

# Dubrovnik Car Rental Agencies: Well-suited to respond to change?

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# Dubrovnik Car Rental Agencies: Well-suited to respond to change?

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## Abstract:

The transformative change in the car rental industry made the product and service offering beyond the traditional car rentals. The purpose of this study was to investigate whether the rent a car industry in Dubrovnik is well prepared to face the new challenges. The main goal of the primary research was to examine the entrepreneurial expertise which is associated with the utilization of effectual decision making among owners-managers of car rental agencies in the Dubrovnik area. The method used for this study included 3 surveys which were administered to 17 participants. Overall results have shown that surveyed sample shows tendencies towards an effectual approach to some degree. The research also suggested that people with the previous startup experience have shown greater tendencies towards effectual orientation compared to their peer without experience.

*Keywords: entrepreneurship, entrepreneurial marketing, effectuation, causation, change, car rental industry, Croatia*

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## **Entrepreneurship**

The concept of entrepreneurship is not a new phenomenon. It has been known to human society for close to three centuries now (Kuratko, Morris, & Schindehutte, 2015).

Over one hundred years ago, Schumpeter (1904), was one of the first economists who emphasized the importance of entrepreneurial activity and entrepreneur in economic development and growth. ‘‘Because the entrepreneur is the source of all economic change, capitalism can be properly understood only in terms of the conditions giving rise to entrepreneurship’’ (Schumpeter, 2000).

The new millennium has brought an extraordinary number of opportunities afforded by technology change as well as an era of high uncertainty (Spinelli & Adams, 2016). For this reason, ‘‘All explanation of businesses, and in this respect, modern capitalism itself, depends on entrepreneurship as a cornerstone’’ (Shane, 2000). Past studies have looked extensively at entrepreneurship in the context of market uncertainty and its role in initiating the entrepreneurial activity. Their findings suggest that ‘‘entrepreneurial expertise equals expertise in uncertainty’’ (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009).

One would think that due to economic importance and level of interest of people in entrepreneurship, this discipline has been a well-researched and explained by researchers and academia. Despite that, the appreciation for the entrepreneurial role in society and attention for entrepreneurship globally was insignificant until the new millennium (Bosma, Kelley, 2019). In this regard, the entrepreneurship field emerged as a fairly recent discipline (Kuratko, Morris, & Schindehutte, 2015). Entrepreneurship researchers still failed to deliver a generally accepted

framework for entrepreneurship phenomenon. The researchers have come from various background disciplines and this has resulted in a wide range of methods and techniques used to explain the field. There has been a broad array of definitions but each school viewed entrepreneurship in its own way. For these reasons, they focused on only one part of the entrepreneurial process (Scott Shane, 2000).

According to entrepreneurship professor William Gartner (2001) and his published paper on theory development, it is hard to develop a generally accepted theory which will encompass such diverse topic areas that entrepreneurship as a multidisciplinary field covers. In the absence of universally agreed theory, Scott Shane (2000) focused his research on the opportunity as a starting and central theme of entrepreneurial activity. Spinelli & Adams (2016) further supported this idea by stating that recognition and creation of opportunities is the core of entrepreneurship.

One widely cited definition of entrepreneurial activity describes it as the discovery, evaluation, and exploitation of the opportunity to create new goods, services or ways of organizing new markets and processes which had not existed before (Shane & Venkataraman (2000) as cited in Shane, 2000). This results in the creation, enhancement, realization, and renewal of value, not just for entrepreneurs, but all stakeholders (Spinelli & Adams, 2016).

The impact of entrepreneurial activity is evident at all levels of our society. Many economies consider the entrepreneurial process as a crucial socio-economic policy as it connects innovation, competitiveness, productivity, wealth generation, job creation, and creation of a completely new industry. For obvious reasons, entrepreneurial activity has become the most important source of economic growth (Kuratko, 2014).

The European Commission, in their latest strategy Europe2020, acknowledge entrepreneurship and self-employment as vital for achieving ‘‘smart, sustainable, and inclusive growth’’ (European Commission, 2019). Depending on the definition, anything from 80% to 98% of all enterprises in the world, from both developed and developing countries, are small business (Harrigan, Jones, Rosalind & Sethna, 2013). In the States, over the past decade, small businesses accounted for 60-80% of the net new jobs (Spinelli & Adams, 2016). Research done by Junior Achievement in 2006, revealed that 70,9% of US high school students would like to be self-employed at one stage in their lives. Another research implemented on high school students in the UK in 2008, resulted in the percentage is even higher, accounting 80% of students (Spinelli & Adams, 2016).

For years, the view of entrepreneurship has been associated with the orientation of small start-up companies or organizations. This has changed recently, and today entrepreneurship has evolved into organizations and companies of all types and stages (Spinelli & Adams, 2013) In the late 80s, Microsoft was a start-up company with 38 employees and less than \$8million in revenue. Today, it has grown into a company of 134,944 employees having the most valuable stock of \$847 billion (Kelleher, 2018). Additionally, Microsoft, as well as other start-ups in the late 70s, have had a significant impact on the competitive structure of the U.S industry. Entrepreneurial firms are now being characterized as fast-growing, organic and networked-based organizations (Spinelli & Adams, 2013).

In this sense, owners-managers of small as well as larger companies are now encouraged to pursue innovative entrepreneurial activities as the main domain of their strategic processes. Naturally, this resulted in a growing body of research examining the area of entrepreneurship.

Throughout 20 years, containing over 2.9 million data, including 112 economies, up to 1,000 national, global and special topic reports, and over 650 academic researches, Global Entrepreneurship Monitor has proved that entrepreneurship performs without regard to a specific age, gender, social class, demographics, or geographic area (Bosma & Kelley, 2019). Entrepreneurship indeed allows people to pursue and make their dreams come true (Spinelli & Adams, 2016). GEM provided evidence that women, old and young, from all national origins, are taking part in the global force of entrepreneurship. The entrepreneurial activity is now present in extraordinary variation all around the globe. It exists in developed countries, transition countries as well as low-income countries. Although reasons for engagement in entrepreneurial processes differ, as low-income countries are mainly necessity-driven and developed ones are more improvement-driven, they all contribute to economic development and wellbeing in their societies (Bosma & Kelley, 2019). According to the Verheul (2004) countries with a high total entrepreneurial activity rate also have a high women's entrepreneurial activity rates. This is further supported in the GEM report of 2017/2018, where it is stated that among 63 countries surveyed, in the past years, the total entrepreneurial activity among women has increased by 10% and thus the gender gap decreased by 5% (Bosma & Kelley, 2019).

### **Causation and effectuation**

Recent years have witnessed increased businesses vulnerability to hostile and less predictable marketing environments. For instance, out of the 500 S&P companies in 1957, just 17%, or 86 of them remain part of the S&P 5000 companies list in 2007 (Hulbert, 2007). More recent research, conducted by Kantar Millward Brown and Bloomberg, has revealed that only Google, Microsoft and IBM, or three brands, that were in BrandZ™ Top 10 in 2006, also appeared in Top 10 in 2017 (Chang, 2019). For this reason, many researchers have looked at effective strategies under

conditions of uncertainty. Their findings suggest that causational, the traditional or textbook approach to launching and running a business, is not a preferred paradigm in the face of an uncertain, ambiguous or non-predictive environment (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009).

In particular, the causal process is determined by a specific set of goals and focuses on selecting corresponding means to create the effect. In this sense, causal logic is created to increase the knowledge of a certain market, predict the future and adapt to changes in it. Because the end goal is determined and envisioned from the beginning, the causal process involves in-depth analysis and detailed planning activities to accomplish it (Chandler, DeTienne, McKelvie, & Mumford, 2011). The causal approach highly depends on the predictive ability of an entrepreneur, it is based on the premises ‘‘ To the extent to which one can predict the future, one will be able to control it’’ (Read, Dew, Sarasvathy, Song, &Wiltbank, 2009). Predictive planning-based strategies such as causation have been effective and appreciated in risk-based context (Welter & Kim, 2018).

