



CRACOW
UNIVERSITY
OF ECONOMICS



KNOWLEDGE ECONOMY SOCIETY

CONTEMPORARY ORGANIZATIONS
IN THE PROCESS OF INSTITUTIONAL
TRANSFORMATIONS



Edited by

Anna Malina, Renata Oczkowska, Jarosław Plichta

KNOWLEDGE – ECONOMY – SOCIETY

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CRACOW UNIVERSITY OF ECONOMICS
Faculty of Management
FOUNDATION OF THE CRACOW UNIVERSITY OF ECONOMICS

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Reviewer

Joanna Wiśniewska

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Introduction

The globalization process and the development of communication and information technologies has brought about a change in the traditionally defined borders of markets, and thus the limits of competition and cooperation. It does not automatically mean that in all areas of human economic activity one global free market where everybody competes with everyone will be created. Such a situation primarily creates a greater possibility of the flow of tangible, financial, human and information assets and finding new applications for them, as well as better fulfillment of potential customers' needs. It also causes changes in the behaviours of market participants. It poses new challenges to business entities in the area of management. An analysis of numerous publications and the subject matter in respect of management more and more often indicates the search for solving problems in this area by means of the connection and the flexible use of already available or innovative approaches and methods primarily based on knowledge and information. As the most flexible resource, knowledge is the basis for operation of contemporary organizations achieving success and creating new values. It concerns not only large enterprises but also small entities and the ones operating in the public sector. Greater and greater awareness of the complexity of an organization's environment requires from managers broad knowledge and competencies in numerous areas which so far have not been a domain of direct interest of economists. It concerns the area of culture, psychology or sociology which are combined in an institutional approach, more and more often manifested in the economic discussion. Understanding the management of an organization as a social process enables more dynamic view at the transformations taking place in contemporary enterprises and their relation with the environment. This approach also enables to depart from the traditional understanding of an enterprise performing production functions, its limits or resources towards the creation and the exchange of value. The result are process approaches, nowadays prevailing in management, based on the optimization of operations and actions and exposing the key economic criterion, namely effectiveness.

This paper, entitled *Knowledge – Economy – Society. Contemporary Organizations in the Process of Institutional Transformations* constitutes a set of deliberations and examples concerning contemporary management problems divided into three parts:

- I. Institutional conditionings of the functioning of business entities on selected Euro-Asian markets in the face of the crisis.
- II. Endogenous and exogenous factors of regional development from the perspective of small and medium-sized enterprises.
- III. Directions and methods of improving the effectiveness of organization functioning.

Part One presents the problems of enterprise functioning in the context of institutional transformations in the European Union and its closest environment. The discussed issues are related directly or indirectly to the world crisis which constitutes a background for the analysis of the behaviours of entities and institutional processes in the micro and macro scale. A fundamental matter is the ques-

tion of challenges which enterprises are facing in various countries in the dynamically changing environment, and the ways of coping with them. The presented problems concerning business entities in various countries reveal not only differences but primarily similarities in the behaviours of entities and their reaction to the volatile institutional environment. In many cases they are an active factor of changes and creating new conditions of functioning.

Part Two is devoted to the problems of management, considering regional development and the public space. An important aspect discussed in the chapter is the significance of small and medium-sized enterprises in regional development. Numerous examples of the development of such entities are supported by examples from the Małopolska and Świętokrzyskie region, putting pressure on the problems of cooperation and development based on tourism resources. Moreover, the key development factors and the role performed by management, particularly marketing and competencies based on the resources of a given region are indicated.

Part Three is devoted to the discussion on the factors influencing the efficiency and effectiveness of the functioning of contemporary organizations. The key role of human resources and innovative processes is indicated, as well as the great significance of cultural factors in the improvement of the effectiveness of operations. An important thread is the search for the directions and sources of competitiveness of non-profit and commercial organizations in forming proper relations within the organizational structures, as well as in the relation among entities on B2B markets.

The publication we are handing over to the Readers is a selectively chosen set of problems concerning the management of organizations both from the theoretical and the practical point of view. It constitutes a set of research works supported by broad and interesting empirical material depicting the fundamental factors influencing the effectiveness of operations and the development of contemporary organization both in the local and the global context¹.

Anna Malina, Renata Oczkowska, Jarosław Plichta

¹ This work inscribes into the series of publications under the common title *Knowledge – Economy – Society*, which constitute one of the effects of many years' cooperation between the academic environment of the Faculty of Management at the Cracow University of Economics and the employees and students of other faculties of the University, representatives of different Polish academic circles, as well as representatives of foreign academic circles. See: *Knowledge – Economy – Society. Challenges of the Contemporary World*, Edited by R. Oczkowska, B. Mikuła, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2011; *Knowledge – Economy – Society. Dilemmas of the Contemporary Management*, Edited by A. Malina, R. Oczkowska, T. Rojek, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2012; *Knowledge – Economy – Society. Transfer of Knowledge in the Contemporary Economy*, Edited by P. Lula, B. Mikuła, A. Jaki, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2012; *Knowledge – Economy – Society. Global and Regional Challenges of the 21st Century Economy*, Edited by P. Lula, B. Mikuła, A. Jaki, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2013; *Knowledge – Economy – Society. Challenges of the Contemporary Management*, Edited by A. Malina, R. Oczkowska, T. Rojek, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2013 and *Knowledge – Economy – Society. Dilemmas of the Economic Resources Management*, Edited by R. Oczkowska, G. Śmigielska, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2014.

PART I

INSTITUTIONAL CONDITIONINGS OF THE FUNCTIONING OF BUSINESS ENTITIES ON SELECTED EURO-ASIAN MARKETS IN THE FACE OF THE CRISIS



Chapter 1

The Impact of the Global Crisis on the Macroeconomic Stability of the Countries of Central and Eastern Europe and Germany

Anna Malina, Dorota Mierzwa

1. Introduction

The concept of crisis, its causes and effects, has aroused the interest of researchers for a number of years.

From an economic perspective, crisis is an economic condition characterised by the deterioration in most of key macroeconomic indicators which describe relations between fundamental economic values: decreased production output and employment, declining consumption and investment outlays, reduced household incomes, lower GDP dynamics, rising inflation rates as well as higher levels of the budget deficit and public debt. Crisis is associated with a rapid deterioration in economic conditions. It is also regarded by economists to be the most controversial component of business cycles. Crisis leads to major changes which affect entire economic systems as well as their particular components (organizational units, business entities, *etc.*).

Economic crises occur in all types of economies and various historical periods. Frequently, crises are long periods of an economic slowdown and recession. Paradoxically, apart from negative effects, crises may contribute to the development of economies because they stimulate specific reforms in the area of public spending or taxation. Importantly, the symptoms of crisis must not be disregarded – delayed decisions aimed to mitigate the negative effects of crisis may distort a country's economic and financial equilibrium and stability and lead, in the long run, to the irrevocable destruction of its economic system.

The paper aims to analyse the impact of the 2008-2009 financial crisis on the economic stability of the Countries of Central and Eastern Europe (CEE) and offer an answer to the question whether the symptoms of the crisis could have been detected much earlier.

2. Research hypothesis and theoretical framework

The assumption made by the author is that economic crises have a more adverse impact on the macroeconomic stability of countries which transform their economies than countries which have a sound economy, a strong market position and a well-established political system. In order to achieve the objective of the analysis and verify the paper's hypothesis, the author examines the economic growth and macroeconomic conditions in Poland and other CEE countries as compared with the German economy. The incorporation of Germany into the analysis is well-justified as it facilitates comparisons between less developed countries which undergo structural, economic and political changes and the macroeconomic conditions of Germany's strong economy in a relatively long period of time covering the years 2000-2013. The analysis comprises 13 CEE countries including 10 EU member states (Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Bulgaria, Romania and Greece) as well as 3 non-EU states (Belarus, Ukraine and Moldova).

The analysis, apart from economic growth rates, describes the economic stability of particular countries on the basis of the macroeconomic stability index which refers to 5 fundamental macroeconomic indicators related to an economy's basic sectors.

Apart from the macroeconomic stability index, sub-indicators are introduced, allowing for the identification of the impact of external factors and conditions on a country's economic stability.

The data for the conducted analysis is provided by the International Monetary Fund (GDP, inflation rates and current account balance), the European Central Bank (balance budget and relation to GDP), and the International Labour Organization (unemployment rates).

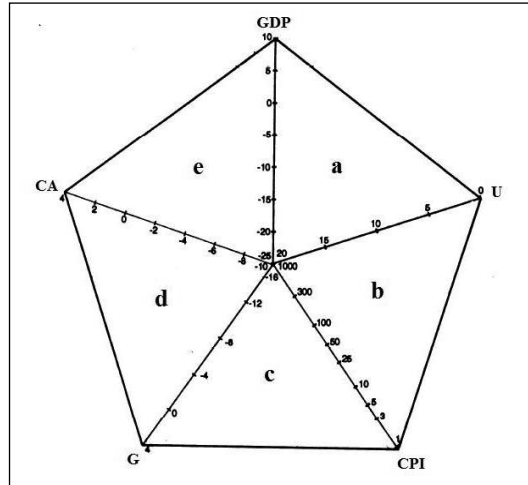
3. The macroeconomic stabilisation indicators

The essence of economic stability, much the same as the concept of economic growth, is defined in many ways. In the wider sense stabilization is defined as an economic condition or process, characterized by low inflation and slight fluctuation of employment, the use of existing capacity at maximum employment of the workforce (Dornbusch, Fischer, 1990, p. 440). In his work, G.W. Kołodko (2007) indicates that it is possible to attain stabilisation without growth as it is to attain growth in destabilised surroundings; however "macroeconomic stabilization should be reflected in the five traits whose existence should guarantee its stability". These traits are defined by means of macroeconomic indicators, on the basis of which the macroeconomic stabilisation indicator (MSP) is marked out (Misala, 2007).

An assessment of the overall condition of the economies of chosen countries in specific years may be presented by comparing the most important macroeconomic indicators, depicting the level of the performance of objectives earmarked for the appropriate functioning of the market. The level of implementing given objectives in terms of the performance of economic growth policy and consumption, as well as trade, may be illustrated in the form of a pentagon (Kołodko, 1993, p. 52), whose vertices are scaled in a manner permitting the depicting of the better formed and economically more favourable indicators with the help of points located at a greater distance from the centre. It is for this reason why inflation and unemployment are included on a sliding scale, whilst the remaining variables are on an increasing scale.

The figure below depicts the optimal arrangement of the analysed factors, in which the values of the variables are at the same time the vertices of the figure, which gives a field of the figure designated in this manner equal to that of the entire area of the pentagon¹.

Figure 1. Macroeconomic Stabilisation Pentagon



Source: Kołodko, 1993, p. 52.

Indications:

GDP – GDP rate growth in %,

U – unemployment rate in percent of workforce,

CPI – rate of inflation (consumer price index) in %,

G – budget balance to gross domestic product (GDP) – in %,

CA – current account balance to GDP – in %.

In the “macroeconomic stabilization pentagon” the entire field of the figure designated by given points (MSP indicator) is defined by the following model²:

$$MSP = a + b + c + d + e \tag{1}$$

or:

$$MSP = [(\Delta GDP \times U) + (U \times CPI) + (CPI \times G) + (G \times CA) + (CA \times \Delta GDP)] \times k \tag{2}$$

where: $k = 1/2 \sin 72^\circ$ (the size of coefficient k is constant and is 0.475).

The field of the pentagon (MSP) marks out the range of performing the macroeconomic stabilization criteria. The larger the MSP field, the better the economic situation of the country.

¹ Because of the wide range of price inflation during the discussed period (frequently attaining values of almost 1,000%) it is decided to use a logarithmic scale in relation to this variable.

² In his work the author also focuses on the meaning of a stable exchange rate – on the one hand as a factor reflecting the state of the remaining five variables, and on the other as a conditioning factor of this state. Ultimately, however, he did not include it in his analysis; he explained his decision that upon meeting the remaining conditions this one would also have to be met.

The optimum situation is when the field of the pentagon is 1, and each field of the five triangles is equal to 0.2. Pentagrams flattened from the top and the bottom are characteristic for the more developed countries, which maintain economic growth on a moderate level, but engage in active economic policy and international exchange.

One may also analyse the macroeconomic stabilization indicators of a country dependent on internal and external factors. With this purpose in mind it is necessary to separate the appropriate fields of triangles a , b and c as:

$$msp_1 = a + b + c \quad (3)$$

and triangles d and e as:

$$msp_2 = d + e \quad (4)$$

where:

$$msp_1 = [(\Delta GDP \times U) + (U \times CPI) + (CPI \times G)] \times k \quad (5)$$

$$msp_2 = [(G \times CA) + (CA \times \Delta GDP)] \times k \quad (6)$$

The triangle a may be called the real sphere triangle, the triangle b – the shortageflation (or slumpflation) triangle, the triangle c – the budget and inflation triangle, the triangle d – the financial equilibrium triangle, and finally, the area of the triangle e – external sector triangle.

4. Economic growth vs macroeconomic stability in CEE countries as compared with Germany's economy

Table 1 presents GDP changes (%) in the analysed countries in the selected years of the 2000-2013 period.

The comparison of growth figures in the analysed countries in 2000-2013 leads to the conclusion that all CEE countries record positive changes to their GDP at the beginning of the 21st century. The period of 2000-2004 is characterised by economic stabilisation in these countries (the average GDP growth at the level of 3-5%). Lithuania, Latvia and Estonia record visible economic acceleration. Estonia records the highest GDP growth in 2000 (10%), which declines in the subsequent years to 6.5%, followed by another period of growth, reaching 10%. The lowest growth of GDP in 2000 is recorded in Slovakia (1.4%), but it increases steadily in the subsequent years (approx. 5% in 2004, and 8.3% in 2006). Poland's economic conditions in this period are favourable, and its growth ranges from 1.4% to 5.3%.

In Germany it was still a period of an economic slowdown (following the reunification process) which lasted until 2003. From 2004 on, Germany records slow economic growth at the level of 2% annually.

Table 1. GDP Dynamics (in %) for the analysed countries in 2000-2013

Country	2000	2002	2004	2006	2008	2009	2010	2011	2012	2013
Belarus	5.7	5.0	11.4	10.0	10.3	0.1	7.7	5.5	1.7	0.9
Bulgaria	5.4	4.7	6.7	6.5	6.2	-5.5	0.4	1.8	0.6	0.9
Czech Republic	4.2	2.1	4.7	7.0	3.1	-4.5	2.5	1.8	-1.0	-0.9
Estonia	10.0	6.6	6.3	10.1	-4.2	-14.1	2.6	9.6	3.9	0.8
Germany	3.3	0.0	0.7	3.9	0.8	-5.1	3.9	3.4	0.9	0.5
Greece	4.5	3.4	4.4	5.5	-0.2	-3.1	-4.9	-7.1	-7.0	-3.9
Hungary	4.2	4.5	4.8	3.9	0.9	-6.8	1.1	1.6	-1.7	1.1
Latvia	5.7	7.1	8.8	11.0	-2.8	-17.7	-1.3	5.3	5.2	4.1
Lithuania	3.6	6.8	7.4	7.8	2.9	-14.8	1.6	6.0	3.7	3.3
Moldova	2.1	7.8	7.4	4.8	7.8	-6.0	7.1	6.8	-0.7	8.9
Poland	4.3	1.4	5.3	6.2	5.1	1.6	3.9	4.5	1.9	1.6
Romania	2.9	5.1	8.5	7.9	7.3	-6.6	-1.1	2.2	0.7	3.5
Slovak Republic	1.4	4.6	5.1	8.3	5.8	-4.9	4.4	3.0	1.8	0.9
Ukraine	5.9	5.2	12.1	7.4	2.3	-14.8	4.1	5.2	0.2	0.1

Source: International Monetary Fund, as of May 2014.

The subsequent period (2005-2007) is characterised by a steady growth in the analysed countries at the level of 6-8% annually.

The economic situation in the countries of the former Soviet block is quite interesting. The countries in question have embarked on accelerated economic growth, reaching the level of 11.4% GDP growth in Belarus in 2004, 12.1% in Ukraine and 7.4% in Moldova. The favourable trend prevailed in Ukraine until 2007, and in Moldova and Belarus – until 2008.

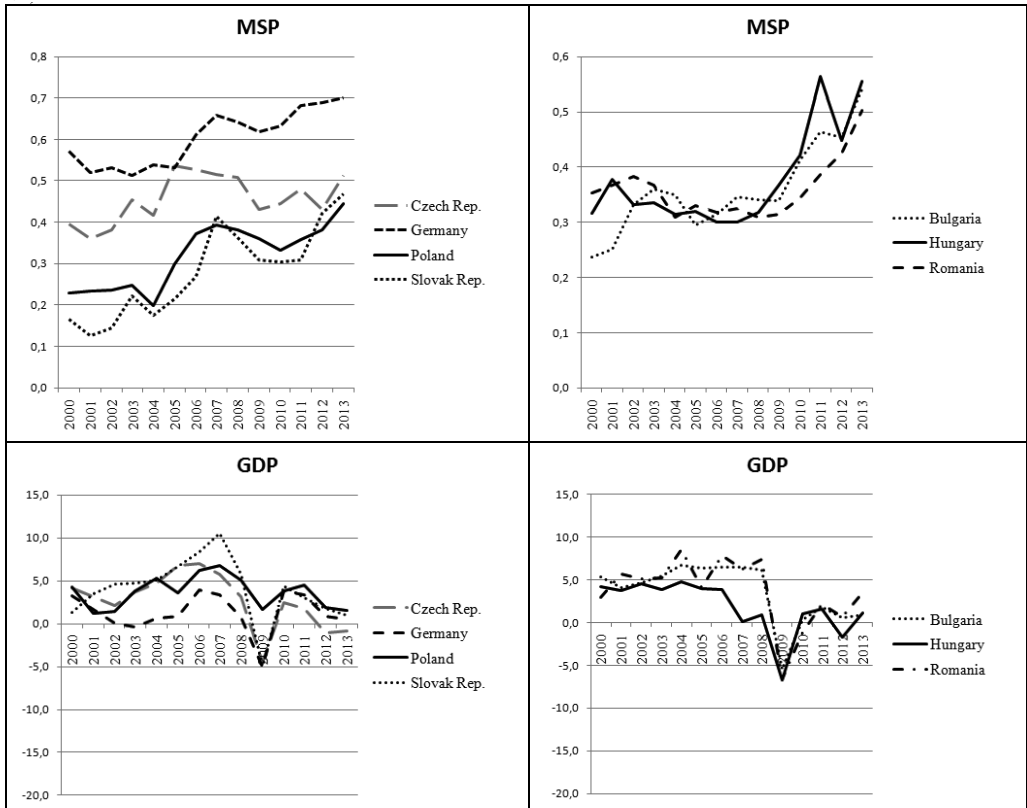
In 2008-2009, all the analysed countries record an economic slowdown (the impact of the global crisis). In 2009, an economic downturn occurs in almost all the analysed countries: the highest decline in GDP in Latvia (17.7%), Lithuania (14.8%), Estonia (14.1%) and Ukraine (14.8%), mainly resulting from declining domestic and foreign demand in these countries.

From 1995 on, Poland recorded a moderate pace of economic growth (5-6% annually), so the 2008-2009 crisis, unlike in the Baltic states (Lithuania, Latvia and Estonia), did not lead to an economic downturn in this country. It should be noted that Poland was the only country among the analysed nations which recorded positive GDP growth (in 2009 – 1.7%, while it declined in all the other countries).

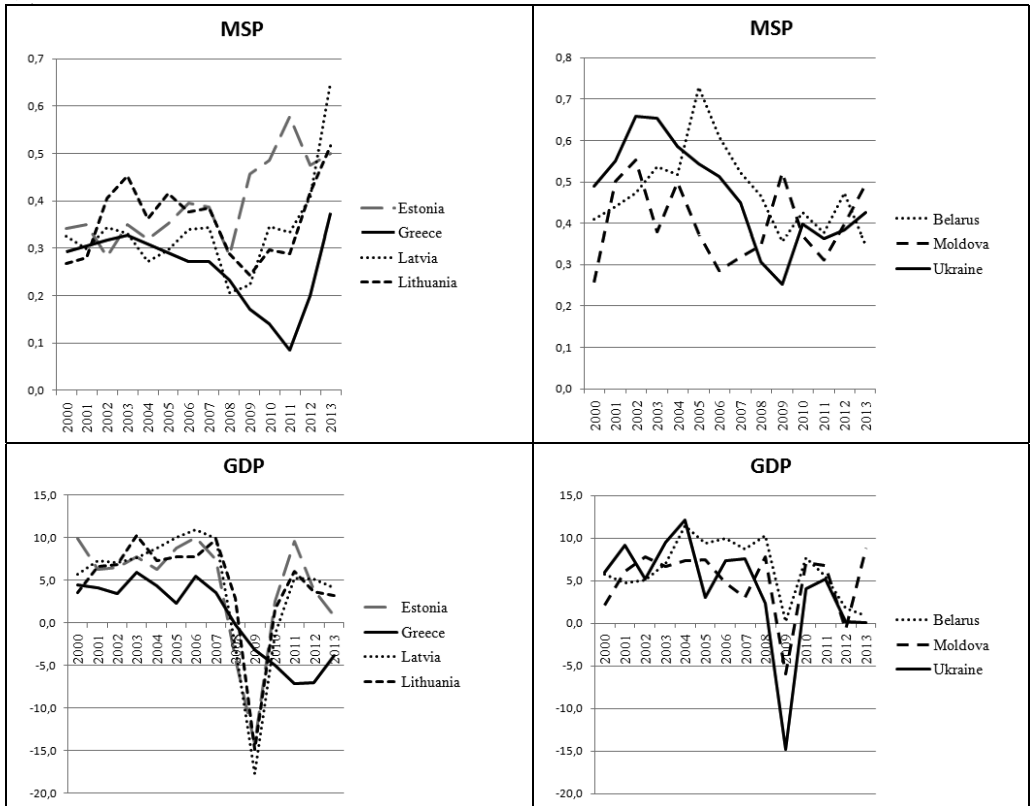
However, it should be stressed that GDP growth figures alone are not the only indication of what factors stimulate or hinder long-term economic growth in a given country. Therefore, the assessment of the economic condition of the analysed countries is based on the macroeconomic stabilisation indicator, derived from several fundamental macroeconomic indicators. MSP values for the analysed countries are presented in Table 2. Changes to MSP and GDP indicators in 2000-2013 are shown in Figure 2.

Figure 2. The MSP Indicator and GDP Dynamics (%) for the analysed countries in 2000-2013

a)



b)



Source: the authors' own research.

Table 2. The MSP indicator for the analysed countries in selected years

Country	2000	2002	2004	2006	2008	2009	2010	2011	2012	2013
Belarus	0.411	0.473	0.518	0.608	0.467	0.356	0.426	0.378	0.473	0.347
Bulgaria	0.237	0.332	0.350	0.314	0.341	0.338	0.414	0.465	0.454	0.541
Czech Republic	0.396	0.381	0.418	0.527	0.509	0.431	0.445	0.479	0.431	0.512
Estonia	0.341	0.283	0.319	0.396	0.283	0.458	0.485	0.577	0.476	0.500
Germany	0.571	0.532	0.538	0.611	0.641	0.618	0.632	0.683	0.689	0.700
Greece	0.293	0.317	0.309	0.272	0.234	0.172	0.141	0.086	0.200	0.374
Hungary	0.316	0.332	0.314	0.300	0.319	0.368	0.422	0.564	0.449	0.556
Latvia	0.325	0.343	0.273	0.340	0.206	0.223	0.347	0.334	0.408	0.650
Lithuania	0.268	0.405	0.362	0.376	0.288	0.243	0.296	0.288	0.418	0.515
Moldova	0.258	0.553	0.499	0.286	0.346	0.524	0.370	0.311	0.399	0.495
Poland	0.229	0.235	0.199	0.372	0.382	0.360	0.331	0.358	0.382	0.444

Romania	0.353	0.383	0.309	0.319	0.309	0.314	0.344	0.387	0.425	0.503
Slovak Republic	0.167	0.145	0.176	0.270	0.363	0.308	0.305	0.308	0.422	0.468
Ukraine	0.489	0.659	0.587	0.513	0.307	0.253	0.398	0.364	0.384	0.427

Source: the authors' own research based on International Monetary Fund Data.

Attention should be given to MSP and GDP changes in the particular countries. Generally, these changes are similar, but GDP is more affected by crises than MSP (GDP fluctuations are larger). It is visible in such countries as Bulgaria, Hungary, Romania, Ukraine and the Baltic states.

MSP values for the particular countries and changes to those values lead to the conclusion that the German economy is characterised by the highest level of MSP. In 2001-2005, the indicator was at the level of 0.54 (with slight fluctuations), and from 2006 on, it increased steadily, reaching the level of 0.70 in 2013. Similar MSP changes are recorded in Poland and Slovakia, with the values of the index reaching much lower values (see: Fig. 2). At the beginning of the period MSP for Poland stood at 0.23, for Slovakia – 0.15-0.18, while in 2005 MSP values rise steadily, reaching 0.44 for Poland and 0.47 for Slovakia in 2013.

Another group of countries with similar changes to MSP and GDP values comprises Bulgaria, Hungary and Romania. Until 2006, these countries record a steady economic growth (6.5% in Bulgaria, 7-8% in Romania and 4% in Hungary), followed by a declining pace of GDP growth in the subsequent years and a downturn in 2009 due to the economic and financial crisis. In 2009, GDP values in these countries fall by 5.5% in Bulgaria, 6.6% in Romania and 6.8% in Hungary. It should be noted that MSP values continue to rise despite the on-going crisis.

The greatest fluctuations in GDP and MSP values are recorded in non-EU member states (Belarus, Ukraine and Moldova). Disturbing phenomena are recorded in Ukraine where MSP values decrease steadily from 2003 to 2009 (from 0.66 in 2002 to 0.25 in 2009) despite considerable but irregular GDP changes in 2000-2008. It indicates the lack of economic stability in Ukraine, whose economy is affected not only by production volumes but mainly by other factors including inflation rates, current account balance and high unemployment rates. However, from 2010 on, MSP values in Ukraine tend to rise. Similar, but less radical GDP and MSP changes are recorded in Belarus. Moldova, on the other hand, enjoyed a relatively steady growth at the average annual level of 7-8%, being less affected by the crisis. Moldova's economic stability, despite MSP fluctuations, is not likely to be threatened.

Greece is an interesting case – in 2000-2006, this country recorded considerable GDP fluctuations, and from 2007 on, its GDP values fall steadily. While most CEE countries record positive trends in 2010, negative trends prevail in Greece (GDP values: -4.9% in 2010, -7% in 2011 and 2012, and -3.9% in 2013). The significance of MSP values as a warning signal becomes visible – in Greece they fall steadily from 2003 on (from 0.32 in 2003 to 0.086 in 2011). Greece's economy stabilises as late as in 2012 (MSP rises up to 0.20 in 2012, and 0.37 in 2013).

Sub-indicators m_{sp_1} and m_{sp_2} are used in the analysis to determine the impact of various factors on the macroeconomic stability of the analysed countries. They indicate the impact of external and internal factors on the economic stability of a given country.

A given country's economic stability is maintained when there is a relative balance between m_{sp_1} and m_{sp_2} . This balance indicates that an economy does not rely heavily on overseas markets

and exchange rates. It also implies that it is not a closed economy with obsolete technologies and insufficient investment projects.

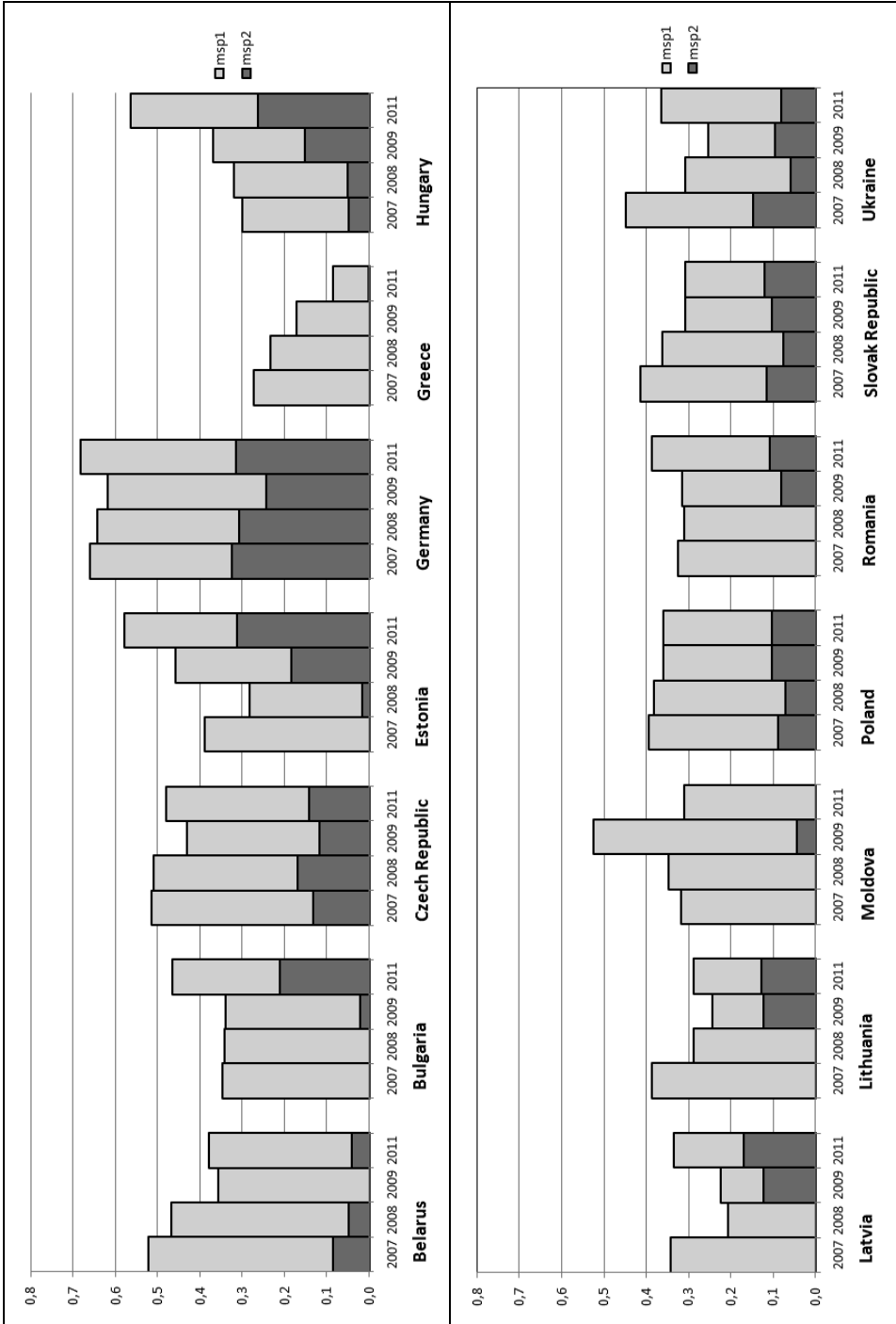
The values of m_{sp_1} and m_{sp_2} for the analysed countries in the selected years are presented in Table 3 and Figure 3.

Table 3. The Values of Partial Indicators m_{sp_1} and m_{sp_2} for the Analysed Countries

Country	Indicator	2000	2002	2004	2006	2008	2009	2010	2011	2012	2013
Belarus	m_{sp_1}	0.246	0.284	0.295	0.337	0.388	0.423	0.447	0.435	0.418	0.356
	m_{sp_2}	0.165	0.156	0.179	0.200	0.130	0.307	0.162	0.086	0.048	0.000
Bulgaria	m_{sp_1}	0.130	0.148	0.156	0.248	0.258	0.296	0.314	0.346	0.341	0.318
	m_{sp_2}	0.107	0.103	0.176	0.112	0.092	0.000	0.000	0.000	0.000	0.020
Czech Republic	m_{sp_1}	0.283	0.268	0.300	0.383	0.311	0.336	0.347	0.383	0.341	0.313
	m_{sp_2}	0.113	0.093	0.081	0.072	0.107	0.200	0.180	0.131	0.168	0.118
Estonia	m_{sp_1}	0.223	0.234	0.283	0.351	0.319	0.351	0.396	0.388	0.268	0.273
	m_{sp_2}	0.118	0.116	0.000	0.000	0.000	0.001	0.000	0.000	0.015	0.184
Germany	m_{sp_1}	0.374	0.320	0.306	0.292	0.269	0.258	0.303	0.334	0.335	0.375
	m_{sp_2}	0.197	0.201	0.227	0.220	0.269	0.274	0.309	0.325	0.307	0.243
Greece	m_{sp_1}	0.247	0.248	0.248	0.259	0.233	0.247	0.272	0.273	0.234	0.172
	m_{sp_2}	0.046	0.056	0.068	0.069	0.076	0.044	0.000	0.000	0.000	0.000
Hungary	m_{sp_1}	0.288	0.298	0.280	0.300	0.285	0.276	0.257	0.251	0.268	0.215
	m_{sp_2}	0.027	0.080	0.052	0.036	0.030	0.045	0.043	0.049	0.050	0.153
Latvia	m_{sp_1}	0.212	0.245	0.267	0.288	0.273	0.296	0.340	0.343	0.206	0.100
	m_{sp_2}	0.113	0.055	0.076	0.043	0.000	0.000	0.000	0.000	0.000	0.123
Lithuania	m_{sp_1}	0.184	0.164	0.293	0.373	0.306	0.344	0.376	0.386	0.288	0.119
	m_{sp_2}	0.084	0.116	0.112	0.078	0.056	0.073	0.000	0.000	0.000	0.123
Moldova	m_{sp_1}	0.210	0.304	0.340	0.295	0.292	0.312	0.286	0.318	0.346	0.479
	m_{sp_2}	0.048	0.196	0.213	0.085	0.207	0.063	0.000	0.000	0.000	0.045
Poland	m_{sp_1}	0.145	0.107	0.101	0.108	0.104	0.145	0.239	0.307	0.310	0.258
	m_{sp_2}	0.084	0.126	0.134	0.140	0.095	0.154	0.133	0.087	0.072	0.102
Romania	m_{sp_1}	0.214	0.245	0.237	0.274	0.272	0.299	0.319	0.326	0.309	0.233
	m_{sp_2}	0.139	0.122	0.146	0.093	0.037	0.031	0.000	0.000	0.000	0.081
Slovak Republic	m_{sp_1}	0.062	0.090	0.103	0.132	0.127	0.181	0.220	0.298	0.287	0.205
	m_{sp_2}	0.105	0.034	0.041	0.090	0.049	0.034	0.050	0.116	0.076	0.103
Ukraine	m_{sp_1}	0.185	0.232	0.345	0.306	0.271	0.268	0.312	0.302	0.247	0.158
	m_{sp_2}	0.304	0.318	0.314	0.348	0.316	0.275	0.201	0.147	0.059	0.095

Source: the authors' own research based on International Monetary Fund Data.

