship and effect on international execution between social networks and Dynamic Internationalization Capacity (DIC). Javalgi (2011) reports that the international market orientation and the level of internationalization exists positively. It similarly recommended that the top organization ought to make important stimulating conducts steady through a helpful global coordination, particularly in unstable marketplace.

1. Methodology

The method adopted for the conduct of this research is the survey with insight to ex-post facto approach. Respondents' opinion was gathered by administering structured questionnaire. The population of this comprises of all employees in ten selected ventures in Lagos state. The sample consist of two hundred (200) employees of ten (10) selected ventures representing 20 employees per SMEs based on purposive sampling technique in order to get access to the respondents who truly understands the concept of strategic factors and process of internationalization of SMEs in Nigeria. The researchers increased the sample with a ten percent number representing extra 20 making up (220) number of questionnaire in order to get high response rate based on the assumption that few questionnaires may not be properly filled and may limit the rate of response of respondents.

2. Data presentation

The research questionnaire was administered to two hundred and twenty (220) employees which is the sample size representing the chosen study population of the selected 20 small and medium enterprises in Ikeja local government area of Lagos state. Of this lot, one hundred and eighty one (181) questionnaires representing 82.3% were returned, and thirty nine (39) questionnaires representing 17.7% were not returned. The table below shows the details at a glance.

2.1 Frequency Distribution of the Respondents' Demographic Characteristics

The frequency distribution of the respondents' demographic characteristics is presented in table. below. The table shows that out of the One hundred and eighty one (181) respondents, 130 (71.8%) are male, while 51 (28.2%) are female. By implication, we have more male respondents to female respondents in the sample. In addition, out of the One hundred and eighty one (181) respondents, 60 (33.1%) are single while 117 (64.6%) are married and 4 (2.2%) are neither married nor single. By implication, most of the respondents are married. More so, 77 (44.3%) of the 274 respondents have 1-5 years' work experience, 76 (43.7%) have 6-10 years' work experience, 14 (8.0%) have 11-15 years' work experience and, 7(4.0%) have over 15years work experience. By implications, most of the respondents have between 1-5years of work experience.

Table 1 The frequency distribution of the respondents' demographic characteristics

Characteristics	**Category**	**Frequency**	**Percentage**	**Cumulative Percentage**
Gender	Male	130	71.8	71.8
	Female	51	28.2	100.0
Marital status	Single	60	33.1	33.1
	Married	117	64.6	97.8
	Others	4	2.2	100.0
Age	20 – 25 years	67	37.0	30.7
	26 – 31 years	91	50.3	87.3
	32 – 42 years	23	12.7	100.0
Work Experience	1 – 5 years	70	38.7	38.7
	6 – 10 years	99	54.7	93.4
	11 – 15 years	12	6.6	100.0
Industry Type	Services	42	23.2	23.2
	Manufacturing	101	55.8	79.0
	Distribution	27	14.9	93.9
	Others	11	6.1	100.0
Years of Operation	0 – 3 years	73	40.3	40.3
	4 – 7 years	81	44.8	85.1
	8 – 11 years	25	13.8	98.9
	Above	2	1.1	100.0

Source: Author's Fieldwork Computation, 2019

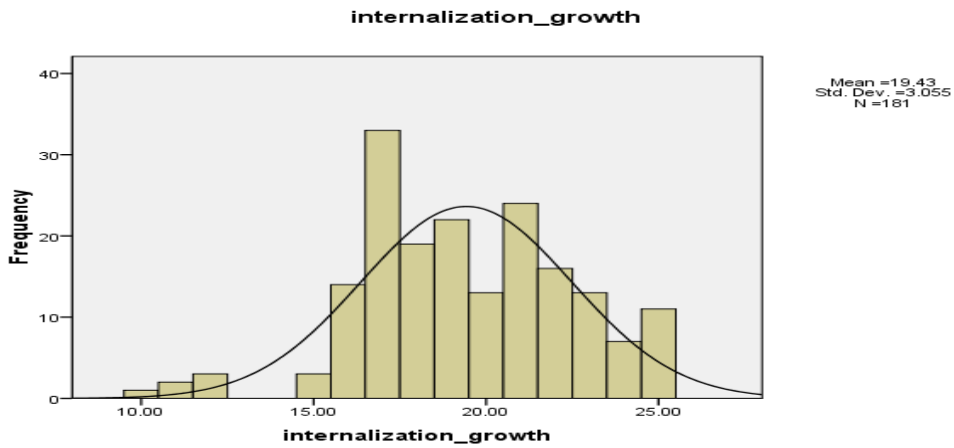
The conclusions found in this analysis are: (1) there is no significant relationship between the firm orientation process and the internationalization phase of the first mode (2). Several regression analyzes were used to evaluate these hypotheses and achieve the objectives of the analysis.

Multiple regression is based on correlation which enables a more detailed con of the interrelationship between a numbers of variables. It create a number of assumptions about normal data, which believe that the variables depends naturally (i.e strategic factors), multicolaniarity that believes that the independent variable (internationalization), and even homoscedasticity that believes that variations between observations to be identical, are not very well interconnected.

2.2 Test of Normality

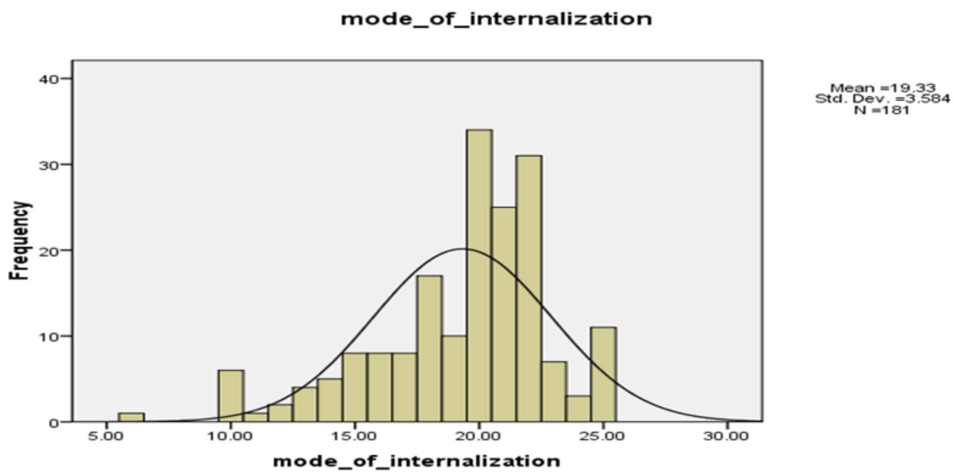
For the normality of the dependent variable, a regular curve may be draw. The standard curve is shown in Fig. 1 to 2. Most parametric statistics presume that scores are typically distributed on each vector (i.e. the normal curve is shaped). In this con, the values are quite normal, with the majority of the scores in the middle tapering out to the extremes.

Fig. 1 Histogram of Mode of Internationalization Scores



Source: Author's Fieldwork Computation, 2019

Fig. 2 Histogram of Mode of Internationalization Scores



Source: Author's Fieldwork Computation, 2019

2.3 Test of Multicollinearity

The bivariate correlation was performed in Table 2 below to test multicholinearity. The highest correlation in the table was 0.221 this indicates a low question of multilinearity. All variables are therefore retained.

Table 2 Correlations

		Strategic factors	Internationalization strategy
Strategic factors	Pearson Correlation	1	.032
	Sig. (2-tailed)		.672
	N	181	181
Internationalization strategy	Pearson Correlation	.032	1
	Sig. (2-tailed)	.672	
	N	181	181

**. Correlation is significant at the 0.01 level (2-tailed).

2.4 Test of Hypothesis One

H_{01}: No significant relationship exists between company orientation and early mode internationalisation.

The result of regressively as contained in Table 3: ANOVA shows that F testing was 3.003, significant at 1 percent [p<.002]. The model was well specified, this showed.

Table 3

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean square**	**F**	**Sig.**
1	Regression	233.761	9	25.973	3.003	.002
	Residual	1478.836	171	8.648		
	Total	1712.597	180			

Source: Author's Fieldwork Computation, 2019

The regression results as provided in Table 4: Model Summary also indicate that R Square has a high value of 4.7%. This suggests that around 4.7 per cent of the variability was explained in early internationalization of New Ventures.

Table 4

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.047	.007	.002	3.05261

Source: Author's Fieldwork Computation, 2019

In particular, the first hypothesis of this analysis is checked in the regression results of Table 5 from below, there were positive ties between firm orientation and the precocious mode of internationalization phase units, which were statistically significant increases of 1 percent by a p-value (0.023) in the early mode of internationalization. The result rejects the zero hypothesis that no significant relationship exists amongst company direction and the processes of early-mode internationalizing; therefore, the relationship between corporate guidance and early-mode internationalization processes is important.

2.5 Test of hypotheses two

H_{02}: there is no relationship between early internationalization strategies and success of internationalization

The result of the reversal in Table 5: ANOVA shows that the Ftest was 1,314, meaning 1% [p<.253]. This demonstrated that the model was well-defined.

Table 5 Annova[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	12.247	1	12.247	1.314	.253[a]
Residual	1667.996	179	9.318		
Total	1680.243	180			

Source: Author's Fieldwork Computation, 2019

The regression result of Table 6: Model Summary also demonstrates that the R Square was a high 5.5 percent figure. This means the model explained approximately 5.5% of the variance process of success of internationalization.

Table 6 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.055[a]	.007	.002	3.05261

Source: Author's Fieldwork Computation, 2019

The second hypothesis of this analysis is evaluated directly, by regression as given for in Regression Coefficients table. The following output showed a good relationship between the early internationalization strategies and the success of the internationalization.221 increases in internationalization success, which with the aid of its p value (0.023) were statistically significant at 1%. The result rejects the null hypothesis that the early internationalization strategy has no relationship with the success of internationalization, and therefore the relation between early internationalization strategies and internationalization success is established.