An American economist, Knight Frank (1921), was one of the first who separated risk from uncertainty and connected the entrepreneurial decision-making paradigm with the role of uncertainty (Knight Frank, as cited in Agrawal, 2018). In recent years, the role of uncertainty in the entrepreneurship has received great attention from other entrepreneurship scholars. Dr. Sarasvathy (2008) conducted the most prominent research. She researched 27 expert entrepreneurs (people with extensive business experience, who had established multiple companies in variety of industries and had taken at least one public, ranging in market capitalization of \$250M – \$6.5B) on how they address economic opportunity and achieve



success. The expert entrepreneurs read through a 17-page start-up case, one of the most uncertain and unforeseeable setting, and responded to a set of 10 questions regarding their thinking processes pertaining to the case's startup related issues. The entire time they were asked to think aloud. All the answers were taped, transcribed and examined by Dr. Sarasvathy and a team of researchers ["Society for Effectual Action", n.d]. Their findings showed that expert entrepreneurs perceive the future and make decisions significantly different compared to typical owners/ managers (Agrawal, 2018). As such, effectual logic was depicted within an uncertain context (Sarasvathy, 2001). Effectuation concept offered explanation of entrepreneurial action and emerged as dominant decision-making paradigm used by expert entrepreneurs. It served as a 'baseline against which to evaluate entrepreneurial expertise' (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009). Moreover, their findings suggested that presence of uncertainty within the market allows the number of unforeseen events and surprises which eventually lead towards the creation or discovery of new unexpected opportunities (Sarasvathy, 2009).

In the effectual frame, the end result is not envisioned from the beginning. Contrary to predictive rationality and a linear goal-driven causal logic, effectuation principle rests on the means-driven logic. The effectual entrepreneur starts with the given set of means and allows goals to emerge throughout the process. In this way, the effectual entrepreneur will be able to effect the change if the environment changes (Sarasvathy, 2008). Plans are also changed, revised and recast through interactions with people whom they encounter (Sarasvathy, 2011). Because of this, entrepreneurs following effectual logic are more open to new possibilities. The opportunity and even the market itself, are created through the effectuation process. As such, effectual logic or decision-making paradigm is more action and control-oriented process (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009).

The effectual entrepreneurs start venture creation with the list of means currently available to them, which are also within their affordable loss. They begin by asking themselves ‘‘Who I am’’, ‘‘What I know’’ and ‘‘Who I know’’. With the three sets of intangible resources and contingent human aspirations, effectual entrepreneurs construct a list of possible outcomes. The cycle of acquiring means or resources expands as entrepreneurs interact with people who they know or who they encounter. Then, committed stakeholders influence the entrepreneur in a way that he/she make adjustments of the initial goals and visions along the way. Furthermore, based on stakeholders who join in co-creating the venture as well as market contingencies and constraints, the venture creation eventually converges into a specific goal (Sarasvathy, 2008). In a nutshell, effectuation frame is a dominant service logic ‘‘focused on intangible resources, the co-creation of value, and relationships’’ (Vargo & Lusch, 2004).

Studies on expert entrepreneurs have produced five specific principles that are used as a decision-making logic in the creation process: (1) bird-in-hand; (2) affordable loss; (3) crazy quilt; (4) lemonade; (5) pilot-in-the-plane (Sarasvathy, 2008). Each principle inverts the use of normative theories and predictive rationality to control the uncertain future. Hence, combined constitute the underlying logic of effectuation (Sarasvathy, 2008).

**Bird-in-Hand.** This principle stands for, already mentioned, three categories of means within the control of the entrepreneur. Sarasvathy described it as their identity (who they are), their knowledge (what they know), and their networks (whom they know). By focusing on means rather than pre-selected goals, effectual thought stimulates co-creating new effects and unanticipated ends. New goals created along the process could be new products/services, firms,

markets. This is something associated with entrepreneurship orientation (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009).

**Affordable Loss.** This principle suggests that when determining which projects to pursue, the effectual entrepreneur is concerned about affordable risk or loss. Instead of calculating the expected return of the new venture by selecting optimal strategies, the expert entrepreneur assesses how much he/she can afford to lose (Sarasvathy, Kumar, York, & Bhagavatula, 2013). Affordable loss principle is a non-predictive mode of estimation as it is not required to estimate future sales or possible risks that constitute capital cost. In order to calculate affordable loss, one just has to know current financial condition (Sarasvathy, 2008). Simply by letting estimates of affordable loss to lead decisions, expert entrepreneurs reduce dependence on prediction. This also allows cheap failure cost as well as learning component that can be used in next venture creation [“Society for Effectual Action”, n.d].

**Patchwork Quilt.** While causal approach emphasizes the competitive analysis such as Porter model (1980), effectuation approach and in particular patchwork quilt principle states that expert entrepreneurs seek partnerships or alliances even before determining the exact product markets for new venture creation (Sarasvathy, 2008). Each committed stakeholder enhances the means available for the venture creation. Therefore, the cooperation with various stakeholders who are willing to make commitments in form of new resources and new directions determine the goals of the venture (Sarasvathy, Kumar, York, & Bhagavatula, 2013). Metaphorically, the difference between a causal and effectual approach can be contrasted using the image of a quilt and a puzzle. In puzzle, things can come along in just one way, as in a causal approach. While quilter

determines the look of patchwork, combining the different patches samples, as in effectual approach (Dew, Wiltbank, Sarasvathy, & Read, 2010).

Lemonade. The effectual reasoning welcomes uncertainty by viewing it as a window of opportunity to create new products, markets, and firms. Expert entrepreneurs leverage surprises as they bring light to the idea of serendipity or unintended discovery of opportunities (Dew, 2009). This principle reflects proverbial phrase "When life gives you lemon, make lemonade". Since effectual entrepreneurs start their venture creation with a very loose notion of goals they can develop their business in a series of small steps, utilizing uncertainty and unexpected events as a resource for their goals. The lemonade principle is at the heart of effectual logic as it takes advantage of unexpected and uncertain and turns it into the valuable and profitable (Sarasvathy, 2008).

Pilot-in-the-Plane. This principle emphasizes expert entrepreneurs' nonpredictive view of the future. Entrepreneurs following effectual logic focus on transforming and reshaping the future by their needs, instead of predicting it. Symbolically speaking, they see themselves as pilots controlling the plane (Sarasvathy, Kumar, York, & Bhagavatula, 2013).

Research on effectuation has been extensive and it affected R&D, financing and marketing orientation (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009).

### **Entrepreneurial/effectual marketing**

Technology change along with scientific advances offers completely new set of products and services at accelerating rates which additionally increase market uncertainty. In such environments with ever shrinking product and business lifecycle, companies have to continually

look for new economic opportunities (Hitt, Reed, 2000; Rauch, Wiklund, Lumpkin, &Frese, 2009; Whalen, 2016 as stated in Alqahtania &Uslay, 2018). Many researchers provided evidence that marketing, or specifically, market orientation has been an essential contributor to business performance (Deshpande, 1993; Jaworski, Kohli, 1993; Narver & Slater, 1990 as cited in Jones & Rowley, 2009). Entrepreneurial marketing emerged out of these progresses and out of need to cope with highly uncertain market conditions and limited resources. As such, EM is essential for companies to remain relevant, competitive, and healthy in complex ever-changing market environments (Alqahtani &Uslay, 2018).