Figure 3. Partial Indicators msp_1 and msp_2 for the Analysed Countries in Selected Years



Source: the authors' own research.

In 2007-2009, a period in which the economic conditions of all the analysed countries were much affected by the economic crisis, only Germany records comparable values of the two indicators. This condition prevails in the subsequent years after the crisis, indicating the German economy's high stability.

The economic situation in the other countries is considerably different. Balance between m_{sp_1} and m_{sp_2} is distorted. These countries can be divided into three groups. The first group comprises the nations with a large share of m_{sp_2} : the Czech Republic, Poland, Slovakia and Ukraine. It indicates the opening up of their economies to overseas markets. The second group comprises the nations in which the share of m_{sp_2} during the crisis and the period preceding the crisis is very low, but it rises steadily after the crisis. These countries include Bulgaria, Estonia, Hungary, Lithuania, Latvia and Romania. They open up their markets and increase GDP values. The third group is represented by Greece and Moldova, in which the share of m_{sp_2} is practically non-existent. These countries are characterised by a weak economic position as well as high inflation and unemployment rates. The macroeconomic situation of these countries is heavily dependent on domestic production output and GDP dynamics.

5. Conclusion

The assessment of a given country's economic stability cannot be exclusively based on one indicator – GDP dynamics.

An important function in assessing economic stability is performed by the macroeconomic stability indicator (MSP), which is based on 5 fundamental indicators (an increase in domestic product, inflation rate, unemployment rate, current account balance and budget deficit).

MSP is less sensitive to economic downturns (crises) than GDP dynamics. Slow and steady increases in MSP values ensure long-term economic growth.

The results of the study indicate diversified GDP changes in the analysed countries, but also point to visible links between GDP dynamics and the values of the macroeconomic stabilisation indicator.

A separate analysis can be carried out with the use of sub-indicators m_{sp_1} and m_{sp_2} . This approach is useful in identifying the major factors which affect a country's general economic condition as well as in selecting necessary improvement measures.

The conducted analysis indicates that the German economy has been characterised by high stability in the period of the last decade. Less stable economies include Poland, the Czech Republic and Slovakia, while the other nations are characterised by economic instability. As a result, these countries are sensitive to shocks and, consequently, their economies were hit by the 2009 crisis (e.g. a decrease in Latvia's GDP values by 18%, and by 15% in Lithuania and Ukraine, accompanied by high unemployment rates).

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Chapter 2

Exposure of Polish Capital Market to Contagion from Foreign Markets

Kaja Jarnuszkiewicz

1. Introduction

The financial crisis of 2007-2009 had a significant impact on financial markets across the world. Indices of most equity markets reacted strongly to the crash in the United States. The slowdown of real economy and financial panic after the collapse of Lehman Brothers forced public authorities to take immediate action. Many commercial banks were nationalised and major central banks decided to use extraordinary monetary policy measures, especially large scale asset purchases commonly known as quantitative easing.

Although the crisis originated in the US housing market, its consequences were severe, not only for western economies, but also for developing markets with little to no exposure to the sub-prime credit. The scale and speed of the propagation of the crisis has prompted research in the area of crisis transmission, both via fundamental channels and the contagion effect.

The point of interest of this paper is the vulnerability of the Polish capital market to shocks originating in foreign markets. The research was conducted with the use of conditional and unconditional correlation coefficients proposed by Forbes and Rigobon.

The paper is organized as follows: Section 2 includes a concise description of major causes and consequences of the last crisis. Section 3 provides a distinction between fundamental transmission and contagion as well as a brief review of contagion analysis methodology. Section 4 describes the conducted research and results. Finally, Section 5 presents the conclusions.

2. Financial crisis of 2007-2009

The beginning of the crisis is attributed to the asset price bubble in the US housing market, yet there were several significant factors that contributed to its size. These factors include large government deficits in the US, low interest rates, derivatives used for speculative purposes, liberalisation of market regulations and moral hazard. Due to increased budget expenses caused by the war in Iraq and Afghanistan, tax reductions as well as temporary economic slowdown resulting from the dot-com crash and terrorist attacks of 9/11, the US experienced large budget deficits. The events of 2001

also caused the Federal Reserve System to significantly lower its interest rates. Low interest rates encouraged investors to seek more lucrative forms of investment. This resulted in increased investing in the housing market, which offered higher yields than government bonds. Growing property prices led many investors to believe that the trend would continue and thus, even in case of a default, the creditor would be able to sell the pledged property with a profit. For that reason, the housing market was considered to be low-risk. This belief prompted banks to offer housing loans, so-called subprime mortgages, to borrowers with low credit worthiness (Szyszka, 2010, pp. 121-124). Two financial engineering instruments, namely CDOs and CDSs, facilitated large-scale involvement of financial institutions in the mortgage market. Collateralized debt obligations, which enabled banks to gather new funds, were structured obligations comprising tranches of different risk categories. Senior tranches included high quality mortgages, thus they received triple-A ratings from the rating agencies. As subprime mortgages' share in banks' portfolios increased, it became common practice to include riskier mortgages in CDOs without altering the ratings (Poole, 2010, p. 424). Credit default swaps were used in order to minimise credit risk. In exchange for a yearly fee, a bank could transfer credit risk associated with a certain instrument to a third party. In case of a credit event, e.g. default or issuer's bankruptcy, the protection buyer was obliged to pay for the incurred loss. While CDS contracts' main purpose was, by definition, risk hedging, they were often used by traders who did not possess underlying bonds – the so-called empty creditors. In consequence, the value of CDSs was higher than the face value of underlying bonds (Weistroffer, 2009, pp. 18-19), which contributed to the scale of the crisis. Moral hazard, caused by the existence of governmental guarantees, may also be considered a cause of the crisis. Because of public guarantees, managers or owners of financial institutions do not need to use their own funds to pay back their liabilities and, instead of investing in liquid, low-risk assets, may participate in high-risk transactions offering the possibility of much higher returns (Krugman, 1998). The lack of negative consequences has led to unreasonable risk exposure.

Higher costs of credit servicing, caused by the increase of interest rates in 2006, resulted in numerous defaults, especially of debtors with low credit worthiness. The subsequent decrease in property prices caused problems for banks, which could not recover funds invested in the housing market and were forced to write off uncollectible debts (Szyszka, 2010, pp. 122-123). Bankruptcies of subprime lenders were unavoidable. The first significant events were the bankruptcy in April 2007 of New Century Financial, one of the largest providers of subprime mortgages, and the collapse in June 2007 of two hedge funds managed by Bear Stearns. An abrupt decrease of CDO prices was soon to follow, accompanied by an increase in risk aversion and a crisis of trust (Acharya et al., 2009, pp. 90-91). The most calamitous event, the collapse of Lehman Brothers on September 15, 2008, resulted in a systemic risk for the global economy. In the next days, the crisis spread to countries which had a stable economy and little to no exposure towards subprime credit.

Even though direct causes of the crisis did not occur in Poland, its financial markets and economy were affected by foreign shocks. During eight months, the value of WIG, the broadest index of the Warsaw Stock Exchange, decreased from around 45,000 points in June 2008 to around 20,000 in February 2009 (KNF, 2010, pp. 7-13). Negative changes in the real economy were not as severe as in other European countries, but nonetheless noticeable. The growth of GDP decreased from 5.1% in 2008 to 1.6% in 2009. The reduction in domestic demand and exports of goods and services was even stronger. The growth of domestic demand fell from 5.6% in 2008 to -1.1% in 2009 and the growth of export from 7.1% in 2008 to -6.8% in 2009 (Bakker, Klingen, 2012, pp. 161-162). These facts prompt research into the vulnerability of the Polish financial market to foreign shocks.

3. Transmission of crises and financial contagion

The propagation of financial crises is analysed in two categories: with the use of classic channels of transmission and as contagion. Fundamental channels of transmission are based on macroeconomic linkages between economies, whereas contagion may occur between countries with no trade relations.

Main channels of transmission include interest rate channel, credit channel, wealth channel and international trade channel. Short term interest rates influence long term rates, which have an impact on investment and consumption. For this reason, a decrease of interest rates is usually one of the first actions undertaken by central banks during a crisis. Credit channel is connected to risk aversion, liquidity and solvency of financial institutions. In reaction to difficult market conditions, banks rearrange their assets by collecting liquid instruments and decreasing credit. This creates difficulties for entrepreneurs whose access to financing decreases, thus forcing some companies to liquidate their stock. Sudden selling of stock has a negative impact on profits of a company. Wealth channel is related to changes in propensity to invest or consume. A crisis affects the value of disposable income of both companies and households, forcing them to decrease their consumption spending and postpone planned investments. Major financial crises result also in a significant decrease in global exports (Mitręga-Nieścior, 2012, pp. 57-67).

Contagion is often defined as a significant increase in cross-market linkages after a shock to one country or a group of countries (Forbes, Rigobon, 2002, p. 2223). It may also be seen as unanticipated spillover channels as opposed to anticipated spillovers, which include linkages capturing changes in fundamental factors and economic relations between countries (Dungey et al., 2002, p. 62).

There are many methods of measuring financial contagion. Two of the most important are latent factor models and the analysis of correlation coefficients.

Latent factor models provide decomposition of risk premium of analysed assets into common worldwide factors, regional factors characteristic for a given group of countries and idiosyncratic factors related to only one country. The risk premium¹ in country i at time t , where k denotes a group of countries e.g. Europe or Asia, may be expressed as

$$P_{i,t} = \lambda_i W_t + \phi_i S_{i,t} + \gamma_i R_{k,t}, i = 1 \dots 12 \quad (1)$$

where:

W_t – world factor,

$R_{k,t}$ – regional factor,

$S_{i,t}$ – idiosyncratic factor,

$\lambda_i, \phi_i, \gamma_i$ – parameters denoting the loadings on factors.

The basic equation is then expanded to include factors denoting unanticipated shocks from crisis countries. Finally, the expanded equation is transformed to volatility decomposition expressing contributions of each factor to total volatility (Dungey et al., 2002, pp. 61-73). Contagion occurs when the contribution of contagion factors to total volatility is significant.

¹ This is a model of bond markets, for factor models of equity markets see: M. Dungey et al., 2011, pp. 79-105.

The analysis of correlation coefficients, which has been used in this paper, offers a more direct approach to measuring contagion. In their model, Forbes and Rigobon (Forbes, Rigobon, 2002, pp. 2223-2261) underline the significance of heteroskedasticity, *i.e.* the changes in volatility in market returns, for measuring contagion. During crisis periods, market volatility, and therefore also value of traditional correlation coefficients, increases. This biases tests for contagion, which tend to show evidence of contagion, even though there was no change in market linkages. To correct for this bias, Forbes and Rigobon introduce an unconditional correlation coefficient which is resilient to changes in volatility. The modified correlation coefficient is expressed as:

$$\rho = \frac{\rho^*}{\sqrt{1 + \delta[1 - (\rho^*)^2]}} \quad (2)$$

where:

- ρ^* – conditional correlation coefficient,
- δ – relative increase of the variance.

Relative increase of the variance is expressed by the following equation

$$\delta = \frac{\sigma_{xx}^h}{\sigma_{xx}^l} - 1 \quad (3)$$

where:

- σ_{xx}^h – variance during a high volatility period *i.e.* crisis,
- σ_{xx}^l – variance during a low volatility period.

In order to establish whether contagion occurred, the null hypothesis, stating that there was no significant increase in cross-market linkages, is tested against the alternative hypothesis of a significant increase in correlation. The test is conducted with a FR_1 t-statistic with 2 degrees of freedom given below (Dungey et al, 2011, p. 24)

$$FR_1 = \frac{\rho_k^* - \rho^l}{\sqrt{\frac{1}{T^h} + \frac{1}{T^l}}} \quad (4)$$

where:

- ρ^l – conditional correlation coefficient during a low volatility period,
- ρ_k^* – unconditional correlation coefficient during a high volatility period *i.e.* crisis,
- T^h – sample size of a high volatility period,
- T^l – sample size of a low volatility period.

For smaller samples a transformed version of the statistic is used (Dungey et al., 2011, p. 24).

$$FR_2 = \frac{0,5 * \ln\left(\frac{1 + \rho_k^*}{1 - \rho_k^*}\right) - 0,5 * \ln\left(\frac{1 + \rho^l}{1 - \rho^l}\right)}{\sqrt{\frac{1}{T^h - 3} + \frac{1}{T^l - 3}}} \quad (5)$$

4. The model

The vulnerability of the Polish capital market to contagion from foreign markets was measured with conditional and unconditional correlation coefficients as proposed by Forbes and Rigobon with modifications introduced by Bieńkowski, Gawrońska-Nowak and Grabowski (Bieńkowski et al., 2011). The analysis was conducted with the use of daily values of indices of stock exchanges in Poland, the UK, the US, France, Spain and Germany.

The first part of the research included differentiating between a stable and a crisis period. Crisis was defined as a period during which returns lower than average minus 3 standard deviations were observed. It was established that the stable period lasted from October 1, 2002 to January 18, 2008 and the crisis occurred between January 21, 2008 and June 22, 2009. In order to compare long-term trends of the indices, their values were standardized with the use of the following equation (Bieńkowski et al., 2011, p. 43)

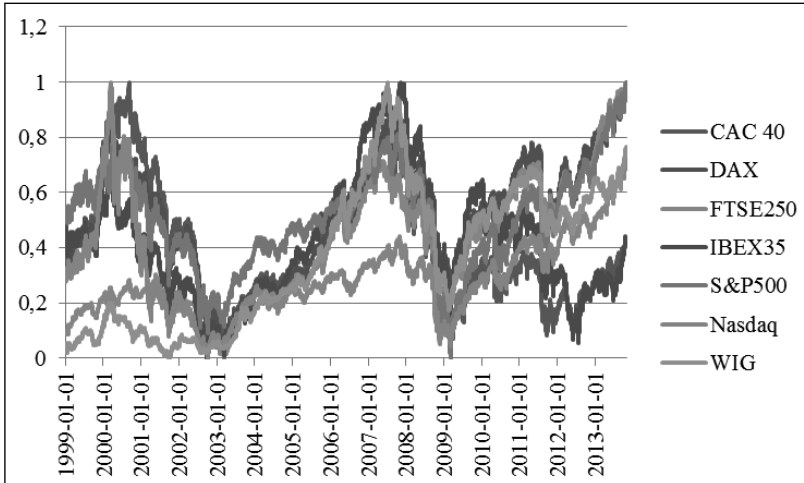
$$SIG_t^k = \frac{IG_t^k - \min\{IG_1^k, \dots, IG_T^k\}}{\max\{IG_1^k, \dots, IG_T^k\} - \min\{IG_1^k, \dots, IG_T^k\}} \quad (6)$$

where:

- SIG_t^k – standardised index k ,
- IG_t^k – value of index k (in points).

Standardised indices are shown in the Figure 1. The majority of indices, with the exception of Nasdaq Composite, shared an almost identical trend during the analysed period. Only in the last phase of the crisis, after stabilisation packages were introduced in some countries, the markets started behaving differently. This observation points toward a strong co-dependence between equity markets and leads to questioning whether shocks originating in the Western markets were transmitted to Poland in the form of contagion.

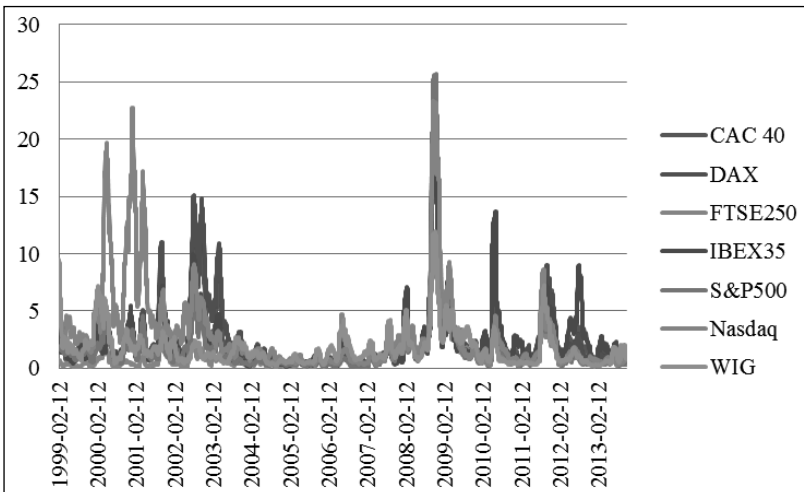
Figure 1. Common trend of world equity markets



Source: self-study, data from www.stooq.pl.

The unification of equity markets may also be deduced from conditional variances estimated for thirty-day periods, as shown in Figure 2.

Figure 2. Conditional variances of returns



Source: self-study, data from www.stooq.pl.

At the beginning of the 21st century, a significant increase in volatility, related to the Russian crisis and the bursting of the dot.com bubble, can be observed. Yet for all indices, apart from Nasdaq Composite, the increase in volatility after the collapse of Lehman Brothers is much higher. It is also worth noting that the period from 2003 to 2008 was characterized by low volatility in all analysed markets.

Conditional correlation coefficients between the Polish capital market and foreign markets were calculated with the following equation:

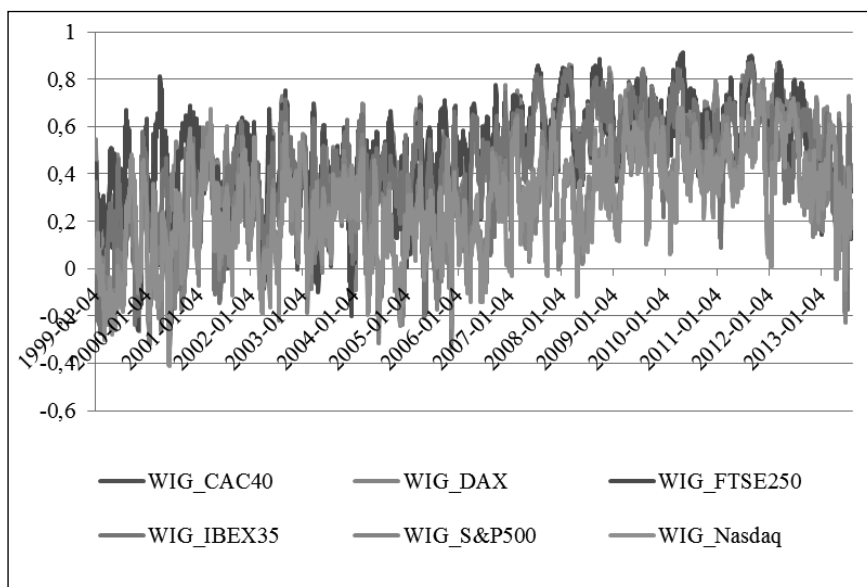
$$\rho_t^{k,l} = \frac{\frac{1}{30} * \sum_{i=0}^{29} R_{t-i}^k * R_{t-i}^l - (\frac{1}{30} * \sum_{i=0}^{29} R_{t-i}^k) * (\frac{1}{30} * \sum_{i=0}^{29} R_{t-i}^l)}{\sqrt{\left(\frac{1}{29} * \sum_{i=0}^{29} [R_{t-i}^k - \frac{1}{30} * \sum_{i=0}^{29} R_{t-i}^k]^2\right) * \left(\frac{1}{29} * \sum_{i=0}^{29} [R_{t-i}^l - \frac{1}{30} * \sum_{i=0}^{29} R_{t-i}^l]^2\right)}} \quad (7)$$

where:

$\rho_t^{k,l}$ – conditional correlation coefficient between indices k and l,

R_{t-i}^k – logarithmic return from index k.

Figure 3. Conditional correlation coefficients



Source: self-study, data from www.stooq.pl.

A considerable increase in the correlation between the Warsaw Stock Exchange and foreign equity markets is observable during the financial crisis and even after it. Moreover, from the second half of 2008, there are no negative correlations, which points towards a common trend. Higher values of correlation coefficients may, however, be caused solely by the worldwide increase in volatility. In order to establish whether contagion has occurred, the unconditional coefficients must be calculated. It was assumed that crisis originates in country *k* and may be transmitted to another market. The Polish market was always considered a recipient of the shock, whereas foreign markets were treated as countries of origin of the crisis. Correlation coefficients were calculated for thirty day periods with the use of the following equation.

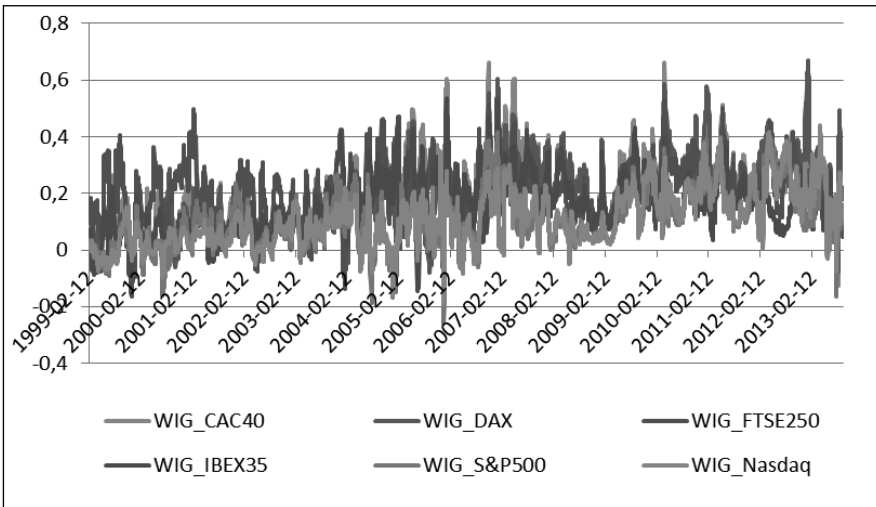
$$\rho_t^{*k,l} = \frac{\rho_t^{k,l}}{\sqrt{1 + \left(\frac{\text{Var}_t^k}{\text{minVar}_t^k} - 1 \right) * [1 - (\rho_t^{k,l})^2]}} \quad (8)$$

where:

- $\rho_t^{k,l}$ – conditional correlation coefficient between indices k and l,
- Var_t^k – the variance of returns in a country where the crisis has originated.

The results of the calculations are shown in Figure 4.

Figure 4. Unconditional correlation coefficients



Source: self-study, data from www.stooq.pl.

After correction for bias caused by higher volatility, the values of correlation coefficients decreased noticeably. During the crisis, *i.e.* from January 2008 to June 2009, the values of unconditional correlation coefficients rarely reach 0.4. Moreover, they are lower than before and after the crisis. It is therefore unlikely that the linkages between markets increased in response to the crisis.

In order to unambiguously establish whether contagion has occurred, the statistical test was conducted. Modified correlation coefficients for the crisis period were calculated according to the equation (2). Then t-statistics FR_1 and FR_2 were used to test the null hypothesis of no contagion. As shown in Table 1, only in the case of the German market, the null hypothesis can be rejected in favour of the alternative hypothesis stating that a significant increase in cross-market linkages has occurred.

Table 1. Tests for contagion

Modified correlation coefficients during crisis					
WIG_CAC40	WIG_DAX	WIG_FTSE250	WIG_IBEX35	WIG_S&P500	WIG_Nasdaq
0.407245866	0.460689645	0.403197122	0.373225807	0.160217265	0.182627035
t-statistic FR_1					
-0.17241359	1.466653589	-1.820693702	-0.93375249	-1.3586125	-1.05468468
t-statistic FR_2					
-0.20701338	1.773083495	-2.297694425	-1.10895413	-1.41124929	-1.10169148
t-student distribution					
1.645724318					

Source: self-study, data from www.stooq.pl.

The test conducted with t-statistic FR_1 indicates that there was no contagion. Only the second test shows evidence of contagion from the German market. Yet even in this case, the value of t-statistic FR_2 is not much higher than the critical value. Therefore, it can be concluded that the Polish capital market is relatively stable and immune to contagion. Even though contagion is defined as a transmission not related to fundamental channels, the fact that it occurred only from the country which is Poland's major trade partner, suggests the significance of macroeconomic fundamentals. It is possible that investors who participate in the Polish capital market adapt their decisions to the situation in the German market. Taking into consideration significant trade relations between these two countries, they expect a slowdown of the German economy to cause an equivalent slowdown of the Polish economy. If market participants believe that capital markets are linked similarly to real economies, they will expect the Polish equity market to adjust to the state of the German market. Thus, after a crash in the German market they will sell shares of Polish companies in anticipation of a corresponding crash. Such a decision may be made without analysing the condition of the Polish economy or certain companies, but based solely on expected linkages and subsequent adjustments in the market. This situation resembles a self-fulfilling prophecy, in which actions undertaken by investors anticipating a noticeable price decrease, cause the prices to fall.

5. Conclusion

Financial crises can be transmitted by fundamental channels based on macroeconomic linkages or by unanticipated contagion. One of the most straightforward methods of testing for the contagion effect is the analysis of correlation coefficients corrected for the changes in volatility.

The vulnerability of the Polish capital market to shocks originating in foreign financial markets was the point of interest of this paper. The research was conducted with the use of conditional and unconditional correlation coefficients proposed by Forbes and Rigobon. The results show that the Polish financial market is prone to contagion from the German market and resistant to shocks originating in the US, France, Spain and the UK. There was an increase in co-movement between all markets, yet only the increase in correlation between German and Polish markets was significant and cannot be attributed to a global increase in volatility during the crisis. Since the value of t-statistic FR_2 is not much higher than the critical value, it can be concluded that

the contagion effect was not very strong. Seeing as contagion from the German market can be, at least partially, attributed to trade relations between these two countries, it may be assumed that the financial crisis of 2007-2009 was transmitted to Poland mostly via fundamental channels. The Polish equity market is therefore quite resilient to shocks originating abroad.

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Chapter 3

Business Negotiation with Partners from East European Members of the European Union¹

Czesław Mesjasz

1. Introduction

For the new East European member states of the European Union – Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, the enlargement of 1 May 2004, for Bulgaria and Romania the enlargement of 1 January 2007, and for Croatia the enlargement of 1 July 2013, have become symbols of re-alignment with Europe, from which they found themselves decoupled after the Second World War². Their representatives claim that their cultures and behavior are equally “European” as those of their counterparts from the “older” part of EU³. Those declarations of European identity and similarity are especially visible in negotiating where the differences between negotiators from Western Europe and from Eastern Europe are diminishing. In the year 2014 the following questions can be asked:

1. What are the typical features of negotiating behavior of representatives of institutions from new EU member countries of Central Eastern Europe? Of course, taking into account similarities and dissimilarities within the latter.
2. What are the main differences between negotiating behavior of representatives of the Western and Eastern part of the EU?

The aim of the paper, resulting from the author’s research, consulting, training and teaching experience, is to provide partial answers to the above questions concerning characteristics of behavior of representatives of various organizations (private and public) from the new EU member countries of Central Eastern Europe in business negotiation. In the paper, which should be treated as a preliminary study, attention is focused on determinants and characteristics of business negotiation with negotiators representing organizations from Central Eastern Europe.

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² Croatia is not always considered in the research.

³ Although sometimes the terms Eastern Europe and Central Eastern Europe are given a different meaning, in the paper they are treated interchangeably.

In spite of growing economic importance of Central Eastern Europe, Russia, and other countries emerged after the collapse of the Soviet Union, the number of rigorous studies of business negotiation with the Eastern part of Europe is rather limited (Bjerke, Mesjasz, Hajdukiewicz, 2004; Faure, 2003; Ghauri, 2003; Kremenjuk, 2002; Mesjasz, 2000). In some works business negotiation are more or less cursorily dealt with in the discussions on “Doing business in Eastern Europe” (Cavisgil, Ghauri, Agarwal, 2002). Dominance of practice-oriented textbooks, guides and training materials of different level of rigor and relevance can be observed (Acuff, 2008; Katz, 2007).

Usually in assessing the differences between negotiators, the characteristics of cultures are applied (Bjerke, 1999, 2004; Gesteland, 1999, 2005; Hall, 1976; Hampden-Turner, Trompenaars, 1993; Hofstede, 1997, 1997a; Hofstede, Hofstede, 2004; Trompenaars Hampden-Turner, 1997; Salacuse, 1991, 2003). As to make broader comparisons, more universal collections of attributes of negotiating behavior are necessary, including, for example, the impact of differences of legal systems upon negotiating behavior. In the paper, a preliminary survey and assessment of behavior of business negotiators from the new member countries of the European Union is made. Negotiating is depicted with the set of attributes proposed in the above mentioned works. In addition to traditional analyses of intercultural negotiation, a reference to “contract culture” determining the role of contracts is put before.

2. Business negotiation and “contract culture”

The concept of contract culture proposed herein is rooted in a variety of ideas – beginning from theory of culture, law, politics and ending with economics. It describes the context of contractual relations in a social entity (country, institution, *etc.*). The contract culture determines the conditions of preparation of contracts (negotiation), enforcement of contracts – either according to the agreed covenants or when conflicts occur. The contract culture constitutes a kind of deepest foundation of the social and economic fabric.

The contract culture can be described with psychological and sociological concepts, *e.g.* (Olson, 2000), cultural (Trompenaars, Hampden-Turner, 1997) and economic – transaction cost economics (Williamson, 1995), game theory (Binmore, 1995), incomplete contract theory (Bolton, Dewatripoint, 2005).

Understanding the role of contract culture is always important in negotiation with foreign partners. What makes it especially important in relations with the East is the fact that the contract culture relevant to market economy is still in the making in Central Eastern Europe. Contract culture has its own dynamics but in the developed market countries it is better established and accepted than in the countries which have built market economy for 20-25 years. The core issue in contract culture is uncertainty and methods applied by the contracting part to reduce it in the process of contract preparations – negotiation and in its further stages. In such an approach all social, psychological and economic factors create an environment of transfer of information, prediction of the state of environment, prediction of actions by the contract partners (in economic approaches based upon rational choice principle), and planning for own part’s action. It may be thus stated that all behavioral, institutional and cultural determinants of negotiation constitute the contract culture. Selected features of contract culture of business negotiators from the new member states

of the EU are partly dealt with in the paper. It allows not only to assess efficiency of negotiation, but also to disclose the patterns of contract culture in those countries.

3. Characteristics of behavior of negotiators

As it was mentioned earlier, the paper is but an introduction to further research on comparative analysis of behavior of business negotiators from the “old” and “new” members states of the EU. Any far reaching generalizations are not possible but some assumptions and definitions must be proposed as to assure a sufficient level of coherence and clarity.

First and foremost, it must be stated that a thorough comparative study of behavior of Westerners and Easterners would require a large amount of statistical data. So far no research of that kind has been undertaken. Ideas and research presented by now are either based on case studies (“anecdotic evidence”), consulting materials, or are a kind of emanation of literature surveys. They embody both universal analyses of negotiating behavior as well as business negotiating. Those works were usually concentrated upon a broad East, including the former USSR (Ghuri, 2003; *International Negotiation Journal*, 1996).

Another group of writings deals with specificity of negotiation with the Easterners and by the Easterners only indirectly, putting them in a broader context of intercultural business relationships (Gesteland, 1999, 2005), (Hofstede, 1997), (Hofstede, Hofstede, 2004) or business relations with newly emerging markets (Cavisgil et al., 2002).

The “business negotiation” has multiple interpretations. In the sense applied herein this term means negotiation between partners (individuals) involved in any kind of market transactions. When the term business negotiation is used, attention is focused upon the company level, although if necessary, the discussion can also concern economic policy issues at the government level, e.g. investment policy, foreign debt negotiation, negotiation with international economic and financial institutions. This definition is proposed with full awareness of discrepancies between organizations (small firms and big companies), status of individuals, age, gender, education, exposition to international education and environment. Due to internationalization and globalization, it is sometimes difficult to determine identity of a business negotiator. So it is assumed that it is possible to link identity of negotiators with their environment in the new member states of the EU.

There are not any universal patterns of behavior in business negotiating characteristic for Central Eastern Europe. At the same time, however, it is possible to identify some common behavioral characteristics of negotiators from the East which make them more or less different from their partners from the old member states of the EU. Existing typologies of psychological, social, cultural and institutional factors allow to define various characteristics of negotiation. The study presented in the paper refers to the attributes of negotiation process depicted in the following works: (Weiss, 1994, 1994a; Gesteland, 1999, 2005; Salacuse 1991, 2003; Ghauri, Usunier, 2003) although not all of characteristics given below are under scrutiny due to the definitional and conceptual problems and/or lack of data.

I. General concept (model) of negotiation:

1. Basic concepts of the process of negotiation: distributive bargaining, joint problem-solving, non-directive discussion.
2. Most significant type of issue: substantive, relationship-oriented, procedural, personal-internal.