Discussion of Findings of Hypothesis one

The discovery of this study shows that the internationalization of companies substantially has strategic factors views, the results of which show positive influence between factors and internationalization in the consideration both of internal and external factors and their relationship with internationalization. The report reviews the high influence of companies on international expansion in exploration and exploitation orientation and the slack resources. Das et. al. (2015) stressed the purpose of management when choosing the company's path to internationalization, particularly as far as companies are concerned. As key environmental factors affecting the size, extent and speed of the internationalization of the company, Fourcade (2002) identifies market knowledge, technological capabilities, competent knowledge or networking capacity.

Discussion of Findings of Hypothesis Two

The discovery of this study show that the internationalization process and success of the company was affected by the consumer orienting and the degree to which it is internationalized. . It was also proposed that the top management priority would be to promote behaviors, especially in volatile markets, that comply with a positive international orientation. Growth and development. There are many benefits to the strategic aspect of internationalization. The global market climate requires growing internationalization of new businesses while some companies have successfully joined the international market, some have struggled because of the effect of competitive considerations on early internationalization of new companies.

It was also proposed that the top management priority would be to promote behaviors, especially in volatile markets, that comply with a positive international orientation. The study found that the identifiable factors have an impact on the level at which companies successfully enter the international market, as captured in this descriptive study. The findings of this study offer a guidance on how companies can influence the internationalization process and thus enhance the success of internationalization. The study has contributed in a specific respect.

Empirical Findings from the Study

1. The Research establish that strategic factors expressively distress internationalization of firms Views that when organization put into consideration both external and internal factors and their relationship to internationalization, the result shows a positive impact exist between the factors and internationalization. This con reviews that firms level of examination and manipulation orientation and floppy assets is of high influence on firms expansion to international market. Das et. al. (2015) laid emphasis on the managerial intentionality in the business's variety of its internationalization track, particularly in relative to firms. This con focused on two major managerial level backgrounds – the business's investigation & manipulation orientations and slack resource.
2. This study identifies factors such as market knowledge, capabilities, networking as factors that impede international success. Fourcade (2002) recognize as key

environmental factors that affect the reach, sweep and pace of internationalization the market knowledge, technological capabilities and computer awareness and networking ability of an undertaking. This con views that market orientation of organization and degree of internationalization affects business's internationalization process and success. In a research by Javalgi (2011), it was established that there happens to be a helpful correlation between international market orientation and the degree of internationalization of the firm. It was also suggested that the upper management should prioritize promoting behaviors consistent with a positive international orientation, especially in turbulent market.

Conclusion and Recommendations

Through active research of international target market, while some firma successfully go onto international market, some failed due to the effect of strategic factors on early internationalization of current schemes. In the light of existing literature on effect of strategic factors on early internationalization of current schemes issues captured in this study; and the analyses of collated primary data; the study found that identifiable Factors affect the level at which firms successfully go into international market as captured in this descriptive research. The following recommendations were made:

1. It is necessary that the ventures should put into proper considerations these strategic factors and its effect, these ventures should always keep close attention on their operations towards internationalization to ensure that they carry out their objectives and also it should be proactive in carrying out these internationalization process, and proper research on how to achieve their aims and objectives effectively.
2. The Government is encouraged to continue its legislation to encourage a safe operating environment by promoting and participating positions. In the domestic and global markets, that will lead to competitiveness. The revision of the internationalization regulations for new companies and the minimization of superposition's are also important in order to further increase the role of the undertakings concerned.
3. Individuals who want to go into international markets are encouraged to continue to improve themselves on personal development skills and trainings not only to make them plan properly and proactive in making decisions, and also carrying out research on successful organizations of internationalization to be able to stand out when going international, putting the strategic factors into consideration. Managers are expected to plan ahead, make decisions, protect organization from crashing while going international and properly operationalize, considerable orientation is needed to go international, proper networking and increased firm capabilities, in aspect of technology, finance, marketing strategies. Managers should research on target international markets and make provision towards reaching its goals and objectives.

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Employee Fidelity and the Survival of Micro and Small Scale Businesses in Nigeria

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Abstract

This research examines the impact of employee fidelity on the survival of micro and small scale enterprises in Nigeria. The mortality rate of small businesses in Nigeria is alarming. Most previous studies tend to concentrate on the managerial, technical, educational and even capital deficiencies of the entrepreneurs but this study focuses on the employees. Multi-stage sampling technique was used to identify suitable candidates for the study and discriminant function analysis was used for data analysis. Findings reveal that capital inadequacy and employee theft account for the failure small businesses in Nigeria. The study is significant to entrepreneurs to avert failure and for further research by academics.

Key words

Fidelity, survival, employee, theft, mortality

JEL Classification: L25, L26

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Introduction

The high rate of mortality among micro and small scale enterprises in Nigeria has assumed an alarming proportion in recent times, perhaps due to issues pertaining to employee/employer relations. It has been observed that failure rates among small businesses are much higher in the developing countries than the advanced nations of the world (Arinaitwe, 2006,). The micro and small scale enterprises in Nigeria provide jobs for more than 75 percent of the working population since they dominate the business landscape (Anwatu, 2006 cited in Onugu & Uzondu, 2015). Ayozie (2011) suggests that small scale businesses comprise a larger percentage of all companies registered with the Corporate Affairs Commission (CAC). It is thus worrisome that such a crucial sector of the economy should experience this unsustainable level of mortality.

The micro and small business enterprises have been acknowledged to be the bedrock of a nation's economic growth and development. Akande (2014) observes that small and medium scale businesses (SMEs) positively improve the economy and hence countries like the United States of America, Japan, Korea and many Asian countries have experienced rapid development through SME activities. Micro, small and medium enterprises are the backbone of every economy globally (Kirby, 2003; Mathews, 2007; Okpara, 2009). They constitute over 90 percent of industries in Indonesia, Hong Kong, Taiwan, Philippines and Thailand (Fadahunsi & Daodu, 1997 cited in Eze & Okpala, 2015). The Nigerian Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA,

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2006) supports the view that any nation seeking rapid development and industrialization must focus on its small scale enterprises to actualize those goals.

Micro, small and medium enterprises in Nigeria are beset with myriad problems including poor access to funding, lack of creativity and innovation, poor record keeping and theft by employees, which combine to account for the high mortality rate of these enterprises. According to a 2004 survey conducted by the Manufacturers Association of Nigeria (MAN), more than 90 percent of businesses owned and operated by its members were either ailing or had shut down. This alarming rate of business failure calls for concern because MAN as an institution has statistical data to back up its claims. However, the story is different especially in the micro and small scale business sector where records of their operations are hardly available. Through mere observation in our neighbourhoods, it is easy to discover an alarming rate of business closures at the micro and small scale enterprises levels.

Trust which is a major ingredient in maintaining a conducive work environment to guaranty corporate survival, growth and profitability is lacking in several organizations due to mutual suspicion and unclear intentions of most employees (Martins, 2000). Employers rely on how well the employees can represent their interest even while absent from work but quite often, such trust has been flagrantly abused and violated by the employees.

Employee fidelity stems from trust. Fidelity is simply faithfulness, transparency and accountability. When these virtues are lacking in the employees in an organization, survival becomes very difficult, if not impossible, to achieve. Corporate governance principles to which operators of the organized private sector and large industrial concerns are expected to adhere to equally emphasize the virtues of transparency, responsibility and accountability (Sulaimon, Ifere, Rahim & Ebulo, 2016).

Statement of the Problem and Research Gap

Micro and small scale enterprises are seen as the bedrock of economic development in free market economies and development strategists harp on encouraging this sector to thrive in order to generate employment and stimulate economic growth. However, most micro and small scale enterprises in Nigeria collapse within their first five years of existence as only between 5 to 10 percent survive for up to 10 years (Aremu & Adeyemi, 2011). Eze and Okpala (2015) also note that the Manufacturers Association of Nigeria (MAN) had in 2004 conducted a survey on the survival of businesses run by its members and came up with the result that only 10 percent of industries established by its members were fully operational while the remaining 90 percent were either ailing or have closed down. Agu and Emeti (2014) attribute the high mortality rate of these enterprises to shortage of capital, poor infrastructural development, inadequate power supply, lack of focus and lack of succession planning among others. Agba *et al.* (2015) note that the use of landed property as collateral for loans to these micro and small enterprises, poor staff remuneration and poor working environment for workers are to blame for their dismal performance. However, these challenges may be a contributory factor to the high mortality rate of businesses in this sector but none of these previous studies considered the impact of employee fidelity as a major cause of business failure of micro and small business enterprises in Nigeria. This study intends to fill this gap by examining the extent to which employee theft and other forms of abuse of trust have resulted in the high mortality rate experienced by Nigerian micro and small scale enterprises.

1 Methodology

1.1 Theoretical Framework and Literature Review

a. Theoretical Underpinning: Social Exchange Theory

The social exchange theory was developed by George Homans in 1958. He defined social exchange as a rewarding exchange of activity, tangible and intangible goods or services, that is mutually beneficial to at least two persons. Employer and employee engagement can be viewed in light of this kind of mutually beneficial relationship. Other major contributors to this theory are Peter Blau (1964) and Richard Emerson (1976). The success proposition perspective of the Homan's theory indicates that whenever a person receives a reward for his or her action, there is a high tendency for the action to be repeated. The social exchange theory is both a sociological and psychological theory that presupposes a cost-benefit analysis of any interaction between two parties.

The two main ingredients of the theory are self-interest and interdependence. People tend to focus on their self-interest in pursuance of their economic and psychological needs. In social exchange, self-interest does not imply any negative connotation as it is supposed to strengthen the interrelationship between both parties. But when self-interest is allowed to prevail over mutual interdependence, there will be a tendency for one party to short-change the other. It is in this regard that most employees allow their self-interest and greed to prevail over the overall interest of their employing organizations and engage in behaviours that are detrimental to the survival of such organizations. Consequently, many micro and small scale enterprises in Nigeria suffer early mortality due to the pursuit of individual self-interest by employees who engage in fraudulent activities that undermine the survival of the organizations.

b. Literature Review

Concept of Micro and Small Scale Enterprises

There is no universally acceptable definition of micro and small scale enterprises as this varies from one society to another depending on the stage of industrial development (Ward, 2006; Abanis, Arthur, Byamukama, Burani, Ibrahim & Novenbrieta, 2013). Most of the definitions of micro and small scale enterprises are based on such criteria as number of employees, amount of initial capital, total assets and annual sales although (Agba, Attah & Ebong, 2015). Osotimehin,Jegede, Akinlabi and Olajide (2012) in their study (citing Olajide *et al.*, 2008) provide a working definition of micro and small enterprises by describing micro enterprises as those businesses whose total project cost, excluding the cost of land, but including working capital, does not exceed N500,000.00

($1,500.00). The authors further describe small scale enterprises as those whose total project cost, excluding the cost of land, is not more than N5million ($15,000.00).