Given the importance and relevance of small business to the economy in last two decades, much of the attention has been devoted to the marketing strategies used in SMEs (Blankson, Omar, 2002; Blankson, Stokes, 2002; Brooksbank, 1991; Brooksbank,1999, 2004; Carson, 1990, Carson & Cromie, 1989; Carson,1995; Gilmore, 2001; Hill, 2001; Stokes, 1998 as cited in Jones &Rowley, 2009 ). One of the researchers proposed that SME marketing is actually entrepreneurial marketing because its approach is inherently informal, simple and unplanned. This is reflected as a result of their small size; limited resource availability; the influence of the owner/manager and, and the lack of formal organizational structures when it comes to marketing (Carson,1995 as cited in Jones & Rowley, 2009). In general, companies are confronted with increased pressured to be more innovative, proactive, and agile while developing and pursuing marketing strategies (Alqahtani & Uslay, 2018).

Due to the disruptive technological changes, regulatory actions, and other events which are not in control of even the best marketers, almost any predictable market can become uncertain (Read, Dew, Sarasvathy, Song, & Wiltban, 2009). Read, Dew, Sarasvathy, Song, & Wiltban's paper has proven that the relationship between expert entrepreneurs and use of effectual logic in

uncertainty exist. However, this relationship has not been found among managers. This study also demonstrated that effectual logic “provides an internally consistent set of prescriptions for marketing decision making under uncertainty.” This is important given that all categories of products and services were once new and uncertain (Read, Dew, Sarasvathy, Song, & Wiltban, 2009).

### **Rent-a-car Industry**

According to estimates, the global rent a car industry is expected to reach approximately \$99.6 billion by the end of 2022. It is estimated to continue expanding at a compound annual growth rate (CAGR) of 5,5% over the period 2017-2022 (“Growth Opportunities in the Global Car Rental Industry”, 2018).

The growth of car rental industry can be attributed to the increase and development of global travel and the overall tourism industry (“United States Car Rental & Leasing Market Outlook 2017-2025”, 2018). There are numerous trends which have a direct impact on the dynamics of this industry. According to the Goldstein Research on global car rental industry, the major trend is the advancement in technology.

Car rental companies are taking advantage of the power of the internet. This enables them to establish new distribution channels, enhance the ease of bookings and doorstep delivery services, where customers get a car at a location of their choice. Internet gave customers more control and also played an important role in changing market opportunities. This resulted in online segment accounting the highest revenue share or more than 70% due to the booking convenience and payment methods. In the forecasted period for 2016-2024 offline bookings are expected to further decline by 15%. New technology made it possible for car rental companies to include

services which have a self-service kiosk, online check-ins, and loyalty programs which create the entire rental process more pleasant and more convenient (“Growth Opportunities in the Global Car Rental Industry”, 2018). The leisure customer segment is the largest segment within the global rent a car industry and is expected to remain as such for the time period of 2016-2024 (“Growth Opportunities in the Global Car Rental Industry”, 2018).

Goldstein Research report also indicates that the greatest challenge in rent-a-car industry is aggressive competition. Four well-established major players, Enterprise Holdings, Avis Budget Group, Hertz Global Holdings and Fox Rent A Car, own approximately 60% of the car rental market share worldwide.

To remain competitive, car rental providers use multiple strategies, revenue management or dynamic pricing being one of them. This strategy is defined as “selling the right product for the right price at the right time to the right customer”. In other words, dynamic pricing maximizes revenue by smart control actions of the booking process, with demand level influencing price level. In industries characterized by perishable products, such as hotel, airline, cargo, sport or car rental, dynamic pricing is being widely used (Masruroh, Tjakra, & Ratinghayu, 2017).

One of the pioneers of dynamic pricing in the car rental industry began was National Car Rental in 1994, using revenue management to control capacity, manage price, and determine the overbooking policy. This improved their incremental revenue by \$56 million in the first year of its application (Masruroh, Tjakra, & Ratinghayu, 2017).

“It's not just about the car anymore. ” Many car rental companies, such as Avis, are now concentrating on car sales. In 2018, Avis Car Sales program has announced new opening locations for car sales in destinations such as Florida, Texas, and Massachusetts (Elliott, 2018).

Many companies leveraged the power of technological advancements and outsourced digital marketing to service providers. For instance, Dollar Rent a Car and Thrifty Rent a Car use Responsys as a provider of on-demand marketing solutions. Responsys helps them integrate, automate and individualize marketing messages in order to provide a customized experience and increase performance. Responsys allows car rental providers to leverage their web site visitor behavioral data so they can create personalized emails based on individual customer preference and recent visit. The goal is to ensure that each customer/email subscriber receive the maximum value out of the email sent. Additionally, Responsys also enables these car rental providers to use analytics and reporting within Responsys to improve segmentation, deliverability, and optimization of their marketing efforts. As a result of the inbound and digital marketing efforts, they increased their online bookings significantly (“Dollar Thrifty Automotive Group Selects Responses to Increase Email Marketing Impact and Performance”, 2008).

Establishing strategic partnerships is very common within the car rental industry. For instance, Alamo Rent A Car and Walt Disney Parks and Resorts formed a multi-year strategic alliance for the purpose of marketing and promotional opportunities. Alamo Rent A Car is recognized as a leading car rental provider for a family customer segment. On the other hand, Walt Disney Travel Company Inc. is one of the biggest tour operators in America. This made them natural partners. Further, customers of both companies can take advantage of this and enjoy the benefits of the alliances (“Alamo Rent A Car and Disney Renew Alliance”, 2010).

As mentioned, technology also enabled car rental companies to create loyalty and reward programs. For example, Fox Rent A Car loyalty program counts more than 300,000 members. This program allows Fox members to enjoy exclusive members-only deals and promotions but also to redeem their points on future car rentals. Additionally, members of Fox Rent A Car can



redeem their points for original gift certificates from other hundreds of hotels, airlines, stores, spas, theaters etc. (“Fox rent A car rewards program”, 2010).

Enterprise car rental company is also very thoughtful of their reward program. Through their loyalty program, customers can also earn points for many other Enterprise's partnership companies [Enterprise website, n.d].

This is also the case with Hertz Rent-a-Car company. They formed a partnership with SkyTeam airline. Frequent passengers of SkyTeam also have car rental benefits as well as the opportunity to collect miles when renting a car [Hertz Corporation website, n.d]. In addition to this, Jayesh Patel a senior vice president of a company has stated that in an 18 month period they improved their fleet, service, technology and loyalty program in order to provide better customer experience (Elliott, 2018).

Within car rental industry, all providers are providing similar products. Despite that, all the car rental providers used to compete in the “offer” or in other words size and diversity of the product range or fleet. Having in mind that this industry is highly capital-intensive, Enterprise changed the car rental value. Enterprise brought into focus the “delivery” part of the car rental process which enhanced customer experience and company’s branding (“Marketing and product strategies for growth-An Enterprise Rent-A-Car case study”, n.d).

They were first to include unique ‘Pick-up’ service of customers at no extra cost. The demand for the “We’ll Pick You Up” or “Vamos Por Ti” service was much needed as it made them lead the market in their product offering. This marketing campaign leveraged the power of word of mouth, which is very important within Pan-Hispanic community (“Enterprise Rent-A-Car Emphasizes the Company's "We'll Pick You Up" Service in New and Engaging Ways”, 2015).

In order to meet the growing needs of their customers, Enterprise is constantly adding new products and services to their product development. They have created Flex-E-Rent service for long term rental agreements, as well as Business Rental Program, program for customized corporate rentals [Enterprise website, n.d]. Over the time, they have shifted their marketing focus beyond car rental. Today, Enterprise also provides car-sharing program and vehicle sales. Car sharing program is also seen as additional way of decreasing the number of vehicles on road and reducing a negative impact on the environment (“Marketing and product strategies for growth- An Enterprise Rent-A-Car case study”, n.d). Enterprise’s new brand positioning put them in position of a service provider that meets all customers’ transportation needs. They branded themselves as company which “got customers’ back” at whatever stage they are in. This enabled them to connect with customers on a more personal level (“Enterprise Rent-A-Car Evolves Brand Positioning, Reaches Customers in New Ways”, 2016).