II. Role of the individual:

1. Selection of negotiators: knowledge, negotiating experience, personal attributes, status, loyalty, gender in business negotiation.
 2. Individuals' aspirations: individual – community.
 3. Decision making in teams: authoritative – consensual.
 4. Sources of experience in negotiation: education, personal experience.
 5. Type of negotiation theoretical background: dominated by qualitative psychological considerations, rational choice-based approach.
- III. Interaction – dispositions:
1. Time perception: monochronic – polychronic.
 2. Time orientation: short – long.
 3. Risk-taking propensity: high – low.
 4. Bases of trust: overall attitudes – trust/non-trust, external sanctions, reputation of a partner, intuition, shared experiences.
 5. Propensity for illicit behavior in negotiating: high – low.
- IV. Interaction – process:
1. Concern with protocol: informal – formal.
 2. Complexity of communication: low – high, communication style (verbal communication, non-verbal communication).
 3. Nature of persuasion: experience, logic, tradition, dogma, emotion, intuition.
 4. Presentation of issues of negotiating: bottom-top vs. top-bottom.
- V. Results of negotiating:
1. Forms of agreement: explicit contract (formal binding), implicit contract (common knowledge (reputation)).
 2. Adaptation in negotiating: scope and reasons for adaptation (becoming “Romans”) (Weiss, 1994, 1994a), limitations of adaptation.

4. Basic characteristics of business negotiation with partners from Central Eastern Europe

4.1. Socio-political characteristics

New East European member countries of the EU are very differentiated in terms of culture, tradition and religion. They were to some extent “homogenized” during the period of the Cold War and the Soviet supremacy (except Croatia and Slovenia). One of the elements of heritage of the communism and history is their not too much differentiated level of social and economic development. From the point of view of business negotiation context the common features of the countries of Central Eastern Europe are as follows:

- geographical proximity,
- a short history of democracy, even before the World War II,
- absence of statehood in recent history which may create a kind of hidden hostility to any public sector (administration, self-government) and “distorted entrepreneurship” – playing against the system,
- absence of industrial tradition – low level of economic development before the World War II; more advanced countries: the Czech Republic, Slovenia and some “islands of industrial modernity” elsewhere in the region – Hungary, Poland.

The political and economic impact of the communism require a further explanation. The countries of the region still have to deal with various tradition – the USSR itself, the Soviet sphere of influence, Yugoslav “self-government” economy. In consequence every country of the region has its own specific path of economic reforms having similar assumptions but differing approaches and results. Attitudes towards the membership in the EU constitute another important sociopolitical determinant of behavior of business negotiators from the new member states. In the surveys made after the enlargement the attitudes were positive although awareness of gains and costs was not too common (Eurobarometer, 2009).

4.2. Cultural characteristics

The sociopolitical differences among the new EU members are interrelated with their cultural discrepancies. The grouping is not homogeneous since the countries belonging to it are different in terms of culture, tradition, economics, politics and religion.

Dynamics of culture in the countries of transition can be depicted with the following changes determining behavior and values of groups and individuals (Mestenhauser, 1998):

- change from dependency on authority to individual responsibility for making decisions,
- change from passive to active involvement that may mean public commitment to issues and may result in conflicts,
- change from adversarial to cooperative perspectives, often demanding acceptance of differences,
- change from an atmosphere of futility to one of self-confidence and fate-control,
- change from dualistic “right and wrong” reasoning to democratic perspective reasoning in which compromise solutions may need to be accepted,
- change from superficial to active support for the new system, or at least to the development of a loyal opposition,
- change from fatalism and cynicism dominated by the past, to future orientation,
- change from distrust to functional confidence,
- change from irresponsible inefficiency to effective market economy and entrepreneurship, not just in business and trade, but in education, government, and in public life,
- change from secrecy to openness,
- change from forced conformity to personal commitment and self-regulation,
- change from cultural isolation to membership in the world community.

No comparative and comprehensive studies of the impact of cultural discrepancies and similarities among those countries on business behavior have been developed so far. In research conducted by Hofstede in 2004 and based upon five dimensions: power distance, individualism, masculinity and long-term orientation, some of the new members of the EU (with exception of Latvia and Lithuania) were taken into account (Hofstede, Hofstede, 2004), (<http://www.geert-hofstede.com>)⁴. Due to the topic and scope of the paper only some general observations are presented – Table 1.

⁴ Sixth dimension – indulgence-restraint proposed by Misho Minkov has been added to the Hofstede’s collection (Hofstede, National Culture, <http://geert-hofstede.com/countries.html>).

Table 1. Scores of Hofstede's dimensions of national cultures of the EU – old and new member countries (Central Eastern Europe)

Dimension Country (score)	Power distance PD	Individualism vs. collectivism IDV	Masculinity vs. femininity MAS	Uncertainty avoidance UAI	Long-term orientation LTO
Old member states					
Austria	11	55	79	70	31
Belgium	65	75	54	94	38
Denmark	18	74	16	23	46
Finland	33	63	26	59	41
France	68	71	43	86	39
Germany	35	67	66	65	31
Greece	60	35	57	112	n.a.
Ireland	28	70	68	35	43
Italy	50	76	70	75	34
Luxemburg	40	60	50	70	n.a.
Netherlands	38	80	14	53	44
Portugal	63	27	31	104	30
Spain	57	51	42	86	19
Sweden	31	71	5	29	20
UK	35	89	66	35	25
New member states (Central Eastern Europe)					
Bulgaria	70	30	40	85	n.a.
Czech Republic	35	58	45	74	13
Estonia	40	60	30	60	n.a.
Hungary	46	80	88	82	50
Poland	68	60	64	93	32
Romania	90	30	42	90	n.a.
Slovakia	104	52	110	51	38
Slovenia	71	27	19	88	n.a.

Source: Hofstede, National Culture, <http://geert-hofstede.com/countries.html>.

First, the level of power distance in the countries Central Eastern Europe (with exceptions of the Czech Republic and Estonia) is significantly higher than in the 15 earlier members of the EU. In business negotiation it may be reflected in selection of negotiators, freedom of decision and patterns of decision-making processes in negotiating team. Second, for the dimension individualism vs. collectivism the countries of Central Eastern Europe are more differentiated than the old members of the EU. Two cases are specific – Portugal which has the score 27 which lowest in the group of the old EU members and Slovenia which claims to be closer to the Western than Eastern part of the continent but has also an exceptional low score for Europe taken as the whole. Third, for the dimension masculinity vs. femininity both regions are differentiated internally although Central Eastern Europe taken as the whole seems to be more “masculine”.

Fourth, the level of uncertainty avoidance is higher in Central Eastern Europe than in the “Western” part of the continent.

Intercultural business negotiation is also determined by the factors proposed by Gesteland (1999, 2005). This typology can be also treated as an introduction to more detailed studies – Table 2.

Table 2. Cross-cultural characteristics of Central Eastern Europe based upon Gesteland’s typology

Patterns of cross-cultural business behavior	Characteristics of CEE countries
Deal-focused vs. relationship-focused	Moderately deal-focused
Informal vs. Formal	Formal (highly formal, <i>e.g.</i> Poland)
Rigid-time vs. Fluid-time (Monochronic vs. Polychronic)	Moderately monochronic (discrepancies between the North and the South of CEE, <i>e.g.</i> Estonia vs. Bulgaria)
Expressive vs. reserved	Variable expressive (the North and the South of CEE, <i>e.g.</i> Estonia vs. Bulgaria)

Source: own research on the basis of Gesteland (1999, 2005).

Conclusions stemming from empirical research and observations of cases and situations allow to state that the business negotiation between the new and the old members of the EU is influenced by the following attributes of culture of the CEE countries:

- links with old tradition of European culture often claimed as constant despite stormy history of relations with the rest of the continent,
- claims for cultural synthesis and universality as a specific bridge between the “genuine” East and the “genuine” West,
- strong although slowly decreasing influence of religion, *i.e.* Catholicism in Poland and to a lesser extent in Hungary, Lithuania, Slovakia, Slovenia; also other creeds in other countries, *e.g.* Orthodox Church in Bulgaria and Romania,
- negative impact of the communist period – hampering development of “civic society”,
- openness of cultures in globalization,
- growing presence of modern global companies,
- tendency for corruption and illicit behaviour in business,
- insufficient emancipation (moderately male-dominated culture),
- tendencies for nationalism and xenophobia – traditional and historically determined, slowly disappearing among the young generation,
- poorly developed, or non-existent corporate culture (was corporate culture possible in centrally planned economy?),
- historically rooted inferiority complex towards the West,
- absence of colonial tradition resulting in low level of contacts with countries from outside of the European continent,
- different level of earlier links with the West (pre-communist period),
- openness in the period of communism, *e.g.* relatively opened Hungary or Poland vs. more self-isolating Bulgaria or Romania.

Another feature of business negotiation with Eastern partners has to be taken into account. In all of the countries of Central Eastern Europe, a strong tendency for taking patterns from the Western countries had been almost always a typical socio-cultural phenomenon. In many cases the term imitation could be even applied. At present the tendencies are somehow more complex. In the initial period of changes and accelerated “Westernization” of culture, the Western business partners were treated as a source of patterns for corporate culture, especially the American one. As the best example the uses and abuses of English business terminology can be shown. It is not only a case of *controlling, corporate governance, outsourcing, reengineering, etc.* which are applied without translation in all countries of the region, because it is a worldwide tendency. In addition, in Central Eastern Europe the business terminology is prone to *creolization* or *pidginization* of the languages (Hymes, 1971).

This tendency for searching for benchmarks to follow is helpful in explaining an initial willingness of Eastern managers to implement, and frequently to imitate, the patterns of behavior taken from other, perceived as superior Western, predominantly Anglo-Saxon cultures. It is also a factor determining facilitation of negotiating resulting from the fact that the Eastern partners are eager to follow and not to propose or impose their patterns of behavior. It was visible in the early period of reforms and now new tendencies appear among the younger generations of managers, who try to combine their cultures with the demands of international business culture patterns (Bjerke et al., 2004).

4.3. Legal characteristics

It is frequently forgotten but implementation of economic reforms in Central Eastern Europe required sweeping changes in their legal systems. With only a few exceptions, for example the Civil Codes in some East European countries and the Commercial Code of 1934 in Poland (other cases require further studies), all reforming countries had to build market-relevant legal systems almost from scratch. This task was especially challenging for the New Independent States (NIS), which emerged after the collapse of the Soviet Union. While some elements of economic activities could be based upon the Soviet-time Civil Code (the case of Ukraine), other regulations of business activities sometimes had just to be directly transferred from the Western countries – predominantly French and German. Similarly, the legal foundations for corporate financial management, accounting and corporate governance had to be built without almost any reference to the past regulations.

Business negotiations with the new EU members conducted in numerous areas are to some extent facilitated by the fact that it had to accommodate them to the demands of the Union although it is still difficult to say about full compatibility.

Legal systems in the Central European EU member states can be described with the following general characteristics:

- Roman legal tradition (continental law),
- similarities with leading European legal concepts (German, French) in building foundations of business law,
- influence of the US law – patterns of standardisation, *e.g.* accounting systems,
- liberalisation sometimes going further than EU regulations,
- co-ordination with the EU legal system,

- elements of regulations from the period of centrally planned economy, e.g. labor laws in some countries,
- instability of legal systems.

5. Conclusion

The aim of the paper was to provide an introductory survey of patterns of behavior of negotiators from the new EU member countries from Central Eastern Europe after the enlargements of 2004, 2007 and 2013. The results of the survey show that the behavior of business negotiators from Central Eastern Europe has not been yet studied sufficiently, especially when the position of those countries in the European Union, and in the world economy is taken into account.

The above observation can be explained by the following reasons. First and foremost, although the role of the new members of the EU is significant in the Union and in the world, yet it may not be compared to the position of the countries of the Far East which draw more attention of specialists in negotiation. Second, a preliminary assessment shows that discrepancies in behavior in business negotiation between representatives of organizations coming from Eastern and Western members of the EU are not too significant. In addition, patterns and norms of negotiation behavior of Eastern partners are evolving towards the patterns of their Western partners. Third, after a short period of fascination and imitation of Western patterns of negotiating behavior, it may not be expected that the Eastern negotiators would thoroughly conform to the Western benchmarks, which are also differentiated.

It was also observed that knowledge of differences in business negotiating behavior between the West and the East as well as among the Eastern partners has not been yet studied with required attention. Therefore a relatively long period of mutual business contacts has not resulted in sufficient mutual knowledge of negotiating behavior. In the paper the idea of “contract culture” was proposed. It can be used as a theoretical foundation for the studies of the “contract culture” of the new member states of the EU, and subsequently, its differences with “contract culture” of the 15 “old” members of the European Union.

The following directions of further research can be proposed. Bearing in mind scattered research and frequent common-sense works describing negotiation with Eastern partners, it is necessary to elaborate a new comprehensive conceptual framework for descriptive, analytical and comparative studies. This new framework should also include more advanced methods such as research on the role of cognition, studies of narratives, computer simulation and computer support of business negotiation⁵.

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⁵ Research of that kind is conducted at the Interneg Research Center, <http://interneg.concordia.ca/>.

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Chapter 4

Firm Relocation as an Answer to Climate Change

Agnieszka Leszczyńska

1. Introduction

Climate variability has significant impact on organizations. Firms are adjusting to economic conditions, but little is known about their adaptability to natural environmental change. Simultaneously there is growing concern that changes in climate and weather conditions have the potential to fundamentally alter ways in which firms are operating. One of the potential climate change adaptation strategy is relocation. The article presents four case studies describing why and how relocation was conducted. A geographical shift became due to: direct disruption (hurricane, flood) and gradual changes in climate. A framework for integrating firm relocation decision was also presented.

2. Considerations related to firm relocation

Although there is abundant literature on the location decision of a firm, the focus on firm relocation is limited. As relocation is on top of the political agenda in many small and open economies there is certainly need for better understanding of decision of relocation. Most studies have looked at the determinants of investment abroad without making a distinction between expansion investments and relocation decision. As relocation data are scarce most existing studies on relocation are of a theoretical nature. They primarily consider the effect of labor costs and trade barriers on relocation (Sleuwaegen, Pennings, 2006). The studies concerning foreign direct investment indicate that local wage rates and taxes have a negative impact on the location choice, while investment promotion has a positive effect. Furthermore, location is conditioned by national market accessibility, availability of services, large industrial basis (Holl, 2004).

Most studies about firm relocation distinguish between two forms: 1) complete relocation, defined as the movement of an establishment from one location to another, 2) partial relocation, whereby a new local unit is set up. The first is a strategy mainly adopted by single site firms and tends to be executed locally, because firms prefer to find a new location that is near their existing site to keep their workforce and suppliers. The second is contemplated by larger and multi-plant

firms, which aim at differentiating their production in space taking advantage of the most favourable locations.

According to the literature main forces driving firm relocation are expansion and the need for more suitable premise. A second reason is cost saving. Firms aim at taking advantage of favourable cost conditions in other locations. Another reason is government policy – by subsidies firms are pushed to relocate. Location theory focuses on the optimal location choice that is determined by the attractiveness of a site for firm location. In contrast relocation theory takes into account the first step, the push out of the present location (Brouwer, Mariotti, Ommeren, 2004).

Firm relocation can be considered in two streams. One stream covers the expansion of firm activities. This literature is focused on the expansion of commercial activities abroad and the discovery of new market opportunities. Second stream focus on substitution of one location to another. This literature outlines that relocation is decision about moving firm out of the present location. The issues considered under this approach relate to neoclassical, behavioural, institutional theories.

The neo-classical location theory focuses on the premise of the rationale firm that maximizes profit in choosing the optimal location (Weber; Losch; Moses). A firm moves from the current location to a new one when the first is no longer inside the spatial margins to profitability and the second might be a profitable one. So the firms seek to choose profitable over unprofitable locations.

The behavioural location theory interprets firms as agents that have limited information, are boundedly rational (Simon; Cyert and March). It seeks to understand actual behaviour of entrepreneurs and focuses on the decision making process that may lead to relocation. High relocation costs, along with imperfect information will mean that firms are unlikely to move. These approaches acknowledge that firm is undergoing substantial decision-making processes when deciding to relocate.

The institutional location theory bases on the assumption that economic activity is socially and institutionally situated; its shaped by society's cultural institutions and value systems rather than by firm behaviour (Amin; Pike). Firm location behaviour is the result of firm's investment strategies and its negotiations with stakeholders. Its outcome of a firm's negotiation with suppliers, government, labour unions.

The above approaches provide different insights into location decision. But they only marginally reflect the impact of environmental factors. Existing studies on relocation in face of climate change distinguish adaptive responses of individuals or communities (McLeman, Smit, 2006; Smit, 2007); they are most commonly related to species migration. Research analysing the problem of relocating enterprises in the face/as a result of climate change is lacking, with the possible exception of several studies pertaining to the issues of tourism in certain sensitive areas. As part of their response to changed climate conditions, several firms in that sector had to move their geographic range of operation away from affected areas (Elssasser, Burki, 2002). When it comes to other economy sectors, however, research on these issues is virtually absent.

3. Impact of climate change on companies

Climate change may have a gradual (continuous) or extreme character. The former relates to ongoing, long-term shift in the climatic characteristics of a given region, especially in terms

of average temperatures. Extreme weather can be defined as weather that lies outside a locale's normal range of weather intensity. It was mentioned that by definition extreme weather is infrequent or rare. On a similar note IPCC defined extreme weather as events that are rare its statistical reference distribution at a particular place. IPCC went on to identify that an extreme weather would normally be as rare as, or rarer than 10th or 90th percentile. It is often used to refer to weather of sufficient severity of generate a hazard. Examples include extreme precipitation, flood, droughts, extreme temperature heat/cold waves.

Both types of change can fundamentally influence social or ecological systems. According to Kunkel (Kunkel, Pielke, Changnon, 1999) world has become more vulnerable to climate change. Its due to a variety of societal changes, including growing population in high risk areas and large cities, lifestyle, demographic changes. In terms of ecology, we observe shifts of climatic zones, species migration, large-scale extinction of vegetation, or changes of the relative length of seasons.

The economic effects include disruptions of commerce, transport, and energy production, as well as job markets, finance, investment. Organizations are affected by climate change due to their increased vulnerability and not being prepared to deal with it. Moreover their suffer even without having directly affected due to vulnerability of supply chain, utilities, transport infrastructure.

A survey commissioned by Climate South East revealed that 54% of respondents had experienced at least one weather extreme that had affected their business in the two years prior to study (Norrington, Underwood, 2008). Heliview Research (2008) identified that 37% of UK businesses subjected to their study had been affected by extreme weather in 2007. The number of businesses affected saw a sharp rise in 2010, as 58% had reported that their businesses were affected (Woodman, 2008). The proportion of organizations affected can be expected to further increase in future, as changing climatic conditions are forecast to increase.

Generally the results of climate change lead to decreased demand for certain goods, loss of competitive advantage, loss of traditional markets, difficulty in securing finance and obtaining insurance, some regional industries may suffer due to enhanced position of competitors. Some organizations may face the risk of attracting and retaining staff. Direct effects also include disruption to side work as a consequence of extreme weather. A common objective of firms is reduce sensitivity to climate impacts through diversification of the firm's portfolio or geographic activities. In certain cases, the relative costs of reducing such vulnerability are too high. Therefore, strategic alternative can be a partial or complete relocation of the company.

4. Methodology

The aim of this article is to discuss the issues related to company relocation caused by climate change on the example of several selected businesses. We used case study research; we investigate a contemporary phenomenon – relocation within its real-life context. We analysed four case studies. The first was an energy sector company affected by two subsequent hurricanes. The second – a production company destroyed by a tornado. The third – a domestic production company located in a flood-ridden area. The fourth case relates to the significance of gradual change; it illustrates the impact of global warming on pastoral companies, relative to the size/quality of pastures. The selection of these particular companies stemmed from our desire to include varied

weather phenomena, as well as from the availability of relevant data. We used semi-structured interviews and document review as the data collection techniques. The respondents were members of the companies' executive staff. The questions pertained to the type of weather change observed, its progression, the company's response to the same and its consequences (economic, material, resource-related), and the process of reaching the decision to relocate.

5. Results

Case study 1 – Entergy Corp.

Entergy Corp⁶ is an integrated energy company engaged primarily in electric power production and retail distribution operations. It is headquartered in the Central Business District of New Orleans, Louisiana. A member of the Fortune 500, Entergy owns and operates power plants with approximately 30,000 megawatts of electric generating capacity, and it is the second-largest nuclear generator in the United States after Exelon Corporation. It had annual revenues of more than \$11 billion in 2010 and approximately 15,000 employees.

On August 29, Hurricane Katrina stormed ashore near Buras, Louisiana. A strong category 3 storm of unprecedented physical size, Katrina levelled much of a 400-mile section of coastline stretching from central Louisiana and devastated city of New Orleans. With damage estimates topping \$75 billion Katrina ranks as the costliest natural disaster in US history. More than one million of people lost power. In total, 263 substations, 3,000 miles of transmission lines, 28,500 miles of distribution circuits and 17,400 utility poles were damaged. Firm announced the formation of Business Continuity Team to get company back on its feet. The team moved quickly – getting vital systems like payroll back online, establishing support resources. Given the failure of the levees to withstand hurricane strengths and the time required to reinforce and redesign the levee system, firm assesses the various alternative locations for critical business continuity functions. Within days, the team had secured temporary headquarters facilities in Clinton, Mississippi. The decision was made to suspend all disconnect procedures and notices and work out payment plans with individuals with high past-due balances. After Hurricane Katrina hit the city of New Orleans, Entergy temporarily relocated the 1,500 employees and contractors who worked at the headquarters to other cities, including Clinton, Mississippi, Little Rock, Arkansas, and The Woodlands, Texas. Key financial processes have moved to The Woodlands, Texas. Transmission engineers and computer operators are moving to new facilities in Jackson, constructed with economic development assistance, while other information technology brethren have moved to a former municipal library in Little Rock that's been turned into a back-up data storage centre. On 20th September power was restored to more than 874,000 customers, thanks to the relentless effort of thousands of workers. All customers in Mississippi had power and all other clients who could accept power were expected to be restored within 2 weeks.

On 24 September came Rita. Its epicentre passed over the town of Port Arthur. After it moved over the sea, its force recede and it was re-classified as a tropical storm. The hurricane devastated a long stretch of the coastline, completely destroying several small seaside towns. 611,000 customers in Louisiana, Texas and Mississippi were without power due to Rita. More than 3,800 miles of transmission lines and 443 substations were knocked out of service. More than 43,800

⁶ The above passage is based on the Entergy Annual Report 2005, www.entergy.com.

miles of distribution poles were down. More than 7,000 linemen and support workers began the restoration. 47 days later restoration of service was completed. All customers who accept power had power. Costs associated with the storm restoration efforts total approximately \$1.5 billion. These estimated costs do not include other storm effects such as lost net revenue, uncollectible utility, customer receivables.

When referring to the firm's relocation, Curt Hebert Jr., senior vice-president noted that "It made sense from a business and operational standpoint to move some of our operations to Jackson. As you know, that area is less likely to be affected by storms. Power has to be going down the line 365 days a year".

Case study 2 – Pacific Coast Feather

Pacific Coast Feather Company is a Seattle-based manufacturer of basic bedding including pillows, comforters, sheets, and feather beds. It is the largest producer of utility bedding in the US and the fifth largest home textile supplier in the US. In 2010, estimated profits for Pacific Coast Feather Company were \$352 million, a 2% increase from the previous year. The company also opened three international sales offices.

The Wayne plant run by Seattle-based Pacific Coast Feather was one of several businesses destroyed on October 4 by the tornado, which registered EF4 on the Enhanced Fujita scale, with wind speeds approaching 170 mph.

After a two-month fact-gathering process and search for a suitable building, executives decided that rebuilding was not a viable option. Company had evaluated rebuilding on the storm-ravaged location while also searching for a suitable building located in or near Wayne that would allow the business to quickly re-establish its mattress pad production. Due to the lack of a suitable location, Pacific Coast Feather Co. has entered into an agreement to purchase the building, equipment and land. A decision was reached to relocate to Gastonia. Joe Crawford (Company President, CEO) said: "We wish we could have found a way to stay in or near Wayne, but the conditions leave us no choice. There were no timely options for rebuilding or relocating near Wayne. While the company's customers have been very understanding and cooperative, they have clear expectations about when PCFC must begin shipping mattress pads again to have a chance of retaining the business into next season".

The company will offer help with moving expenses if any of the Nebraska workers hired wants to move with the company.

The facility in Gastonia – which is located about 20 miles west of Charlotte – also has some existing mattress pad equipment that meets the company's urgent mattress pad manufacturing needs. Therefore Pacific Coast and the property owner are working on a purchase agreement for the plant, as well as existing mattress pad equipment that is still there. The company will also be buying new state-of-the-art equipment.

Case study 3 – Mewa company

For 15 years, the company has been in the market of injection moulded plastic products. Its offer is addressed mainly to wholesalers of household goods, children's goods, as well as vendors and wholesalers in the gardening, food, and poultry markets.

The company produces a range of products for children, including plastic chairs, tables, and baby baths, as well as household goods: laundry baskets, buckets, stools, bowls, *etc.* A separate

segment of its offer covers products for the poultry industry: poultry containers, drinking bowls, or egg incubation trays, as well as products for the food and agriculture industry, such as open-work bread baskets. On the basis of the workforce size, the company is classed as a medium enterprise, it originally operated from Sandomierz.

The first flood to significantly affect the firm's operations took place in 1997. The water did not damage the machinery but there was a problem with storage buildings being flooded. The management made the decision to suspend production until the flood receded. The employees were delegated to secure the premises (with sandbags), some helped with works in the town. The external internet provides temporarily disabled internet functionality, which made it impossible to continue online sales operations. For several days, orders could only be accepted by phone, the number of outgoing shipments had to be reduced. On the whole, however, the flood did not cause any significant damage.

After the 1997 flood the town improved its embankment system and it seemed that such a disaster would not repeat itself in the future. It did however, in 2001, when heavy rainfall and storms caused another flooding. The elevated water levels continued for 2-3 days, which resulted in the Vistula embankments gradually soaking up and coming apart in places. However, this flood also had a relatively small impact on the firm's operations. Based on their experience from 1997, the company devised suitable procedures to counteract such events in the future and delegated persons responsible for securing the facility.

In 2010, yet another flood reached Sandomierz. The freshet wave on the Vistula was the highest in 160 years. The river breached the embankments, 4,000 residents had to be evacuated. Continued intensive rainfall (1-2 June) resulted in overflowing the protective structures and flooding. This time, the company was severely hit. Its operations stopped, despite considerable preventive measures its premises were flooded and all its buildings, including warehouses, production lines, tool shop and offices were under water. The standing water damaged some of the raw materials and finished products. Some machines were flooded, which did not damage them permanently but made it necessary to conduct overhaul of much of the company's machinery. The total costs suffered due to the 2010 flooding were estimated by the management as "equal to the cost of opening a new production facility". The costs of possible insurance against the risk of flooding were calculated but the amounts were too high to bear. Given the aftermath of the natural disasters to date, coupled with the high likelihood of such events repeating themselves in the future, the management reached the decision to relocate the company. The criteria for selecting a new location for the firm included the price of land and the distance from flood areas. The chosen location remained in the vicinity of the "old" factory but was safely distanced from the river. The relocation is performed gradually in stages. Currently, the production line for one of the product ranges has already been moved; construction works continue on other facilities.

Case study 4 – Pastoral industry

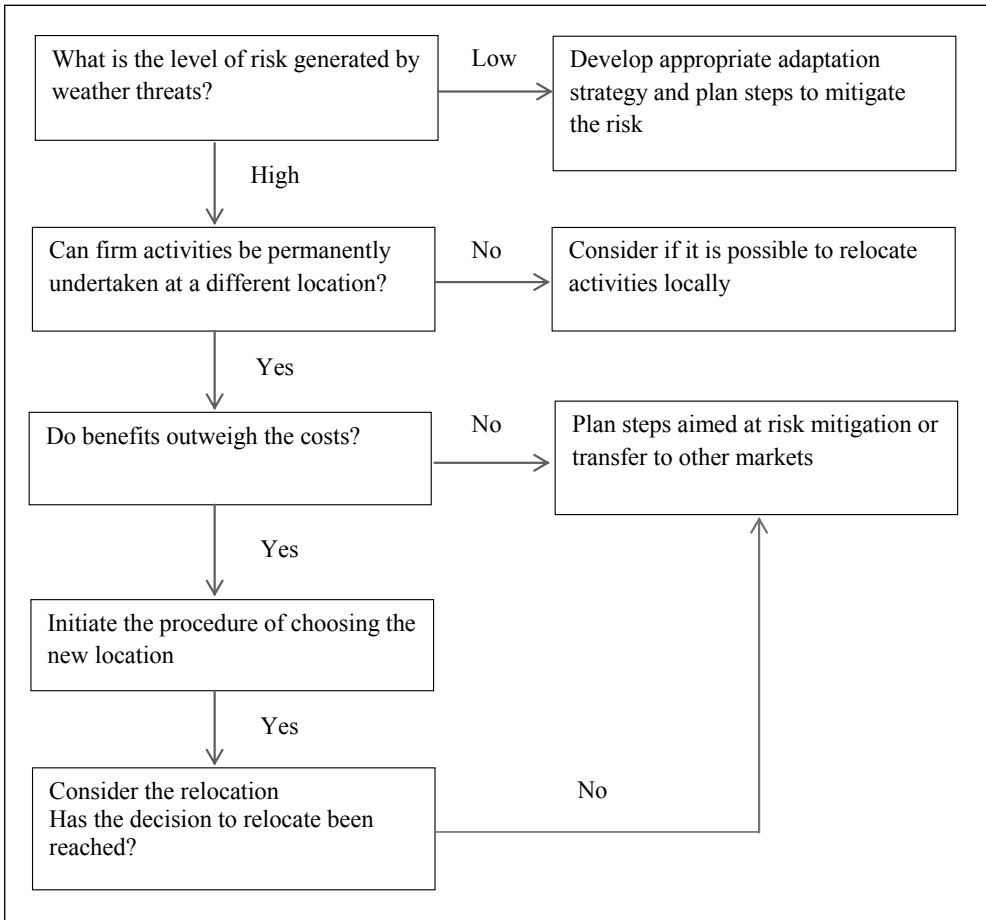
The greatest threat for the pastoral industry in Australia is devastation from drought. Low average rainfall are common phenomena, particularly in areas located far from the copastline. Long-time climate models, which provide simulations for Australia in 2030, 2050 suggest that it can be expected increase in temperature. It is expected that temperature by 2030 will rise by about 1°C, what will put firms in pastoral sector in difficult situation; with a threat of drought, flood and changing grazing conditions. In recent years, as drought has continued to strongly challenge Australian beef producers, companies within the industry have started to debate the chal-

lenges that climate change presents. Stokes (2010) adds climate change to existing challenges in the management of pastoral land holdings, like undesirable grass species, pests, weeds, soil degradation. Prolonged drought might have impacts by limiting herd numbers and by changing economic viability of feedlots. The increasing variability of rainfall has already increased the price of grain and enforced stringent water use conditions in Australia's feedlots. Climate variability presents challenge to maintaining the long-term productivity of pastoral lands. Part of production can be at risk of becoming unviable and it could be important to consider relocation in that cases. But relocation is limited by the availability of suitable pastoral properties. It also requires changes in firm's transportation network. Currently, some of the pastoral companies shift in location to higher rainfall regions currently investigated by several firms. The companies also more commonly outsource cattle breeding to third-party pastoralists.

6. Framework for decision-makers

Based on the presented case-studies and the interviews conducted with the management of the analysed companies, a general procedure for making the decision to relocate a firm due to climate change has been devised (Fig. 1). The first step is the assessment of the firm's vulnerability to climate-related changes. It includes direct impacts from weather patterns and indirect impacts – reliability of infrastructures. In the case of low level of risk estimation managers should consider introducing certain adaptive measures. These can include diminishing the firm's dependence on environment, reconfiguration of firm's assets, changes in supply chain, preparing business-continuity plans for cases of extreme weather conditions. Such steps will improve firm preparedness to climate change. If perceived level of risk is moderate some activities should be implemented. This means upgrading the existing infrastructure, potentially threatened by extreme weather. In the case of level of environmental risks, the question of the viability of retaining the current location may be raised. Managers should consider whether firm activities can be undertaken at a different location. Linnenluecke, Griffiths (2010) list the following as potential alternatives in this respect: moving to different altitudes, relocating activity temporarily, moving exposed infrastructure. Once the decision to relocate is reached, it becomes necessary to assess whether the benefits outweigh the costs. A decision based on analytical data will provide the starting point for all subsequent works aimed at selecting the new location (taking into consideration such factors as the distance from the customer base, integration with other organisational units, availability of workforce, availability of transport routes and media, land quality, local legislation, land cost, eligibility for subsidy) or focusing on minimising vulnerability to weather related risks.

Figure 1. Framework for the assessment of the viability of relocation due to weather threats



Source: own work.

7. Conclusion

Climate change impacts can occur due to gradual changes in mean climate conditions but also due to weather extremes. To date, the topic of firm relocation has only received limited attention in research. Simultaneously, the IPCC report offers discussion of relocation as climate change adaptation strategy. The above article presents the examples of companies which reached the decision to relocate their businesses due to the climate related risks they faced. The same resulted from the occurrence of weather extremes as well as from gradual environmental changes, and involved the relocation of the entire business or its certain part. Based on the relevant analyses, a firm relocation procedure could be proposed, which may constitute the basis for further development and understanding how firms can react to climate change.

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Chapter 5

Managing an International Company. CIT in the European Union and the Proposal of Common Consolidated Corporate Tax Base (CCCTB)

Jowita Gałuszczyńska

1. Introduction

Since the financial crisis started in 2008, multinational companies have been constantly looking for opportunities for additional savings. At the same time, the simplification of their tax compliance obligations has always been an important issue. The European Union wants to meet taxpayers' expectations. In recent years interest has been focused primarily on changes which not only aim to improve the financial situation in Member States, but also to further deepen fiscal integration in the EU. An important element of this integration, which still requires many improvements, is direct tax harmonization.

Despite the clear trend to harmonise tax systems in the world, EU member states still show some reluctance to abandon autonomous control of the amount of income taxes charged. The European Commission takes these concerns into consideration and instead seeks for harmonisation of tax law or tax base, leaving tax rates up to Member States to decide.