Micro and small scale enterprises have been identified as the main drivers of growth in many developing and even developed economies (Matthews, 2007; Opara, 2009; Ayozie & Latinwo, 2010; Taylor, 2013). Agba *et al.*, (2015) note that 60 percent of the labour force in developing countries are accounted for by these micro and small scale enterprises while also constituting over 90 percent of business enterprises. Ackah and Vuvor (2011) observe that small scale enterprises are major producers and consumers of goods and services thereby contributing over 70 percent of gross domestic product (GDP) in most African countries. Eze and Okpala (2015) opine that even China, a once communist country, has over 75 percent of its labour force employed by small scale businesses. The authors also citing Fadahunsi and Daodu (1997) noted that most developing countries such as Indonesia, Taiwan, India, Korea and Hong Kong have over 90 percent of their businesses as micro and small scale enterprises.

High Mortality Rate of Micro and Small Enterprises in Nigeria

Mortality rate among Nigerian micro and small scale enterprises is at an alarming rate and this has been corroborated by several previous studies. For instance, Agwu and Emeti (2014) put the survival rate of these micro and small scale businesses, in their first five years of existence, at between 5 to 10 percent. This implies that 90-95 percent of these enterprises die prematurely. A study by the Manufacturers Association of Nigeria (MAN) in 2004 also put their survival rate at a dismal 10 percent. Most of the reasons advanced for this sordid state of affair put the blame on poor management by the owners, lack of education, inadequate capital, poor infrastructure, poor accounting practices, multiple taxation by local, state and federal authorities, unstable policy environment, poor remuneration of staff, use of landed property as collateral for loans and an unfriendly economic environment (Agwu & Emeti, 2014; Agba *et al.*, 2015).

Other studies carried out on the causes of high mortality rate among micro and small enterprises identified the following as mostly responsible. For example, Chaney (2019) observes that inadequate capital, improper planning, absence of insurance cover, poor management, selling undifferentiated products, disregard for the competition and operating an unprofitable business model are to blame for the ugly trend. In a similar vein, Armitage (2017) notes that business failure among micro and small enterprises could be attributed to inadequate working capital, poor planning, poor handling of outsourcing, ineffective marketing strategy, competitive rivalry and failure to monitor company finances were responsible for the high rate of failure. Other reasons that can be identified include over-borrowing, lack of performance monitoring, overreliance on a few customers or clients, inexperienced management and leadership, failure to learn and poor debtor management (Agba *et al.,* 2014; Moya, 2019).

Employee Theft and Mortality of Micro and Small Scale Enterprises

Employee theft is a global phenomenon as there is hardly any nation of the world where workers don’t steal from their employers. Employee theft is defined as stealing or the deliberate misuse of an employer's assets without permission (BPK, 2019). Such theft may involve cash (money in any currency) or non-cash assets (time, merchandise, supplies, stationery, company property, leaking of official information to third parties and competitors) which could have damaging impact on the employer's business. The United States Chamber of Commerce (2018) cited in Business Practical Knowledge (BPK, 2018) estimates that "75 percent of all employees steal at least once, and that half of these steal repeatedly". The Chamber also notes that 34 percent of business failures are due to employee theft.

In a related development, the American Society of Employers (2018) as cited in BPK (2018) observes the following:

1. That businesses in America lose 20 percent of every dollar to employee theft;
2. That at least 20 percent of the employees are fully aware of fraudulent practices in their companies;
3. That it takes an average time of one and half years for an employer to uncover a fraud scheme;
4. That over 55 percent of these fraudulent acts are perpetrated by managers;
5. That the US retail businesses lose a whopping $53.6 billion annually to employee theft.

In Nigeria, there are no accurate records to show how much is lost to employee theft but the high mortality rate of micro and small businesses are proof of the colossal losses suffered by these enterprises. Just like the US, the retail sector is perhaps the worst affected by the fraudulent behaviour of employees as stock taking is not done on a regular basis, and moreover, majority of the owners of these micro and small enterprises are illiterate and do not practice simple bookkeeping to monitor daily transactions.

There are various ways by which employee theft is executed in organizations. Among the most common ones are:

1. Larceny: This involves unlawfully taking possession of another person's property without the permission or knowledge of the rightful owner;
2. Outright embezzlement: Embezzlement involves a person in a position of trust stealing what is put under his/her care. A good example of this is when a cashier decides to help himself with office cash under his control which is different from larceny involving, perhaps, a cleaner seeing the cash till in the cashier's office open, decides to steal some of the cash;
3. Skimming: Skimming involves stealing of unrecorded cash, inventory or any other type of company property knowing that it will be difficult to trace since no record of it exists anywhere;
4. Fraudulent Transactions: This involves making false payments for goods not delivered, over-invoicing, negotiating your own cut in contracts, payroll fraud, payment for fictitious transactions, and other forms of fraudulent schemes aimed at making personal gains at the expense of the company;
5. Fake Invoices and Account Manipulation: This happens when the sales person creates invoices of non- existent account receivables thus making the business owner to believe that some sales have been made through credit transactions with some known customers;
6. Switching Brands: Some employees switch well-known brands by using money they sold of the superior brands to purchase inferior brands and keeping such

products in the packets that originally contained the superior product to deceive the shop owner that the stock of goods is intact.

The aforementioned mode of employee theft are quite common among micro and small scale enterprises in Nigeria and many of the owners of these businesses have closed shop due to the fraudulent activities of their employees. It is worth knowing that in most retail businesses where the shops contain a large variety of different products, stock-taking is usually not regular and in some cases, the owners of the shops do not even know much about inventory management.

Causes of Employee Theft in Nigeria's Micro and Small Scale Enterprises

The temptation to defraud the company where you work could be high if there are no measures put in place to guide against the incidence of fraud. In Nigeria, where most of the youth population are either unemployed or underemployed, getting a job anywhere just to 'get out of the house in the morning and come back home in the evening'. Quite often the pay is abysmally poor and not sufficient for the staff to meet personal needs. A country with inflation rate of over 11 percent (NBS, 2019) paying a staff a paltry monthly wage of between N15,000 - N30,000 ($42 - $84) cannot sustain employee loyalty. Consequently, most of these employees are tempted to cut corners to 'make ends meet'. Presently, over 23 percent (NBS, 2019) of Nigerians are unemployed and this forces most people to accept poor wages from employers which eventually heralds sharp practices to augment the poor pay.

Another major reason why employee theft is rampant among micro and small business enterprises is that ownership of most of these businesses are in the hands of illiterates who then employ educated hands to help in running the businesses. Taking advantage of the illiterate owner, most employees device fraudulent means of stealing cash or goods or even make fraudulent account receivables that would not be traced until, perhaps, such employees resign before the fraud is eventually discovered. Loopholes in financial records, poor debtor management, and improper and infrequent stock taking can also provide attractive openings for a fraudulent employee to operate especially where there is weak or total absence of performance monitoring (Moya, 2019).

Perhaps, the apprenticeship scheme practised among most Nigerian shop owners could also attract fraudulent practices because, during the lengthy number of years the help is expected to serve the master, no remuneration whatsoever is expected to be paid to the apprentice. He/she is usually 'settled' after successfully completing the number of years agreed whereby the master frees him by giving him a large amount of cash as start-up capital for the apprentice to start a similar business. It is perhaps the lure of the good life or some promptings by peers that would make such apprentice to help themselves with the cash or goods under their care.

The Place of Trust in Employer – Employee Relationship

Employers offer jobs to employees based on the assumption that such employees will act in their best interest to engage in diligent and honest work and get compensated in return. However, the breach of trust in employer-employee relationship is commonplace as well as a global phenomenon. Trust has no universally acceptable definition but common among the various definitions are key elements of trust such as honesty, integrity, character, truthfulness, sincerity, reliability, relationship, openness, benevolence and consistency (Bagraim & Hime, 2007; Clark & Payne, 1997; Grant and Sumanth, 2009). Trust is defined by Zand (1997) as the "willingness to increase your vulnerability to another person whose behaviour you cannot control. In a situation in which your potential benefits are much less than your potential loss if the other person abuses your vulnerability". It is on good record that employers render themselves vulnerable to the employees on whom they entrust the survival of their businesses. This trust, however, is often violated and has thus resulted in the high mortality rate of many micro and small scale enterprises. Operating conditions and the environment in which business is transacted has also been found to encourage gross violation of trust especially when the employee is aware of lapses in the control system.

Ethicality is another issue to be considered in trust building between employers and employees. Ethics can be described as a code of moral principles that distinguishes between right and wrong. Jimba (2009) defines ethics as "the guided principles, values, moral standards and convictions which guide individual actions, decisions, procedures and system in an organization in order to pave way for respect, dignity, conscience and high integrity in such an organization or society". When employees hold high moral and ethical values, they are not likely to engage in activities that will undermine the survival of the business for which they earn a living. Stealing from the employer is unethical and breach of trust which does not only jeopardize the survival of the organization but has serious implications for present and future interpersonal relationships.

1.2 Research Objectives, Methodology and Data

Aim and Objectives of the Study

The major aim of this study is to identify how employee fidelity impacts the survival of micro and small scale enterprises in Nigeria. Specifically, the research attempts to:

1. identify the extent to which the survival of micro and small scale enterprises depends on the honesty of employees;
2. examine the impact of employee theft on the survival of micro and small enterprises;
3. determine the extent to which inadequate capital leads to the failure of micro and small scale enterprises in Nigeria;
4. identify how competitive pressures cause the failure of micro and small business firms in Nigeria.