Sharing economy did not just introduce car sharing program as an additional revenue source for car rental providers. The leaders in the car rental industry, such as Hertz, are also offering their expertise for Uber and Lyft fleet management (“Car Rental Industry Trends in 2018”, n.d).

Technological innovation also included introduction of electronic and hybrid vehicles into the fleets of car rental companies concerned about the environmental sustainability. There are even rent-a-car providers who offer solely electric cars such as European Electrek [Electreck website n.d].

### **Dubrovnik rent-a car industry**

Car rental industry in Dubrovnik started to develop after first travel agencies opened their branches. Kompas, Putnik and Inex were the first agencies specialized in renting vehicles without the driver (Stanić, 2013).

Kompas Hertz became the biggest company in Yugoslavia and Dubrovnik in 1971 owned by a parent company in Ljubljana, and operating under the Hertz global franchise. Offices were opened both in Dubrovnik airport and in the city center, in proximity to Pile gate. Company had favorable business climate as it was almost impossible for private investors to enter the market, so there was no threat of new entrants. This made the company grow to more than 4,000 vehicles at its peak in 1998. For comparison, Sixt, market leader in Croatia today operates with 4,000 vehicles. During the homeland war in Croatia, Kompas Hertz suffered huge losses, as the army used the vehicles for their purposes. Most of the cars were destroyed, stolen or returned in poor condition. Company never bounced back, and eventually lost the Hertz franchise in 1998. During the post-war years, local companies operated in Dubrovnik, and in early 2000s global brands started opening their offices (Klečak,2015).

Today, the biggest franchises are present in Dubrovnik, operating through Croatian or European companies. Most of the car rental companies in Dubrovnik operate with two offices in Dubrovnik area, airport branch and city branch (I. Tropan, personal communication, February 28, 2019).

Practices in Dubrovnik car rental industry are similar to the global practices. Most companies acquire their vehicles in the buyback arrangements, which means, they buy the car before the tourist season, use it for 6 months and sell it back to the company they bought it from. Usually number of cars which is bought is more than 100 vehicles, enabling rent-a-car firms to get the

starting price at a significant discount. Also, buying new cars each year saves companies maintenance costs. This practice completely skewed the statistics of new cars being bought in Croatia (I. Tropan, personal communication, February 28, 2019).

In 2018, 32,276 new cars were bought in Croatia which is a rise of 21% over 2017. Most of the cars bought were rental cars, meaning that the cars were back in the market after 6 months as used cars. Competition is getting bigger each year with new companies entering the market and opening branches around Croatia (Kulaš, 2018).

Due to the uncertain market conditions, it is almost impossible to exactly determine how many rent-a-car companies operate in Croatia. However, there are several large rent-a-car companies which do business in Croatia and which are members of *Rent-a-car Coordination of the Croatian Employers' Association*. These companies are: Sixt, Hertz, Enterprise, Fleet, Europcar, Avis, Budget, Oryx, Dollar & Thrifty, Unirent and Carwiz. (Kulaš, 2018) Apart from them, it is estimated that there are additional 20 companies operating in Dubrovnik area (I. Tropan, personal communication, February 28, 2019).

Airport based offices get most of their customers from online bookings made directly through their website or through online travel agencies. In recent years, the car rental industry is facing the same problem as the hotel industry. Most of the bookings are done through OTAs and they have to pay the commission. This is why car rental companies started implementing loyalty programs and phone apps (I. Tropan, personal communication, February 28, 2019).

Branches located in the city rely on forming strategic partnerships with hotels or local travel agencies usually for a commission of 5-20%. Digital marketing is outsourced, and it covers the basic services such as banners, Google ads and on-site optimization. In recent years some

companies started to focus their marketing on the trends which are happening in the industry. Avant Car is advertising electric vehicles and focusing on the ecofriendly market niche. Carwiz is forming partnerships with civil and student organizations, and sponsoring professional sports teams. Another overlooked part of the car rental marketing is the on-car stickers. This is a great way of reaching wide audiences as cars are on the road all the time. These stickers can communicate contact numbers, web pages or experiences. In order for companies to survive, they need to combine services to please customers. Oryx is one of the companies which offer road assistance, long term rentals, and car sales (I. Tropan, personal communication, February 28, 2019).

As veteran car rental analyst Neil Abrams said ‘ ‘ The old way of doing business has ended." It is evident that the car rental industry is currently undergoing a period of change and uncertainty and rent car companies will be challenged. The new transportation paradigm evolves so fast, blurring the boundaries between car ownership, rental, and lease (Elliott, 2018).

The transformative change in the industry made the product and service offering beyond the traditional car rentals. This research paper provides an understanding and importance of entrepreneurial orientation in the era of change and uncertainty. It aims to investigate whether the rent a car industry in Dubrovnik is well prepared to face the new challenges. It will, then determine, how rent a car companies are acting upon them, effectually or causally or whether they demonstrate expert entrepreneurial practices or not.

## **Methodology**

The main goal of the primary research was to examine the entrepreneurial expertise which is associated with the utilization of effectual decision making among owners-managers of car rental agencies in the Dubrovnik area.

This research paper adapted two existing validated questionnaires which were developed for examining decision-making logics of future hospitality entrepreneurs. (Walker, Agusaj, Kuznin, 2014). Instrument also contained four questions with criteria for long-term decision making, pricing strategy, market research, and prior experience which is incorporated from the research ‘‘Marketing Under Uncertainty: The Logic of an Effectual Approach’’ (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009). The instrument contained three sections or three surveys which were administered individually, in a printed format.

The first survey examined only the demographic characteristics of the surveyed sample. The second survey was incorporated from Walker, Agusaj & Kuznin paper and enhanced with four additional questions from Read, Dew, Sarasvathy, Song, & Wiltbank research. In the second survey participants were provided with an imaginary situation regarding their business concept and they had to choose between two possible anchor responses, one effectual and the other causal, as well as intermediary responses between the two anchors. Responses were coded from one to six so that a higher numeric response relates to a causal approach, and, in contrast, lower responses signify an effectual approach.

The third survey measured only causation operationalization (which utilized a five-point Likert scale). This survey was incorporated from Walker, Agusaj & Kuznin paper then adapted to the context of car rental industry. The third survey contains constructs related to the causation operationalization such as market analysis, competitor analysis, business plan, financial projections etc. (with higher scores indicating a greater utilization of casual approach).

The research paper included a sample of 17 owners-managers of car rental agencies in the Dubrovnik area. This number represented more than a half of Dubrovnik car rental companies, precisely 56%.

## **Results**

The first survey describes the demographic characteristics of the surveyed sample. The analysis of the results reveals that the majority of respondents, 47% of them (8 out of 17) belong to the age category of 45-54. This is followed by the age category of 35-44, which counts 23% of participants (4 out of 17). Only 12% of respondents (2 out of 17) belong to the age category of 25-34. This data can be seen in Figure 1.

The data also showed that 59% of participants (10 out of 17) possess a bachelor degree. This is followed by 23% (4 out 17) possessing a vocational degree, and lastly 18% of high school degree (3 out of 17). This can be seen in Figure 2. The third survey also provided data on previous start-ups of the owners-managers of car rental companies in the Dubrovnik area. Out of 17 respondents surveyed, 59% of them (10 out of 17) have had other start-ups in addition to the car-rental company. This can be seen in Figure 3. Further, 36 % of them (6 out of 17) have been involved in 2-3 venture creations while 24% of them (4 out of 17) have had one start-up before this one.