The concept of the CCCTB (Common Consolidated Corporate Tax Base – CCCTB) is presented in this paper. By introducing the CCCTB the European Union wants to achieve one of the main goals of the European Union. This goal is to create the most competitive economy in the world, based on a formal framework which encourages investment and business in Europe. The idea of the CCCTB was presented for the first time by the European Commission in 2001, and specified later in a draft of the European Commission Directive published in 2011. Although work on the directive has progressed, the CCCTB is still not sufficiently described in tax literature. For this reason, a presentation of the idea of a common consolidated tax base is extremely important, especially from multinational companies' point of view.

The aim of this study is to present the CCCTB project's history, the basic assumptions of the common tax base idea and the prospects for the enactment of the CCCTB Directive.

The author refers to both the positive aspects of the introduction of a common tax base, as well as concerns about its existence, so the reader could obtain a complete picture of the problem.

2. Direct tax harmonisation in the European Union

There is a strong global tendency to adapt national tax standards to the requirements of various international organisations. Countries are often unwilling to follow this trend, as control over their internal tax systems affects their ability to finance obligatory public projects. What is more, the ability of a state to create its own tax system is a classic example of sovereignty. This is why member states of various international organisations, including even their founding countries, are not willing to give up tax autonomy. On the other hand, despite this reluctance, countries continuously introduce standard international solutions (Małecki, 2008, p. 303).

In practice, the application of international tax standards has a significant impact on the financial management of multinational companies, even in enterprises which carry out only occasional transactions with foreign partners. Changes in international taxation require businesses to constantly adapt their tax planning. It is also important to base this planning on a large number of projects carried out internationally, as well as looking far ahead into the future and taking into consideration all global tax system convergence projects. It is also important to emphasise that under current international taxation rules, international business activity triggers higher administrative costs and higher risks, especially in the light of the complicated and diverse rules and procedures of tax law in different countries.

The desire for implementation of equal standards in different countries is referred to as harmonisation. The term is commonly understood to mean the adjusting of national laws of Member States to the standards established by Community law. In other words, the legislation and administrative provisions of Member States gradually become more alike (Makowicz, 2004). This is also the case for the European Union's taxation. Harmonisation of tax law aims to synchronise laws within the Community, but does not assume the elimination of national tax systems. Instead, it is based on the removal of differences between countries in areas which are relevant to the process of integration. The aim is to reach a compromise in finding an ideal system based on similar taxes, with tax rates and tax bases brought closer to each other (Brzeziński, Głuchowski, Kosikowski, 1998, p. 15). Full harmonisation would be possible only on the basis of a unanimous decision made by European Union countries. For this reason, despite ongoing discussion for years about the total harmonisation of tax systems, it is most likely that even in the very long term the EU will not be able to achieve it (<http://www.archbip.mf.gov.pl/bip/15888.html>).

Although the group of supporters of tax rate harmonisation in the European Union is quite large, the European Commission is against the introduction of a single rate for all EU countries. However, the Commission supports the idea of the progressive unification of tax laws and tax bases, which will ease the functioning of the single market for companies. Tax harmonisation was mentioned for the first time in the Treaty of Rome in 1957 (Głuchowski, 2000, p. 457). The Treaty Establishing the European Community contains regulations concerning the harmonisation of indirect taxes only, these being mainly excise duties and other indirect taxes, only to the extent in which such harmonisation is necessary to enable the functioning of the single internal market (Treaty Establishing the European Community, Art. 93). Direct taxes have not been mentioned, however the Treaty allows their harmonisation. Therefore, the process of tax

harmonisation in the European Union can be divided into two parts: a mandatory part including indirect taxes and an optional part, including direct taxes (Wach, 2005, p. 29).

Direct taxes do not have a large impact on transactions between companies from different European Union countries, nevertheless they could be a barrier for equal conditions for economic activities carried out within the European Community. In 1997 the EU adopted a Code of Conduct for business taxation. Despite this, the power to regulate rates of income tax still lies in the hands of individual Member States as the provisions of the Code are not binding, but are only a recommendation (<http://www.archbip.mf.gov.pl/bip/15888.html>).

As mentioned before, Member States are not willing to harmonise income tax in the European Union. Despite this, the EU's strategic goal is to become the most competitive and dynamic knowledge-based economy in the world. To achieve this it is necessary to establish a general framework for economic activity in the EU which will guarantee uncomplicated functioning of domestic enterprises and will also attract those from outside the Community. Rules concerning income taxes are a significant part of this framework and they are considered by many enterprises to be one of the most important factors for making business decisions.

3. Common Consolidated Corporate Tax Base

To meet the expectation of a boundaries-free European market, on 23rd October 2001 the European Commission presented a document entitled "Towards an Internal Market without tax obstacles – A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities". In this document the Commission proposed the establishment of a consolidated tax base for corporate income tax payers operating within the EU internal market. Initially, the CCCTB concept concerned only European Companies¹, but after accusations that it would constitute unlawful State aid, this idea was abandoned and extended to all businesses with cross-border operations in the EU (Supera-Markowska, 2011, p. 25). The first document on the CCCTB was an unofficial European Commission publication released in 2004 entitled "A Common Consolidated EU Corporate Tax Base". After the document was approved by the ECOFIN in November 2004, a Working Group of experts from member countries was established and the European Commission began work on the CCCTB. This Working Group continued its activities until 2008, and continued after a two-year break in 2010 (Supera-Markowska, 2011, p. 26).

It should be noted that to some extent the provisions relating to direct taxes are already subject to harmonisation. This applies, for example, to the taxation of capital income. The general principles and provisions of European Union primary law also affect provisions relating to direct taxes. Harmonisation of the law in this respect exists, however indirectly, in order to prevent differentiation of regulations which might restrict the fundamental principles of the common market, *i.e.* the free movement of income (dividends, interest, royalties) and capital between EU countries (Bartosiewicz, 2009, pp. 82-83).

¹ The European Company is also known as *Societas Europaea* or SE. It is a type of public limited-liability company regulated under EU law. Its aim is to ease running of businesses which are active in more than one EU country, especially in the areas of reorganisation, mobility and international employees. Since its introduction in 2004, the European Company statute has been adopted by more than 1800 businesses that run their activities in more than one EU country.

The Commission, by introduction of the CCCTB in Member States avoids equal tax rates on corporate income and at the same time retains the ability to affect the amount of taxes paid by companies. The harmonisation of the tax base improves to some extent the competitiveness of member states as it reduces the attractiveness of those tax systems which offer preferential taxation (The KPMG Guide to CCCTB, 2011).

The concept of the CCCTB assumes that the entities of one group would estimate their corporate tax bases separately but in accordance with the common rules. These single values would later be consolidated, which in the end would result in a unified tax base. This would be the total income earned by the consolidated group. Subsequently, based on the chosen method of division, each company's share in the consolidated tax base would be calculated. This calculated share would be subject to the appropriate domestic income tax rate of each individual company. This concept is therefore limited to the harmonisation of the rules for tax base determination and does not assume the harmonisation of tax rates. This will remain under the control of Member States. This solution will bring important changes as it was never a problem to collect tax liability, instead the biggest problem has always been how to allocate taxable income between different countries.

A tax base calculated in this way would not include intragroup transactions as they would remain neutral from an income tax perspective. The tax base would be determined only by the transactions carried out with external business partners. This would save a lot of work related to compliance obligations resulting from transfer pricing regulations for transactions within the group. It would also prevent taxation of money transfers between associated entities. Additionally, the loss of some entities in the group would be offset by the profits of others (Supera-Markowska, 2011, p. 32).

4. Analysis of the European Commission's proposal for a CCCTB Directive

On 16 March 2011 the European Commission published a draft of the Directive under which the CCCTB will be introduced. In addition to the improvement of national tax systems and further integration of the EU market, the Directive aims to reduce multinational companies' costs of accounting, as well as to eliminate the problem of double taxation. A common tax base is also supposed to help to eliminate unfavourable tax solutions for multinational companies, amongst others, by allowing them to offset profits made in one country against losses in other countries (The KPMG Guide to CCCTB, 2011).

The establishment of a common system for calculating the tax base could be a way to achieve the main objectives of the EU in the area of competitiveness of the Community market. It is also a first step towards harmonisation of direct taxes.

Today's international taxation rules assign the total income of a company to the country in which it is effectively managed. This is generally where the main headquarters are located, and in that country the income is taxed. Currently, factors such as sales, assets and employees are not taken into account when determining the taxable country. Introduction of a consolidated tax base would allow the assignment of individual total income/loss items to the country in which they have arisen. This would result in a proportional allocation of income between the countries. As a consequence, companies located in countries with low rates of income tax would pay higher taxes, but on the other hand, companies from countries with relatively high tax rates would benefit from the optimisation of the tax burden (Kudła, 2013, p. 323).

There are two main assumptions about the goals which the CCCTB aims to achieve. A consolidated and common tax base is supposed to counteract the negative effects of harmful tax competition between member states. On the other hand, it should help to decrease tax evasion and tax avoidance by businesses in the EU. Another issue is the possible negative effects of changes introduced by the CCCTB Directive, especially in terms of tax avoidance. An integrated tax base can theoretically lead to an increase in tax evasion in countries which currently have a relatively high level of honesty and integrity (Cremer, Gahvari, 2000) especially if companies have the ability to allocate their income to countries outside of the European Union (Committee of the Regions, 2012).

In order to estimate the amount of tax base applicable to a particular country an apportionment formula will be used. This formula will be based on three factors: labour, sales and assets. For labour, two factors will be taken in to account: the payroll costs and the number of employees. Sales should show the actual country of dispatch or the place where a service was rendered. Assets will cover mostly tangible assets, e.g. buildings and machines but also partially intangible assets such as research costs and development or marketing. The aim of the formula is to prevent the shifting of income to other countries and to ensure that the amount of tax paid is closely related to the activities performed in the country. The unresolved problem is how to assign the importance of individual factors taken into account when applying the apportionment formula (The KPMG Guide to CCCTB, 2011).

Analysis of the CCCTB reveals its many defects. From a business point of view, the CCCTB obligation could increase documentation responsibilities. Consolidation of the tax base will not eliminate tax competition between countries, it will only lead to a change in the nature of this competition. The optimisation will not only cause profits to be shifted to low tax rate jurisdictions, but will instead cause the entire operation to be relocated to more attractive countries, because more favourable tax laws will always attract tax payers. Moreover, there is also a risk that businesses which currently operate only in one country will artificially go international in order to lower their tax costs. However, in terms of tax savings, the most important changes for the business are the possibility of the full consolidation of losses² and the optional implementation of the CCCTB rule. In practice it means that companies which do not find the CCCTB concept favourable will not be forced to apply it (Kudła, 2013, p. 323).

5. Conclusion

The European Commission's proposal for a Common Consolidated Corporate Tax Base is often said to be one of the most fundamental changes in corporate taxation within the EU. It is indeed an ambitious project as companies are offered the chance to use a standard solution to calculate a single corporate tax base covering their EU businesses. The potential savings on administrative obligations once cross-border consolidation of profit and losses are fulfilled are considered to be main advantages of the new solution. By simplification of the tax procedure, the CCCTB might also encourage companies to expand internationally. Nevertheless, there are still doubts remaining with regards to the CCCTB Directive, these being the risk of shifting business activities to countries with low tax rates and the voluntary implementation of the solution.

² Currently decreasing the income by the losses from other countries is usually limited or prohibited.

Unfortunately, proposals like this one are subject to time-consuming and rigorous testing, which delay their implementation. One positive aspect of such a long process is that the proposals under consideration are properly consulted upon in order to deliver the expected objectives. Work on this project has already taken more than twelve years.

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Chapter 6

Types of Foreign Economic Entities and Mechanisms of their Financial Support

Oleksiy Druhov, Maksim Hlushchenko

1. Introduction

Foreign economic activity of economic entities requires diversification and differentiation of forms of its financial support. Domestic and foreign scholars paid a lot of attention to the development of foreign economic activity, but the critical analysis of scientific literature has shown that problems of the financial support mechanisms formation for economic entities were paid little attention. First of all, on the theoretical level the problem is that there is no adequate classification of foreign economic entities in terms of their financial needs and there is no clear identification of the essential features of mechanisms of their financial support. Building up classification of foreign economic entities and identifying essential features of mechanisms of their financial support is the starting point for the improvement of the existing and creation of new theoretical and methodological provisions to find opportunities to satisfy the financial needs of foreign economic entities.

2. Building up classification of foreign economic entities

Considering behavioral and process scientific and methodical approach O. Grebelnyk classifies entities of foreign economic activity by levels:

- microlevel (level of individuals and legal entities) – businesses, organizations, exporting or importing goods, items, services;
- the mesolevel (the level of national, sectoral and regional associations) – ministries and agencies directly involved in the regulation of foreign economic relations (Ministry of Economy of Ukraine, the National Bank of Ukraine, Antimonopoly Committee of Ukraine, the Interdepartmental Commission on International Trade, Trade and Industry Chamber of Ukraine, *etc.*);
- macrolevel (state level) – the government and the parliament;
- metalevel (level of establishing foreign economic priorities in the process of international regional integration). This is especially true of collaboration of government bodies at the stage of setting up and development of integration associations;

- megalevel (level of international associations and organizations). This is particularly the General Agreement on Trade and Tariffs (GATT), the World Trade Organization (WTO), the International Chamber of Commerce, United Nations Conference on Trade and Development (UNCTAD), the Customs Cooperation Council, and others.

By their capacity foreign economic entities are divided into natural and legal persons. Entrepreneurs, employees, tourists, ie those who are directly involved in carrying out this type of activity belong to natural persons. Legal persons include companies of different legal forms, corporations, associations, *etc.* (Georgiadi, 2009; Hrebelyk, 2004).

By the way of appropriating the results of the activity foreign economic entities can be grouped as follows: the state, but not only state regulators, but also inter-state and international organizations; owners, that is, direct founders of businesses and employees working under contracts of foreign economic activity (Georgiadi, 2009; Hrebelyk, 2004).

Significant contribution to the classification of foreign economic entities was made by V. Kozyk, L. Pankova, Ya. Karpjas O. Hryhorjev and A. Bosak, L. Strovskyy who specified the entities of foreign economic operations considering commercial transactions they perform (Zaruba, 2009): entities that carry out foreign trade transactions (import-export, re-export and re-import, countertrade transactions, barter transactions, transactions that involve the seller to sell goods, offered by purchaser, purchase of obsolete products, supplies for replenishing, counter-trade transactions within the industrial cooperation, organizational forms of foreign trade operations); entities that do lease transaction; entities that perform operations of international trade in scientific and technical knowledge and experience; entities that trade engineering and technical services; entities that perform consulting operations; entities that perform operations on maintenance and provision of spare parts for machines and technical equipment.

The summary of the critical review of the literature and our own theoretical study made it possible to develop the classification of foreign economic entities (Tab. 1).

Table 1. Classification of foreign economic entities

Classification features	Types of entities
By levels	Foreign economic entities of micro level; Foreign economic entities of mezolevel; Foreign economic entities of macrolevel; Foreign economic entities of meta level; Foreign economic entities of mega level
By capacity	Foreign economic entities that are natural persons; Foreign economic entities that are legal persons
By way of appropriating the results of foreign economic activity	The state, as state regulating bodies, and also as a member of inter-state and international organizations; owners, that is, direct founders of businesses and employees working under contracts of foreign economic activity

By performed commercial transactions	Foreign economic entities that carry out foreign trade transactions; foreign economic entities that do lease transaction; foreign economic entities, entities that perform operations of international trade in scientific and technical knowledge and experience; entities that trade engineering and technical services; entities that perform consulting operations; entities that perform operations on maintenance and provision of spare parts for machines and technical equipment
By organizational forms of trade and brokerage	Foreign economic entities that are commercial enterprises; foreign economic entities that are commission enterprises; foreign economic entities that are agent enterprises; foreign economic entities that are brokerage companies
On the basis of affiliation capital and its control	Foreign economic entities, whose formation and control over capital takes place in Ukraine; foreign economic entities, whose formation and control over capital takes place outside Ukraine; foreign economic entities, whose formation and control over capital takes place on a mixed basis
On the basis of roles performed in foreign economic activity	Foreign economic entities that act as controllers and regulators of foreign economic activity; foreign economic entities that act as a court in the field of foreign economic activity; entities that act as entrepreneurs
By the content of the financial interests	Foreign economic entities that act as investors or recipients; foreign economic entities that act as lenders or borrowers; foreign economic entities that act as sellers or buyers
By the nature of the financial needs	Foreign economic entities that are in need of financial resources; foreign economic entities that are in need of guarantees of financial institutions for implementing certain foreign transactions

Source: own work.

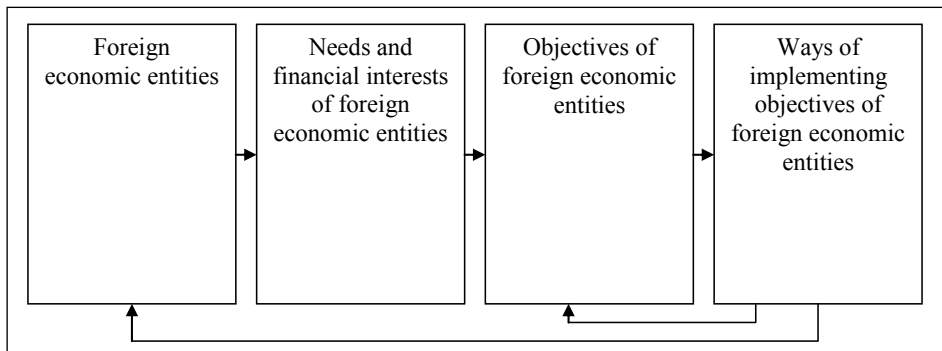
3. Building a financial support mechanism for a foreign economic entity

Mechanism of financial support for a foreign economic entity belongs to abstract objects. In terms of physical-and-mechanical approach it is an intangible object that can not be identified in time and space. Formation of such a mechanism is due to its idealization and generalization. The American philosopher Ch.Pirs back in the nineteenth century proved that it is easier to reveal the essence of abstract objects intuitively using specified examples than rationally by means of dialectics (Peirce, 1982-2010). Nevertheless, it should be admitted that intuitive approach is acceptable for studying new, previously unknown phenomena at the early stages of their research. In addition, the use of intuition for the analysis of abstract objects is not advisable, if these objects are created by specific individuals or groups of individuals to achieve individual, collective or public purpose. Although mechanisms of financial support of foreign economic entities are abstract objects that are not devoid of subjectivity their formation is a result of the objective needs of foreign economic entities that are caused by the influence of objective economic laws.

Considering the above mentioned it is necessary to identify the nature of the financial support mechanism for foreign economic entity in terms of its purpose, components and order of their interaction. Based on the method of content analysis as a tool of abstraction, we can state that the studied financial support mechanism is different from other similar mechanisms because it is formed solely for foreign economic entities. Foreign economic entities are one of the elements of this mechanism that characterizes its specificity, scope, and defines the selection and conditions of using financial support tools. As foreign economic entities are one of the key features of the object in question, we will consider their role in the mechanism of financial support. In the previous paragraph it was mentioned that foreign economic entities are in need of financial resources as well as in guarantees of financial institutions for implementing certain foreign economic transactions. With this in mind, foreign economic entities can act as those who need finance or those who satisfy these needs. Their interaction is based on certain financial interests, which arise, the method of their implementation depends on the legal environment, market conditions, the place of a particular economic entity in the market.

Foreign economic entities often take different roles during the execution of business operations. Under some market conditions they can be donors of investment resources, under different conditions – recipients. In addition, the economic entities that deeply diversify cash flows and business partners often simultaneously play the role of both investors and recipients. With this in mind, we conclude that creation of specific ways of financial support for a foreign economic entity takes place under the influence of the objectives of foreign economic entities, which are formed on the basis of their financial needs and interests (Fig. 1).

Figure 1. Interrelations between the constituent elements of the basic mechanism of foreign economic entities financial support



Source: built by the authors of the article.

Among the ways to achieve the objectives of foreign economic entities bank guarantees (an additional tool to ensure the financial interests of the parties in contractual relationship) occupy a special place. Bank guarantees are monetary liabilities of the bank to the beneficiary to pay him money in case of the principal default and factoring operations (the process of assigning the factoring company (bank) the outstanding debt claims (invoices and bills) that arise between the contracting parties during the sale of goods and services under terms of commercial credit, combined with the elements of accounting, information, marketing, insurance, legal and other

services (Kozyk et al., p. 270) and forfeiting operations (method of providing medium-term financing of export transactions that involves sale of debt claims under foreign trade contracts to some lending institutions (forfeiter) while providing sufficient security (Kozyk et al., p. 274)), the use of these operations significantly expands the diversity of mechanisms of financial support for foreign economic entities.

Figure 1 presents the basic mechanism of financial support for foreign economic entities. It is called basic, because the components are identified only in general terms without specifying the list of foreign economic entities, their financial needs and interests, objectives and methods of their implementation.

Building up of the concrete mechanisms of financial support for foreign economic entities should be done in terms of foreign operations they perform (foreign trade, rent, international trade in scientific and technical knowledge and experience; trade in engineering and technical services; consulting operations; operations on maintenance and provision of spare parts for machines and technical equipment), taking into account the specific conditions of foreign trade contracts of specific foreign economic entities and their role in these contracts (exporter or importer).

4. Conclusion

Building up classification of foreign economic entities and identifying features of the mechanisms to meet their financial needs is done to improve the existing and create new theoretical and methodological provisions on searching opportunities to satisfy the financial needs of foreign economic entities.

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Chapter 7

Current Issues in Kazakhstan Domestic Trade Development within the Customs Union

Assemgul Rakhimbayeva

1. Introduction

The increasing role of barter processes and their complexity in the new socio-economic conditions of social development causes a significant increase in the role of efficiency in the management of economic and social processes.

Efficiency of the economy is formed by all the phases of the system of social reproduction. Significant role in solving this problem is due to the exchange phase and its specific form – domestic trade.

Development of domestic trade in a competitive environment requires its subjects focus on full satisfaction of market needs, such improvement of commodity-money relations, which will be accompanied by an increase in quality of life.

Domestic trade is the process when goods are exchanged only within the country. Such trade is divided into two categories, wholesale and retail. Wholesale trade refers to the purchase of goods from manufacturers or dealers in a large quantity and selling in a small quantity to those who can buy at retail¹. Retail trade involves selling goods in small quantities to consumers. This type of trade cares retailers. In practice, however, manufacturers and wholesalers may also sell by retail passing over intermediary goods retailers, through which they receive higher profits.

The importance of domestic trade in the country is that it facilitates the exchange of goods within the country. By doing this, it also ensures that the inputs reach the right places so the country's economy could grow. Providing various types of goods and services for delivery to all parts of the country improves the living standards of people, as well as the level of employment in the country. In addition, it promotes the growth of the industry by ensuring the availability of raw materials.

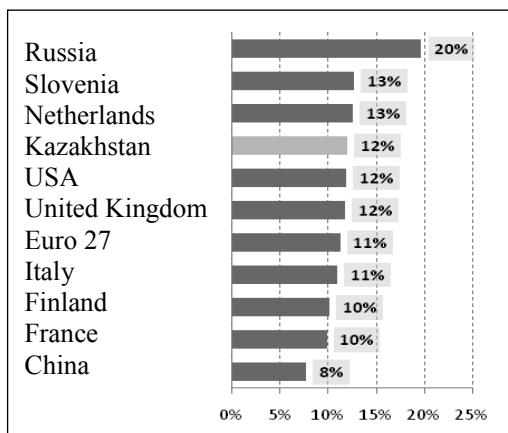
2. Research reasoning

Figures and tables should be placed as close as possible to where they are cited. Figures and tables should be numbered separately and consecutively.

¹ Strategic Development Plan of the Republic of Kazakhstan by 2020.

Expected trading industry modernization in Kazakhstan is aimed to bring it into line with modern international standards of trade and promote the efficient movement of goods process with minimal transaction costs. The measures will ensure efficient distribution to both manufacturers (wide geographical coverage, high bandwidth, low unit cost of the system), and for consumers as effective satisfaction of the needs of the population (accessibility of goods, the affordability of goods, high quality goods and services) (Fig. 1)².

Figure 1. Trade share of GDP



Source: US Census Bureau.

In classical market economic system commercial activities perform brokering (distribution) function between production and consumption of goods and services. Therefore, in today's market the development of trade depends on the development of supply and demand, the growth of domestic production and increase of the purchasing power of the population³.

The share of trade in GDP. Trade sector is recognized in many countries, performing an important economic and social role.

The average contribution of world trade in GDP is about 10%, and in total employment – up to 13% (data from Eurostat, US Census). In Russia, the share of trade takes up to 20% of GDP in Slovenia – 13%, the Netherlands – 13% in the U.S. about 12%, China – 8%.

In Kazakhstan, the trade in GDP between 1998 and 2013 ranked third, accounting 12-13% of GDP.

The share of trade in employment. In trade employs 14.8% of the total employed population. In this case, the employed population in Kazakhstan trade tends to increase by an average of 33 thousand people annually. So, if in 2005 the number of employed in the trade amounted to 1,038,500 people, in 2013 – 1.1 million. That does not indicate an increase in labour productivity in this sector, as the share of trade in GDP remained unchanged.

It should be noted that the rate of employment in the trade for more than 10% of the total population employed in the economy is in the U.S. (15%), the UK (15%), France (13%), Slovakia (19%), the Netherlands (17%), Poland (15%) and Russia (17%).

² Strategic Development Plan of the Republic of Kazakhstan by 2020.

³ Ibidem.

In the structure of tax revenues over the past years, major portion belongs to mining industry, whose share in 2013 was about 58.6%.

The second and third place are firmly manufacturing and real estate transactions. Between 2008 and 2012 in the structure of tax payments trade occupied the 4th place in terms of fees, but in 2012 its share was almost equal to share of construction (5.9%), transport and communications (5.4%) and amounted 5.3%.

It should be noted that, given the proportion of the employed population in trade (14.8%), its share of tax revenues in the amount of 5.3% does not correspond to the industry and reflects the problems of administration, the presence of the informal sector, a large proportion involved through a simplified tax regime, its relatively low yield (*Program for the development of trade in the Republic of Kazakhstan for 2010-2014*).

The total turnover of the global retail is about 14.5 trillion. U.S. dollars, about 30% of which is the share of Western Europe, 25% are in the U.S., 2% – for Russia. According to the Statistics Agency, retail trade turnover of Kazakhstan in 2012 amounted to \$17.3 billion, or about 2.5 trillion tenge, which is 0.12% of global retail sales.

Substantial positive contribution to the development of world trade is made by countries with significant untapped potential – China, India, Brazil, and Russia. Most of these countries have comprehensive state program for the development of internal trade.

Retail development is determined by several factors, among which the most significant are:

- welfare of the population (the average wage in tenge in Kazakhstan in 2013 compared to 2005 increased by 62% (in real terms);
- population;
- population density – the most populated regions of the country in 2013 were Almaty, South Kazakhstan region, Karaganda region, the East Kazakhstan region;
- access to financial resources;

Development of basic infrastructure and infrastructure services (for the period from 2009 to 2012 the volume of retail trade turnover of Kazakhstan increased by 31.5%).

In accordance with the legislation of the Republic of Kazakhstan to the retail trade relates the business activity of selling goods to consumers for their personal use. Retailing realizes through shops, department stores, markets and machines, kiosks, mobile shops, tents, remote counters. Retail stores vary in size, range, quality of service, technical equipment. They can be classified by size of retail space, as the most common marketing classification of retail stores is the division into “A”, “B”, “C”.

Shops “A” – it’s all stores with sales area of over 100 square meters (thereafter – sq. m). These stores have a wide range, high-bandwidth stream of customers, the technical capabilities of cashless payments, high level of service, low unit cost of shipping and storage, higher labor productivity. Because of these benefits retail chains prefer to work in the shops of these formats. Business literature and the media using the term “Modern Formats” mainly mean “A” category stores.

Shops category “B” – are stores with a sales area of 50 to 100 sq. m. Retail chains are reluctant in this category of outlets because such points often has higher operating costs as shipping and storage, and the costs of an administrative nature.

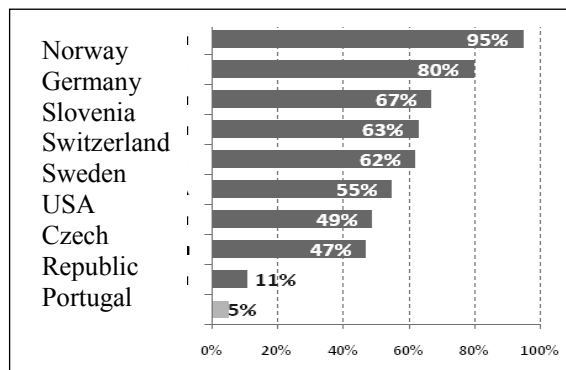
Shops category “C” – are stores with a sales area of not more than 50 sq. m. This category is most common in Kazakhstan. Such stores differ in their extreme ruggedness requirements for management and accounting. Most often, a separate part of turnover of these stores are not fixed, the lack of conditions for proper food storage may occur. These shops have high cost of shipping and storage products, high purchase prices, limited range, and low-quality service. Organization

of the trading network of the stores of this category is difficult, because bandwidth, both customers and products is very limited, and specific operational and administrative costs are significantly higher than in the larger stores. All this is generally superimposed on the retail price levels, which are usually higher than in the larger format stores.

Decline in the share of sales through the “Markets” is related to the improvement of the economic situation in the country and living standards. In 1999, according to data of the Statistics Agency, the share of trade in the markets and individual entrepreneurs was 77%, by 2012 it had dropped to 40%, while increasing the share of “Trading Enterprises” from 23% to 60% or more than 2.6 times (*Resolution of the Government...*, 2005).

An important quality indicator of retail development is the consolidation of the market, by which is meant turnover/sales by trading companies represented not by one but several retail outlets – a chain of stores or retail chain (Fig. 2).

Figure 2. The level of consolidation of food retailers



Source: JSC “Center for Trade Policy”.

Consolidating food market is not more than 5% in Kazakhstan. In Russia, according to the Association of Retail Companies consolidation of local retail market reaches 11% of the total turnover.

One of the main reasons for this significant difference is that in Kazakhstan, unlike Russia, security trading formats category “A” is much lower and trading networks, such as the sale of food products, mainly work in formats “A”.

Among the reasons for the lack of consolidation of the market in Kazakhstan low population size and density in Kazakhstan are highlighted, which gives business scale observed in Russia. This is also the reason that Western and Russian retail chains are very carefully consider the possibility of entering the market of Kazakhstan (*Kazakhstan Today*, 26.04.2005).

Thus, the prevalence of trade in the markets, which accounted for 51% of turnover and 67% of retail space in the commercial sector in Kazakhstan is not conducive to the civilized development of trade.

There is no proper level of consumer protection in the markets, it is difficult to ensure sanitary and epidemiological requirements and tax collection. Furthermore, it is impossible to analyze market size, structure, dynamics trade flows respectively.

In countries with developed trade, markets are an archaic form of retail and virtually eliminated, or operate in specialized areas (*e.g.* folk crafts).

As noted earlier, so-called “non-modern formats” – shops category “B”, “C” and “Kiosks” prevail in Kazakhstan and accounted for 67% of all area stores. These categories describe the limited size of the areas, low bandwidth, high unit costs that can not be the basis for the consolidation of trading activity.

There are details of the advantages and disadvantages of different categories of shops, as well as markets in the Table 1.

Table 1. Advantages and disadvantages of the various channels and retail formats

The criteria of effectiveness of the formats and retail channels	Markets	shops category “B”, “C” and “Kiosks”	Separate store category “A”	trading networks
INTERESTS OF THE STATE				
Consumer protection	virtually absent	Low	Average	High
The ability to monitor and statistics	virtually absent	Low	Average	High
Protection and promotion of domestic producers	virtually absent	virtually absent	Low	High
Tax collection	Low	Low	Low	High
Compliance with sanitary standards and requirements	Low	Low	Average	High
INTERNAL PROCESSES				
Opportunity to get discounts and trade credit from suppliers	virtually absent	virtually absent	Low	High
The use of modern planning systems	virtually absent	virtually absent	Low	High
Quality of human resources in management	Low	Low	Average	High
Specific costs for management and staff	High	High	Average	Low
The cost of third-party services (transport companies, consulting.)	High	High	Average	Low
Use efficiency of logistics infrastructure (transport, storage, refrigerators, loaders)	Low	Low	Average	High
Unit costs of logistics	High	High	Average	Low
Ability to work with manufacturers directly	Low	Low	Average	High
CUSTOMER SERVICE				
Offered prices	Средние	High	Average	Average
Assortment breadth	Low	Low	High	High
The effectiveness of advertising campaigns	Absent	Absent	Low	High
Effective discount and other loyalty programs	Absent	Absent	Low	High

Source: program for the development of trade in the Republic of Kazakhstan for 2010-2014.

Factors listed in the table allow retail chains to operate with low levels of trade margins. For example, retail chains in Western Europe, such as METRO, REAL, Auchan, Carrefour operated at an average trading in the chain “Manufacturer – Trading Network” 3-4 %, due to operating efficiency and economies of scale of their activities.

Obviously, small shops, markets and even individual stores category “A” are uncompetitive compared with retailers and operate in the country just because of poor infrastructural development and insufficient level of investment in retail trade.

Thus, the review of retail space retailers in the regional context of various formats and comparative analysis of their effectiveness give the evidence of the benefits of modern retail formats and retail chains. Developed countries went along this route, and Kazakhstan should not be an exception (*Decree of the President...*, 2010).

With regard to the regulation of internal trade, the trade is a low degree of state intervention in the process of interaction between producers and trade organizations that specifically expressed in the absence of regulation of wholesale and distribution companies, the absence of price controls on most commodities.

Basic legislation in the sphere of commercial activity is the Law of the Republic of Kazakhstan “On the regulation of commercial activities”, which establishes principles and organizational framework for its regulation. Also currently trade is regulated by 27 legislative acts (including five codes) and 105 regulations governing internal trade issues (77 governmental regulations, 28 orders of ministries). Normative legal regulation of trade as follows by its kind: for the auction trade – 20, commission – 16, trade orders – 16, cross-border trade – 17, visiting trade – 17, exhibition trade – 14, electronic commerce – 16, stock – 18 regulations.