Research Questions

In order to address the objectives, the research attempts to proffer solutions to the following questions:

1. Does the survival of micro and small scale businesses depend on the honesty of the employees?
2. Does employee theft negatively affect the survival of micro and small enterprises?
3. To what extent does inadequate capital lead to business failure among micro and small scale enterprises?
4. To what extent does competitive pressure lead to the collapse of micro and small scale enterprises in Nigeria?

Research Hypotheses

The following hypotheses were formulated in order to provide answers to the research questions.

1. Ho1 : The survival of micro and small enterprises in Nigeria has no significant relationship with the honesty of the employees;
2. Ho2: Employee theft does not significantly affect the survival of micro and small scale enterprises in Nigeria.
3. Ho3: Inadequate capital does not significantly affect the survival of micro and small scale enterprises in Nigeria.
4. Ho4: The collapse of micro and small enterprises in Nigeria has no significant relationship with the action of competitors.

Research Design

The study adopts a quantitative survey design based on the positivist philosophy. The ontological orientation of the research is objectivism. The choice of research philosophy and design are based on the fact that the causes of high mortality rate among micro and small scale businesses can be objectively determined and quantitatively estimated with substantial degree of accuracy using discriminant analysis.

Data Analysis Technique and Software Used.

The methodology adopted for this study is the direct method of discriminant analysis. According to this method, all the predictor variables are entered into the model simultaneously. SPSS Version 22 was used for the analysis.

Sources of Data

The research was conducted based on cross sectional data collected from 100 owners of several micro and small scale organisations which include retail provision stores, cosmetics shops, supermarkets, business centres, restaurants and bars, sellers of phone and computer accessories, filling stations, and privately owned transport businesses. A multi-stage sampling technique was devised to obtain the required sample by first conducting oral interviews to identify those whose businesses have collapsed or survived in the last five years before the questionnaire was administered to those who fit into the purpose of the study.

Model Specification

The discriminant function takes the form of a linear combination of coefficient of variables and these are expressed as equation 1. The variable coefficients are estimated in such a way that the function maximizes the distance between the two centroids. It should be noted however that the larger the coefficient, the better the independent variables in discriminating between the groups. Therefore the discriminant function is given thus as:

$$Z = \alpha + w_1 x_1 + w_2 x_2 + w_3 x_3 + w_4 x_4 = \alpha + \Sigma^4_{i=1} w_i x_i \quad (1)$$

Where Z = Discriminant score, α = constant, w = the discriminant coefficient or weight of the variable, x_i = predictor variable, i = number of predictor variables, i.e i=1 ,2,3,4. And 1 = (EH), 2 = ET, 3 = CA and 4 = CP. As this is a two-group discriminant analysis, only one function is estimated i.e.

$$NDF \leq Min\ (G-1, P) \quad (2)$$

The number of discriminant functions (NDF) that can be estimated from a discriminant analysis is less than or equal to the minimum number of categories (G) in the dependent variables minus one or the number of predictor variables (P).

Description of the Variables

The variables used for this study are categorical dependent and predictor variables. The status of the firms in terms of survival rates was the dependent (categorical) variable. The dividing line for defining where each company falls to is 5 years of inception using Aremu and Adeyemi (2011), Agwu and Emeti (2014), MAN (2004) and Agbi *et al.*, (2014) who state that 90-95 percent of micro and small scale enterprises do not survive beyond their first five years of existence. A total number of 100 micro and small businesses were sampled for the study and 50 companies that survived beyond the first five years are denoted by (1) while the other 50 that collapsed before five years are denoted by (2). The predictor variables are honesty, employee theft, capital adequacy and competition.

2 Analysis and Discussion

Table 1 shows the test of equality of group means which estimates the Univariate Anova for each predictor variable. From this analysis, it is observed that capital adequacy differ at (Sig = .049) for the two groups and also has the lowest Wilk's Lambda of .961 indicating that capital adequacy has the most significant discriminating function for the survival of micro and small businesses. Employee honesty follows with a Wilk's Lambda of .981, next is competitive pressure with .983 while employee theft comes last with a Wilk's Lambda of .987 with all the but capital adequacy showing non- significant P-values.

Table 1 Tests of Equality of Group Means

	Wilks' Lambda	F	df1	df2	Sig.
Employee honesty	.981	1.947	1	98	.166
Employee Theft	.987	1.324	1	98	.253
Capital adequacy	.961	3.966	1	98	.049
Competitive pressure	.983	1.708	1	98	.194

Source: Author's SPSS Computation (2019)

Table 2a shows the Log Determinants with 4 x 4 rank indicating the size of the covariance matrices and also showing that four independent variables were used for the study. The covariance metrics are the same if the log determinants of 'survived' covariance matrices and the log determinants of 'not survived' covariance matrices are the same.

Table 2a Log Determinants

Survival	Rank	Log Determinant
Survived	4	-1.617
Not Survived	4	-.701
Pooled within-groups	4	-1.070

The ranks and natural logarithms of determinants printed are those of the group covariance matrices.

Source: Author's SPSS computation (2019)

Table 2b shows the Box M for this study which is estimated at 8.72 but with a significance value of 0.596 meaning that the data do not differ significantly from univariate normality. This simply means that I can proceed with the analysis.

Table 2b Test Results

Box's M		8.723
F	Approx.	.834
	df1	10
	df2	45915.538
	Sig.	.596

Tests null hypothesis of equal population covariance matrices.

Source: SPSS Output by author (2019)

Table 3 Eigenvalues

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	.112[a]	100.0	100.0	.318

a. First 1 canonical discriminant functions were used in the analysis.

Source: SPSS Output by author (2019)

Eigenvalues simply show the proportion of variance explained, i.e. the ratio of the between- groups sum of squares to the within-groups sum of squares. This analysis exhibits a low eigenvalue indicative of a weak function. The canonical correlation which shows the relationship between the discriminant scores and the level of the outcome variable of 0.318 is low.

Table 4 Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	Df	Sig.
1	.899	10.210	4	.037

Source: SPSS Output by author (2019)

The Wilk's Lambda shows the significance test of the variate. The value of 0.899 at 4 degrees of freedom with significance value (.037) shows that the variate significantly discriminates the groups. Thus the Lambda of 0.899 has a significance value of .037, which perhaps, is an indication that the group means appear to differ.

Table 5 Standardized Canonical Discriminant Function Coefficients

	Function
	1
Employee honesty	-.496
Employee Theft	.424
Capital adequacy	.733
Competitive pressure	-.518

Source: SPSS output by author (2019)

Table 5 shows the standardized canonical discriminant function coefficients which is equivalent to the standardized betas in a typical regression. Thus, capital adequacy has the highest value of 0.733 followed by employee theft with 0.424 indicative of the influence these two variables have on the survival of micro and small business firms.

The structure matrix shown in Table 6 indicates the weights of the independent variables in rank order from the highest to the lowest in absolute terms.

Table 6 Structure Matrix

	Function
	1
Capital adequacy	.601
Employee honesty	-.421
Competitive pressure	-.394
Employee Theft	.347

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions

Variables ordered by absolute size of correlation within function

Source: SPSS Output by author (2019)

However, only capital adequacy and employee theft possess positive variate correlations while employee honesty and competitive pressure display negative correlations.

Table 7 Canonical Discriminant Function Coefficients

	Function
	1
Employee honesty	-.532
Employee Theft	.610
Capital adequacy	.663
Competitive pressure	-.564
(Constant)	-1.230

Unstandardized coefficients

Source: SPSS Output by author (2019)

Table 7 shows the unstandardized scores of the various predictor variables. It is the goal of every discriminant analysis to estimate a discriminant function that helps to predict group membership of the dependent variable. In this study the aim is to predict the survival of micro and small scale enterprises in Nigeria between those that survive after 5 years and those that collapse before 5 years using employee honesty, employee theft, capital adequacy and competitive pressures as independent variables. From Table 7, we obtain the unstandardized discriminant function based on equation 1 thus:

$$Z = -1.230\ (Cons) -532\ (EH) + 0.610\ (ET) + 0.663\ (CA) -0.564\ (CP) \qquad (2)$$

From the various analyses above it can be deduced that capital adequacy has the highest discriminating value among all the predictor variables at 0.663 followed by employee theft at 0.610 both positive. However, going by the Wilk's Lambda, only capital adequacy showed a positive value 0.961 and significant at 0.049. This, perhaps, implies that capital adequacy has the highest impact on the survival of micro and small business enterprises. Next in line is employee theft which displays a positive relationship but non-significant value at P >0.05. The implication of this is perhaps the fact that employee theft cannot promote the survival of these small enterprises, whereas it will only hasten their demise. The negative canonical discriminant functions displayed by employee honesty and competitive pressures is perhaps also indicative that these have little or nothing to do with the survival of micro and small scale enterprises in Nigeria. On that note, hypotheses Ho1 and Ho 4 are hereby accepted while Ho2 and Ho3 are hereby rejected. It therefore behoves on small business owners in Nigeria to pay more attention to capital adequacy and the negative impact of employee theft. As so many businesses collapse during their first five years of existence, present and potential small scale business owners should endeavour to ensure that they have access to cheap capital and enhance their supervisory roles to minimise employee theft.

Conclusion

The study was undertaken to appraise the impact of employee fidelity on the survival of micro and small scale enterprises in Nigeria. The research made use of four predictor variables namely: employee honesty, employee theft, capital adequacy and competitive pressures. The discriminant function analysis was used for data analysis with the aid of the Statistical Package for the Social Sciences (SPSS V 22). Five years was chosen as baseline for group membership as those firms that survived beyond five years were denoted by (1) while those that couldn't make it up to five years were denoted by (2). With the analysis carried out, it was concluded that capital adequacy and employee theft have positive relationship with the survival of micro and small enterprises but in different ways. While capital adequacy ensures their survival, employee theft will lead to their early demise. Judging from the foregoing analysis, it is instructive to note that employee fidelity is a difficult virtue to achieve globally as employee theft is common in almost every country. While poverty and low moral standards are among some of the compelling factors causing employee theft, some other reasons for the high incidence may include poor supervisory role of the owner/manager including loopholes in receivables management and poor accounting records.