Concerning industry experience, 12 out of 17 or 70% of them have indicated that they had no previous experience when starting a rent-a-car company. Eighteen percent of them (3 out of 17) had 4-5 years of car rental industry experience while only 18% (2 out of 17) have had 6-10 years industry experience before their current venture creation. This data can be seen in Figure 4.

The survey also measured the current age of car rental respondents in the Dubrovnik area. The results show that 47% of respondents (8 out of 17) have a company that has more than 10 years. This is followed by 41% of respondents having a company that has 5-19 years and 12% (2 out of 17) who have a firm of 4-5 years. This data can be seen from the graphs in figure 5.

In the second survey, analysis of the results reveals that the car rental owners-managers exhibit a tendency towards the effectual approach (mean values lower than 3.5). The mean and standard deviation for the sample are 2.60 and 0.44 respectively. Individual question means can be seen in figure 6. When viewing individual respondent scores, they ranged from a score of 2.0 to 3.21, signifying that the entire sample utilizes an effective approach to some degree (mean values lower than 3.5).

Regarding the individual effectual constructs, the surveyed sample provided mean values indicating a propensity towards an effectual approach (mean values fewer than 3.5) in three of the four principles, with the Affordable Loss principle being the only exception. Specific mean and standard deviation values, respectively, for the Bird-in-Hand, Affordable Loss, Crazy Quilt, and Lemonade principles are as follows: 2.608 and 0.591; 3.535 and 0.745; 1.941 and 0.556; and 2.544 and 0.626. Participants have shown the most effectual tendencies (mean values fewer than 3.5) in the questions related to Crazy Quilt principle. All of this data can be seen in the Figure 7.

To determine whether respondents act more like managers or expert entrepreneurs, the second survey contained four questions with criteria for long-term decision making, pricing strategy, market research, and prior experience. For these questions surveyed sample also delivered mean values revealing a tendency towards an effectual orientation (mean values fewer than 3.5) in all four of effectual heuristic. Specific mean and standard deviation values, respectively, for the



long-term decision making, pricing strategy, market research, and prior experience criteria are as follows: 1.882 and 0.993; 3.059 and 1.391; 2.647 and 0.786; and 2.118 and 0.600.

Analyses were run to determine if differences exist in responses among people with and without previous experience in venture creations exist. The analysis returned results that such differences might exist. The sample size of the respondent with and without prior start-up experience are 10 and 7 respectively. Participants with experience in other startups have overall lower mean value as well as lower mean values for the individual effectuation principles with lemonade operationalization being the only exception. The overall mean for the sample with previous start-up experience is 2.38. For the Bird-in-Hand, Affordable Loss, Crazy Quilt, and Lemonade principle mean values of respondent with the previous experience is as follows: 2.267, 3.133, 1.750 and 2.600. While participants without previous start-up experience, have demonstrated higher mean values in each of effectual construct except lemonade operationalization principle. The overall mean for the sample without previous start-up experience is 2.92. For the Bird-in-Hand, Affordable Loss, Crazy Quilt, and Lemonade principle mean values of respondent without previous experience is as follows: 3.071, 3.667, 2.214, and 2.464. This data can be seen in the graph in figure 8.

T- test analyses were also run in order to determine whether there is a statistical difference between the means of two samples. As can be seen from the Figure 9, the t-test confirmed a significant statistical difference ( $p < .005$ ) between people with experience and people without experience in the Bird-in-Hand principle with  $p$ -value = 0.008. For the Affordable Loss, Crazy Quilt, and Lemonade principle  $p$ -value is as follows: 0.1469, 0.0593, and 0.6715.

In third survey measures only causation operationalization (with higher scores indicating a greater utilization of a casual approach) the mean and standard deviation for the sample is 2.90

and 0.51 respectively. Again, this essentially suggests that respondents are indifferent in terms of utilizing a causal approach. All the data regarding the individual statement means can be seen in the figure 10.

However, it is interesting to note that, sixth question or statement has the highest mean and standard deviation values of 3.71 and 0.92 respectively. If this question is excluded, the mean and standard deviation values of the sample would be 2.76 and 0.19, revealing a tendency of non-causal approach. The highest average score per respondent in third survey has a value of 3.86 where the lowest average score per respondent has a value of 2.14.

## **Discussion**

The main goal of this research was to provide an analysis of entrepreneurial orientation within the car rental industry in the Dubrovnik area. Overall results suggest that surveyed sample show more tendencies towards effectual approach.

This idea of experienced entrepreneurs tending to utilize effectual approach in uncertain environments is supported by the theory mentioned by the authors Dew, Read, Sarasvathy & Wiltbank (2009). Dubrovnik and Croatia in general have such relatively uncertain business environments in terms of taxation and regulations. For example, the value-added tax has changed in unexpected ways and regulations regarding Uber and taxi services are changing. Additionally, existing regulations are not enforced (Pavić, 2019). It is not surprising, then, that car rental entrepreneurs prefer an effectual style, one that, as prior research has identified (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009), experts entrepreneurs use in uncertain environments.

Extant research suggests that people with prior-start up experience would draw on prior experience thus react in more effectual manner in uncertain situations compared to those who have not previous start-up experience. Likewise, this research conducted a similar analysis, examining people with and without prior experience. As expected, experienced entrepreneurs have shown greater tendencies towards effectual orientation. We found that sample with previous experience was significantly more likely to use effectual approach in the bird in hand principle which is the starting point of any venture creation. This principle proposes means-driven logic in which a founder starts his business with intangible resources that are at his/her disposal (who I am – identity; what I know- knowledge base; whom I know- social networks) (Sarasvathy, 2008).

The results identified the highest affinity towards an effectual orientation in the questions associated with the Crazy Quilt principle. This could be explained by the fact that Dubrovnik is small in size. For this reason, it is very common that owners-managers try to reduce competitiveness and instead develop companies and markets through partnerships and strategic alliances.

However, in some questions, in the third survey, the surveyed sample has provided results revealing the utilization of a causal approach. For example, in this section the sample showed the highest tendency towards a causal approach in the 6th statement. The 6th statement was stated as ‘‘ I would have a clear and consistent vision for what I want to do’’. The mean and standard deviation had values of 3.71 and 0.92 respectively. It could be explained that values of the mean and standard deviation of this particular statement were skewed a little bit as sample's response was mostly answered in socially desirable manner. The statement is constructed in a way that it might trigger a social desirability bias type of response. As mentioned, if this question is

excluded, the mean and standard deviation values of the sample would be 2,76 and 0.19, revealing a tendency of a non-causal approach.

It is also very possible that entrepreneurs utilize both types of decision-making approach. As previously mentioned, owners-managers usually use a combination of both reasoning, depending on the marketing environment in which they operate. While effectual reasoning is preferable in uncertain, unknown environments, casual reasoning is more preferred in certain, largely predictable markets (Sarasvathy, 2008). In order to prepare future founders and managers to respond better at the times of change and uncertainty, effectual or entrepreneurial orientation should be better incorporated in the educational system of Croatia.

The limitation of this research paper was time constraint and due to that a relatively small sample size. This research paper can be a good place for further research for better overall idea of the entrepreneurial orientation within rent-a-car industry. The study can also be expanded to the other related industries.

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Appendix:

Figure 1.