Analysis of the Law of the Republic of Kazakhstan dated 12 April 2004 “On the regulation of commercial activities” conducted by entrepreneurs showed that it has a set of reference rules of law relating to: the rules of internal trade; state regulation of prices; requirements for wholesale trade; order retail trade outside locations; state monopoly on certain types of goods; individual requirements for entities trading activities; dispute resolution; determining responsibility for violation of the law⁴.

In addition, currently state regulation of trade is particular important in matters of pricing for socially important food products and ensure the quality and safety of products. The need for government regulation arises because it is the state guarantees the protection of trade competition, takes on the lives and health of citizens, purchasing goods, provision of other legitimate interests of society.

The current law is mainly aimed at regulating commercial activity and insufficiently stimulates the development of the industry. In addition, legislation on domestic trade, does not reflect the features of the regulation of all types of domestic trade, the modern terminology, does not contain uniform and unambiguous requirements for the organization of activities both retail and wholesale businesses. For example, there is no clear definition of modern retail formats, online trading, e-commerce.

There are no requirements for the organization of shopping trade, and retail space standards. As a result, the implementation of state plans placement of retail trade is uneven, no equal conditions in territorial availability of goods and services (*Strategic Development Plan...*).

⁴ The State Program on Forced Industrial-Innovative Development of Kazakhstan for 2010-2014.

Incentives for the organization and development of training and retraining of the specialists in the sphere of trade have not been established at the legislative level. Most of the subjects of trade mark low level of training and motivation of the staff for sales organizations, at the same time the deficit and the lack of qualification of the staff noted at all levels. Today as a rule, only large retail chains do systematic trainings.

Analysis of strengths, weaknesses, opportunities and threats for the industry.

Table 2. SWOT – analysis of internal trade

Strengths	Weaknesses
<ul style="list-style-type: none"> – availability of the legislative and institutional framework for the development of domestic trade; – understanding of the need to develop a strategy for development of internal trade; – positive changes in consumer behavior of Kazakh people; – an adequate level of tariff protection of domestic producers; – presence of strong Kazakhstan players in the retail market 	<ul style="list-style-type: none"> – “blurriness” of the legislation on trade, and the lack of modern terminology in regulations; – administrative barriers; – high cost of construction and operation of engineering and technical infrastructure; – the lack of space for new stores or for expanding existing ones; – the limited range of domestic companies, its weak competitiveness compared to imported goods; – the absence in major cities logistic centers, as well as a logistical problem in the countryside; – shortage of working capital and high leverage trading enterprises and networks; – a weak system of vocational education, including on trade specialties
Capabilities	Threatening
<ul style="list-style-type: none"> – development of the processing industry of Kazakhstan; – growth of domestic production; – implementation of the state policy to reduce administrative barriers; – the development of a network of transport and logistics centers; – increased competition, competitiveness of trade networks; – formation of the middle class, increasing the share of the solvent population 	<ul style="list-style-type: none"> – bankruptcy of kazakh commercial enterprises and networks; – displacement and absorption of domestic players by foreign retail chains; – displacement of small businesses by modern trade formats

Source: program for the development of trade in the Republic of Kazakhstan for 2010-2014.

Among a number of problems associated with state regulation highlighted the most complex once that are encountered over the years, and today, seriously impeding the development of the trade sector.

First, it is a question of “blurriness” of legislation in the sphere of trade, that is, the presence of regulatory issues in various trade regulations.

Secondly, it is the absence of modern terminology and the classification of modern retail formats (supermarkets, hypermarkets, discounters, convenience stores class “A”, “B”, “C”) and catering establishments in the normative legal acts. Lack of approved terminology implies, respectively, the low quality of statistical information, which complicates the process of improving trade legislation (*Strategic Development Plan...*).

Today the lack of retail space, related to the format of “A” is a serious infrastructure problem in Kazakhstan. This problem is primarily concerned to large cities. So, for example, if in cities such as Petropavlovsk and Taldykorgan the availability of “A” category areas is, respectively, 272 and 223 sq. m, while in the country’s largest megacity Almaty, the figure is equal to 84 sq. m, which is even lower than the country’s average level – 91 sq. m.

The problem is compounded by the fact that on the background of deficit areas, the cost of renting and buying even in a stagnant real estate market is still quite high. Thus, the lack of space and high rental rates will inevitably lead to higher costs for the organization of the retail business and, ultimately, inflated prices for goods in these stores. The high cost of construction and operation of technical communications. Often it costs reach 50% of total expenditure for the construction of retail. All this again affects the efficiency and competitiveness of domestic retailers.

Logistical problem in the band of “Countryside – city”. Production in rural areas and small towns at small businesses, farms is complicated by the fact that as a result of lack of good and inexpensive channels of transportation of finished goods small regional producers remain out of reach of urban networks. Serious problem of rural and remote producers is also a failure to ensure their product with quality packaging that is necessary at the entrance to the shopping network.

Absence in major cities logistic centres (LC). LC can act as wholesale distribution centres (wholesale sites), as a major link between manufacturers and retail chains⁵.

In general, it should be noted that the lack of space and high rents, high cost of logistics and storage predetermine the overall inefficiency and lack of competitiveness of the entire trading system. Infrastructure issues (areas, engineering, logistics and warehousing) are currently the least explored part of the trade industry, although it has considerable room for improvement of efficiency of the entire trading system.

Financial issues. The most urgent financial problems of trading business include:

- first, it is a high level of debt trading companies and networks. So, the debt burden of trade, calculated as the ratio of debt to GDP of production by the industry amounted to 128%;
- secondly, it is shortage of working capital. The impact crisis on business trading was strongly felt due to the reduction in bank lending, as well as due to changes in consumer demand.

Lack of qualified specialists. Staffing problems of the trade sector are common to most non-financial and non-extractive industries. Briefly, they can be described as follows:

- the training of commercial specialists in the system of vocational education is not fully provided;
- small share of trade disciplines in higher education, their unpopularity for both universities and students;

⁵ Address to the nation of the President of Kazakhstan Strategy “Kazakhstan-2050”.

- the system of short-term education (trainings, seminars, workshops) is fully operated only in Almaty;
- the cost of private training centres is not available to small businesses;
- the cost of private recruitment agencies is not available for small and medium businesses, while others channels of staff search (employment agencies, specialized newspapers and web-sites) are not very efficient and professional;
- only major retailers can afford HR- grade service;
- the shortage of top management in the commercial sector.

International regulatory experience

International experience of state regulation of trade in the initial stage used strict regulation aimed at preventing displacement of small and medium enterprises by large retailers capture the retail market by foreign leaders of retail business, the decline in employment in the retail sector at distributing of more efficient large formats of retailers. These measures were accompanied by severe requirements right up to complications to get the permission to open a large format retail facility, establish work schedule⁶.

However, as the economy develops the new trade objectives, such as reduction of excessive prices, improving quality standards, development of logistics infrastructure, improving the efficiency of retailers are formed. In this regard, government simplifies the regulations, as in developed countries (France, the Netherlands, Great Britain, and Japan) as well as in developing countries. These acts have contributed to the development of large retail formats, which resulted the increase of productivity, efficiency and competitiveness of the industry, allows achieving maximum productivity.

There is no specific model of regulation of wholesale and retail trade in international practice, as it depends on the needs of each country. For example, France, USA and Poland were actively involved in developing large format trade, while countries such as Japan, by contrast sought to limit the opportunities for the development of large formats, supporting the development of small shops. However, there are a number of generic tools that achieve certain goals.

Restricting the development of large format stores. These arrangements are implemented by establishing mandatory agreements to open stores, which sales area exceeds a certain threshold level. On average, this level varies from 300 to 3,000 sq. m.

In most of European countries for obtaining a permission for building or opening a new object, you must pass an expertise for the commercial viability of the project. At the same time, the impact of new facilities on employment, prices and operating a small business are taken into account. Such permits are required for the opening of shopping facilities in Austria (threshold level retail space – 800 sq. m.), Belgium (400 sq. m.), Hungary (3,000 sq. m.), Germany (800 sq. m.), Denmark (1,000 m. m), Spain (2,500 sq. m.), Italy (1,500 sq. m.), Poland (2,000 sq. m.), Portugal (500 sq. m.), Finland (2,000 sq. m.).

For example, in France, the law on the development of trade and industry (1996) clearly defines procedures for obtaining building permits and the opening of new shopping facilities. For the harmonious development of various forms of business, the following principles were established: prevention of unplanned growth of new forms of distribution; balanced urban development, in accordance with local plans, and causing no harm to the environment (*Resolution of the Government...*, 2010).

⁶ Address to the nation of the President of Kazakhstan Strategy “Kazakhstan-2050”.

Restriction on the placement of large-format stores. This objective is satisfied using the planning system. The land use planning system, which regulates the placement of supermarkets in urban areas, is the main state lever in the UK. It should be noted that there is no specific legislation governing retail trade in the UK, but the government has the tools of indirect regulation of supermarket activities by limiting the permits for building supermarkets far from urban centres.

There is the law of the location of large commercial retail centres in Japan. According to it, exerted impact on the environment is studied at the opening of the store (possibility of congestion at the location of shopping centres). The need for harmonization of their activities and the local community is studied⁷.

3. Research results

1. Theoretical conception of the consumer market is expanded as a medium of internal trade activities through which the balance of supply is provided.
2. The theoretical substantiation for generation algorithm of final results of internal trade was given.
3. The advantages and disadvantages of different categories of shops, as well as markets were analyzed.
4. Assessment of the effectiveness of internal trade was proposed.
5. SWOT – analysis of internal trade.
6. The international experience of regulation of domestic trade was analysed.
7. The complex of arrangements to ensure the effectiveness of the implementation of the growth strategy of internal trade was suggested.

4. Conclusion

Internal trade on the consumer goods market is inextricably linked with the formation of a market-oriented competitive environment, which is aimed at development of economic initiatives, improvement of commodity-money relations and its influence on the efficiency of the national economy and quality of life.

Domestic trade is one of the most important spheres of population life-support. Harmonization of commodity supply and consumer demand is carried out through it. As a source of cash, trade forms the basis of the financial stability of the state. Domestic trade today is an important budget-sectorial system⁸.

Thus, a highly competitive environment is formed in domestic trade, and the consumer market has a relatively high saturation of goods and services. Growth in retail trade turnover is accompanied by positive dynamics of gross value added and profit.

⁷ The State Program on Forced Industrial-Innovative Development of Kazakhstan for 2010-2014.

⁸ Ibidem.

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Chapter 8

The Comparative Analysis of the Relationship System of Higher Education and Labour Market Between Kazakhstan and Poland

Zhibek Abylkassimova, Gulmira Yessenova

1. Introduction

According to the World Declaration on Higher Education for the Twenty-First Century, no country is able to provide sustainable development without adequate higher education and advanced research institutions providing a critical amount of skilled and educated people.

Under the presidential decree from February 1, 2010 numbered nine hundred twenty-two “On the Strategic Development Plan of the Republic of Kazakhstan till 2020”, our state has identified its priority of integration with the global community to improve the quality of higher education that meets international standards. In this regard, education becomes more positive and diversified. Over the past 20 years, fundamental changes took place specifically in the field of Education and Science that did not occur in any system. However, the relationship of educational services market in higher education system and the labor market in Kazakhstan is poorly studied. Therefore this research subject is relevant not only for Kazakhstan, but also for Poland.

The purpose of this study is to examine the relationship of higher education system and the labor market in Kazakhstan and Poland, as well as an attempt to conduct a comparative analysis.

To solve the purpose it is necessary to determine the objectives of the study:

- to analyze and review the current state of higher education and the labor market in Kazakhstan and Poland (based on available information),
- to identify the problems of the relationship between higher education and the labor market,
- to draw conclusions and develop recommendations on improving.

2. Analysis of the current state of higher education and the labor market in Kazakhstan and Poland

According to the Statistics Agency for 2012-2013, Kazakhstan has 139 higher education institutions, which educate more than 571 thousand people – students (excluding masters and doctoral students).

Let us consider the ratio of higher education institutions by the population in different states.

Table 1. The ratio of higher education institutions by the population

Country	Population, millions	The number of higher education institutions
United Kingdom	60,4	89
Finland	5,2	20
Czech Republic	10,2	66
Poland	38,49	470
The Republic of Kazakhstan	16,8	139

Source: own work.

From this table it should be emphasized that Kazakhstan has discrepancy of the amount of universities to the country's population. The Republic of Kazakhstan is currently experiencing difficulties with oversupply of educational institutions (universities) providing higher education. On average, there is one school on the population of 150 thousand to 700 thousand people in the countries of East Asia, Europe, Russia and the West (www.rfcaratings.kz).

To examine the relationship of educational services market in higher education system and the labor market, it is necessary to analyze:

- the system of higher education in Kazakhstan and Poland,
- labor market in Kazakhstan and Poland.

2.1. Consider the basic indicators of the system of higher education in Kazakhstan

Table 2. Key indicators of higher education in Kazakhstan

Indicators	2008/09	2009/10	2010/11	2011/12	2012/13
Number of higher education institutions, units	143	148	149	146	139
Number of students, persons	633,814	610,264	620,442	629,507	571,691
The number of faculty members, persons	37,814	39,155	39,600	40,531	41,224

Source: own work.

According to Table 2 at the beginning of the academic year of 2012/2013 Kazakhstan had 139 higher education institutions with the total number of students – 571,691 people, of which women account for 330,189 people, or 57.7%. In the current academic year, number of students decreased by 9.2% comparing to the previous year. Number of bachelors is 539,790 students, persons who receive higher specialized education – 30,439 people.

Out of the total student population – 63.4% enrolled full-time education; 34.2% – extramural and 2.4% – evening, at the same time 49.1% of the total number of students enrolled in public universities.

Number of students receiving their education at the expense of the state educational grants, is 131,919 people (23%); by state educational orders – 10,941 people (1.9%); students on a fee basis – 427,369 people (74.8%).

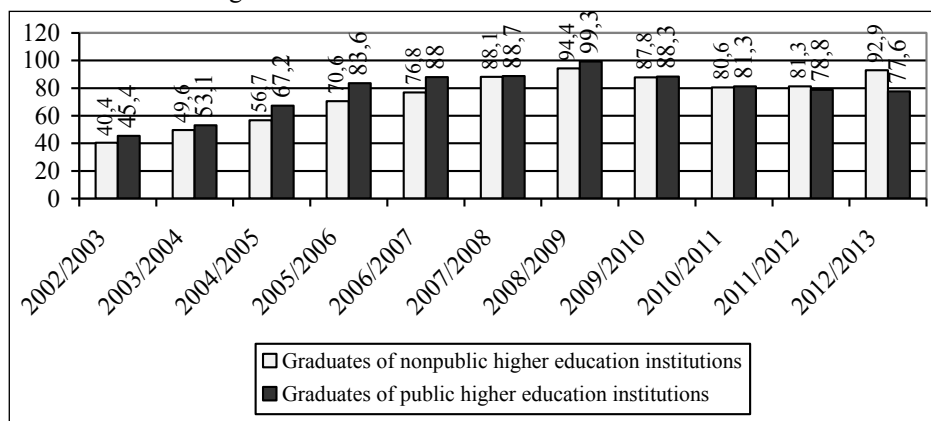
At the beginning of 2012/2013 academic year, 41.2 thousand teachers were employed in the Kazakhstani universities, of which 9.2% had a doctoral degree, 36.8% – candidates of sciences; 6.9% – the rank of professor, 18.6% – assistant professors, 1.3% – doctor of philosophy (PhD), 0.9% – the profile of the doctor. Number of teachers who have academic master’s degree was 17.4%.

At the beginning of 2013/2014 academic year, 128 higher education institutions functioned in the Republic of Kazakhstan with a total population of students – 527,226 people, of whom women account for 301,076 people, or 57.1%. Current academic year has number of students decreased by 7.8%, compared to the previous one.

At the beginning of 2013/2014 academic year, 41.6 thousand teachers were employed in Kazakhstani universities, of which 9.6% had a doctoral degree, 38.2% – candidates of sciences; 6.9% – the rank of professor, 18.0% – assistant professors, 1.6% – doctor of philosophy (PhD), 0.2% – the profile of the doctor. The number of teachers with an academic master’s degree was 20.7% (Stat.gov.kz).

It is necessary to disclose the graduation of students from universities of Kazakhstan.

Figure 1. Graduates of higher education institutions



Source: own work.

In 2012-2013, the number of students compared to the previous academic year, decreased by 9.2%. Number of bachelors amounts 539,790 people, and the number of receiving higher specialized education – 30,439 people.

Out of the total student population – 63.4% enrolled full-time education; 34.2% – extramural and 2.4% – evening, at the same time 49.1% of the total number of students enrolled in public universities.

Number of students receiving their education at the expense of the state educational grants, is 131,919 people (23%); by state educational orders – 10,941 people (1.9%); students on a fee basis – 427,369 people (74.8%).

In 2013-2014, the number of bachelors amounts 491,373 people and the number of receiving higher specialized education – 32,831 people.

Out of the total student population – 69.2% enrolled full-time education; 27.3% – extramural and 3.4% – evening, at the same time 47.7% of the total number of students enrolled in public universities.

Number of students receiving their education at the expense of the state educational grants, is 132,685 people (25.1%); by state educational orders – 12,545 people (2.3%); students on a fee basis – 381,996 people (72.4%).

During the preparation and article writing, it had difficulty to find statistical information on higher education system in Poland for the last 3 years. In this regard, on the basis of material available, the authors made an overview of higher education system in Poland.

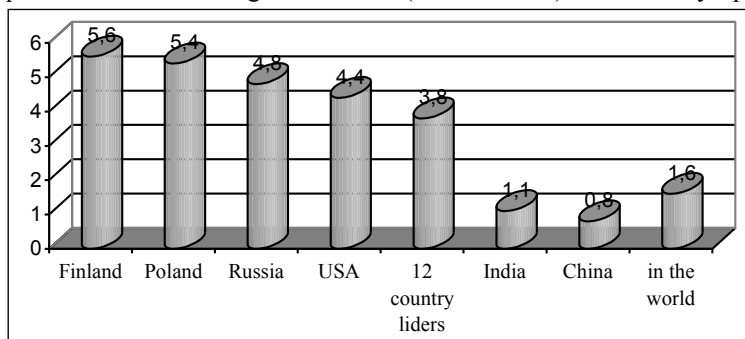
Higher education is one of the fastest growing sectors of public life in Poland. Over the past twenty years, the education system has undergone a number of qualitative changes that allowed higher education in Poland to become more affordable for residents of the European Union, and for students from other countries.

Currently education in Poland is represented by 470 universities, of which 338 – private. These universities teach almost two million students due to which Poland has one of the leading places in the world by number of students, and first in Europe by the number of higher education institutions. In the past two decades, the number of students in Poland has increased five times that confirms the effectiveness of the educational reforms held by the Government.

Polish universities are renowned for a huge number of foreign students and exchange students (ERASMUS program), and not only from the EU, but also from more distant states. First, it has very attractive price. Education in Poland is much lower than similar programs at other universities in Europe. Secondly, Polish costs for accommodation, meals and transportation are not different from Kazakhstani prices and much lower than in the UK, Germany, Austria and other countries. Third, enrolling in higher educational institutions of Poland can be possible right away after finishing high school (www.assylasset.kz).

By the share of students in the country's population (Fig. 2) leader is Finland (5.6%). Among the countries with the number of students more than 0.5 million first place belongs to Poland (5.4%), the second – Russia (4.8%), followed by New Zealand (4.5%) and the USA (4.4%).

Figure 2. Proportion of students in higher education (ISCED 5A / 6) in the country's population (%)



Source: own work.

As can be seen from the histogram shown in Fig. 4, the average percentage of university students in the population of 12 leading countries in the spread of higher education, taking into account the scale factor is more than double the corresponding average figure for the whole world. Indicators of Poland, Russia and the United States, the leading countries in this group exceed the global level in 2.8-3.4 times. Given indicator of India and China is much lower than global (Karpenko et al., 2013, p. 56).

By choosing a specialty, the entrant and his parents should think very carefully what prospect awaits Polish graduate student. For example, here is the quote from the Polish weekly about Polish unemployed who has university degree.

“...This is not good! Every eighth unemployed person in Poland has higher education. In late September, the work offices registered up to 235 thousand graduates. This is 20 percent more than last June!”

As reported by gazetaprawna.pl service another sad record had been broken – such a large number of university graduates has no occupation at the end of III quarter. According to experts, what happening now is nothing else than a sharp increase in the education system. In comparison with the same period of nine years ago, the number of people with high school diploma increased by 78 percent.

Most unemployed graduates:

- Economy – 16 thousand were left without work,
- Pedagogy – 10.8 thousand jobless,
- Marketing and Management – 7 thousand jobless,
- Political Science – 3.6 thousand jobless,
- Sociology – 2.6 thousand jobless.

Please note this list did not include graduates of technical universities. The rapid development of education does not have time to the Polish economy. Last year, universities graduated about 470,000 people, while the labor market came with a total of 240 thousand new jobs requiring the higher education (www.almapol.ucoz.ru).

2.2. What follows is to analyze labor market indicators in Kazakhstan and Poland

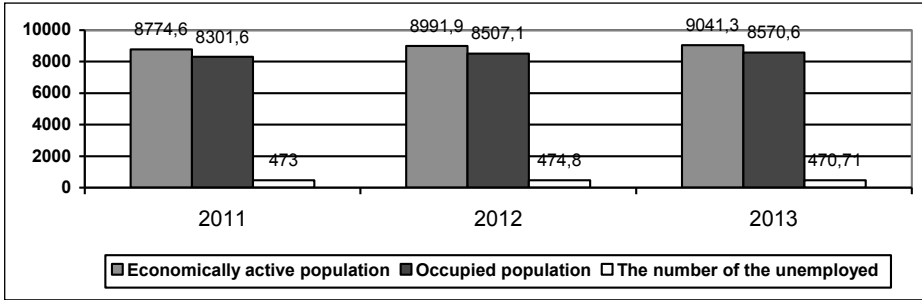
In various areas of the economy of Kazakhstan 2013 8.6 million people or 68.0% of the population aged 15 years and older were employed. Their numbers compared to the previous year increased by 63.5 thousand people (0.7%). More than half of employees (4.4 million) – men, 48.8% (4.2 million people) – women, as reported in (Stat.gov.kz).

The number of employees in 2013 made up 6.0 million people, or 69.4% of total employment in the economy. In comparison with 2012 the increase was 136.0 thousand people (2.3%). Among the employed the number of the self-employed was 2.6 million people, or 30.6%. From the total number of self-employed population, share of the productively employed amounted to 61.4%, unproductive employees – 38.6%.

The number of unemployed population in 2013 amounted to 470.7 thousand people. Unemployment was formed in 5.2% (in 2012 – 5.3%). The share of unemployed men was 44.6%, women – 55.4%.

The youth unemployment rate in the range of 15-28 years age was formed in – 5.5% (in 2012 – 5.4%).

Figure 3. Labor market indicators in Kazakhstan (thousands people)



Source: own work.

Officially, at the end of 2013, employment agencies of the Ministry of Labour and Social Protection of the Republic of Kazakhstan registered 30.0 thousand unemployed. The proportion of registered unemployed amounted to 0.3% of the economically active population (in 2012 – 0.4%). In 2013 the unemployment rate was 5.2%.

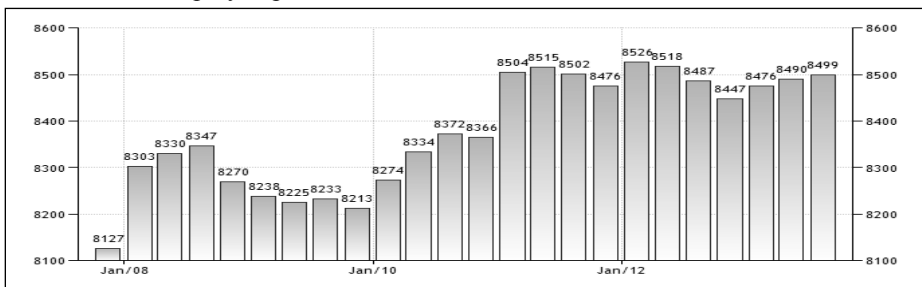
2.3. Us analyze the status of the labor market in Poland

In the period of 2007-2012 the Polish economy continued to grow, despite the overall slow-down in the European Union. Currently, the manufacturing sector is growing rapidly, despite the instability of global demand. Also, there is active development of the real estate sector, which is attractive for investment.

The fastest growing sector of the economy in 2012 was the manufacture, it accounted for 17.6% of the total employed population. Due to its favorable geographical location and educated but cheap labor, Poland has fairly a strong position in the EU market. Production increased up to 16.6% of total GDP in 2012 compared to 16.3% of total GDP in 2011.

Good performance in 2012 demonstrated by service sector and increased compared to previous year by 3.4%. It employs 17.2% of the total employed population.

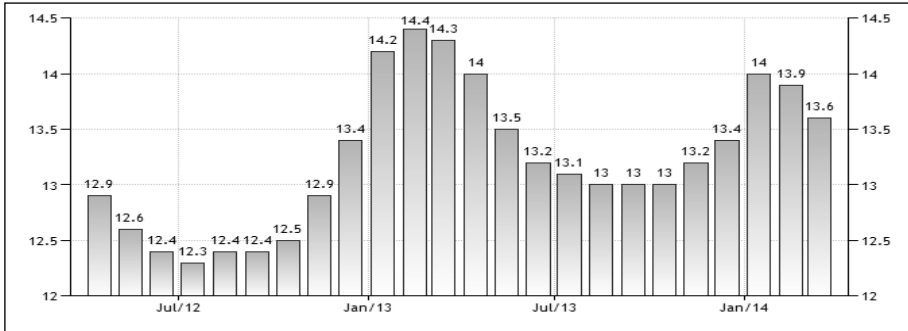
Figure 4. Poland – Employed persons, thousands



Source: own work.

Record levels of unemployment in the euro area. According to the latest statistics from the EU, 11.8% of the population of the euro area has no work, which means more than 26 million people.

Figure 5. Unemployment in Poland



Source: own work.

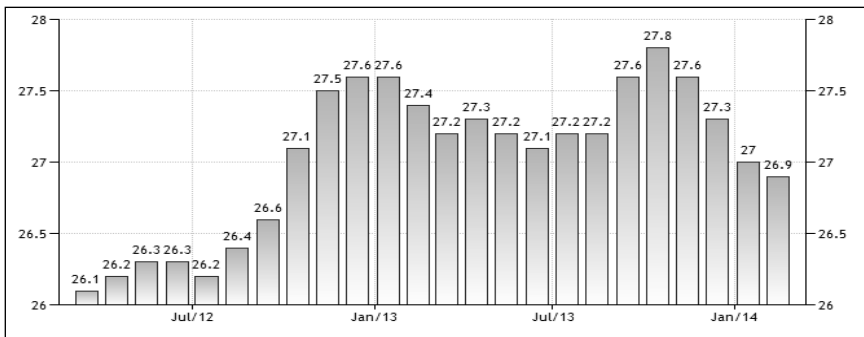
The problem of unemployment – is a phenomenon inherent in a market economy. By itself it is not a public problem until its level does not substantially exceed the level corresponding to the natural dynamics of economic life for extended periods.

According to Polish Ministry of Labour, the unemployment rate in the country at the end of December was 13.3 percent. This means that more than 2.1 million employable Poles have no work.

The highest unemployment rate in Poland is held in the northern regions – the Warmia and Mazury (22.3%), Warmia-Pomorskie (18.8%) and Western Pomerania (18.5%). Meanwhile, the lowest unemployment rates in the center of the country – Velikopolskom (10%) and Mazowieckie (11.4%) provinces, as well as in the Silesian province in the south of Poland (11.7%).

Poland with the population of 38 million people, in August 2012, had nearly 2 million people unemployed. Last time it was more than in June 2006 – 2.49 million.

Figure 6. Youth unemployment in Poland



Source: own work.

Young people encounter with the biggest problems in the labor market (the unemployment rate in the group aged 15 to 24 years is 27.2%).

The employment situation in Poland is very peculiar. On the one hand, the country is currently a member of the EU therefore many Poles emigrated to work abroad – mostly in East Germany. You can often hear the complaints of eastern Poles that Germany away from them and it is not so easy to go there – they say that Western Poles live much better! On the other hand, within the country there is unemployment – not all residents can find jobs in their field, especially for highly skilled workers (economists, programmers, *etc.*). Where employees are required?

Of course, the industries that demanding labor still remains agricultural and construction fields (take ready-made teams, painters, cooks). Also, an infinite number of vacancies that do not require special skills – waitresses, washerwomen, cleaners. For knowledge workers there are vacancies of doctors (as well as nurses) and teachers – most of these specialists left to work in Germany. If you wish to work one of the posts listed, you will need to take the exam on the knowledge of Polish language (cost about 100 Euros).

3. Identifying problems of the relationship between the higher education and the labor market

At the moment the most important fundamental properties of the university are autonomy, freedom of conducting scientific research and education, the continuation of the European humanist tradition. Attention is drawn to close relationship between research and academic studies on the principle of D.G. Newman, which states that the highest function of the university – doing science.

The modern university, however, is subject to pressure and interference in favor of the professionalized functions and compliance of the labor market. Polish universities continue, according to M. Malevski, the dispute between the “wisdom and ability”, which is caused by the evolution of the university modeled on community to the model of the enterprise. In a traditional university education goals were related to wisdom, in modern-oriented model for preparation of professionals, concentration is around skills.

According to the views expressed in the literature, currently University clearly evolving towards a market model. It is organized on the model of the enterprise, the operation of which is based on the commercial market criteria. University education in this model is a form of educational services, addressed to potential clients in accordance with their stated needs. Commercialization of education makes the student-client essential element of the educational process, so the main principle of this process is the requirement of education corresponding to the student’s needs.

Addressing the needs of students leads to what is now the most important task of university education – is to ensure competences to its participants (they related to learning outcomes and complicated higher-level skills). Key competencies for the modern student are the following: education, thinking, search, self-improvement, communication, collaboration, activity. They are focused on the development of independence and responsibility of young Poles and simultaneously show the importance of training today’s students to lifelong learning, self-study and improvement.

According to the Central Statistical Committee of the Republic of Poland in the academic year 2011/2012 Poland had 460 higher education institutions of all types. This is 48.4% more than in 2000/2001 academic year. On this basis, it can be argued that the Polish higher education developed dynamically (in quantitative terms) over the past ten years. However, you should pay attention to the fact that this indicator is reducing the growth dynamics. Confirmation is that the 2011/2012 academic year, compared with the previous year, didn't record the increasing number of universities in Poland. In other words, it becomes fewer young people who might join the ranks of students. For many universities, especially private, it creates a significant threat. You could even say that it is a matter of "life and death". State universities, so far, has not faced with the problem of lack of students. However, in 2011/2012 academic year, many departments conducted additional student groups. However, they also frequently were not bringing the desired results. For example, in 2011 the first course taken by 22.8 thousand persons, less (5.2%) than in 2010. Reduction of students recorded since the 2005/2006 school year. Over the next six years, their number decreased by 9.7% (Polish SAS data).

Another reason for the decrease in the growth dynamics of the number of universities in Poland is their desire to improve the qualitative aspects of its functioning. The philosophy known law of materialist dialectics works here, as well as rules of life: "the greater the number, the lower the quality" and vice versa. Thus, we can assume that the time has now come to take corresponding and decisive action aimed at the formation and further improving of the Polish higher education quality. Confirmation of this can be found everywhere. Enough to walk on the territory of any college or visit its web page. Everywhere you can see a table that contains information about ongoing projects, both investment and education. In other words, Polish universities are taking active steps to enhance its material base and improving the quality of human capital widely understood. Besides favorable external conditions (the use of EU funds), it also shows an understanding by the heads of Polish higher education institutions of need to constantly improve the quality of their educational and research services. Through these actions they are able to improve their competitiveness in both domestic and global market (Wbmpolska.eu.htm).

Common problems of higher education in Kazakhstan include:

1. The volume of state orders only meets the needs of 50% of economic sectors.
2. Only 10% of educational institutions graduates are eligible to study under the state order. Data on expenditure on education in Kazakhstan – \$6 billion a year and the budget of the British University of Oxford – \$2 billion Using these parameters, the Kazakh higher education is difficult to be competitive.
3. Demographic pit. Reducing the number of young people and older school-age student will continue according to demographic projections up to 2017-2018 period. Complication of demographics cause contradictory processes in the development of higher education. On the one hand the lack of consumers in the education market may prompt universities to recruit students at any cost, thus reducing the requirements for applicants and unfair competition.
4. Poor quality of educational services in universities.
5. None Kazakh university has institutional international accreditation and is not involved in international academic rankings of universities (Times Higher Education rankings and Shanghai ranking).
6. Poorly developed social partnership.
7. The gap in universities collaboration with science sector, production and experimental bases.

8. Employers are not involved in the process of establishing standards of higher education, training and certification of personnel.
9. No mechanisms for graduate employment. The result – a low level of employment of university graduates on the received specialty.
10. According to MES RK, 77% of state universities have dormitories built over a period of 25 years.
11. Low social status of the teaching staff, including low wages and poor benefits package PPP, especially young teachers.
12. Undeveloped system of advanced faculty training.

As a result and consequence of having a key – the poor quality of students' knowledge and unrelated to the needs of the economy, and it threatens the situation in the Arab world – a large number of “educated” unemployed young people.

Problems associated with the employment of graduates in economics include:

1. Lagging development of the education system to the market demands.

After the collapse of the Soviet Union Kazakhstan business started to develop. Most often by trial and error because scientific knowledge about doing business owned only by few, while higher education system is very slow “get used” to the new conditions, and didn't have time for business development. The education system, as well as the whole economy was in crisis. All educational programs and teaching methods are outdated and do not meet the new conditions of the free market. Just then the bridge between universities and the labor market was lost (by the way, in the former USSR this binding was given much attention). Just then lost a bunch between universities and the labor market (by the way, in the former USSR this binding was given much attention). As a result, today, the strategy of many students was the desire to get a degree, and then be arranged somewhere, and out there is already a new case to study and accumulate the necessary knowledge. Unfortunately, the usefulness of with this approach learning in higher education is very low. All that a student receives for such learning – official diploma and opportunities to find a more prestigious job.