Based on the foregoing, it is hereby recommended that:

1. Owners of micro and small business enterprises should ensure that they have adequate start-up and working capital for their operations;
2. Employers should conduct background checks on all employees before assigning them with sensitive responsibilities;
3. A strong internal check and control mechanism are put in place to minimize theft and other forms of fraud;
4. Authorization of sales, procurement and other financial transactions must be handled by more than one employee; and
5. Owners of small businesses should explore the possibility of procuring employee fidelity insurance to protect themselves against employee theft.

Suggestion For Further Research

The conclusions reached in this study may not be universally applicable as the number of respondents may not be sufficient for unfettered generalizations. Moreover, a different approach to data collection and analysis may produce a different result.

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Microeconomic Aspects of Franchising

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Abstract

The present arrangement of franchising is a very popular business form. It is a very dynamic form of making business. The form is very modern and conservative at once. It´s modern enough and at the same time approved, to represent the possible visionary way of the entrepreneurship in the 21st century. Franchising has become a means of growth across many different industries, including business and financial services, beauty, health, sport, various services, food, medical, recreation and many others. Our effort might understand how the franchising performance drivers applied in the microeconomic parts work and how important it is for franchisor and the franchisee, as well.

Key words

Franchising, Microeconomy, Break-even point

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Preface

Franchising is a specific form of business, which has begun with development in the 50th of last century, whereby the noticeable dynamics gained at the end of last two decades of the 20th century. Its specific substance wins by offering of attractive possibilities for small and medium sized enterprises by effectivity, lifetime stability in first five years of business activities and its positive vision for survival in the period of crisis and turbulent time. The successfulness of entrepreneurship by franchising form is one of the safety forms of entrepreneurial activity. It offers anyway the rational format with clearly divided tasks, which is the base of dynamical and effective system, at which its compactness, integrity, and reliability is the precondition of surviving and achieving of success, for both parties — the franchisor and for franchisee, as well. Franchising is model for small and medium sized enterprises, which works well if both sides become integrated with it.

Franchising is fascinating business area and one that has served those well who have been involved with ethical and responsible franchising operations. The franchising philosophy is that it is a great method whereby those who have experienced and been successful in a structured business environment, and who would love to satisfy the dream of self-employment, are able to do so but with the safety net of having the organizational structure of the franchisor behind them to give advice and guidance as they realize the dream and move forward to self-employed success (Weber, 2013).

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1 Methods

The aim of the paper is to point out how important, as the form of making business, the franchising is and how important are the microeconomic aspects of this business, including the break-even point. We used the method of collection various definition of franchising, we analysed them and by synthesis of most important elements of franchising system we proposed own definition of franchising.

2 Results and Discussion

Franchising belongs to vertical marketing systems. The conventional marketing channel consists of independent producer, wholesaler and retailer. Every of them is the independent company, aspiring on the maximization of the own profit, even when such activity leads to less profit for the system, as unit. Nobody of members of the marketing channel has fully control over the other chain members. The vertical marketing system integrates the producers, wholesalers and retailers, they may figure as the connected system. One of the members of the channel owns the other members or dispatches by such power, that he may make the other to the cooperation. The vertical marketing system we split to three types: the corporate system, the administrative system and the contractual one (Kotler – Keller, 2013). In the practice we know many definitions, pseudo-definitions, various formulations, they specify the core of the franchising. We are presenting some of them, it could be seen the variety of the authors, finally we state our own definition:

1. Franchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the franchisor and its individual franchisees, whereby the franchisor grants its individual franchising the right and imposes the obligation, to conduct a business in accordance with the franchisor´s concept (European Franchising Federation, 2018).
2. Franchising is a market form, based on the partnership. Franchising picks over for the fees the franchisor´s existing concept and transforms it to his own local conditions. It is a legal separate unit, working on own self-profit and on own self-costs (DFV, 2012).
3. Franchising is a contractual agreement by and between two parties, whereby one party (the franchisor) extends the right to the other party (the franchising) to carry on an independent business under the trade mark or trade name or brand of the franchisor and to receive sufficient privileged know-how, derived through the franchisor´s experience in operating such a business, throughout the term of the agreement, consisting of all components as to enable a previously inexperienced person to establish a successful business under the franchisor´s brand. In consideration for the initial and ongoing assistance from the franchisor, the franchising commits to substantially invest in his own business and to a scheme of payments in the form of initial and ongoing fees. The franchising further undertakes to use his best endeavours to ensure the success of the franchisor´s brand and to adhere to the franchising system, following the guidance of the Franchisor to mutual benefit (Weber, 2013).

4. We tend to delineate the franchising term, as follow: *Franchising is a vertical marketing system, certified by a provider who on a contractual basis provides comprehensive concept, including know-how, licenses including training, continuous education and trademark to a legally and economically independent beneficiary, for a charge.*

If we try to recapitulate, we could say, that franchising is a business format; franchising is a type of commercial relationship based on a contractual agreement between two independent business parties, the franchisor (the seller of the business proposition) and the franchising (the buyer of the business proposition), in which the franchisor grants the franchising, for the term of the contract, the right to buy and operate the franchisor's branded and formatted business system for a fee and according to the prescribed rules and procedures developed for the system by the franchisor (EFF, 2018).

Scheme 1 The Phase of Franchising Chain Creation

Entrepreneurial conception	• Group of specific products, services and patented technologies, • trademark, mark of services, commerce name, sighn, symbol, logo, licence • ownership and using know-how, patentes and contrivances.
Model (pilot) operation	• European Code of Franchising: it´s neccessary to verify the fruitfulness of the concept; before establishment into the net, at least in on shop for minimally the period of 1 year.
Head office	• "head" fo the system; the head-quaters carries out the task with the franchisees.
Franchising package	• body of laws and performances, the franchisor offer the franchisee, the core of franchising.
Choice of franchisees	• the choice is realized by personalities of franchisees, financial situation, material terms and the aimf of the franchisor.
Franchising fees	• access (initial) fee, acitivity charge, specific fees and the charges for common advertising.
Franchising agreement	• precontractual phase (culpa in contrahendo), • franchising contract is longterm agreement, usually 3 – 5 years.
Expansion of franchising chain abroad	• the possible forms of accession on foreign markets: direct or indirect export, joint venture, co-branding, masterFranchising and others.

Source: Own elaboration, Orgonáš, 2017

In the new global economy, franchisees can be seen as important players in economic development. The reasons for their significance are their contributions to job creation (which increases employment) and economic growth at the regional, national levels (Petrů – Pavlák – Polák, 2019). Looking for right application of franchising form of business, the franchisor has to create a complete model, with the entrepreneurial conception, model operations, head office, the comprehensive franchising package, and potential expansion abroad, as seen from the scheme 1.

Standardizing routines allows the franchisor to replicate existing sources of competency throughout the chain (Kistruck – Webb – Sutter – Ireland, 2011). But before he has to applicate the franchising package to his franchisees on national, home market. In the market economy is the risk of enterprise the ingredient of the system. The certain entrepreneurial risk of the implementation and the launch of franchising concept and the system to the market. The measure of the risk is possible to optimize by consistent systematic approach, what dispatches or eliminates the potential risk or the causes. Every franchising concept is realised in concrete time and space. This fact is necessary to make provision for the alignment of right term of the entry of the concept to certain territory (on new market).

Forms of Franchising

Franchising we may sectionalize according various criteria, most know are manufacture franchising, distribution franchising and franchising of the services. Franchising falls into six (or in the practice more) segments, as follow according to (Weber, 2013):

1. Retail – supermarkets, self-service market, clothes, article of electro, footware, furniture, accessories.
2. services at real estate, cleaning, maintenance, design, decoration, repair.
3. personal services – fitness, beauty salons, education, tourist offices and others.
4. commerce and communication services – professional and financial services, personal agencies, schooling, IT and communication.
5. hotel and catering services – hotels, bars, commercial and industry procurement.
6. transport – hire services, repair and maintenance services, courier services and others.

In a general proves the advantage effect, if on concrete area and on concrete time happens hence of the demand for some product. In this case the advantage has that licenser, who comes earlier. The adjusting of the right time of the opening (if is it possible to influence) is valid, of course, for each shop of the franchisees. It is necessary to make provision for the seasonality of the actual segment of the business and the status of competitive environment on special-interest area. To adopt the right decision about the range of the franchising concept is it needful to dispose the complex of information about the concept. The provider of franchising licence gives it at disposal normally only on base of ex ante restricted treaty about the secretiveness, the treaty about the hold-back of business secrets. The licence provider condition for such treaty is modular and eligible. The effectual franchising draft, its know-how, is intellectual property of the licenser, has the price and the value potential. Its possible derealisation of abuse may cause the provider the detriment or profit loss. It is anticipated by defence of intellectual property. The contract issue about the discreetness is at the same moment the test for future person interested about the franchising licence buying. If the interest is genuine and serious, it hadn´t be any problem to fix a contract with the sanction conditions for infringement, as well. If the buyer interest is serious, it doesn´t come to any contract break. From this point of view and own experience we may confirm that all preparatory proceedings are very important. The basic aim of the business is the profit creation. The same is applicable to franchising. The interested person for franchising licence buying, before the decree, are entitled to win from the provider the information, verified in the praxis about the economic conditions of making business. As model is the pilot shop of licence provider. As commercial interest may be considered such franchising concept, that makes a successful business in one year (at least). The 12 moths surface the possible seasonable, operational and economic variations. The franchisor is compulsory to offer the person of interest for franchising buying an overview of economic figures on the results of the business of the pilot shop, including the overview of complete costs. They are the fundament, that the buyer uses at calculation of expected economic results of his future franchising shop floor, at calculation of return of investment for the equipment and for construction of complete business plan. The real yield test and the measure of economic effectivity of the know-how in the pilot shop, serves for calculation of moderate franchising and licence fees. The fair regulate of them sets up the precondition for long-term and stabile commerce relationship between the provider – franchisor and the user franchisee (Orgonáš et al., 2020).