*Age category*

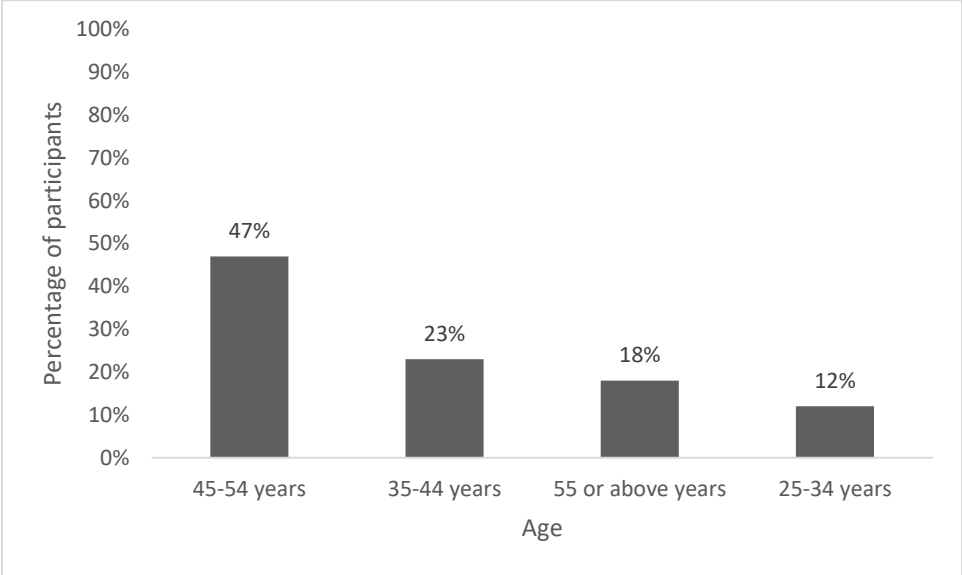


Figure 2.

*Education level*

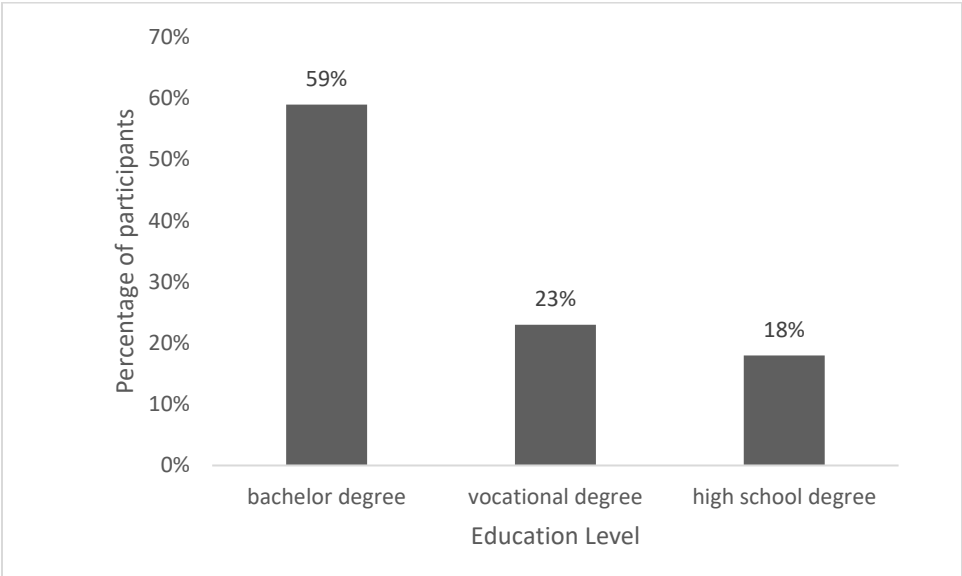


Figure 3.



*Other venture creation experience*

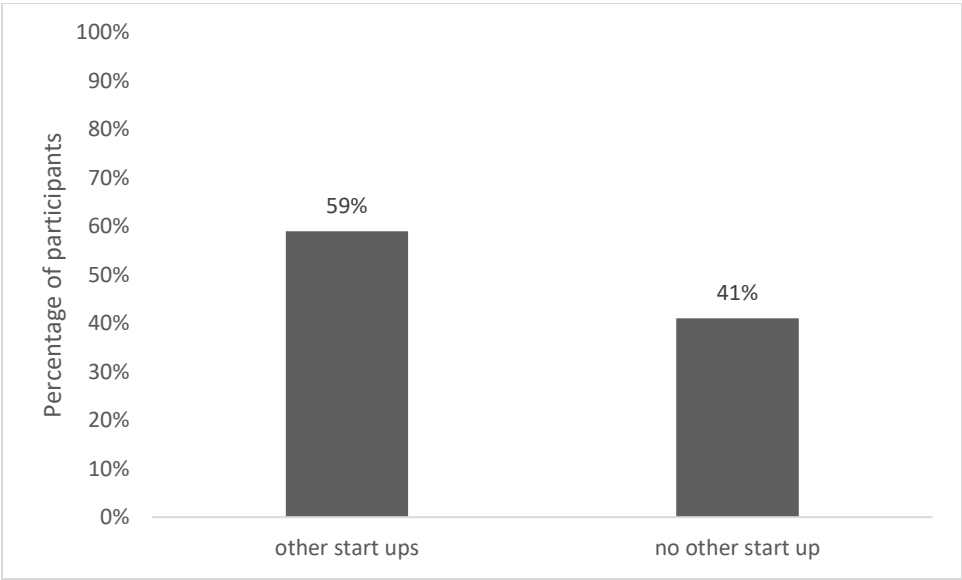


Figure 4.

*Industry (rent-a-car) experience*

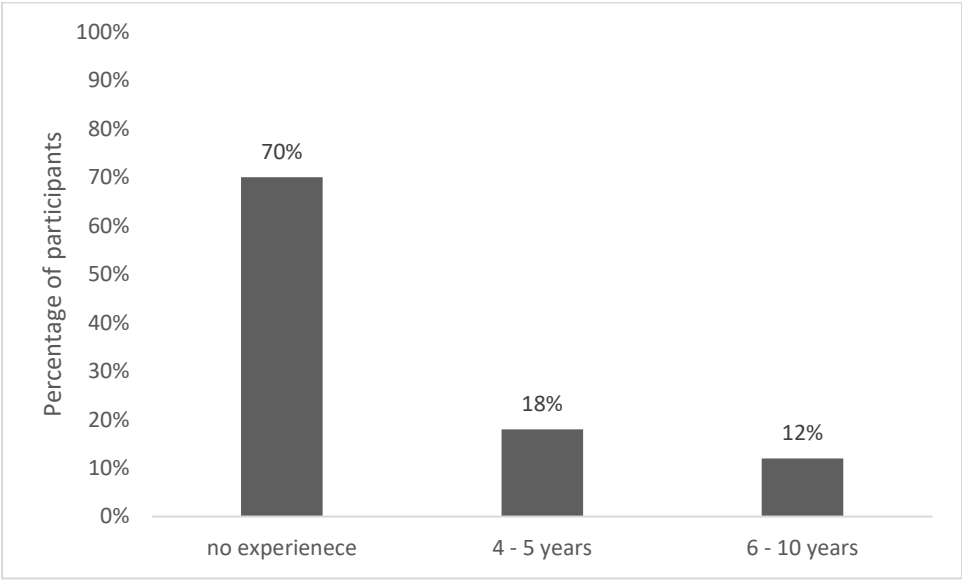


Figure 5.