The higher education system loses the ability to learn from their mistakes, adapt and improve as a result without feedback from the economy and the labor market (Bulatova, 2007, p. 92).

2. Lack of correlation of labor market and educational services (schools) and no monitoring of economic specialties demanded.

There are two models of universities.

The first model: English – the essence of which is that education is provided to all, and then trade unions decide either graduate will work or not. In this model, everyone study as long as he/her wish to do so for a fee.

The second model: Prussian, later developed into the Soviet, in which there is a certain state order, followed by its state placement of graduate.

- We have elements of both models. Our whole system of higher education is not built on the training of specialists, but temporary occupation of youth, ie Higher education – a method of youth employment. Therefore it is necessary to select a particular model. Each year, the Ministry of Labour and Social Protection releases bulletin of most popular specialties, while grants from other ministry on certain specialty are not the same. And what costs the state at least correlate these two requirements? But no one does so, because it is necessary that young people are busy at least with something. Market experts called a major problem that Kazakhstani students (and their parents) need university studies not to get relevant knowl-

edge, but to get a diploma, a formal document providing the ability to get a job and expect a higher payment. This conclusion is also confirmed by the high level of distance education in Kazakhstan. According to the Agency for Statistics about half of all students in Kazakhstan, studying by correspondence. On the currently popular specialties (Finance, Legal, Accounting and Auditing and Economics) share of “correspondence students” even higher. For example, on a specialty “Finance” (the most popular profession in the the Republic of Kazakhstan according to statistics), the proportion of correspondence students is about 60%. And on a such important specialty as “Jurisprudence” (third place in popularity in Kazakhstan) correspondence students share is about 72% (www.predictor.kz).

So, if we consider the ratio of economic specialties in the labor market and higher education market, it is clearly visible disproportion. So education market prepares about 25-27% of the students economists, but the labor market on various economic fields has about 13% of specialists.

- Level of education among the major factors determining the position of a person in the labor market. The larger stock of accumulated human capital, the less risk of falling into the ranks of superfluous people. Therefore the need for retraining or upgrading will occur in humans at various times during active labor ([www. Univer.kz](http://www.Univer.kz)).

4. Conclusion

Based on the analysis of the relationship between higher education system and the labor market of Kazakhstan and Poland we can formulate following conclusions and recommendations:

1. During recent years, Poland and Kazakhstan are characterized by the dynamics of reduction in the number of higher education institutions.
2. The presence of demographic hole for Kazakhstan and Poland.
3. Labor market glut of university graduates as a result of lack of monitoring and addressing the needs of employers. To do this, the Ministry of Education and Science of Kazakhstan jointly with the Ministry of Labor and Social Protection must coordinate steps on monitoring the labor market and demanded professions.

In conclusion, it should be noted that the above problem of the relationship between higher education system and the labor market of Kazakhstan and Poland and the proposed recommendations will be implemented in the practice.

Thus, the task of improving the relationship between higher education system and labor market of Kazakhstan and Poland can not be solved without a fundamental reorganization of the structure and the “philosophy” of the system of higher education control with regard to labor market needs.

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Chapter 9

Lessons Learned and Best Practices of Spanish Business Support Institutions

Rafal Bill

1. Introduction

Technology transfer (TT) is a vital issue because nowadays companies, especially in developed economies, compete on market mainly by quality of service and products, not only by their price. Innovation diffusion has a direct influence on economy development. Present business models assume generation and adaption of innovation within enterprises by two ways of creating it: by unique personal skills and knowledge or by knowledge transfer from other sources (*e.g.* company, university, published digital materials in the form of Best Practices). Expert knowledge plays one of the most essential roles in modern economy and therefore it needs specialized management system to achieve better results. Current methodology for knowledge and technology transfer projects conform such needs only partially.

The case of new member states of European Union is special, because they experience similar difficulties in area of innovation, knowledge management and technology transfer. One of the problems is low efficiency of adaption of models, practices and procedures, which have been developed for western states. It is a result of a differential and distinct business culture, approach to innovation, role of universities *etc.* Knowledge and technology diffusion between creators of high technology (mainly universities and R+D centres) and their users (companies and subsequent consumers) is low in new members of European Union. Many solutions are not commercialized and stay within R+D organizations, which lack business experience. On the other hand, business companies are not able to search for new solutions as they do not have R+D potentiality. Development and implementation of technology, expert knowledge and innovation is a project, which requires both new hard (*e.g.* biosolutions developed in labs) and soft technology (management tools *e.g.* procedures, guidelines, support methods). A lack of dedicated methods for management of innovation projects is one of the main urgent issues to be solved because R+D organization and enterprises do not possess right tools to transfer and commercialize knowledge and technology.

Proposed paper elaborates results of a research phase, which had been planned as a part of author's PhD thesis, currently being prepared at Faculty of Management at Cracow University of Economics and Universidad de Oviedo. It is focused on knowledge and technology transfer

in Europe and its project methodology. The goal of PhD research is a development of a new methodology to manage and facilitate commercialization and transfer of expert knowledge in European Union, especially in new member states. The research focuses on sectors of high technology (*i.a.* life sciences, IT, creative industries). The plan for PhD thesis includes research in Poland and abroad, in selected states: Romania, Spain and Germany.

Following paper includes three parts: basic concepts of knowledge based economy in Poland and Spain, methodology and results of research and conclusions in a form of Lessons Learned and Best Practices.

2. Simile of Poland and Spain related to paper's topic

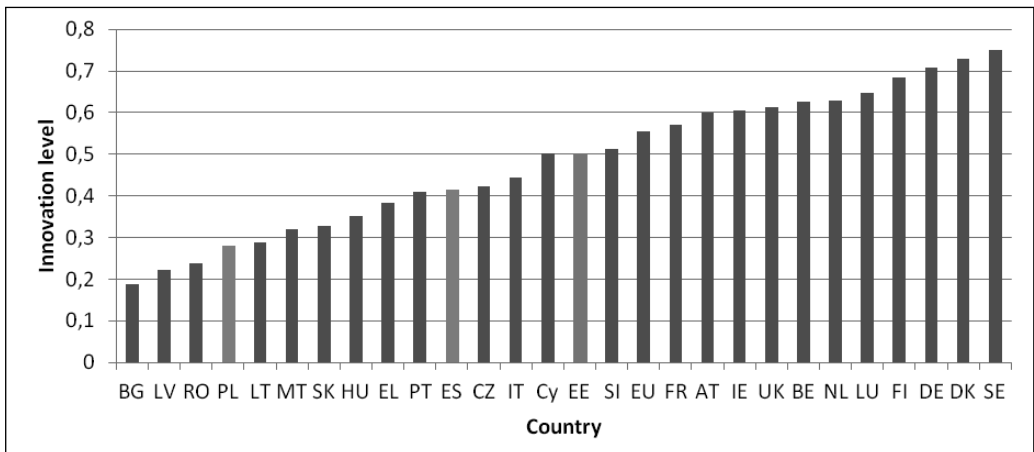
Poland and Spain are members of The European Union, which are often compared due to their history of development, the size of economy as well as the level of national innovation.

Spain has joined The European Union in 1986 after long period of national authoritarian dictatorship. In next years, Spanish development of economy was rapid, *i.a.* due to financial support of The European Union, and Spain has become one of the most developed countries in Europe, as well as is one of the twenty most developed economies worldwide, however, Spain is not formally a member of G-20.

Poland was a member of Soviet bloc. After fall of Iron Curtain, Poland immediately expressed its willingness to join The European Union. Finally, it has joined The European Union in 2004 with other seven countries from region of Central and Eastern Europe and Malta with Cyprus. Currently, Poland is the biggest beneficiary of EU financial support. EU funds played an important role in Spanish development as well as it has a significant impact on Polish economic growth.

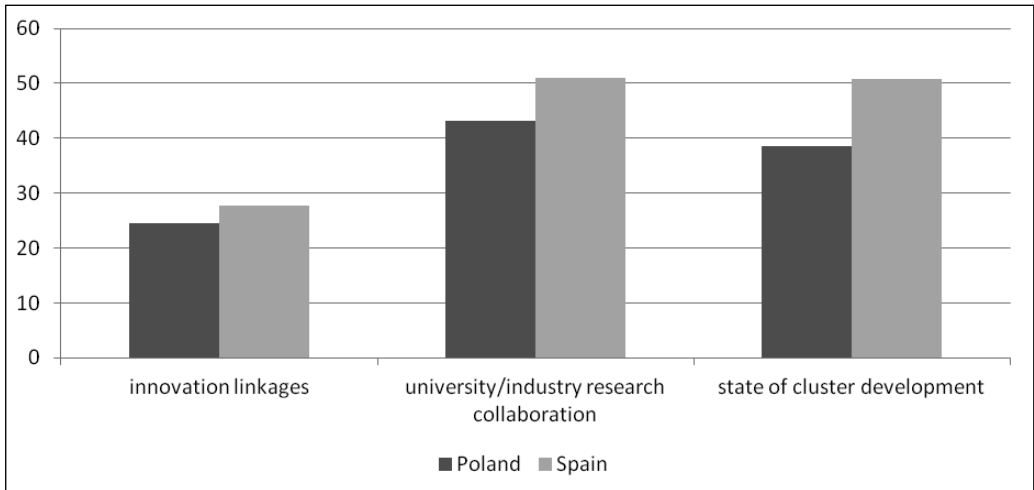
Spanish economy is the fifth biggest economy in Spain, while Poland is ranked as eighth. Spanish economy is more innovative than Polish, however, a gap between countries is not huge. Spain is generally medium innovative country, while Poland has one of the least innovative economies in European Union (Fig. 1).

Figure 1. Innovation level of European members and European Union



Source: own work based on Es-Sadki, Hollanders, 2014.

Figure 2. Development of business and academia support environment in Poland and Spain



Source: own work on Dutta, Lanvin, 2013.

Polish business and academia support system is less developed and less innovative than Spanish (Fig. 2). Academia and industry are better linked and collaborate more in Spain as well as clusters are better developed. It leads to higher position of Spain and its support environment in innovation rankings.

3. Base concepts of knowledge based economy

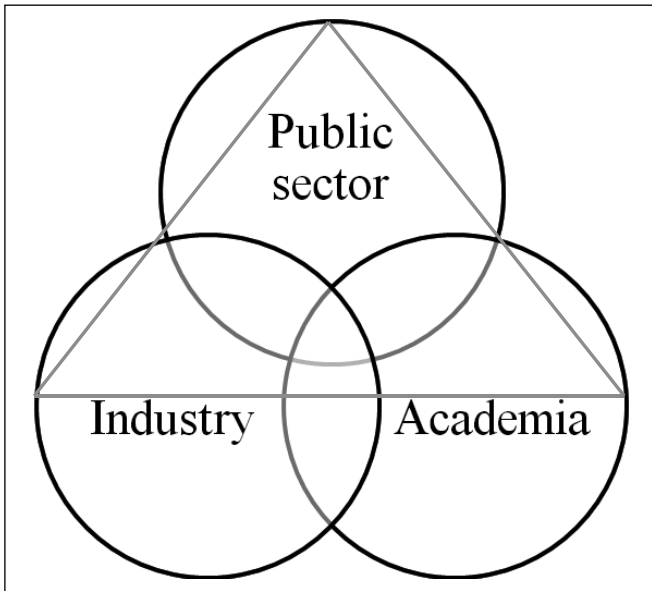
Rapid development of technology in XX century had changed a model of developed economies. A share of industry and basic services (*e.g.* logistics) in gross domestic product has decreased. Economies have become knowledge-intensive, as their development depends on information, innovative know-how and information technology (IT). The process has accelerated in the end of XX and continues in next century with the rapid development of the IT. However, knowledge-based economy is not restrained to IT sector – knowledge has become major input to the modern production process, along with traditional factors such as capital goods and labor. Knowledge management, technology transfer and innovation commercialization have become one of the most important fields in many companies and organizations.

An innovation diffusion has a direct influence on a development of an economy. Innovation is a vital issue, because nowadays companies, especially in developed states, compete on market mainly by quality of services and products, not only by their price. Present business models assume generation and adaption of innovation within enterprises by two ways of creating it: by unique personal skills of internal human resources or by knowledge transfer from other sources (*e.g.* due to cooperation with university). Both innovation sources include knowledge and technology transfer by *e.g.* researchers from university working for a company or technology licensing-in. To conclude, expert knowledge plays one of the most essential roles in modern economy, and so, as other areas, it needs specialized management system to achieve better results.

A base concept of knowledge-based economy is triple-helix model, which proposes a strategic triangular, including three main groups: public administration (public sector), business (industry) and R+D organizations (academia) (Fig. 3).

Triple helix model underlines a necessity of cooperation between three groups in order to transfer technology and knowledge. Theoretically, R+D sector provides new solutions developed on universities and in specialized centers, which are going next to be commercialized by business companies. Public administration plays a role of facilitator, however, a support should not be reduced only to *e.g.* public funding. More important is a building of an innovation ecosystem to form a dialogue between industry and academia.

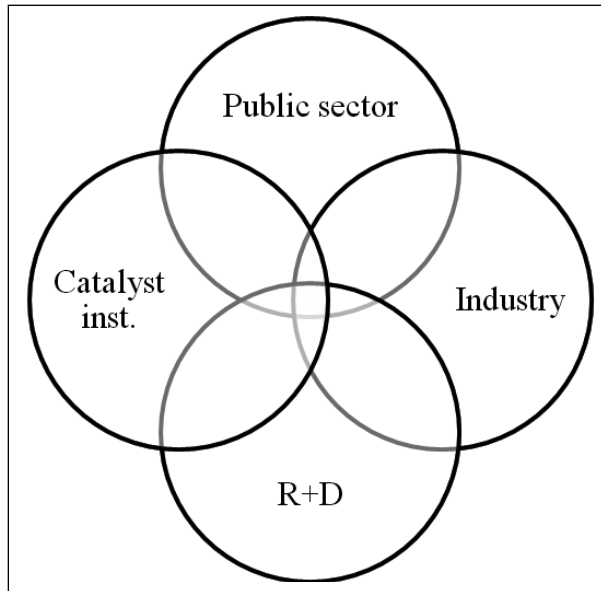
Figure 3. Triple helix model



Source: own elaboration based on Leydesdorff, 2012.

Four clover model (Fig. 4.) expands triple helix model by adding fourth group. It includes intermediary organizations, which are specialized in technology transfer, commercialization and business support. They play a role of catalyst or channels. Four clover model assumes, that a component in triple helix model is missing between academia and industry as both of them do not understand fully the second side. Catalyst (intermediary) institutions, *e.g.* technology brokers, technology transfer offices, private consulting companies, entrepreneurship federations, function in both areas and thus are able to understand the needs of academia and industry at the same time. Four clover model is supported paradigm by *i.a.* Spanish government.

Figure 4. Four clover model



Source: own work based on Săvescu, 2010, p. 343.

Business support institutions play major role in foundation and development of an innovation ecosystem, which may be defined as a model of the complex relations, formed between actors or entities, whose goal is generally innovation diffusion (Jackson, 2011).

4. Research methodology

Research in Spain was conducted from September 2013 to February 2014 on a number of business support institutions located in north and north-east Spain (regions of Asturias and Aragon). In order to obtain research data a semi-structured interview was prepared. The interview included eight key areas:

- flow of information,
- methods of knowledge management,
- management of Intellectual Property,
- adaption of Open Innovation,
- sharing knowledge and collaboration,
- usage of crowdsourcing techniques,
- introduction of Best Practices,
- role of knowledge in entity.

Three subjects were investigated and obtained data from was elaborated in a form of case studies. Next, qualitative comparative analysis (QCA) was used to prepare Lessons Learnt and Best Practices. QCA included a list of attributes as comparative area factors, *i.e.*:

- size of entity,
- financing model,
- Lessons Learnt and/or Best Practices system (if any),
- knowledge management system,
- Intellectual Property management,
- definition of approach.

The most important areas were knowledge management system, which included usage of IT application, methods of management as well a structure of project management, and Lessons Learnt and/or Best Practices, if they were already elaborated within entity and it would like to share its information.

5. Results of research in Spain

Elaborated research results (Tab. 1-3) includes three case studies from Asturias and Aragon. First, Cluster de Biomedicina y Salud (eng. Cluster of Biomedicine and Health) is entity funded by Universidad de Oviedo to create local “cluster” of researchers and industry representatives. Cluster de Biomedicina y Salud combines characteristics of cluster, collaboration network as well as technology transfer office and research unit. It is specialized entity within university (*e.g.* cannot apply for European funds itself), focusing mainly on facilitating cooperation between academia (professors and students) and business or government. The initiative of Cluster de Biomedicina y Salud is experimental and Universidad de Oviedo will decide about continuation of the program after results’ evaluation in 2014.

Table 1. Case study – Cluster de Biomedicina y Salud

Attribute	Characteristics
flow of information	outgoing
methods of knowledge management	non-formalized, tacit knowledge some recognized channels: newsletters, conferences, calls for cooperation
management of Intellectual Property	transferred to university’s TTO
adaption of Open Innovation	high, however, mainly delivering solutions
sharing knowledge and collaboration	high
usage of crowdsourcing techniques	not identified
introduction of Best Practices	not officially introduced identified Best Practices: building trust with partners
role of knowledge in entity	crucial
Metrics	
Research and Development	part of Universad de Oviedo
Cluster	“cluster for researchers and industry”
Technology Transfer Office	incl. spin-offs and technology platforms, IP transferred to university’s TTO

Source: own work based on research.

Table 2. Case study – IDiA

Attribute	Characteristics
flow of information	IDiA is a facilitator of information flow between members
methods of knowledge management	project management adapted; various tech. support for knowledge management
management of Intellectual Property	managed by members themselves, supported by IDiA
adaption of Open Innovation	high
sharing knowledge and collaboration	high
usage of crowdsourcing techniques	not identified
introduction of Best Practices	introduced, being shared
role of knowledge in entity	crucial
Metrics	
Research and Development	none – C2C oriented
Cluster	bottom-up, horizontal, cross-sectoral cluster
Technology Transfer Office	none

Source: own work based on research.

Table 3. Case study – CTIC

Attribute	Characteristics
flow of information	in- and outgoing
methods of knowledge management	project management introduced; tech. support for knowledge management
management of Intellectual Property	present, low
adaption of Open Innovation	very high
sharing knowledge and collaboration	high
usage of crowdsourcing techniques	not identified
introduction of Best Practices	technology-oriented internal projects play a role of Best Practices
role of knowledge in entity	crucial
Metrics	
Research and Development	development of ICT algorithms
Cluster	not identified
Technology Transfer Office	not identified

Source: own work based on research.

Second case study is La Asociación IDiA – Investigación, Desarrollo e Innovación en Aragón (*abb.* IDiA, eng. Association of Research, Development and Innovation in Aragón). It is cluster, focused mainly on ICT application, however, project are initiated and developed by cluster's members, while IDiA plays a role of facilitator. One of the most important rules of IDiA activity is an analysis of every project as well as intensive knowledge development, incl. 700 experts and two universities involved.

Third case study is Parque Científico Tecnológico de Gijón (*abb.* CTIC, eng. Gijón Research and Technology Park). It was funded in 2004 as public foundation by Asturian regional government, however, it became public-private partnership. CTIC is service-oriented, developing ICT private customers and society equally. It is interesting example of business support institution, that was initially a public initiative, but due to the economic crisis in recent years has started to cooperate more with business. It operates as a medium between academia, regional government and industry, meeting needs of each sector.

6. A role of Lessons Learned and Best Practices

Lessons Learned is a tool of project management to increase quality of prepared and adapted projects. They base on experience which should be retained for future use – it may be prepared in a form of a good pattern which is recommended to follow or a presented problem to be avoided (in this case a reference for adequate activity is elaborated). They have a form (a structure) – an example of Lesson Learned was present on Table 4.

Table 4. An example of Lesson Learned

Operating Unit:	
Project Name:	
Point of Contact (POC): Name, phone, email.	
Which project management areas are involved? (Integration, scope, time, cost, execution, quality, human resources, communications, risk, procurement.)	
Briefly describe the problem or situation including any relevant context such as stage of project.	
How was the problem resolved or the process improved?	
Lesson learned: How can this problem be avoided in the future or how can the process be improved?	

Source: Department of Commerce 2014.

Another example of Lessons Learned form is Action After Review (AAR) or Restrospect methodology. AAR includes five key area questions (Collison, Parcel, 2004):

- What was supposed to happen?
- What did happen?
- What are some improves?
- What are some sustains?
- What can be done to improve the training next time?

Lessons Learned is the tool used during evaluation of project, phase or iteration. It needs a constant monitoring to obtain data for analysis. In the case of AAR, a group meeting is involved too.

A single Lessons Learned, or a number of them, may be introduced as Best Practices, which are adapted good mechanisms and pattern to follow within entity. They reduce a risk failure or facilitate a development (*e.g.* by saving resources). They may be seen as “automatic stabilizer” during project, to be used by project members in critical situations. Best Practices are one of knowledge transfer channels, if one entity shares its information with others. They may have various forms *e.g.* process description, case study, short program. Best Practices are related to Lessons Learned, if failures, elaborated during evaluation, become opportunities as Best Practice.

7. Lessons Learned and Best Practices of Spanish business support institutions

Analysis of data obtained in case studies allow to elaborate three Lessons Learned and three Best Practices, which may be shared with Polish innovation ecosystem.

First Lessons Learned, which appeared in every investigated entity, is the necessity of internalization and generally a broad cooperation. It is important to develop international contacts in case of economic national downturn or to seek additional resources and opportunities. Spanish business support institutions were mainly concentrated on booming economy until Eurozone crisis has erupted. They were forced to look for partners abroad, as Spanish economy has started shrinking. Investigated subjects stated that Spanish crisis had good effect that business support institutions have started to internalize their activity.

Second Lesson Learned regards failures of projects application. Each entity, especially business support institutions, needs to include a risk of project application failure. Still, every submitted or started project is an experience, which may be utilized for next activities, even if that project has failed.

Third Lesson Learned relates to previous ones. Project methodology should be placed as the most important process in business support institutions, while its strategy has to focus on knowledge as main product of entity’s activity. Investigated subjects have a general vision of their initiatives, which is followed by a number of methods, techniques and tools to realize planned goals. These two areas must not be separated.

Data obtained during research may be structured into a form of Best Practices, which were already present in investigated cases. Three mechanisms and patterns were identified – they are related to project management and technology transfer methods.

First Best Practice is a creation of technology platform. Foundation of business support institution to connect academia and industry needs to be followed by a development of platform (IT application is recommended), which would include offers and needs of every subject interested in technology and knowledge diffusion. Technology platforms allow to close a gap between research-oriented groups (*e.g.* research centers) and business.

Investigated business support institutions mentioned knowledge as their most important product. Knowledge management included constant monitoring and benchmarking by a number of dedicated tools. Introduction of benchmarking as a recognized process (*e.g.* by cyclic questionnaire) within business support institution may be seen as interesting Best Practice to be shared. Third Best Practice would be IT support of designed IT application, which were mentioned by entities, incl. newsletters, mail-list, Intranet with databases, cloud document repositories, build-

ing wiki-app for knowledge management. All of them had a goal to share information and allow easy access to it.

Prepared Lessons Learned and Best Practices based on Spanish experience may be compared to building bridges in innovation diffusion over a critical moment in every strategy, program or project, which is called “death valley”. It is defined as gap between two activities, when a number of initiatives fail. However, introduced Lessons Learned and Best Practices help to reduce failure risk by improving processes.

8. Conclusion

Spain and Poland are comparable countries to a number of factors, incl. innovation level. Spanish overall innovation level is higher than Polish as well as Spanish business support environment is ranked higher. In Spain a sector of business support institutions is recognized as a medium between academia, government and industry, while in Poland it is a part of one sector of triple helix model.

The paper presents research results from three business support institutions of north and north-east Spain. Data was elaborated in a form of case studies. The main important of the paper is a presentation of Lessons Learned and Best Practices, which were found in investigated entities.

Elaborated Lessons Learned and Best Practices, which may be adapted by Polish business support institutions, focus on introduction of project management methodology followed by a number of designed IT application, which facilitate technology diffusion and knowledge management.

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Chapter 10

Effects of Financial Crisis on Funding and Credit Policies: A Comparative Analysis between Italian Local Banks

Massimo Arnone, Antonio Fabio Forgiione

1. Introduction

This paper aims to investigate the performance of the Italian small cooperative banks (BCCs), distinct for three regional areas, in the years of the financial crisis.

We propose, through accounting information taken from a sample of n. 167 BCCs operating in the North, Centre and South Italy, identify regional differences in their performance during global crisis. In this way, we check for differential effects of the financial crisis on different organizational model of banks. Given that these banks deal with customers having their head office in the same regional areas, they have a range of offered products consistent with their demand. In this way, the BCCs operating in North Italy, more developed area in Italy, have a management model more comparable to great banks; otherwise, the BCCs operating in South Italy, given the demand, offer most traditional bank services.

The paper can be decomposed in three sections. First it provides a summary of the literature on local banks, recalling their distinctive characteristics, that are deemed the main determinants of their competitive advantage. These characteristics will then be taken to motivate any more stable performance profiles of these banks. Second part presents the results of a comparative statistical analysis on the Italian cooperative banks, using the balance sheet ratios widely used in the literature. Last section contains the concluding remarks.

2. The identity of local bank: a literature review¹

This short literature review aims to outline the meaning of “local bank” highlighting the characteristics of such banks, according to most studies focused about that. The contributions point of following macro-features: significant roots in the local community; cooperative ownership and

¹ Section by M. Arnone.

control on opportunistic conduct by administrators; preferred relationships with small-medium enterprise; low diversification offer and absence in the international markets; customer relations oriented to “relationship lending models” rather than transaction lending.

Main contributions examine on the territorial features of the business run by that kind of financial institution. Among Italian authors, Alessandrini (1994) affirms that local bank can be differentiated from a national bank by strong interdependency with the social and economic community of geographic business area. Therefore, for the author, the national bank is rather a big size entity, having operations over all the national territory and possibly foreign branches. Pagano (2000) follow Alessandrini and define “local banks” those institutions featured by small size and that established legal site and most part of distribution network within a delimited area (as a district or a region).

Several studies deal with the relation between size and banks’ performance (*e.g.* Berger, Mester, 1997; Goddard, Molyneux, Wilson, 2001). Main part of literature recognizes to small banks an advantage position in financing to households and firms, due to their roots in the local community (De Bruyn, Ferri, 2005; Cesarini, Ferri, Giardino, 1997): the local rootedness produces information advantages. Also Cannarini and Signorini (1997) examine the tight correlation between local roots of small banks and efficiency in their credit activity.

Other authors focus on advantage getting stable funding, consequent to the rootedness in territory and co-operative organization (Cesarini, Conti, Di Battista, 1994; Pittaluga, Morelli, Seghezze, 2004), insisting on the advantage caused by great notoriety in their settlement area, membership in the community, also given by the support to the development of the regional economy.

Many studies deepen about ability of co-operative banks to manage, more effectively than big-size banks, asymmetries information typical of credit agreements. This is due to the fact that clients operating in the same geographical area where bank’s operators carry out their lives. Weakening the link with the community, *i.e.* expanding too much area of settlement, small banks lose all information benefits and visibility.

The social features of territories in which this banks operate are particularly significant in the process of the profit formation. The small banks operating in areas with active entrepreneurial structure show an advantage in the profit formation process versus banks having operations in other regions. This likely dependent by capacity to give efficiency to revenues, and by greater competition power in this markets. In accordance with Guagliano and Lopez (2008), these banks make incomes, also with adequate expansion of the scope operations, rather than with cost control, allowing also to satisfy the expectations of stakeholders.

Instead, empirical studies have investigated the role played by those financial intermediaries to reduce the impact of macro-economic shocks. Micco and Panizza (2004) have attempted to investigate if any different ownership of the banks (public vs. private, national vs. foreign) can impact on the dynamics of the bank credit during the economic cycle. They resolved that the public banks play the role of cushion of the credit variation compared to the lending from the private banks, is less dependent from phases of the macro-economic cycle.

An interesting characteristic of local banks, highlighted by several studies, is the loaning to small and medium size enterprises. Most part of those studies refer to the branches of informative asymmetries theory, that sustains as enterprises with big size have propensity to raise funds recurring to direct relations with the markets. This theory aims – as explanatory factor – the supply-demand information asymmetry (vertical informative asymmetries). Pursuant the studies of Diamond (1984), Fama (1985), those information asymmetries are caused by the high cost to find and elaborate the information and by scarce accounting transparency of enterprises. For the above

reasons, the bigger size companies ask funds to the markets instead of to the banks, because not impacted by those criticalities. Normally, small banks establish long-term ties with clients and have efficient procedures for assessing creditworthiness, by the ability to assess the soft information (Scardovi et al., 2000). A flat or functional organizational structure, with few decision levels, leads to less fragmentation of responsibilities in management of information necessary to assess the credit worthiness of clients (Del Prete et al., 2013; Albareto et al., 2012; Anolli et al., 2007).

This greater proximity allows that bank employees who manage relationship with client, and that obtain qualitative information not standardized, are the same that have decisions of financing concessions. So, the bank-firm relationship results more fast and flexible than the large banks, characterized by complex organizational structures, as those divisional.

Other authors underline that informational advantages of the local banks are offset by a lower diversification of banking activities, and this make it difficult to sustain clients during recessions. The local banks are more vulnerable to insolvency risk, because their portfolio is concentrate into a specific geographic area, Mottura (2009), Becattini (1991). Starting from this view, Caselli (2011) outlines possible management strategies for local banks: changing their offers model, they sustain development of private equity market, dropping out the traditional banking areas (lending, funding), acquiring the new profile of diversified bank, offering wider variety of products and services typical of the corporate and investment banking.

3. Data, sample and methodology

The following paragraphs focus on management key profiles of BCCs, using accounting data given from research department of Federcasse, association of Italian small cooperative banks. We selected a sample, built on geographical criteria, as number of branches and registered office, proxy of local roots, defining a sample of 167 BCCs. The sample is temporally homogeneous and not affected by any changes in both number of banks and size of total assets, caused by mergers and acquisitions. The significance of the sample, for geographical areas considered (North, Centre and South Italy) is expressed in terms of total assets (Tab. 1).

Table 1. Sample representativeness

	Sample	Total Italian BCCs	Sample representativeness (*)
	North-2006		
Number	79	241	32.78%
Total assets (€)	50,182,781	91,838,524	54.64%
	North-2007		
Number	79	240	32.92%
Total assets (€)	55,897,247	101,479,363	55.08%
	North-2008		
Number	79	234	33.76%
Total assets (€)	62,374,604	111,802,784	55.79%
	North-2009		
Number	79	227	34,80%
Total assets (€)	66,073,185	116,302,425	56.81%

	North-2010		
Number	79	225	35.11%
Total assets (€)	69,083,102	124,949,857	55.29%
	Center-2006		
Number	41	82	50.00%
Total assets (€)	18,621,538	26,791,449	69.51%
	Center-2007		
Number	41	85	49.41%
Total assets (€)	20,429,772	30,587,993	66.79%
	Center-2008		
Number	41	85	48.24%
Total assets (€)	22,600,201	33,504,349	67.45%
	Center-2009		
Number	41	82	50.00%
Total assets (€)	24,810,411	36,691,259	67.62%
	Center-2010		
Number	41	80	51.25%
Total assets (€)	26,173,678	38,009,763	68.86%
	South-2006		
Number	42	108	38.89%
Total assets (€)	6,338,116	15,448,576	41.03%
	South-2007		
Number	42	111	37.84
Total assets (€)	6,652,151	15,931,150	41.76%
	South 2008		
Number	42	111	37.84%
Total assets (€)	7,119,598	17,311,994	41.13%
	South 2009		
Number	42	105	40.00%
Total assets (€)	7,851,171	18,647,740	42.10%
	South 2010		
Number	42	101	40,59%
Total assets (€)	8,109,605	19,120,075	42.41%

* Ratio of number (or total assets) of the sample and total number (of total assets) of the BCCs operating in Italy

Source: our processing of data FEDERCASSE.

We observed profiles of the BCCs from risk, profitability, and operational efficiency proxies, by calculating some financial ratios for cooperatives operating in the Italian macro-regions. We commented on the trends of these indicators and expressed some prospective considerations. The performance analysis starts from evaluation of these banks capitalization, aggregate very important in this banks. The other management profiles are profitability and operational efficiency.

3.1. Solvency and risk of BCCs in global crisis²

In first step, we calculate some indicators by comparing, for the years 2006-2010, several items in the balance sheet of the BCCs. In second step, we determine average values of these ratios for different macro-areas of Italy (North, Centre and South). We finally compared these annual average reports with that the year 2006, examining their evolution after the international crisis. This, triggered by the reduction in the value of real estate in the U. S. in the second half of the year 2006, showed its effects in the summer of 2007, when were recorded heavy losses of securitized assets with the underlying real estate loans, causing the start of a severe recession in productive sectors not related with the building cycle. At the end of 2008, the crisis has taken the systemic character.

A first set of indicators correlates some items of the BCCs balance sheet (Tab.: 2, 3, 4).

Initially, we observe the variation of interest-bearing assets on total assets ratio, known as degree of intermediation, which expresses the proportion of available resources invested in the banks' production cycle. It is stable in the period for banks in North and South Italy, while it undergoes major changes for banks in Centre.

We calculated some ratios connecting interest-bearing assets to loans to customers and due from banks. The first indicator shows an increase in the weight of loans to total assets bearing interest, and this growth trend is particularly significant for BCCs in South Italy. The report of this aggregate to loans to banks shows a trend not unique during the period, for the three areas, why there is a growing trend for banks in North and Centre Italy, while we observe a significant reduction for banks in the South, consistent with the conclusion suggested by the previous indicator. The comparison between 2006 and 2010 show a heavy reduction in all considered geographical areas.