Franchising is in current period of development an important economical category and plays a significant role in the whole world economy. So, as other branches, it has an eminent interest to expand, either by extending of own activities on home market, or by enlarging of the portfolio or by expansion to foreign market. The motivation varies, but it concerns the reconnoitre of widening of market opportunities, increasing of profit, enlarging of the market share or expansion of the mark. The technical tools and tactical instruments are various, beginning with simple export until the establishment of international nets, whereby a part of such possibilities relates directly with franchising. It´s a traditional form of entrepreneurship, in last year ever more presented. Franchising is the element of retail, wholesale and services. The retail activities, incl. the franchising activities (remark of the author), not only on European market, were in last decades stigmatized by these development tendencies, they eventuated in many important changes (Patriche, 2000):

- the concentration and cooperation – increasing of the number of large companies and the vertical connection among the producers and the mediator
- the transformation – the reaction on the disparity among the countries, the expansion of the franchising concepts and the development of add-on sale
- the diversification - the enlargement of the activities via the participation in various sectors
- the internalisation – the orientation on the markets of other countries.

2.1 The Costs and Revenues

In the microeconomic context with franchising we are thinking notably on these microeconomic aspects (Orgonáš, 2020):

- profit,
- costs,
- financing,
- human resources,
- company decision about "4 P" (the basic marketing mix: product, price, place, promotion),
- standardization.

The basic aim is to reach the profit, which is the most important indicator. The direct impact on the aim will have the costs and revenues. Simplified we could divide them as follow (Orgonáš, 2017):

Revenues:

- revenue from products sales,
- other incomes,
- extraordinary revenues.

Costs:

- material costs,
- staff costs,
- personal costs,
- costs overhead,
- interest, taxes and other fees.

The financing need not only the franchisor. His duty is to facilitate the financing for the franchisee, or to help him at financing winning. The costs of planning and the conception to carry the franchisor. To his costs we may add the costs for schooling, trainee development, the handling of "franchising bible", marketing and communication strategies. The practice confirm that the successful entrepreneurs have ability push the system on national level and on international level, as well. For system financing they use own financial resources, the foreign (bank) finances, very often "pro rata temporis".

If we would like to arrange the finances for establishment of the franchising concept, we have differentiation among (Flohr, 1994):

- investment
- the specific tasks of the system building
- beginning drop-out
- the liquidity reserves

They are other elements at franchising concept financing, they are needful to be followed such as:

- fix costs:
    - staff costs
    - fire costs
    - leasing rates
    - insurance and other fees
    - agreement services
    - finance costs
    - other long time period costs
- variable costs:
    - added goods orders
    - advertising costs
    - taxes payed in advance
    - working out of application manual
    - basic documents for schooling and training
    - initial product prices
- other payment duties:
    - borrowing finances
    - payment on the thirds
    - own enterprise needs
    - private needs
    - salary
    - exhaustion and interests of the credits

The generated profit is identifiable indicator of successfulness of the entrepreneurial subject in franchising. It forms the preconditions for next company development. The critical point is the financing. For preparing, developing and realization of every franchising concept is capital needed. The franchising creator need calculate with investment. The first input cost is, f. e., the purchase of franchising licence. Next costs are the investment for creation of franchising concept, franchising operations, secretarial capacity, software, goods and others. It is necessary to calculate everything. As the sources for financing they are preferred the private sources because they are most safe, in relation to the risk optimizing of next business. It´s possible to utilise the leasing (purchase of the technology, car, devices etc.), or credits. The new companies have however the problem to win the credit for the reason they have no „history" and the banks are mostly not ready to undergo the risk together with the Franchising creator (Šétaffy, 2016).

2.2 The Break-even Point

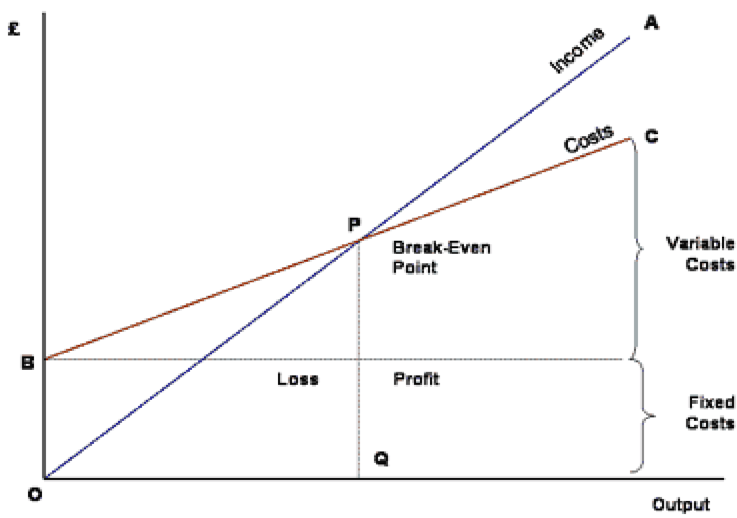
The definition of break-even point, in accounting, refers to the revenues necessary to cover a company's total amount of fixed and variable expenses, and other payment duties, during a specified period of time. In other view the break-even point is the performance level where total revenues equals total expenses. Or, the break-even point is where a company produces the same amount of revenues as expenses either during a manufacturing process or an accounting period.

For many businesses, growth often means a physical expansion of an existing store or the opening of additional stores. Is it worth the cost? There are two parts to the answer: finance and marketing. The financial analysis answers the question, *"What do we need?"* The marketing analysis answers the question, *"What will we get?"* To get our arms around the analysis requires an extension of my "break-even" discussion in the previous issue.

Let's look at how the franchisors do it. Suppose a large quick-serve franchising is looking at a new location. By knowing accurately their fixed and variable costs, they can calculate a break-even sales volume level. With thousands of existing outlets to use as models, they know their costs to the penny, exactly what they need to invest, and their target return on investment. They can then calculate the required profit. Then, considering the target profit as "fixed" (the cost of money) they can easily calculate the required sales to cover the costs and supply the necessary profits--and the answer to the question, *"What do we need?"*

At the same time, the marketing folks analyse the target market area so they can accurately predict sales, or *"How much will we get?"* Next, the marketing and finance people put the puzzle together. If what they will get is greater than what they need, it's a go. The other way around, and it's a no-go.

Scheme 2 Break-even Point



Source: Internet, google.com/search

Admittedly, the process isn't perfect, and the risks are several: only doing half the analysis, being wrong anyway, and not evaluating whether the growth is accomplished at the expense of increasing levels of debt. Nevertheless, the process is better than proceeding blindly; sometimes it's most useful in predicting what won't work, rather than what will. Who can use this expansion analysis process? Anyone. It is a duty of every franchisor to make a break-even point analysis with his franchisee. For any kind of growth, be it expansion of an existing location or the opening of additional locations. A sales analysis is only half the story. An accurate knowledge of your costs and how they behave is really "the rest of the story" (Orgonáš, 2020).

Conclusion

Many people are asking if right nowadays, in the 21st century, is the appropriate time to begin to be in business. If yes, which form is to be used? There are number of companies and entrepreneurs are not able to be competitive and are looking for the space where to live out or secure the growth. The response may be franchising (Orgonáš – Rehák, 2020). Franchising is a modern form of entrepreneurship going in last year through the renaissance. It´s relative safe form of commerce activities, especially in the time of crisis. The compactness, integrity and reliability of the system are preconditions of living through and reaching the success. It brings the advantages for both sides of this contractual relation. It brings the business possibilities. We suppose franchising entrepreneurship creates in this century one of the bearing wall of the entrepreneur activities, it will generate new employment and adds to the stabilization of SME in commerce sector, services and tourism. Franchising has ability to adopt quickly the market demands and belongs to them, they are responding on consumer real needs (Orgonáš, 2020). Franchising brings the great opportunities for franchisees and the franchisors, whereby they both benefit from the franchising concept. The enigma of franchising is a correct cooperation between the franchisor and the franchisee, leading to consistent partnership, knowing all aspects of franchising, especially the microeconomic one.

European Franchise Federation (EFF, 2011) engaged with the franchising position (from microeconomic point of view) in current period. It is assumed that in this century, franchising will be the vector of growth of economic activities:

1. Franchising in Europe has proven to promote the creation of enterprises and small-business ownership, employment and of turnover.
2. Franchising with its business-format rationale, its specified roles and responsibilities of franchisor and franchisee respectively, the transfer of know-how from franchisor to franchisee, and the built-in two-way communication, is a dynamic and efficient system for enterprise growth.
3. It is also an entry vehicle to self-employment for many segments of the work force, including people who want to re-orientate their working lives and who do not necessarily have prior entrepreneurial experience.
4. A proper franchise system ensures the continuing provision of commercial and technical assistance throughout the term of the contract and thus truly increases the survivability rate of start-ups as well as their sustainable growth, particularly in times of crisis as the circumstances of the latest crisis has shown.
5. Franchising is a mode of business development both at local/domestic level where it generates enterprise creation, employment, and wealth as well as at

international level. At this level, it is a natural vector for the export of business and for cross-border trade, as well as a venue for incoming foreign investment.

6. Franchising contributes to the transformation, modernization, and professionalization of traditional trades and services as well as the formatting of new trades and services. It also professionalises and renders transparent significant portions of the informal retail and service sectors, both in terms of employment and tax benefits.
7. Franchising, through the in-house training programs for franchisees, and often of their staff, promotes the learning of entrepreneurship as witnessed by the many examples of organic growth stemming from franchisee staff members eventually becoming franchisees themselves.
8. Franchising promotes best practice and healthy competition between franchise networks (inter-brand competition).
9. A franchise contract contains vertical restrictions to protect the franchise know-how, identity, and brand image on which everyone in the network depends.

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Factors of Open Innovation

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Abstract

The issue of open innovation has become a popular topic in recent years. The literature review revealed that within the Open Innovation theories and its aspects, some elements were differently defined which showed a space for further exploration. The main aim of the paper is to synthesize knowledge about open innovation and to create a basic model of the open innovation environment in terms of influencing factors and to identify relevant actors, that may be part of this process. The primary method was a secondary survey aimed at the analyze of 24 definitions and integrating scientific definitions of open innovation, its factors, barriers and relevant players. By synthesizing this knowledge, we have developed a basic model of open innovation factors and identified relevant players in this process. This paper is part of the author's dissertation thesis, which aims to design and test an open innovation model in the service sector. The model will include all factors contained in this article. Further model could be used as an effective tool for implementing open innovation and evaluating its usefulness for theories and praxis as well.