*Current company's age*

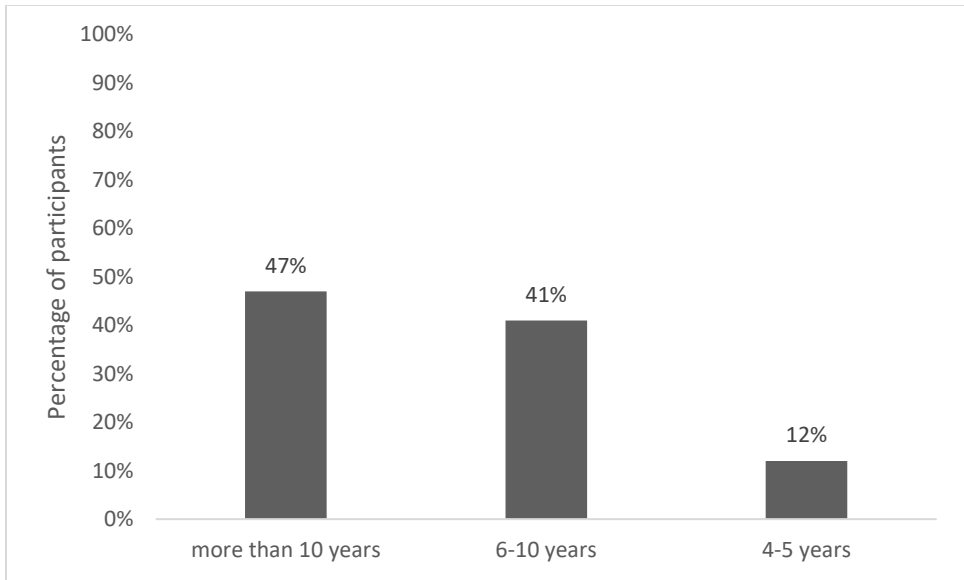


Figure 6.

*Mean values for individual questions*

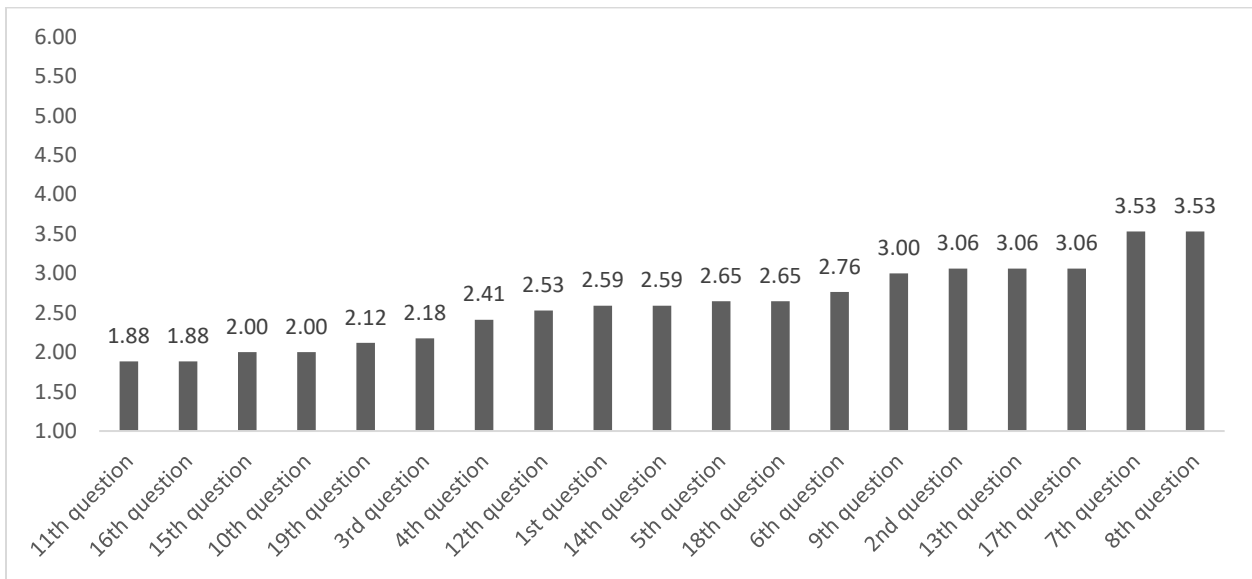


Figure 7.

*Mean values for individual effectual principles*

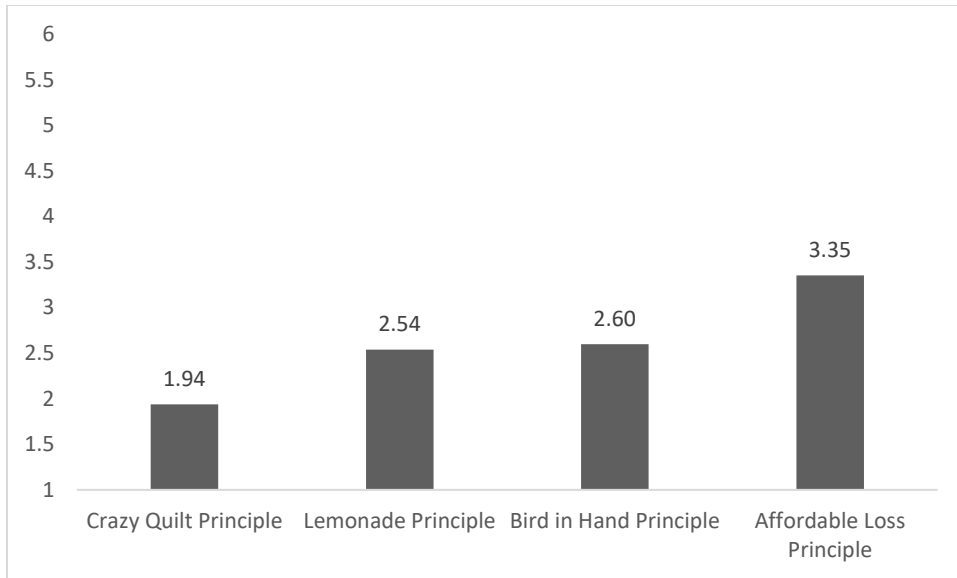


Figure 8.

*Mean values for individual effectual principles for sample with and without previous experience*