The ratios with on numerator item loans to customers and liabilities, show in almost all observed periods and for all the micro regions, also significant growth.

These quotients, identifiable as brokerage reports, express the use of funding arising from retail clients in traditional uses. The combined reading of the two indicators highlights the significant weight of the funding by the securities and, in addition, that the increase is consistent, in all parts of the country, but in a less pronounced in South Italy.

Ratio's trend, expressing the weight of the collection by securities respect to total funding, confirms what directly observed and allows to express a positive opinion about ability of BCCs' management to direct their clients to more stable forms of funding. Such feature funding is particularly helpful at a time of financial crisis.

Subsequently, we calculated some ratios that relate own funds to total assets, interest-bearing assets, loans to customers and the total direct deposits.

The first three ratios measure how own resources finance to loans. They show, in all periods and for the three observed areas, negative sign, indicating the worsening of financial soundness for BCCs. The indicators are particularly alarming for that ones in the South, where the reduction is, on average, double (for some indicators even three times higher) than banks in other areas of Italy.

The table highlights that the most significant deterioration (for banks in Central Italy, however, this trend is less significant) is the ratio with the loans to customers. The comparison with 2010 points out a serious increase in the riskiness of assets.

² Section by A.F. Forgiione.

The evolution of ratio between own funds and direct deposits shows same downward trend than other indicators having as denominator asset items. This joint dynamics, note the high leverage in banks, shows that to determine the reduction of considered indicators is the increase in assets (and in loan) in excess with respect to changes of shareholders' equity. In contrast, ratio between own funds and direct deposits, made to measure changes, could reasonably be very high, depending by a decrease in shareholders' equity. The various reports, during the period, report negative sign. The ratio between own funds and deposits, on the other hand, shows the same tendency as measured by the first three indicators calculated and already commented, ie decrease compared to the year 2006 throughout the period, with an increase in the ratio in the last year considered. Given that capital, in this period, is always grown, the reduction of the report, clearly, is due to a more than proportional increase in items placed at denominator.

The tables, always broken down by geographical area, report a series of indicators in order to express assets riskiness. The evolution of these ratios underline a serious deterioration in riskness for these banks in all the years of economic crisis, but particularly in the last year. Hits the figure for North Italy, with the ratio between net bad loans and funds that, in the comparison between 2006 and 2010 has increased by three times.

Same trend is confirmed for the ratio between non-performing loans and loans, developing in all periods and in all geographical areas, but particularly in last two years and for BCCs in North Italy.

The ratio of sub-standard loans and total loans highlights, in North Italy, an important growing trend, albeit less important than the relationship having same denominator and at numerator non performing loan. In the South Italy, this report highlights a general reduction.

The dynamics of the ratio between non-performing loans and sub-standard loans compared to equity showed a significant increase for all areas considered, albeit in much lesser extent than in the first report in the series under review. This confirms the trend of increasing non-performing loans with much lower dynamic impaired loan.

The same aggregate employed in numerator of above ratio, here, is compared to the total assets and was, therefore, tested dynamics of the quotient for different geographical areas. We observe a slower growth of the relationship over the years, confirming observation that the total assets of the BCCs increases more significantly with respect to shareholders. This is particularly evident in the South, with values in the last years of the comparison, almost double.

Table 2. Capital ratios of North Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Interest-bearing assets/Total asset	0.85%	-1.33%	0.96%	-0.47%	0.00%	1.10%
Loans to customers/Interest-bearing assets	1.40%	2.85%	-0.38%	3.19%	1.77%	1.63%
Loans to banks/Interest-bearing assets	-3.28%	30.88%	11.11%	-13.25%	6.37%	19.16
Loans to customers/Funding	2.47%	1.10%	-1.74%	2.34%	1.04%	1.95%
Loans to customers/(Funding – Debt Securities)	9.93%	21.26%	19.37%	23.67%	18.56%	6.02%

Debt Securities/Funding	17.86%	43.76%	46.53%	45.40%	38.39%	13.73%
Equity/Total asset	-0.91%	-6.23%	-7.88%	-11.10%	-6.53%	4.26%
Equity/Interest-bearing assets	-1.75%	-4.96%	-8.75%	-10.68%	-6.54%	3.98%
Equity/Loans to customers	-3.11%	-7.60%	-8.40%	-13.45%	-8.14%	4.24%
Equity/Funding	-0.71%	-6.58%	-9.99%	-11.42%	-7.18%	4.76%
Bad debts/Equity	5.88%	43.54%	117.35%	196.51%	90.82%	84.31%
Bad debt/Loans to customers	2.59%	32.64%	99.09%	156.64%	72.74%	68.95%
Sub-standard loans/Loans to customers	-5.32%	17.99%	46.50%	74.54%	33.43%	34.64%
Bad debt + sub-standard loans/Equity	0.05%	32.21%	76.32%	128.71%	59.32%	55.84%
Bad debt + sub-standard loans/Total asset	-0.87%	23.97%	62.44%	103.32%	47.22%	45.58%

Source: our processing of data FEDERCASSE.

Table 3. Capital ratios of Centre Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Interest-bearing assets/Total asset	2.60%	2.84%	3.02%	2.64%	2.78%	0.20%
Loans to customers/Interest-bearing assets	2.13%	-0.77%	-0.76%	3.66%	1.07%	2.20%
Loans to banks/Interest-bearing assets	10.72%	15.28%	15.55%	-9.31%	8.06%	11.79%
Loans to customers/Funding	1.72%	1.94%	1.41%	5.30%	2.59%	1.82%
Loans to customers/(Funding – Debt Securities)	7.67%	16.19%	16.82%	20.21%	15.22%	5.34%
Debt Securities/Funding	14.21%	31.50%	33.88%	31.88%	27.87%	9.16%
Equity/Total asset	0.03%	-4.44%	-5.33%	-9.53%	-4.82%	3.92%
Equity/Interest-bearing assets	-2.51%	-7.08%	-8.11%	-11.86%	-7.39%	3.85%
Equity/Loans to customers	-0.39%	-6.35%	-7.41%	-14.97%	-7.28%	5.99%
Equity/Funding	1.32%	-4.53%	-6.10%	-10.47%	-4.95%	4.88%
Bad debts/Equity	-3.17%	24.40%	43.16%	106.88%	42.82%	46.76%
Bad debt/Loans to customers	-3.55%	16.50%	32.55%	75.91%	30.35%	33.77%
Sub-standard loans/Loans to customers	2.00%	6.06%	26.88%	23.87%	14.70%	12.50%
Bad debt + sub-standard loans/Equity	0.59%	16.86%	39.02%	65.48%	30.49%	28.15%
Bad debt + sub-standard loans/Total asset	0.62%	11.68%	31.60%	49.71%	23.40%	21.72%

Source: our processing of data FEDERCASSE.

Table 4. Capital ratios of South Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Interest-bearing assets/Total asset	0.48%	0.96%	-0.74%	0.51%	0.30%	0.73%
Loans to customers/Interest-bearing assets	11.95%	12.31%	12.63%	19.95%	14.21%	3.84%
Loans to banks/Interest-bearing assets	-23.82%	-11.37%	-23.63%	-43.18%	-25.50%	13.15%
Loans to customers/Funding	13.07%	12.68%	10.40%	20.49%	14.16%	4.38%
Loans to customers/(Funding – Debt Securities)	15.52%	15.40%	15.36%	26.52%	18.20%	5.55%
Debt Securities/Funding	6.72%	7.46%	13.59%	15.08%	10.71%	4.24%
Equity/Total asset	0.28%	-0.66%	-4.52%	-23.24%	-7.03%	11.01%
Equity/Interest-bearing assets	-0.20%	-1.60%	-3.81%	-23.63%	-7.31%	10.98%
Equity/Loans to customers	-10.85%	-12.39%	-14.59%	-36.33%	-18.54%	11.96%
Equity/Funding	0.80%	-1.28%	-5.71%	-23.29%	-7.37%	10.96%
Bad debts/Equity	3.09%	42.88%	66.88%	138.68%	62.88%	56.97%
Bad debt/Loans to customers	-8.09%	25.18%	42.52%	51.96%	27.89%	26.43%
Sub-standard loans/Loans to customers	16.66%	-10.96%	-6.97%	-2.12%	-0.85%	12.22%
Bad debt + sub-standard loans/Equity	-3.25%	15.67%	28.66%	82.67%	30.94%	36.89%
Bad debt + sub-standard loans/Total asset	-2.98%	14.92%	22.85%	40.21%	18.75%	17.93%

Source: our processing of data FEDERCASSE.

3.2. Profitability and efficiency of BCCs in global crisis³

The outbreak of financial crisis also caused a significant decline in profit margins for BCCs, that we analyze through some financial ratios finding the causes. To monitor this profile, we calculated six accounting ratios and commented their annual change rates for our observed period (Tab.: 5, 6, 7). The first profitability indicator shows that, since 2008, all sampled banks suffer a strong contraction. In particular, BCCs in North and Centre Italy showed very high negative rates of return on equity, especially in the last years observed. Unlike of BCCs in North and Centre Italy, for which the decrease in ROE is still intense in recent years, for the ones in South Italy contraction slows in 2009.

Regarding second indicator, starting in 2009, all sampled BCCs suffer a significant decline, showing that recession has discouraged disintermediation policies. Financial crisis has hit first the BCCs in North Italy, because the brokerage is a rather significant economic component

³ Section by M. Arnone.

of their profitability; in contrast the BCCs in South, that produce more cash flows through traditional banking activities. Financial crisis has weakened relationship between asset allocation and high profit margins, that there were in preceding years. The assets growth caused by deposits has not been supported by a condition of profitability on average.

The others calculated indicators measure the profitability of traditional lending and brokerage. The financial crisis resulted in significant contraction in the main operating margins used to calculate these indicators, seriously endangering the BCCs stability, also in their traditional business. The crisis has weakened competitive advantage of local banks, that according literature, is associated with traditional business models focused on retail customers composed of SMEs and households.

Table 5. Profitability ratios of North Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Return on Equity (ROE)	10.98%	-20.23%	-60.39%	-81.33%	-37.74%	41.20%
Interest margin/Margin of brokerage	2.40%	4.00%	-8.63%	-9.74%	-2.99%	7.19%
Net profit/Interest margin	7.86%	-25.88%	-60.22%	-73.00%	-37.81%	36.37%
Net profit/Margin of brokerage	10.12%	-23.12%	-63.71%	-78.91%	-38.91%	40.28%
Net profit/Net revenues of services	20.31%	-40.29%	-69.47%	-78.57%	-42.00%	44.64%

Source: our processing of data FEDERCASSE.

Table 6. Profitability ratios of Centre Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Return on Equity (ROE)	13.54%	-17.33%	-25.73%	-70.90%	-25.11%	34.89%
Interest margin/Margin of brokerage	2.84%	4.39%	-7.27%	-4.24%	-1.07%	5.59%
Net profit/Interest margin	-6.02%	-20.42%	-30.40%	-65.72%	-30.64%	25.44%
Net profit/Margin of brokerage	-3.75%	-17.03%	-35.31%	-67.44%	-30.88%	27.59%
Net profit/Net revenues of services	32.92%	18.96%	-48.73%	-61.86%	-14.68%	47.55%

Source: Our processing of data FEDERCASSE.

Table 7. Profitability ratios of South Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Return on Equity (ROE)	-21.91%	-37.01%	-55.86%	-58.65%	-43.36%	17.23%
Interest margin/ Margin of brokerage	4.62%	4.42%	-9.01%	-2.27%	-0.56%	6.48%
Net profit/Interest margin	-29.82%	-40.68%	-56.55%	-51.75%	-44.70%	11.94%
Net profit/Margin of brokerage	-28.11%	-40.23%	-63.77%	-28.58%	-40.17%	76.68%
Net profit/Net revenues of services	-7.66%	-30.25%	-81.93%	-180.13%	-74.99%	17.23%

Source: our processing of data FEDERCASSE.

The productivity indicators allow to express considerations regarding levels of operational efficiency for BCCs. The contraction in profit margins gives to achievement of high levels of technical efficiency a crucial goal for the survival of BCCs. In this regard, we analyze the dynamics of five accounting reports (Tab.: 8, 9, 10). In addition to these indicators, we calculate other (called composition ratios of costs) that analyze determinants of operating costs and impact on management and money management services.

Regarding the trend of cost to income ratio, we found that percentage change rate of these indicators is not very high, indicating similar incidence among BCCs in the North, Centre and South of Italy. The North BCCs shows an average value by 70 per cent as against an amount equal to 68 per cent for BCC in Centre Italy, and a value of 80 per cent for BCCs South. The BCCs have failed to ensure adequate coverage of these running costs, through gross income, not being so overly penalized by problems of inefficiency from the technical and operational costs.

Concerning the second indicator, we observe that BCCs in North and Centre Italy achieved a high level of technical and operational efficiency by reducing incidence of operating costs by the margin of brokerage and interest margin. This result could mean that financial crisis has hit more South Italy BCCs and fewer those in North and Centre, because they compensated the erosion of income margins with greater contribution of securities brokerage, financial services with higher value added. In contrast, the South BCCs with lower values in the operating income of net income from services suffered more by the crisis that caused erosion net interest income. From 2008 onwards all BCCs banks and especially those in the South Italy experienced a significant increase in operating costs on money management, that means the presence of technical and operational inefficiencies. The third efficiency indicator, with low rates of change, emphasizes the similarities between the sampled BCCs. This first result underlines that all BCCs have failed, even in the years of the international crisis, to ensure coverage of operating costs through the activity of securities brokerage. Making a comparison between the BCCs in the North, Centre and South of Italy emerges, however, that are those of the South to have higher values in this indicator. It denotes possible internal inefficiencies to be resolved and that they would not find adequate coverage in financial services, with high added value.

Table 8. Efficiency ratios of North Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Cost to income ratio	-5.19%	0.56%	9.75%	14.97%	5.02%	9.05%
Operating costs/ Interest margin	-7.31%	-3.22%	20.83%	27.88%	9.55%	17.42%
Operating costs/ Margin of brokerage	-5.19%	0.56%	9.75%	14.97%	5.02%	9.05%

Source: our processing of data FEDERCASSE.

Table 9. Efficiency ratios of Centre Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Cost to income ratio	-5.57%	-3.76%	2.61%	11.40%	1.17%	7.67%
Operating costs/ Interest margin	-8.08%	-7.53%	11.22%	16.58%	3.05%	12.72%
Operating costs/ Margin of brokerage	-5.57%	-3.76%	2.61%	11.40%	1.17%	7.67%

Source: our processing of data FEDERCASSE.

Table 10. Efficiency ratios of South Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Cost to income ratio	0.15%	-2.08%	3.11%	25.13%	6.58%	12.55%
Operating costs/ Interest margin	-3.91%	-5.91%	14.15%	101.96%	26.57%	51.06%
Operating costs/ Margin of brokerage	0.15%	-2.08%	3.11%	25.13%	6.58%	12.55%

Source: our processing of data FEDERCASSE.

The Tables 10, 11, 12 report some ratios expressing degree of exploitation of the corporate structure and range to probe the nature of the determinants of operating costs. As shown by table, there are no significant differences between the rates of change among Italian BCCs, because operating costs, especially for staff, maintain their high impact on two main economic aggregates, as net interest income and gross income. The ratio net interest income to operating income shows that, since 2008, in all three geographical areas, the BCCs are united by an increase in personnel costs primarily due to the increase in the number of employees. It confirms the strong surge in personnel costs for the BCCs South Italy in 2010 due to the sharp decline in net interest income of these banks due to the greater intensity of the financial crisis.

Table 11. Composition ratios of North Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Personnel costs/ Operating costs	-1.85%	1.46%	1.70%	3.09%	1.10%	2.09%
Administrative costs/ Operating costs	2.53%	-1.66%	-1.68%	-3.56%	-1.09%	2.57%
Personnel costs/ Interest margin	-9.03%	-1.91%	22.39%	31.40%	10.71%	19.27%
Personnel costs/ Margin of brokerage	-6.94%	1.89%	11.22%	18.17%	6.08%	10.95%

Source: our processing of data FEDERCASSE.

Table 12. Composition ratios of Centre Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Personnel costs/ Operating costs	-0.48%	2.38%	1.75%	5.51%	2.29%	2.47%
Administrative costs/ Operating costs	1.22%	-1.91%	-1.31%	-6.02%	-2.01%	3.00%
Personnel costs/ Interest margin	-8.72%	-5.54%	13.11%	22.96%	5.45%	15.13%
Personnel costs/ Margin of brokerage	-6.29%	-1.61%	4.40%	17.45%	3.49%	10.29%

Source: our processing of data FEDERCASSE.

Table 13. Composition ratios of South Italy BCCs

Rates of change of:	2007-06	2008-06	2009-06	2010-06	Average	Standard dev.
Personnel costs/ Operating costs	1.01%	2.88%	3.03%	5.27%	3.05%	1.74%
Administrative costs/Operating costs	0.97%	-1.07%	-1.67%	-1.67%	-1.26%	1.25%
Personnel costs/ Interest margin	-1.98%	-3.39%	16.60%	135.46%	36.67%	66.49%
Personnel costs/ Margin of brokerage	1.75%	0.23%	5.50%	31.60%	9.77%	14.72%

Source: our processing of data FEDERCASSE.

4. Conclusion

The done analysis between the BCCs in the North, Centre and South of Italy shows how the global financial crisis has strongly hit their performance. We observed, also, that international crisis did not have same intensity on territories of the Italian regions. The crisis, especially from 2009, has posed a threat to the very stability of the BCCs in South Italy. This because main business of these BCCs are focused in lending products, that during the crisis have lost profit margins for higher values. In contrast, the trend of performance ratios for the BCCs located in North and Centre Italy have less impacted by the global crisis.

The existence of these differences between the BCCs that operating in Italian macro-regions stresses that actually they exhibit differences in their strategic choices and implementation of credit policies. Their challenge for the future is innovation through diversification of financial products and services and the adoption of new organizational models (*e.g.*, those lattice)⁴.

At the conclusion of this paper it was suggested some strategic requirements to allow the BCCs to make a qualitative leap in moving from local banks to banks with area wide.

The BCCs shall have to make a self-assessment of their own identity and of their mission, supporting the development of the area according to the needs of dynamic and innovative clientele.

The proposed strategies focus mainly on the profitability, efficiency through costs rationalizing (operating and personnel) and riskiness.

The growth of BCCs can be promoted through the following strategies:

The enhancement of mutual logics which characterize these banks in respect to their history, to differentiate itself by larger banks (Colombo, 2011; Cusa, 2011; Zamagni, 2011);

A renewal of the supply model through a greater openness to the business area of brokerage, also acting on the composition of operating income, income from commission and, more generally, on net revenues from services (Arnone et al., 2013, 2012, 2011).

A closer monitoring of the loans quality, acquiring advanced skills in risk management, also by implementing models for measuring risks that integrate hard and soft information (Del Prete et al., 2013).

Consolidation of territorial branches also acting on the composition of the interest margin (Trotta, 1998).

Greater attention to the efficiency through the rationalization of overall costs (operative, personnel, and administrative) (Di Antonio, 2006).

Greater openness to corporate customers.

Renewal of organizational models not focusing only to retail clients, but taking advantage the information management of relationship lending (typical BCC), achieve a greater integration between traditional banking and securities brokerage (Bongini et al., 2009). The comparison between BCCs clarified that, while the first strategy unites all Italian cooperative banks, other strategies are not equally shared by all Italian BCCs.

To overcome organizational inefficiencies caused by the small size, the BCCs should leave their autonomy and so go towards banking network model (Modina et al., 2010 2008).

The formation of such networks would allow to the BCCS to gain competitive advantages due to economies of scale and scope, and, at the same time, would encourage consolidation

⁴ On the relation between size and performance of the banks can be found in: Berger, Mester, 1997; Goddard, Molyneux, Wilson, 2001.

of management relational with clients (known as relationship banking) rather than focus solely on the profitability of the single financial transactions (transaction banking).

From organizational view, a banking network allows the small banks of not to change completely their cooperative identity, but complement their expertise giving rise to a mechanism of transfer knowledge, amplify the competitive value of all banking network.

Within these cooperation forms, each bank takes advantage of internal knowledge network, maintaining its managerial autonomy and being able dissolve its adherence to the structure. This organizational structure, also, allows to improve risks diversification and provides greater availability of financial resources and, above all, knowledge, allowing to respond successfully to competitive pressures (Allen et al., 2008).

At the beginning of the paper, as it emerged from the review of the literature the small banks, and particularly the cooperative banks have their strengths compared to large banks in the following requirements: the ability to assess the soft information (Scardovi et al., 2000) (qualitative or implied regarding the companies making up the industrial fabric of the territory), greater customer proximity favored by the reduced distance between its governance and its subsidiaries and, finally, a flat organizational structure.

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PART II

ENDOGENOUS AND EXOGENOUS FACTORS OF REGIONAL DEVELOPMENT FROM THE PERSPECTIVE OF SMALL AND MEDIUM-SIZED ENTERPRISES



Chapter 11

The Use of Modern Technology in the Marketing Aspect of the Management of the Municipality

Julia Gorzelany-Plesińska

1. Introduction

Management of the municipality is the totality of actions aimed at the organization to achieve its objectives in an efficient and effective manner. One of the areas in which organizations should make changes is the marketing orientation. In recent years, marketing has undergone some evolution by changing the approach to customer and perception of its needs. Such an orientation should be reflected in the management of the municipality, as the client for the municipality are residents, businesses, and institutions with which the community interacts.

Modern approach to marketing is based on the use of modern information technology (IT) (to get faster and more effectively to the customer). In modern marketing, the most important is quick to adapt to market needs and responding to changes in the environment. Marketing is visible in the activities of not only businesses, but all organizations.

Referring to the community aspect of marketing it can be stated that the competition that emerged between municipalities are forcing municipalities to offer specific products and other offers related to, inter alia, services, space, real estate. At the core of municipality marketing lies social marketing concept, in which a very large emphasis on customer satisfaction. Analyzing the marketing aspect in the management of the municipality, emphasis should be placed not only on the customer and meeting their needs, but also (in times of increased competition between municipalities) on creating a positive image of the municipality. An important role is played by exhibiting and interpreting cultural values.

The marketing of the municipality is a system that allows the activity of beneficial exchange of goods in the city and its surroundings in order to meet the needs of residents. Referring to manage the marketing aspect of the municipality, shall be used as a tool for territorial marketing by means of which the community as a mega-product meets the identified needs of customers in exchange for benefits for the municipality. If the municipality is seen as a complex product with many features of varying quality and usefulness to users then there is need to use different marketing methods.

As mentioned earlier, contemporary marketing is based on the use of modern technology, including information technology (IT). Therefore, the aim of this article is to show how the modern approach to marketing is changing and to indicate the importance of the use of information technology (IT) and information and communication technologies (ICT) in terms of marketing management of the municipality.

Research was carried out in the municipality of Michałowice and had to answer the following questions: whether the municipality is aware of the need to use IT and ICT in terms of marketing, whether used modern technology to reach to the customer, or create new products or promoting a municipality, or creates its positive image. The study used a questionnaire, interview and analysis of the literature.

2. The nature and importance of marketing for municipalities (territorial marketing)

Marketing is a broad term generally associated with trade. Marketing in a very general sense deals with consumer needs. The main role of marketing is therefore sensing of unsatisfied needs of the people and the creation of new, attractive alternatives. However the essence of marketing comes down to the subordination of all activities in the sphere of production and trade to the wishes of the ultimate consignee and meeting their needs.

Initially, marketing used to be used in companies. However, an environment that changes very quickly forced the companies in the wake of their marketing strategies have begun to use cities, municipalities and regions. There are regional development agencies, and the standard is to have the concrete city coat of arms, password, promotional or advertising materials many as informants, or brochures. However, to be competitive municipality must create a good and effective territorial marketing in mind that marketing understood as an instrument of acquiring customers by identifying and meeting customer needs change significantly. The process of converting marketing concept started in the 70's and we can say that it still evolves. In recent years we can observe a massive technological and new marketing methods development. For these reasons, municipal managers must be aware of how vital importance for the development of the municipality is to build an effective marketing units, which in the literature is not clearly defined. However, it can be stated that the territorial marketing is a philosophy of achieving goals through settlement units in competition for limited resources, shaped by the belief that the correct orientation on customer-partners have a decisive impact on the achieved results. In this approach assumed a manner of thinking that makes the success of a territorial unit of the subordination of all its activities the interests and expectations of the relevant reference group. Marketing is in many cases seen as a management process that allows you to recognize, anticipate and meet the needs and desires of customers (Szromnik, 2010, pp. 16-17).

It is worth to develop the concept of the client whose perception has recently also over evolution. Until recently, the word client was rarely seen in the social sector. You can often hear the statement that the customer is a marketing term while organizations have customers, patients, the public, and students. It is important at this point to ask a question whose benefit will be for the organization assumed the result. To answer this question we define the client as a person or group of people who appreciate our work, needs our offer, believes that it is important to her. Social organizations have two types of customers: primary and secondary customer. Main customer

is the person whose life changed for the better under the influence of our work and the customers additional volunteers, members of the groups, partners, donors, those who need to manage our organization. It is also the staff who must benefit from our business (Drucker, 2011, pp. 37-38).

Looking at marketing as a management process (as shown above), it can be stated that the territorial marketing is a market concept aiming to satisfy the needs and desires of the residents, as well as persons acting on behalf of the town while anticipating change their expectations. The use of marketing as a tool for urban management is increasingly important especially when the nature of cities is changing. City resemble both in terms of architectural, functional and infrastructure, leading to equal opportunities for their development. The development and greater interest in territorial marketing in Poland mainly affected by the following factors (Szromik, 2010, p. 27):

- increase awareness of the inhabitants that belong to distinct communities of local, regional, national and ethnic,
- development of a marketing system of thought and action not only in the commercial sphere,
- separation of ownership and empowerment of settlement units at different levels,
- increased decision-making autonomy and economic independence of spatial units – administrative,
- increased competition and rivalry between countries and groups of countries, regions, regions and municipalities in attracting development factors,
- implementation of modern management knowledge and experience in the management of municipalities,
- increase awareness of the social and economic society, and the consequent development of demanding attitudes towards local government bodies,
- increase in the expectations of members of regional communities calls to improve public services and quality improvement.

Another concept of territorial marketing development conditions was formulated by P. Hetzel. It assumes that changes in the approach to marketing and perception in the marketing of competitive sources of municipalities was influenced by globalization, the collapse of some theoretical doctrines – related ideological essence and functioning of the settlements, the emergence of the concept of rejecting the techno scene – structural, and accent building relationships between the authorities and residents, the current crisis of civilization and the degree of its development, which requires finding instruments legitimacy cities (shaping their identity) (Szromik, 2010, pp. 27-28). The factors mentioned above it is worth noting the use of modern technology, the share of municipalities in the implementation of various projects, the use of EU funds, the use of intellectual capital.

Since the city is a space in which there are exceptional, very complicated processes of socio – economic marketing activities play a vital role in creating a comprehensive, beneficial and based on a thorough analysis of the image of the city (village or region) for both internal users and external. The development of information technology in the dissemination of the Internet has entered the realm of marketing communities. Followed by a spontaneous development of promotional techniques, each city or village creates your site, or portal, and the techniques of information – communication attaches increasing importance. The municipality, which is not on the Internet is treated as a municipality technologically backward. You can at this point ask if well designed Web page, attractive layout, friendly access to information, care of the problems of the municipality and its marketing. Of course not, but we should be aware that the use of modern information technology is very important in the formulation of marketing strategy municipality, but you should

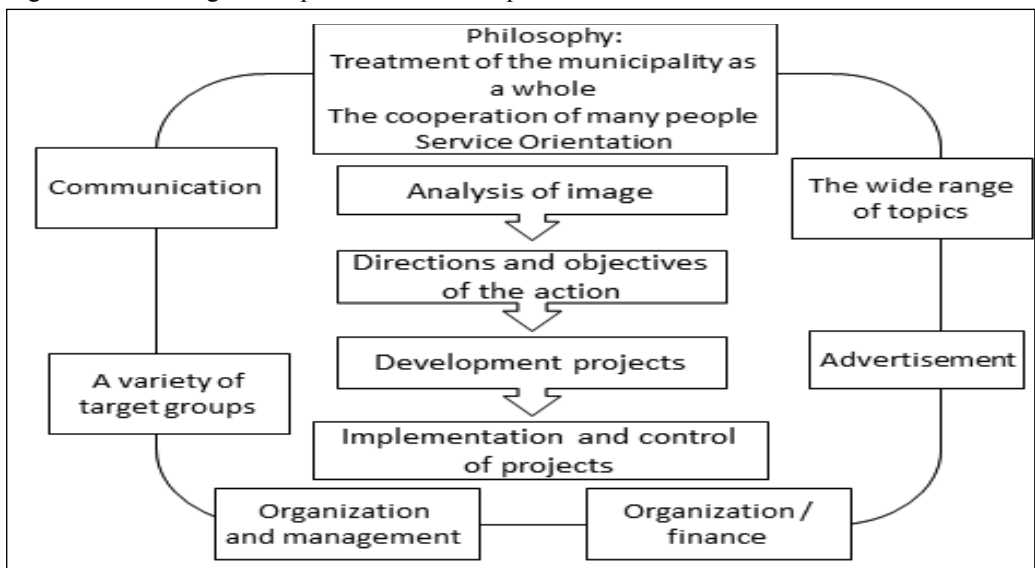
answer the question what are the goals of such a strategy. When using information technology should be approached for this tool more flexibly and interactively. Municipalities on the Internet begin to live their lives. In response to the new ideas contained in the sites competing communities, new forms of the method of collection, processing and presentation of information. Formed a kind of virtual competition, which can be detached from reality, so be sure to post the information in accordance with the reality, because the Internet municipalities will be web fiction is an instrument based on information technologies wiped importance (Markowski, 2006, p. 119).

3. Modern technologies in municipalities marketing

Modern information systems use new technical solutions, in particular using the Internet. It contributes significantly to the optimization of activities in the field of administration and management of organizations. Dynamic development of electronic technology, we are seeing that makes integrated information management systems are becoming increasingly apparent. For these reasons, great importance is the use of modern technology in the marketing companies as well as municipalities.

As mentioned earlier, both marketing in general, as well as territorial marketing has undergone some evolution, and still evolving. However keep in mind that it requires proper planning and coordination. The task of the municipality marketing is formulation the marketing strategy, which contains the actions to be taken in order to interact with the appropriate audience. When formulating marketing strategy should first specify the target direction for the municipality with the overarching values that will always be respected. The general trend of development should be consistent with the expectations of all stakeholders, especially residents. Marketing municipalities in terms of the process is shown in Figure 1.

Figure 1. Marketing municipalities in terms of process

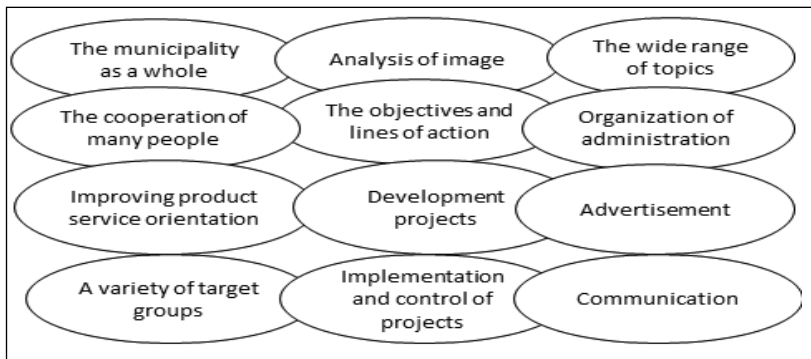


Source: own work based on Szromnik, 2010, p. 68.

Analyzing Figure 1 it should be noted that the process of formulating a marketing strategy should begin with a thorough analysis of the image of the municipality. This analysis includes the identification of strengths, weaknesses, opportunities and threats, as well as identify key factors of competitiveness of the municipality. With this analysis, it is also useful to ask residents to specify how they perceive the municipality as a whole and how to evaluate the actions that are taken by the authorities on its territory. In the next stage directions and objectives should be set. This means that at this stage should be determined which direction the community wants to follow and in which areas changes should be made. Marketing objectives as well as identity system also should be constructed. When course of action and goals are designated, the next stage is to develop projects that include mainly operational plans (actions that must be taken in the near future, which will result in the implementation of long-term plans set out in the second stage). The process of formulating a marketing strategy completes the execution and control of projects. This step sets the person or groups responsible for the implementation of specific actions who control the degree of achievement of the objectives, as well as analyze the differences and deviations. All of these activities are undertaken on the basis of norms and principles adopted in the management process (in advertising, organization, financing, in reaching out to a variety of target groups, as well as communication).

When formulating marketing strategy, suitable marketing instruments should be used, which is a mixture composed of different operations, projects, actions, and entire campaigns that are specific marketing environment organizations implementing marketing strategy. Commune marketing components shown in Figure 2.

Figure 2. Commune marketing components



Source: own work based on Szromnik, 2010, p. 68.

When analyzing Figure 2 it can be concluded that the selection of marketing instruments is complex and can have serious consequences. Validity of decisions in this area due to the following circumstances: it determines the final success of the program has a direct impact on the quantity and type of waste material resources, financial, human and other, requires cooperation with specialized agencies, marketing services, testifies to the professionalism of action, builds prestige and image marketing. The experience of many operators of commercial marketing indicate that the action taken by them may also be taken by the municipality. And so a very popular concept of marketing is the marketing mix 4P formula that has evolved in the formula 4C. Formula 4P

includes product, price, place and promotion, and the formula 4C includes a value for the customer, the cost of the acquisition, the acquisition convenience and communication. 4C formula can be used successfully by municipalities.

As can be seen in the above considerations a very important role in marketing plays communication, which is nothing else but the exchange of information. Very important meaning in the communication have information systems aided by modern technologies. In creating systems of information – communication technologies (ICT) information technologies (one of the areas of computer science) are critical. The information technology consists of hardware and software used to create, transmission, storage, presentation and protection of information, as well as telecommunication links. Information technology (IT) is a combination of the application of informatics with techniques of communication. IT application areas: the use of means and methods of computer science to solve everyday problems and to enable man to function in the information society (Wrotek, 2006, p. 19).