Key words

Open innovation, Actors in open innovation, Factors of open innovation.

JEL Classification: O30, O39

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Introduction

The world has changed over the last decade from an economy that was predominantly physical to software economy, where information technology is an integral part of society. The beginning of the twenty-first century belonged to innovation and transformation of the functioning of society. The Fourth Industrial Revolution offers many possibilities, and market leaders have already demonstrated what can be achieved by applying open innovation processes, largely linked to the use of new technologies. Open innovation processes are highly dependent on elements characterizing the 4th industrial revolution, such as digitization, new technologies or agility.

In the context of open innovation processes, collaboration and knowledge sharing are the most important aspects. The risks of this sharing are still perceived as very critical, especially those related to company´s reputation and its know-how. The main aim of the paper is to synthesize knowledge about open innovation and to create a basic model of the open innovation environment in terms of factors that influence it. Reaching the main goal is connected to fulfilling the scientific and professional knowledge about open innovation by summarizing definitions, factors, barriers and relevant players in

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open innovation processes. The main practical benefit is to enable innovation managers and R&D staff to understand what factors open innovation has and what are the essentials needed to be enabled for making greater openness in innovation processes.

1 Methodology

Currently is a growing trend seeing in the use of open innovation processes. In the order to benefit from the use of open innovation, it is very important to correctly understand its aspects as well as its application. The main aim of the paper is to synthesize knowledge about open innovation and to create a simple model of the open innovation environment in terms of factors that influence it. By summarizing definitions, factors, barriers and relevant players in open innovation processes, we will contribute to broadening scientific and professional knowledge about open innovation. In the order to fulfil the main goal of this paper, we conducted secondary research of domestic and foreign professional literature. Through this survey, we identified 24 definitions of open innovation, which we then analyzed. We synthesized the data into a synoptic table that focused on each definition of open innovation, its factors, barriers and relevant players. Our findings about papers of different authors from were from free and licensed databases such as ResearchGate, ProQuest Central or Web of Science was used to create a theoretical basis and to collect secondary data.

2 Results and Discussion

The term open innovation is used to support an information approach to innovation that is contrary to the traditional thinking of research departments. According to Trott and Hartmann (2009), the benefits and drivers behind increased openness have been noted and discussed in early 1960s. In a more interconnected world, open innovation offers more options than reducing research costs, spreading risks and bringing faster innovation to the market. The definitions of open innovation are based on the belief that in a world of distributed knowledge, companies can no longer rely solely on internal research; they should focus more on the benefits of collaborative innovation. This approach has brought significant benefits in many areas, including healthcare, IT, business models, public policy, etc. A summary of the aspects of open innovation (definitions, factors, barriers, relevant actors) are given in Table 1. This summary was used in further analysis of open innovation in the order to define its most important factors.

Table 1 Aspects of open innovation

Author	Definition	Factors	Barriers	Relevant actors
Chesbrough (2003, 2011)	Utilizing purposive gaining and losing knowledge to accelerate internal innovation	- Knowledge flow (open borders of company)	- Absorption capacity - Multiplication ability	- Companies: suppliers, customers, general partners, competitors

	and expand markets for the external use of innovation. Collaboration between companies where knowledge flows in both directions (inside and out) to improve the internal innovation process.	- Business model (oriented to openness) - Cooperation - Availability and mobility of specialists	- Relationship ability - ICT - IP (Intellectual Property)	- Other organizations: universities, research laboratories, government and other non-profit organizations - Individual: customer, user, inventor, citizen
Kearney (2008)	A process that involves a wide range of partners to support the process of generating new ideas. Open innovation is getting ideas from countless sources and understanding that each contributor brings a different perspective.	- Cooperation - Wide range of partners - Internet and online environment - Sharing rewards from innovation - Change in organizational structure	- Risk of cooperation (non-compliance, concealment, etc.) - Lack of human resources for such cooperation	- Customers - Consumers and the public - Suppliers - Employees - Strategic partners and knowledge networks (universities, research organizations)
Lazzarotti & Manzini (2009)	Cooperation with different types of partners (diversity) and with a high number of partners.	- Cooperation - Number of partners - Diversity of partners	- Small number of partners - Little diversity of partners	- Partners
Tuomi (2009)	The process of combining internal and external ideas into the architectures and systems of the organization itself.	- Exchange of knowledge (continuous interaction) - Cooperation and openness (technical and social)	- Corporate culture - Strategy and perceived risk	- The organization itself - Contractors - Customers - University - The government - Local communities - Competitors
Dahlander & Gann (2010)	A process that includes one of the following options: -Outgoing non-financial innovations -Outgoing financial innovations -Incoming non-financial innovations	- Cooperation - Multiple partners - Flow and use of knowledge - Business model reflecting openness	- The relative impact of technology on industry innovation - Length and complexity of the innovation cycle in the sector - Regulations in the sector	- Partners

	-Incoming financial innovations		- IP access - Preferred source of innovation - Overall disruption and turbulence in society	
Hilgers & Ihl (2010)	The process of transferring knowledge about customers' requirements (needs) to a possible solution using only the knowledge (technologies, materials, methods, processes, etc.) that belong to the company possibilities.	- Flexibility - Cooperation - Gaining knowledge and resources through online tools or platforms (such as crowdsourcing)	- Context (sector in which the company operates) - Company limits (technological, material, methodological, process, etc.)	- Consumers - Users - Specialized communities
Wallin & Krogh (2010)	A process that involves creating and using knowledge to develop and implement something new and useful.	- Corporate culture - Processes - Findings - Motivation	- Absence of strategy for open innovation - Mismatch between open innovation and company strategy	- Customers - Contractors - University
Schweisfurth et al. (2011)	Integrating and exploiting ideas created outside and inside the organization for innovation.	- Motivation to contribute (individual and organization motivation) - Contractual framework (transparency, accessibility, intellectual property) - Allocation of decision-making rights (centralized, decentralized) - Innovation process (which part of the process is open)	- Motivation barriers (barriers for futher implementation)	- Users - Not-users - Individuals - Enterprises

Galati et al. (2012)	A system that continually examines a wide range of internal and external innovation resources integrates this survey with the company's capacities and resources and takes great advantage of these opportunities across multiple channels.	- Internal and external resources of the company - Company capacities - Multiple information and communication channels	- Organizational culture - Specifics of the sector in which the company operates	
Lidegaard (2012)	A philosophy or way of thinking that should enable an organization to work with external inputs to the innovation process as naturally as with internal input. It is the bridging of internal and external resources and the impact on those opportunities that bring better innovation to the market faster.	- Different types of external sources - Collaboration (Intersection of the Three Circles: Innovation Community, Innovation Ecosystem, Customers and Users)	- Limiting the development of internal skills and key technological competences - Increase dependence on external technology providers - Increasing the complexity of processes resulting from cooperation with external parties.	- Suppliers - Partners - Innovation intermediaries - Competitors - Users - Consumers - Customers - Universities and research institutions
Piller (2012)	Open Innovation offers a set of different methods and practices that support innovative companies in identifying and integrating relevant external knowledge. The intention is to allow new forms of distributed crowdsourcing solutions beyond conventional measures such	- Types of shared knowledge - Stakeholders: number and diversity of partners - Use of technology, the Internet and different platforms - Collaborate in different parts of the innovation process	- Work process rigidity - Accepting external ideas - Insufficient resources - Insufficient support of top management - Unrealistic expectations - Legal barriers - Organizational / administrative barriers - Communication barriers	

	as innovative alliances or contract research.			
Durmaz (2013)	Collaborative system in which knowledge from customers, employees and other stakeholders (partners, suppliers) is openly reflected.	- Cooperation - Exchange of knowledge - Business model	- Industry regulatory requirements - Conservative approach to IP (difference) - Focus on internal development and research only - The difficulty of ensuring a balance between an open and a closed system	- Customers - Employees - Other stakeholders (partners, suppliers)
Brant & Lohse (2014)	The process of integrating external and expertise into the innovation process.	- Knowledge from multiple sources (optimal use of internal and external thoughts) - Intellectual property management - Knowledge management - Flexibility - Change in organizational structure	- Intellectual property management - Management of knowledge management	- Suppliers - Research centers - University - Customers - Competitors - Companies with an additional offer of products or services
Tidd (2014)	Acquire valuable resources from outside companies and share internal resources to develop new products / services.	- Resources: in an open innovation process, resources can be shared, not just knowledge.		- Companies
Bengtsson et al. (2015)	Managing knowledge flows beyond company boundaries.	- Flow of knowledges	- Knowledge flow management - The difficulty of achieving balance	

Chachoua (2015)	The collaborative process between companies, individuals and public agencies to create innovative products and share their risk and reward.	- Cooperation - Multiple partners - Risk sharing and rewards	- IP management strategy	- Companies - Individuals - Public agencies
Oberhaus (2015)	Engaging external workers in new ideas or products by sharing knowledge and intellectual property.	- Equivalence of internal and external ideas - Engaging the external workforce to disseminate knowledge - Use of external research and development - Purchase and sale of IP in connection with the business model	- Internal staff barriers with the acceptance of external ideas and technologies	
Dabic et al. (2016)	The company looks outside its research and development to look for new solutions created by external players and conduct profitable collaborations and partnerships.	- Cooperation and partnerships - Openness type (4 types: revealing, sale, sourcing, acquisition)		- R&D - Customers - Universities and research institutions - Suppliers - Competition
Greco et al. (2016)	Company innovation capacity resulting from interaction with another company.	- Innovative capacity - Companies interaction		- Companies
Osorio et al. (2016)	The collaborative process of government, research organizations, clients, consumers, suppliers, dealers that aim to con-	- Multiplayer cooperation - Exchange of knowledge as well as other resources (human, financial, material)	- Inability to develop inter-company relations - Inability to use external knowledge - Limited knowledge of	- Government - Research organizations - Clients - Consumers - Suppliers - Dealers