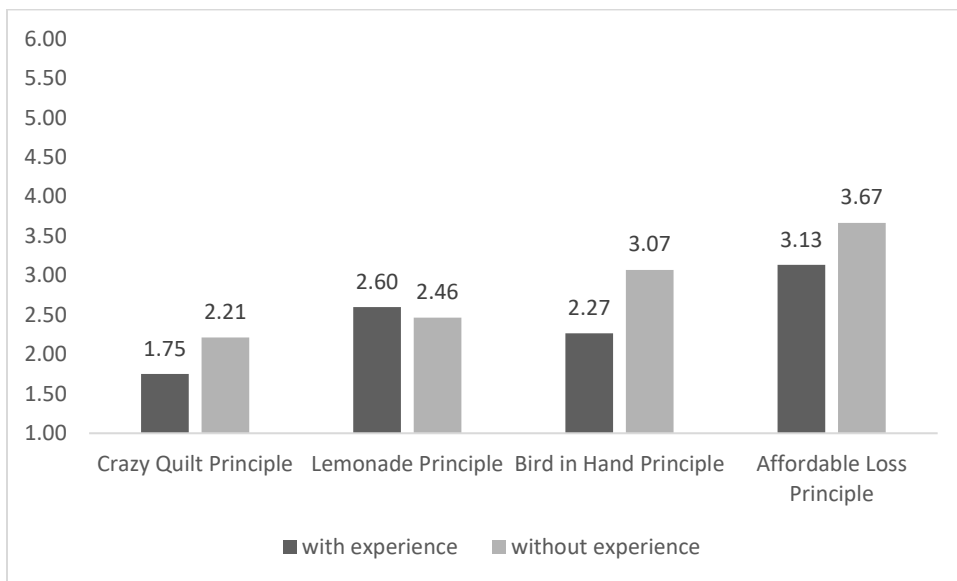


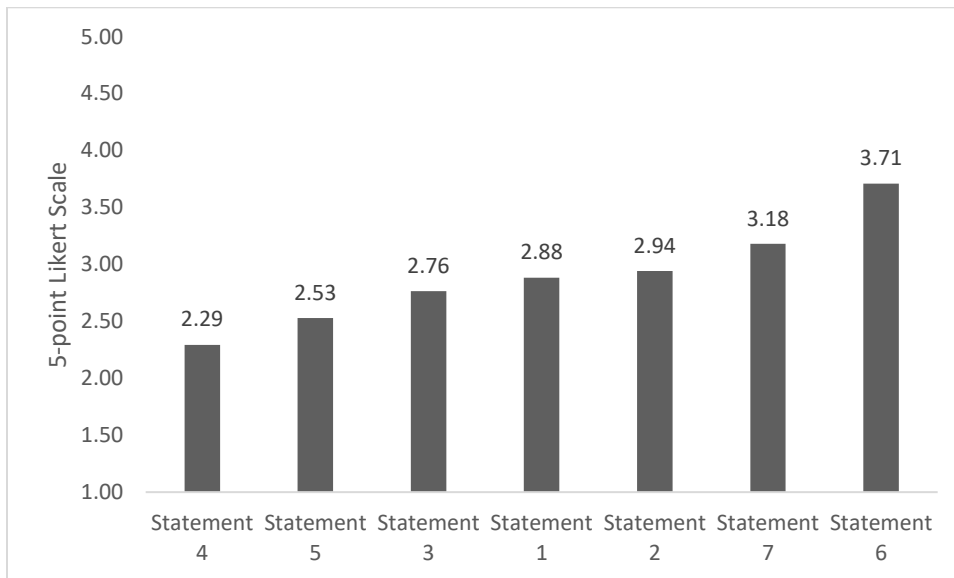
Figure 9.

*Two-Sample t-Test for sample with and without previous experience (Bird in Hand Principle)*

BIRD IN HAND PRINCIPLE		
	<i>Variable 1</i>	<i>Variable 2</i>
Mean	3.071	2.267
Variance	0.323	0.143
Observations	7.000	10.000
Hypothesized Mean Difference	0.000	
df	10.000	
t Stat	3.274	
P(T<=t) one-tail	0.004	
t Critical one-tail	1.812	
P(T<=t) two-tail	<b>0.008</b>	
t Critical two-tail	2.228	

Figure 10.

*Mean values for individual statements*



## Survey 1

Below are potential actions that you, as an entrepreneur / business owner, can take. Each statement relates to a situation you might encounter when planning and building your business.

Please first read the top line of each of the following statements and then read the two possible endings for the statement (found below and on the left and right of the statement). Indicate your response (completion of the statement) by checking one of the boxes.

For example, by marking the box on the far right, you are indicating strong support for the statement completion on the right; conversely, marking the box on the far left indicates strong support for the statement completion on the left. Marking the other (internal) boxes indicates diminishing levels of support for either statement ending.

1. My business concept was developed on the basis of my

given means/resources (what I own and know; who I know)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	business targets or intended outcomes
---	---	---------------------------------------

2. My business concept was

vaguely or not well defined in the beginning	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	clearly defined at the beginning
--	---	----------------------------------

3. My given

means/resources (what I own and know; who I know) were the starting point for the business	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	business concept or intended outcomes were the starting point for the business
--	---	--

4. My business' concept and intended outcomes

<p>became more defined as I focused on specific resources that I controlled</p>	<p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>	<p>determined the required resources for the business</p>
---	--	---

5. The starting point for my business was

<p>my given means/resources (what I own and know; who I know) and not the business concept or targets</p>	<p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>	<p>a concise or well-defined business concept or target</p>
---	--	---

6. My

<p>given means/resources (what I own and know; who I know) significantly impacted the framework of my business</p>	<p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>	<p>concepts or intended outcomes significantly impacted the framework of my business</p>
--	--	--

7. My business' budgets are approved on the basis of

<p>considerations about how much they will potentially lose</p>	<p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p>	<p>calculations of their expected return (e.g., how much money I will make)</p>
---	--	---

8. The selection of the business I pursued was mostly based on

a minimization of risks and costs	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	analyses of future gains or returns (e.g., how much money I would make)
-----------------------------------	---	---

9. Decisions on capital expenditures (large purchases for my business) are primarily based on potential

risks of losses	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	gains or returns (e.g., how much money I would make)
-----------------	---	--

10. I tried to

reduce risks to my business through partnerships and agreements	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	identify risks to my business through market and competitor analyses and research
---	---	---

11. My risk reduction approach is primarily one of

approaching and working with potential partners and customers	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	early identification of risks through market analyses and research in order to be able to implement my plan or approach
---	---	---

12. New findings and unforeseen events

influenced the business concept	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	did not influence the business concept
---------------------------------	---	--

13. The business concept was developed

in series of small steps during the formation of the business	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	essentially at the beginning of the planning process
---	---	--

14. In terms of the business concept, I

allowed it to evolve as opportunities emerged – even though the opportunities were not in line with the original concept	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	always payed attention to reach the initial concept; to stick to the original concept
--	---	---

15. Potential setbacks or external threats are

used as advantageously as possible	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	hoped to be avoided by conducting upfront market analyses and research
------------------------------------	---	--

16. While developing my business concept, I



was looking at it with a long-term orientation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	focused on reaching the business' short-term targets and goals
--	---	--

17. In terms of the pricing strategy, I

priced products/services high to maximize profit	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	priced low to get people interested in products/services offered
--	---	--

18. Concerning market research and data

I do not believe in it, relying on my own knowledge	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	I believe in research and data / numbers and base strategies upon the research
---	---	--

19. In uncertain, unpredictable situations my decision-making was mostly based on:

My prior experience	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Expert's opinion in that field (e.g., Harvard Business School professors)
---------------------	---	---

## Survey 2

Below are potential actions that you, as an entrepreneur / business owner, can take, ranging from the initial identification of opportunities to exploiting the opportunity through specific actions. If you would definitely engage / perform or agree with the action, please circle 5. If you definitely would not engage / perform or disagree with the action, please circle 1. The value of 3 indicates neutrality – you are indifferent toward the action or concept.

	Strongly <u>Disagree</u>					Strongly <u>Agree</u>
1. Before acting, I would analyze opportunities and select the ones that provide the best returns (the most money).	1	2	3	4	5	
2. I would develop a business strategy to best take advantage of resources and capabilities.	1	2	3	4	5	
3. I would design and plan my business strategies.	1	2	3	4	5	
4. I would organize and implement control processes to make sure that I meet objectives.	1	2	3	4	5	
5. I would research and select specific customers and do meaningful competitor analysis.	1	2	3	4	5	
6. I would have a clear and consistent vision for what I want to do.	1	2	3	4	5	
7. I would design and plan production and marketing efforts.	1	2	3	4	5	

### Survey 3

Please fill in the blanks or place an X or check mark next to the word or phrase that best matches your response.

1. Please select the category that includes your age:

- 18-24
- 25-34
- 35-44
- 45-54
- 55 or above

2. Please indicate the highest level of education you have achieved:

- Did not finish High School
- High School Diploma or GED
- Associates Degree (2-year degree)
- Vocational Degree
- Some College
- Bachelor's Degree (4-year degree)
- Graduate Degree (Masters, Ph.D., JD, MD, etc.)
- Other (Please specify): \_\_\_\_\_

3. Were you involved in other start-ups prior to this one?

- Yes
- No

If yes, how many firms have you started?

- one
- 2-3
- 3-5
- More than 5

4. Did you have rent-a-car industry experience before starting your own business?

- Yes
- No

5. If yes, how long have you been involved in the rent-a-car industry?

- Less than 1 year
- Between 1-3 years
- Between 4-5 years
- Between 6-10 years
- More than 10 years

6. How old is your current firm?

- Less than 1 year
- Between 1-3 years
- Between 4-5 years
- Between 6-10 years