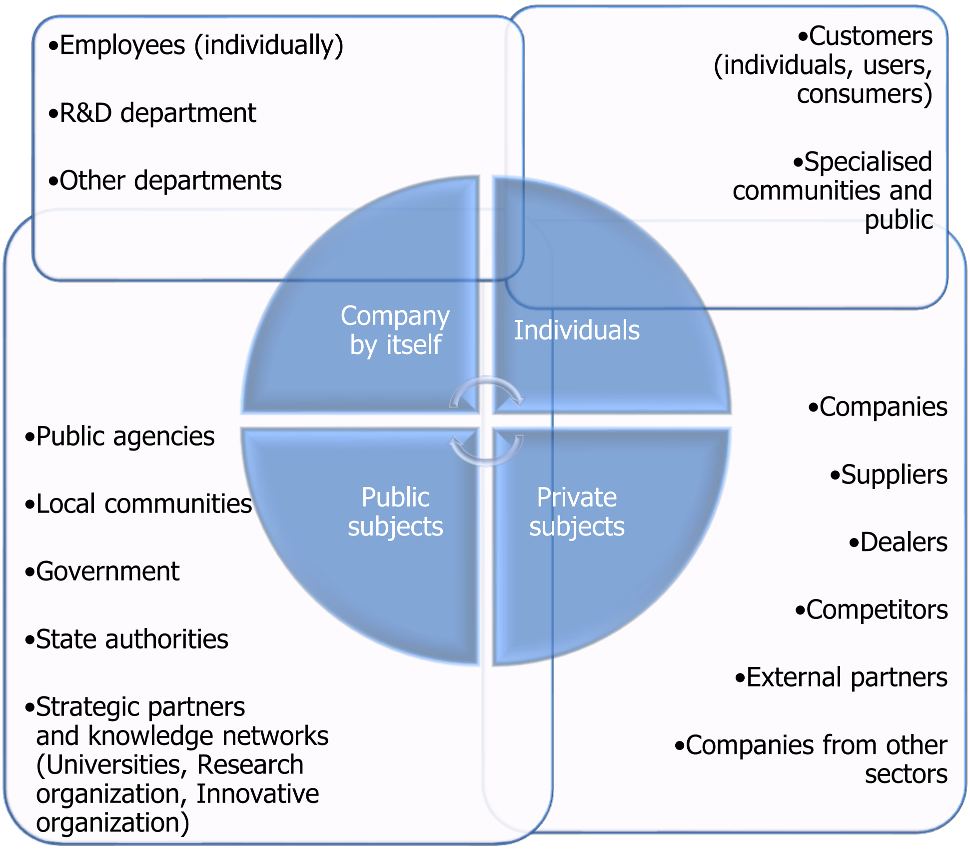
	nect human, financial, material and knowledge to gain shared value innovations.		open innovation	
Hossain & Anees-ur-Rehman (2016)	Effective acquisition of external knowledge for internal innovation and offering internal innovation for external markets.			
Zobel et al. (2016)	Greater use of external knowledge and increasing cooperation with various external partners.	- External knowledge - Cooperation	- Organizational culture	
Hvizdová & Máchal (2017)	Through open innovation, companies apply external ideas as well as internal ideas. These ideas are then incorporated into architectures and systems that are characterized by business models.	- Collaboration throughout the innovation lifecycle - Corporate culture (human resources management, top management support, inter-departmental communication) - Agile management methods	- Employee's fear of change - changing organizational structure, reallocation of powers and incomes can cause a negative atmosphere.	- Suppliers - Partners - Competitors - Users - Customers - Employees - Departments - External partners - University - Research institutions - Private companies - State authorities
Zapfl (2018)	Opening an innovation process outside the company's boundaries to increase its own innovation potential through active strategic use of the environment.	- Innovation potential of the company - Open borders of society - Interaction of knowledge, technology and processes - The customer's role (active innovator) - Qualified workforce - IP	- IP protection - High cost of using licenses and other IPs - Comprehensive innovation - Unique innovation - High competition	- Employees - Customers - Suppliers - Users - University - Competitors - Companies from other sectors

Source: Own processing.

Summary definition of open innovation: the process of sharing knowledge and other resources beyond the organization as part of an open business model with number of different actors with whom the organization works. Open innovation is a mechanism enabling the use of synergy effects from the sharing of innovation capacities of the participating actors, thus increasing the innovation potential of the company.

According to Table 1, the relevant players were divided into 4 categories: the company itself (enterprise / organization, internally), individuals (the public), private entities (other businesses) and public entities (the state) shown in Figure 1.

Figure 1 Relevant actors in open innovation process



Source: Own processing

2.1 Factors of Open Innovation

In further analysis of Table 1 above, we focused on the factors that influence open innovation. Different authors had different views on these factors, but in most cases they agreed. After analyzing the knowledge, we identified a set of relevant factors influencing open innovation and other explanatory information:

Cooperation is one of the most important factors of open innovation. Through open innovation, numerous external and internal sources of ideas and knowledge can be used to bring innovation management to a new level. Cooperation can take place with a different number and diversity of partners. It can take place both within the company and between organizations. Outside the company, cooperation is aimed at a wide range of partners and co-workers, with the customer (an active innovator) playing an important role. We identify open innovation collaboration as the intersection of three circles: innovation community, innovation ecosystem, customers and users. This collaboration can occur in different parts of the innovation process or can persist throughout the innovation lifecycle (both within the company and across organizations).

Openness means, first and foremost, the opening of company's borders. Forms of openness can be technical and social, with the most common types of openness being revealing, sales, souring and acquisition. Most authors agreed that a contractual framework that ensures the protection of the interests of the company as well as of other participants is essential for openness. Within the framework of openness, the focus is on transparency, accessibility and intellectual property. All stakeholders must determine in advance the procedure and form of risk-sharing and innovation rewards.

Exchange of knowledge and other resources can be expressed in several ways as a constant interaction with the outside world, interaction of knowledge, technology, processes and sales channels. In open innovation processes, the exchange of knowledge has also been extended to the exchange of resources other than knowledge - human, financial, material resources.

Business model adapted to openness in most authors' definitions occurred as a key element of open innovation processes. First and foremost, the company must be aware of and evaluate its opportunities in terms of openness and cooperation, ascertain its innovation capacity and innovation potential.

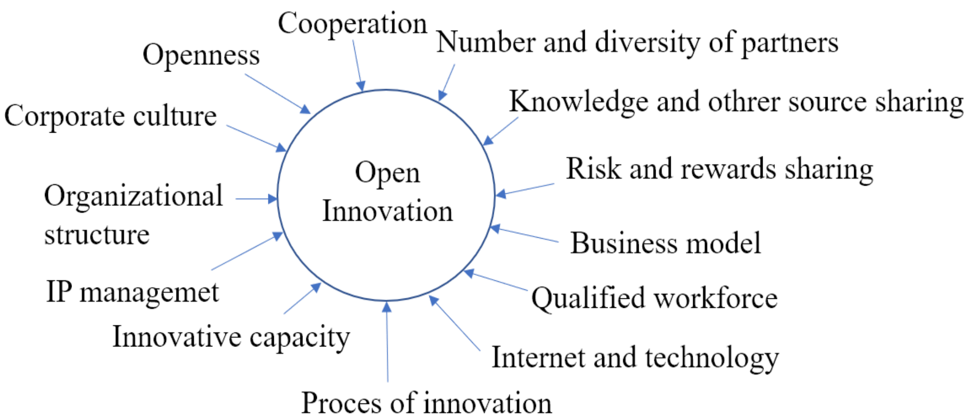
Corporate culture and organizational structure are important for open innovation processes, especially from the point of view of systematic establishment and functioning of open innovation processes. When organizational structure is changed, decision-making rights (centralized, decentralized) are redistributed and emphasis is placed on knowledge management and intellectual property management, which mainly deals with IP protection. Important is inter-departmental communication, human resources management, agile management methods and support about open innovation from top management. It is also necessary to pay attention to the motivation to contribute in company (individual motivation and organization motivation).

Qualified workforce is essential for open innovation processes, since the open innovation is focused primarily on the use of knowledge and cooperation, which mean human resources / possibilities. The external workforce is also used to disseminate knowledge. The effective functioning of open innovation processes is largely linked to the availability and mobility of specialists in the labor market.

The use of technology, Internet and various platforms is mainly used to acquire and share knowledge and resources through online tools (e.g. crowdsourcing).

For the clarity of our findings, Picture 1 was created. This picture identifies basic model of open innovation from the perspective of the most important factors that affect it.

Picture 1 Factors of open innovation



Source: Own processing

Conclusion

Factors of open innovation point out what all subjects accept when they apply open innovation processes. Open innovation shows how a company can use its business model to identify a better research and development position in the world of knowledge, better manage and access intellectual property, develop its current and future business. It is a more distributed and cooperative, decentralized approach to innovation based that today's useful knowledge has wide distribution and the company does not use its resources to the full if it innovates alone. Innovation is open to business more advantageously as it can reduce costs, accelerate time to market, increase market differentiation and create new income streams for society.

The period of the Fourth Industrial Revolution is characterized by complete automation and digitization processes using electronics and information technology (IT) in both manufacturing and services. Companies that use digitization are innovating faster and more agile than their competitors that do not use digitization in their innovation processes. According to Baur (2017), open innovation to create new business models is not new but is currently gaining greater acceptance and importance because of digitization. According to Kubičková and Benešová (2011), increased pressure on service producers' performance is due to increased competition and increased trade in services.

The company's need to use external ideas and technologies more effectively in its innovative activities is becoming increasingly desirable. Working together today is not just sharing technology knowledge, but also sharing market, the customer and business model knowledge. Openness in cooperation and exchange of knowledge is an important part of the effective use of the facilities of the Fourth Industrial Revolution.

This paper is a part of the author's dissertation thesis, which aims to design and test an open innovation model in a service sector. The model will include all the open innovation factors contained in this article. The model will be applied and tested in the environment of selected companies in Slovakia.

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