It can be concluded at this point that information technology deals with the transmission and transfer of information, thus creating ICT systems, which have a huge impact on social life. It should be noted that the computerization ceased to be perceived as the most important goal of the organization. The mere possession of a modern, tailored to the needs of the organization system does not give a competitive advantage. Creating a well-functioning systems that focus processes in an organization is the key to success. The system should support the work of the various, often very distant from each other organizational units, so has the nature of information – communication. The purpose of these systems is to ensure the rapid flow of information by which supports the marketing processes.

4. Territorial marketing in the municipality of Michałowice – empirical analysis

In order to accomplish the purpose of this article, the study was conducted in the municipality of Michałowice. According to research conducted in 2012, the municipality Michałowice is a municipality uses of IT and ICT (Gorzelany-Dziadkowiec, Gorzelany-Plesińska, 2012, pp. 398-401) and municipality attaches great importance to the customer and his comments (Gorzelany, 2012, pp. 89-97). The study has been used a questionnaire with five-point Likert scale. In the questionnaire, questions about the creation of territorial marketing in the analyzed municipality and use in the field of modern technology. They were asked in which areas is visible marketing orientation of the municipality (or residents as customers are involved in the decisions taken), the possible answers were graded according to the Likert scale and 1 – mean, definitely not (not even thought) 2 – no, 3 – difficult to define, 4 – yes (to a large extent), 5 – definitely yes (to a very large extent) The results are illustrated in Table 1.

Table 1. Orientation marketing in the Michałowice municipality – results of research

Marketing orientation of municipalities – claims	Grading Scale				
	1	2	3	4	5
Residents have a significant impact on the management of the municipality				X	
Local community is informed about current events					X
Authorities conduct analysis and interviews on the degree of satisfaction of clients with the work of the Office					X
Promotion of the municipalities result of development strategy				X	
Through promotional activities the municipality creates its image				X	
The quality of services is systematically monitored and controlled		X			
Organization and working conditions offices are subject to evaluations public				X	
Staff offices with zeal solve the emerging problems of clients				X	
In the business of local government is an overriding public interest					X
There are specialists in the field of marketing in the office		X			
Office staff are satisfied with their working conditions					X
The use of IT and ICT					
The community is promoted through a web page					X
On the website you can find information about:					
• the identity of the municipality					X
• economic indicators		X			
• tourist offer					X
• commercial buildings		X			
• sporting ventures					X
• cultural events					X
• foreign investors	X				
• social networking sites are used to promote the municipality				X	
Through the Internet the community to promote					X
It uses information technologies in work offices (e-service systems)					X

Source: own work.

When analyzing the statement presented in Table 2, it should be noted that the municipality analyzed using the orientation of marketing management, as well as for marketing uses IT systems and ICT. This is evidenced by the responses, where the managers municipality in most cases correspond to yes and definitely yes. Moreover, in the analyzed municipality residents (clients) are involved in the life of the municipality (have an impact on the management of the municipality, are informed about current events, examine the degree of their satisfaction, government activity is focused on the public interest, work offices is subject to evaluations of society, and the staff offices help in solving the problems of clients). Also noteworthy is the use by the municipality of IT and ICT for marketing purposes. Previously conducted research on the information society and the use of IT and ICT, in the analyzed municipality, revealed that the municipality involves the use of IT and ICT in a very large extent, (area for change was the marketing area) (Gorzelany-Dziadkowiec, Gorzelany-Plesińska, 2012, pp. 398-401). It can be concluded that the changes have been made in this area. Managers municipality are aware of the vital significance of the systems in improving the competitiveness of the municipality. Through the website you can find a lot of information about the municipality (the identity of tourism, sports projects, cultural events). This information can also be obtained through social networking sites. Through the Internet the community can be promoted, as well as technologies used in work offices.

The areas in which action is taken is a lack of systematic monitoring and controlling the quality of services, lack of office specialists in the field of marketing and the lack of information on economic indicators, commercial and foreign investors on the website. But it can not be definitely said that in these areas changes should be made, because it is clear from other statements, that residents (customers), employees and businesses are satisfied with the quality of services provided. For economic reasons, it is not cost-effective recruitment specialists in the field of marketing, however when it comes to information on commercial buildings and foreign investors that it should be noted that in the analyzed municipality rather dominated by small and medium enterprises and crafts while the municipality is not interested foreign investors.

To sum up this part of the discussion it should be noted that the analyzed municipality uses modern technology for marketing and sees their benefits. Analyzed the community can be an example for other municipalities, as one of the few see the need for change and thereby dynamically developing.

5. Conclusion

The article raised the issue of the use of modern technology in terms of marketing management community. Indicated what is the essence of marketing and characteristic of the territorial marketing was made. It also indicated the important role of information technology to marketing the municipality. The research was conducted in the municipality of Michałowice. Based on the survey, it was found that the municipality in a manner appropriate uses of IT and ICT technologies in terms of marketing, and that the community is very much oriented to customer needs. There have not been formulated in the article's conclusions and recommendations, as analyzed municipality has not identified the areas requiring changes in the use of IT and ICT for marketing purposes.

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Chapter 12

New Forms of Marketing and Cultural Heritage

Mirosław Henryk Filar

1. Introduction

This paper undertakes scientific issues of cultural heritage, which through new forms of marketing, provides the ability to manage in the tourism and recreation, increasing its efficiency as an important economic sector. At the beginning shows the role of marketing, it plays in the management of cultural heritage. In the following paper discusses examples of selected sites that were created from scratch in the late twentieth century, or have passed a total modernization in the first half of the twenty-first century, becoming a new cultural centers or tourist attractions that attract millions of people.

Culture is broadly defined field of knowledge which draws a lot of people. They are both humanists and economists who, through acquired skills, could form the basis of creative economy. The cultural heritage of the site, are the customs of its inhabitants, which together make up the traditions passed down from generation to generation. This creates a unique culture which might ensure the continuity of its duration in subsequent years. The way in which knowledge of the culture thus becomes a crucial factor in determining its effectiveness, and also excited interest in the audience. Traditional forms of knowledge transfer, which include: lectures at universities, analysis of selected readings and guided tours of the museum or historic site, constituted the core of the methods, the use of which does not require significant modifications due to their direct reception by the audience.

2. Marketing, as a way of managing cultural heritage

At the beginning of the twenty-first century, there was a shift in the mindset of people visiting cultural institutions such as museums, theaters or cinemas. Since many of them are expected to operate efficiently today, providing not only valuable knowledge, but also memories. The aim is to arouse the audience's interest to make regular use of their cultural offer, which passes the constant modifications, responding to the current demand. The use of proper marketing and well developed strategy thus becomes necessary, as it gives the opportunity to develop space with significant cultural value, but unknown to the wider public. Transformation is accomplished by

changing the image of the building, neighborhood, but sometimes entire cities to through a process of revitalization, culture to develop, generating both the specific value and economic income (Mazurek-Lopacińska, 2006, pp. 317-319).

In the cultural sector marketing is the answer to the question: how to get to a modern audience and give him the cultural values of the site or historic property? Due to changes in technology transfer of knowledge, beyond the traditional tour guide, there are forms of communication such as multimedia, e.g. films, virtual simulations, interactive holograms and productions. They create the possibility of “transfer” in the old times through audio-visual technology and their experience. Implement the requirements of customers, by responding to their diverse values, which include:

- cognitive values and useful,
- spiritual and aesthetic,
- hedonistic, *etc.*

The information provided in localized media and cultural events related to the activities of individual persons or international organizations, which increases the interest to the public place (Mazurek-Lopacińska, 2006, pp. 317-318).

The United Nations Educational, Scientific and Cultural Organization (abbreviated: UNESCO) was founded on 16 November 1945, operates internationally, the aim of which is to promote development in the field of culture, education and science, based on mutual cooperation (<http://www.unesco.pl/unesco/misja-unesco/>).

Entering valuable objects and places in the world by UNESCO, inform the public, which often arouses interest and desire to know them. In the light of international law in the UNESCO Convention on the Protection of Intangible Cultural Heritage, signed in Paris on 17 October 2003, the goal was set to develop standards for the protection of human heritage elements. Sharing this heritage thanks to the progress of computerization and accompanying him to the globalization process, allows the use of appropriate marketing strategies, what makes a place or event associated with it, widely recognized and often visited. An example is the Caribbean Carnival of Barranquilla in Colombia, which in 2008 was inscribed on the UNESCO World Intangible Heritage. He became a symbol of the city, which is now identified and part of popular culture, which boosted this cultural event (Węglarska, 2013, p. 89, 96).

According to the accepted definition of intangible cultural heritage, under article 2, paragraph 2 of the Convention of 2003, includes “oral traditions and expressions, performing arts, social practices, rituals and festive events, knowledge about nature and the universe and related practices and traditional crafts” (Węglarska, 2013, p. 90).

The traditions of the city Barranquilla dates back to the nineteenth century, when they came to South America many immigrants from Europe and Africa, and after the trip know the culture of the indigenous people from overseas. Carnival distinguished Spanish dances called *paloteo*, African *congo* and indigenous origins of *mico y micas*. Music named *cumbia*, *puya* and *porro*, played the inflatable is folk instruments and percussion – *tambora*, *allegre drums*, *maraca* and *claves*. Performances refer to the historical events of the past and modern times, of which the latest are often portrayed in the form of satire. Carnival conducts the King and Queen of Carnival called *rey del carnaval* and the *reina del carnaval*. Since its inception, carnival acts as a unifying the whole culture of the local communities of the Colombian Caribbean. He also became part of the management of the city, which is Barranquilla. Therefore, most of the activities that are associated with it are “protective”, but definitely are the result of marketing paradigms. In terms of management, the carnival has a strategic role in building the brand of the city and its identity.

In practical terms, this allowed for the creation of cultural resources and consequently, to select Barranquilla American Capital of Culture in 2013 (Węglarska, 2013, pp. 92-94).

Intangible cultural heritage is in contact with the global market. Marketing on the one hand makes the carnival part of popular culture, on the other hand serves as a cultural discourse, or role model shaping collective identities that are residents of the city Barranquilla (Węglarska, 2013, p. 96).

3. Opera in 3D

An example of creating new experiences is an opera using 3D technology. Thanks to the organizers, created remarkable show visitors the opera, in which the lack of traditional decoration, but the show was a success thanks to their innovation. The premiere performance in the history of opera and ballet issued on 24 September 2011 in the Hungarian National Opera in Budapest. An unusual play of light, shadows and special effects using a three-dimensional image, created a unique spectacle of the artistic world in which the majority of the creators of culture nurtures existing traditions. Opera *Bluebeard's Castle* and a piece of music, which is the ballet *Boléro* by Ravel, have become known as ground-breaking artistic events, shortly after the premiere in Budapest. Special effects form the background for *Bluebeard's Castle*, built through the work of Andrew Quinn has become extremely difficult to design a clear picture of the castle and its seven hidden chambers that make up the mood of a psychological drama, which decided to move on stage. The device does not replace the original game of acting, where the two heroes trying to make sense of their relationships connecting and supporting actors 3D effects, to help the audience imagine what is going on in their minds. The aforementioned technical creator of this show – Andrew Quinn, now lives in Milan, Italy, where he teaches courses on technology research TouchDesigner. A. Quinn, as one of its first members worked with the newly formed company 3DLiveLive, which developed the above technology used later by Quinn for the further development of the three-dimensional image, transferred for the first time from the cinema hall, to the stage of the opera in Budapest. This is made possible thanks to the cooperation of Nyima Gazestani – 3D modeller who created three-dimensional special effects for the ballet *Boléro* by Ravel – co-designed audio-reactive visuals, to become part of the accompanying, yet complementary classical music performances. A. Quinn confesses that motivation to work on the original project in its dimension, derives from the possibility of combining sounds and images. Targeting them as part of the process of managing the entire project, was for him a point of reference, and the technology he needed TouchDesigner released this set of tools. The combination of music and 3D animation as a background spectacle taking place in real time, is the result of many years of work and experience acquired (<http://www.derivative.ca/Events/2011/Opera3D/>).

The first computer programs forming the 3D technology, the Houdini 3D animation tool that enables the creation of computer animation (<https://www.sidefx.com/>). As a musician and composer, Quinn took advantage of the possibilities of this program and introduced himself composed the music in the digital environment of the world, thanks to his knowledge of musical backgrounds constituting an integral part of theatrical performances. The idea of designing a virtual decoration for the Budapest Opera House, was born in 2010, and its author is Ildiko Komlosi – soprano, playing the role of Judith – Bluebeard's wife in the opera *Bluebeard's Castle*. I. Komlosi is considered to be the artist of the best voice. She has performed in productions and operas around the world, including Milan's La Scala (<http://www.derivative.ca/Events/2011/Opera3D/>).

Both operas intimidate audiences with her performance, clarity of virtual decorations and live action. Although the release of concerns have been raised that the set designers may lose their jobs, since traditional decorations in the project, have been replaced by innovation directorate Budapest Opera House, 3D technology, with its special effects, there are no reasons for concern. As mentioned earlier in this paper, the original acting – expressing emotional voice, movement or facial expressions, will never be fully replaced by computer technology. This design is impossible because computers perform specific commands users, but they are not capable through them to express human emotions. In many artistic environments, for example in Hungary, dominated by attachment to the tradition of preserving old art forms and means of expression. Besides, not all cultural institutions in the world, which include theaters, cinemas and operas, can always offer you in their artistic program, presentation prepared in 3D. Directorates of some of these institutions, sometimes decide to invest in new innovative projects that bring the known traditional performances, giving them a new dimension and content. Therefore, premiere screenings of *Bluebeard's Castle* and Ravel's *Boléro* in 3D technology undoubtedly deserve recognition, considering the quality of their performance by the team of actors, animators and authors of the issued units. A passion for old forms of expression, or the use of previously developed techniques, however, will remain present, and with new technologies, will provide a unique experience to its customers, who expect that in today's culture.

4. New consumer expectations

Consumers expecting something extraordinary, create new demand, and marketing experience creates fantastic worlds, trying to answer the demand from customers. This allows you to feel like you are in the theater and believe that anything is possible. Theatricality, which is a new strategy of selling products under the brand name of the company, makes the sale has the characteristics of the performance. The impact on the sense of sight, hearing, smell, touch or taste and the use of the mechanisms of perception, creates a new experience as a result of staging prepared by the companies. New forms of expression are possible by modern technology. Computer simulations are designed to virtual reality, an example of which can be found in Canada, which is the seat of IMAX. For years, it offers its customers unique images hyper-reality, inspiring them and providing unforgettable experiences in such places which are Ontario Place – Canadian amusement park on Lake Ontario in Canada (Mazurek-Łopacińska, 2006, pp. 318-319).

It has been designed for the residents of Toronto, as well as tourists visiting them. Located on three artificially constructed islands. One of several most popular attractions is the Children's Village, especially good for families with children. There is a playground with computer games, swimming pools with water slides, and small boats. The greatest interest is, however, the building in the shape of a sphere called Cinesphere, in which there is the three-dimensional IMAX cinema – the company, which was founded in Toronto in 1967 and revolutionized cinema of the XXI century (Bishop et al., 2009, p. 187).

On the first of February 2012, the federal government of Ontario, took the decision to transform the park Ontario Place in a distinctive regional facility that meets the expectations of the residents of Toronto and travelers. In connection with the activities of revitalization, in 2013 some objects, such as Ontario Place Marina, Amphitheatre Molton and Atlantis Pavilion, will remain open to visitors. At the time of carrying out the process of revitalization and will be closed: IMAX cinema in Cinesphere, water park and restaurants (<http://www.ontarioplace.com/>).

At this point of the present work, it is necessary to explain the meaning of *revitalization*. We can distinguish a number of attempts to define, which houses a number of trends and directions of development of urban policy. Foreign publications appear synonymous concepts such as *urban reneval*, *redevelopment* and *urban regeneration* and *revitalization*. The process itself involves the *revitalization* while the use of such elements as:

- social participation, that is, public participation in the project,
- partnerships with non-administrative structures,
- compliance with the logical territorial formulation and consistent implementation of the objectives (Swianiewicz, Krukowska, 2011, pp. 37-38).

It is difficult, however to give a universal definition explaining what is a *revitalization*, because depending on what the changes to its information content. However, the most frequently cited definition, this should be developed by Polish researcher, Professor Krzysztof Skalski: “A proper definition defines revitalization as a comprehensive program of refurbishment and modernization of buildings and public spaces, restoration of monuments in the selected area, the most ancient district of the city, in conjunction with economic and social development. Revitalization is a call technical measure – such as repairs – with the programs of economic recovery and action to solve social problems occurring in these areas: unemployment, crime, demographic imbalances. It is wrong to speak of a “revitalization” of one building, or “revitalize” the city square, where these activities apply only to refurbishment or renovation of monuments” (Swianiewicz, Krukowska, 2011, pp. 40-41).

Ontario Place revitalization organizers in Canada have set the goal of creating a new city park and the waterfront in the eastern part of the island. Originally there were parking spaces for staff amusement park and warehouse space. Scheduled water trail will be connected to the existing coastal system, while the urban area of the park will be 7.5 hectares. Thus, this part of the island, will be made available for the first time in forty years. The emergence of new green spaces and making seafront regeneration taken, is a response to the demand of the residents of Toronto and surrounding areas. During the public consultation and meetings, they can express their opinions on the proposed revitalization activities. After their execution, will be re-opening of Ontario Place amusement park for the residents of the City of Toronto and tourists visiting them. The entire revitalization project is to be completed in 2015 (http://www.mtc.gov.on.ca/en/ontarioplace/park_trails.shtml).

5. Modernization – transformation on a global scale on the example of the Ruhr Area in Germany

Ruhr in Germany is the area with which in the first half of the twentieth century took place in political disputes and conflicts of war. Until the collapse of the industry in this region of Germany, employed there were 0.5 million people. In recent years, there has been the revitalization and transformation of the area into a tourist attraction for 155 million Euros, to counter the depopulation of the surrounding cities. Currently, there are post-industrial monuments, which are mazes of metal construction, factory halls and mines open to visitors (<http://wyprawymarzen.pl/wiadomosci/wyprawy-marzen-w-zaglebiu-ruhry, 228.html>).

Ruhr is one of the few largest cities and cultural centers in Europe. The total population in 2014 is 5,000,000 – this is one of the few largest cities and cultural centers in Europe. Ruhr is the five

largest cities, which include: Bochum, Dortmund, Duisburg, Essen and Oberhausen and smaller urban centers, where the total number is 50. Almost in every city there are restaurants, dining and theme parks frequented by both tourists eager and city dwellers. In 2010, the Ruhr region was chosen as a European Capital of Culture (<http://www.germany.travel/pl/miasta-kultura/miasta/zagebie-ruhry-ruhrgbiet.html>).

Representative of the region is the city of Essen (<http://www.metropoleruhr.de/pl/strona-glowna/metropolia-ruhry/dane-i-fakty.html>). By 2020, there is planned the creation of a new landscape in the Ruhr of the entire region, also symbolizes his new destiny (<http://www.germany.travel/pl/miasta-kultura/miasta/zagebie-ruhry-ruhrgbiet.html>).

Showcase the region and a window to the world, remains the most famous building, which is the Ruhr Museum in Essen. It is a place of memory the whole Ruhr area, as well as the largest post-industrial building. Historically, it was mine and coking plant Zollverein in Essen, which now houses the Museum of Industry and at the same time the Regional Museum. Exposures relate to the natural environment and history of the region, while inviting visitors to take advantage of modern media (Borsdorf, Grütter, 2010, pp. 16-17).

Moreover, the entire complex of the former mine was inscribed on the UNESCO World Heritage Site, which also distinguished award for exemplary revitalization of brownfield facility. Former place of compressors is now the restaurant Casino, and special interest is the so-called Coal Road, which is the old conveyor belt, which was transported to coking coal, and today they are illuminated stairs (<http://wyprawymarzen.pl/niemcy/album/wyprawy-marzen-w-europejskiej-stolicy-kultury,944.html>).

6. Modernization – transformation at the local level on the example of the city of Bilbao in Spain

The city of Bilbao is located in the Basque Country in northern Spain near the Bay of Biscay. For many years, this region of the country was considered the most unstable in the Iberian Peninsula because of the frequent struggle for independence, which led to the Basques, to get rid of the sovereignty of the national authorities based in Madrid (<http://portalwiedzy.onet.pl/68590,,,basques,haslo.html>).

To change the image of the city and to increase the level of security in the city center and its surroundings, the local authorities decided to carry out a comprehensive revitalization of urban areas. In this way, Bilbao industrial center since the late 80's of the twentieth century, began to change in the post-industrial center providing services related to culture and the arts. Received the same competitive advantage, attracting investors to the city, through which created new jobs and futuristic buildings, attracting the attention of tourists. Implemented flagship projects which were the construction of a branch of the Guggenheim Museum and the Palace of Congresses Euskalduna music. The city itself has an interesting artistic traditions, medieval architecture and Parisian district – the Ensanche – a representative of the city modeled on Paris (Murzyn, 2002, p. 36).

With the emergence of one of the most recognizable modern buildings, which is a branch of the Guggenheim Museum, which its architecture, surpassed established home in New York, the city of Bilbao has become a popular tourist destination for travelers (<http://www.findagrave.com/cgi-bin/fg.cgi?page=gr&GRid=53419137>).

Guggenheim Museum was established thanks to its founder – Robert Solomon Guggenheim and subsidiaries in addition to Bilbao museum, are also in Venice and the United Arab Emirates (<http://www.guggenheim.org/bilbao>).

As time has shaped the concept of the so-called Bilbao effect. It is a culture of success in the revitalization of the city, which provided him the future. Also used an appropriate marketing strategy to boost the city and in line with the revitalization plan, ensured the increased security. As a result, despite the location of the city in the Basque Country in Bilbao and the surrounding area is safe and daily visited by many tourists and local residents (<http://vumag.pl/design/efekt-bilbao,60400.html>).

7. Conclusion

Presented in this paper examples of human activities in the fields of culture and the areas of marketing and management innovation testify of man, who can demonstrate their creativity on many different levels.

Thanks to the creators of artistic imagination and their collaboration with experts specialized in the field of technical computing, three-dimensional worlds are created enlivening traditional opera or known film works, which are presented audiences in a new dimension. Changes to the management of cultural heritage, but the goal of the transfer of cultural values remains the same. Changing images of forgotten places and makes that they are rediscovered, raising the quality of life of their residents, creating new jobs and above all, making them recognizable in the world. This brings both benefits of which mentioned above, but also some risks, where traditional culture is sometimes too commercialized. However, several marketing strategies are focused on delivering new sensations and experiences, becoming a source of inspiration and new types of marketing, which include:

- *retro marketing*, referring to the regional roots and the lifestyle of consumers;
- *marketing community*, referring to the passion and expression of emotions in collective action;
- *virtual marketing*, having the greatest potential to provide various kinds of values (Mazurek-Lopacińska, 2006, pp. 319-320).

The use of specific marketing activities, can become an effective factor in the management of the cultural heritage of the place and the community, which allows you to discover previously unknown possibilities and at the same time ensures the survival of the heritage of the past, deliberately entering it in the future.

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Chapter 13

Marketing Tools in Place Management. Idea and Application¹

Sebastian Brańka

1. Introduction

The words competition and marketing are commonly associated with entrepreneurship and rivalry between companies for customers. The political, economical and technological changes of the past three decades have caused a proliferation of competition between places *i.e.* countries, regions, cities *etc.* One may clearly see that at present places compete to meet the expectations of various stakeholders in order to secure the well-being of its inhabitants, employees and entrepreneurs as well as future development. The local authorities try to retain its inhabitants and entrepreneurs as well as attract new residents, students, tourists and investors. Nowadays places compete not only at the national level, but often at international or even global levels. The purpose of this paper is to provide an analysis of the marketing tools' concepts present in the contemporary place marketing literature. This analysis was preceded by introduction of the chosen examples of the historical application of instruments that today may be considered place marketing instruments.

2. The early historical applications of place marketing

There is a long historical record of the customer-oriented actions of central, regional and local authorities. Referring to the selected ancient examples of the Greek colonization of the Mediterranean and development of ancient cities of Ephesus (important ancient place of worship) or Hierapolis (important ancient place of worship and hot-springs) one might speculate that attracting new settlers or visitors (*e.g.* pilgrims, tourists) must have already existed in the antiquity. It might be however perceived controversial to directly link the modern marketing concepts with the actions taken two thousand or more years ago.

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2.1. The American Homesteading

There are however well documented examples from the 19th century that illustrate the use of tools that from the contemporary perspective may be called place marketing instruments. The American Homestead Act of 1862 may be considered one of the oldest well-documented examples of the market orientation of administration. It is worth noting that a similar legislation was passed in Canada ten years later. One of the purposes of the Homestead Act was to attract new residents into sparsely populated areas. It's crucial to underline that at the time native inhabitants of these territories were unwanted and their fate was tragic. The Homestead Act enabled new residents to obtain land for free, while only "the transfer and registration costs were payable" (Ward, 1998, p. 12). Initially in 1862 the area of the land to obtain by a citizen was 160 acres (around 0.65 km²), but according to the following acts it was possible to obtain even 640 acres (around 2.6 km²). As S.V.Ward summarizes the results of the action "homesteading had a dramatic effect on the settlement of states such as Nebraska, South and North Dakota, Montana, Wyoming, Kansas and, above all, Oklahoma" (Ward, 1998, p. 12). There is evidence of competition between the states at that time. Citing S.V.Ward: "in 1845 Michigan, for example, appointed an immigration agent to be stationed in New York to direct would-be settlers to the state. Four years later it began a very active advertising campaign in the east and in Germany" (Ward, 1998, p. 11). Most of the other states in the mid-West, including Wisconsin, soon followed with similar actions.

2.2. Attracting settlers to South America

In South America the incentives offered to potential settlers from Europe had also been focused on provision of free land. As potential migrants from rural parts of Central and Eastern Europe were poor and could not have afford a trip across the Atlantic the Brazilian authorities offered not only free land grants for the new residents but also covered "the total costs of travel" (Mazurek, 2006, p. 34). Such conditions were offered since 1884 until the outbreak of the First World War (with minor breaks). Similarly Argentina attracted immigrants with free land grants (0.25 km² to 0.5 km²) and free ship fare (Mazurek, 2006, p. 34). At the same time the free land and fare offers were promoted by agents providing information directly to the potential migrants. Unfortunately most of the historical evidence show that the agents provided false information abusing the poorly educated potential migrants (Mazurek, 2006, pp. 41-48). This fact resulted in strong criticism of the phenomenon at the time in local papers in Central and Eastern Europe.

2.3. The early use of place promotion

It is important to underline that even though the notion of place marketing did not yet exist, promotion was a marketing tool commonly used by many local and regional authorities more than one hundred years ago. In the late 19th and early 20th century there was a fierce competition between seaside resorts of England. One of the aspects of the rivalry was a very active promotion of the resorts including PR (as inviting influential officials and providing information about such fact to the public), and advertising. The local authorities tried to use all available advertising techniques, but due to the legislation they often could not afford the most effective and most expensive ones (*e.g.* posters and placards) and were "confined to leaflet and newspaper advertising"

(Brown, 2013, p. 179). The early place promotion was addressed not only to tourists, but businesses as well. For example the New Industries Committee of Luton produced in the year 1900 “what was almost certainly the first British industrial promotional brochure, *Luton as an Industrial Centre*” (Ward, 1998, p. 150).

The examples provided above clearly show that already in mid-19th century the governments (in this case federal and regional) were not only aware of the possibility of attracting certain stakeholders (in this case new residents) but were also able to implement this concept on an operational level using specific tools. There is no doubt that the tools should be considered marketing tools as they assumed offering a certain value (land ownership, ship fare, and in some cases farm tools) in exchange for obtaining a future development factor (*i.e.* new resident perceived as *i.a.* new inhabitant, tax-payer, source of internal demand). Today we might argue how to classify the mentioned tools according to the contemporary concept of place marketing. The presented examples clearly show that the authorities were able to create a product that met the needs of certain clients (place’s stakeholders). The use of agents to provide potential customers the information on the offer may be interpreted as a promotion activity. However it could also be argued that agents were also a part of the distribution system (not selling the product itself, but providing necessary information). Promotion seems to have been a marketing tool commonly used in place marketing including various techniques as *e.g.* advertising, PR, personal selling.

3. Marketing tools in the place marketing literature

In “Marketing places”, one of the first books dedicated to place marketing, the authors Ph. Kotler, D.H. Haider and I. Rein introduced a concept of the “strategic place marketing”, highlighting *i.a.* four major marketing factors that should be improved in every community in order to satisfy the needs of all the stakeholders and provide future development. The factors are (Kotler, Haider, Rein, 1993, pp. 18-20):

- assurance that “basic services are being provided and infrastructure maintained to the satisfaction of its citizens, businesses, and visitors”,
- “new attractions to improve the quality of life to sustain current business and public support and to attract new investment, businesses, or people”,
- “the community needs to communicate its improved features and life quality through a vigorous image and communication program”,
- generation of “support from its citizens, leaders, and current institutions for making the place hospitable and enthusiastic about attracting new companies, investment, and visitors to its community”.

Furthermore the authors listed four components that form the process of improving the places “livability, investibility, and visitability” (Kotler, Haider, Rein, 1993, pp. 99-100):

1. Urban design – enhancing the place’s attractiveness and developing the aesthetic values (“Place as character”);
2. Basic infrastructure – enabling sustainable development of inhabitants and businesses (“Place as a fixed environment”);
3. Provision of basic services for inhabitants and businesses (“Place as a service provider”);
4. Provision of attractions for inhabitants and visitors (“Place as entertainment and recreation”).

In the consecutive parts of their work the cited authors directly listed three types of tools available for communicating a place's image *i.e.* (Kotler, Haider, Rein, 1993, pp. 151-155): slogans, themes and positions; visual symbols; events. Moreover Ph. Kotler, D.H. Haider and I. Rein pointed out five broad influence tools for promotion of the place (Kotler, Haider, Rein, 1993, p. 166) including: advertising, direct marketing, sales promotion, public relations, personal selling.

Analyzing the presented information it is worth noting that the Authors of the "strategic place marketing" concept suggest that major marketing communication tools that are used in the commercial sector may as well be successfully used in promoting places. Apart from communication the Authors do not directly refer to "classical" marketing-mix as a set of universal marketing tools useful for the communities. The presented arguments however show what areas of community's activity are crucial in meeting the needs of place's stakeholders. The areas of improvement where certain goals must be set and marketing tools used include: infrastructure and services, attractions, marketing communication and public support.

3.1. The direct adaptation of the 4 P's

Many other authors base the set of place marketing tools on the marketing tools widely known as the marketing-mix or the four P's. An example of such a direct reference is the book on city marketing by V. de Elizagarate (de Elizagarate, 2008, p. 106). The Author lists 4 tools of city marketing *i.e.*: product, price, place (distribution) and communication (promotion). Referring to the product V. de Elizagarate reminds that a city perceived as a product must be attractive to various stakeholders (its residents, investors and businesses, tourists and visitors) and that for every of these stakeholder groups it satisfies specific and often distinctive needs. Furthermore the cited Author underlines that not only physical but also cultural elements form the city – as a product – for different stakeholders.

Referring to the price as a marketing instrument V. de Elizagarate (de Elizagarate, 2008, pp. 120-121) suggests profiting from the experience curve effects and the economies of scale – as potential means to decrease the prices of goods and services offered by the city. However the application of the mentioned concepts in the modern city seems difficult as nowadays city authorities do not control production of goods and the prices of services they provide seem only a fraction of costs incurred by residents, investors or tourists.

In case of the use of distribution as a place marketing tool the cited Author suggests that as in services marketing the city authorities should focus on creating tangibility while informing on the city as a product *e.g.* presenting the city in catalogues and/or using multimedia (de Elizagarate, 2008, p. 122). Furthermore, due to very high costs, only limited number of countries can afford an overseas agent or agency that presents the country's major cities. Moreover V. de Elizagarate underlines the role of the Internet as a distribution channel of a city's product. The local authorities may use the Internet to both inform and promote as well as survey the needs of various stakeholders. What is impossible in case of distribution in place management is the actual distribution of the product in terms of delivering it to the customer. Therefore in case of place

marketing the Internet seems to be, above all, a tool used to inform and promote, thus a promotion (or communication) tool².

3.2. From 4 P's to 7 P's

A number of authors base on the 4 P's marketing-mix in order to increase the number of tools. A. Łuczak (Łuczak, 2006, pp. 180-181) for example complements the 4 P's with the fifth P: "People" – in the meaning of employees providing the service (product). T. Markowski, referring to J van der Meer (Markowski, 2006, p. 93), suggests that not only people but also politics and power form the 7 major place marketing instruments. While the German Author I. Balderjahn (Balderjahn, 2000, pp. 136-137) underlines the resemblance of place marketing to b2b marketing, services marketing and marketing of consumer goods. Therefore the cited Author suggests the use of 7 P's of services marketing (*i.e.* 4 P's plus People, Process and Physical Evidence) as the optimum set of place marketing tools.

In the Polish place marketing literature a broad overview of place marketing instruments may be found by A. Szromnik (2012, pp. 82-89, 403-412), who notes that "the range of marketing actions, ordered according to the 4 P's formula, has still got certain limitations that prevent its complete adaptation for the purposes of place marketing" (Szromnik, 2012, p. 83). A. Szromnik reassumes that "the mix of marketing instruments for cities (communities) and regions, *i.e.* place marketing mix includes four (in the basic option) and seven (in the expanded option) groups of projects" (Szromnik, 2012, p. 404). In case of investor attraction "the basic set of marketing actions is a consistent and balanced program related with:

- creation of the marketing concept of place as a product,
- creation of price-cost conditions of city's investment attractiveness (price),
- creation of network for communicating offers and locations for contacts with potential investors (distribution),
- creation of the marketing communication processes (promotion)".

According to A. Szromnik the three instruments including People, Physical evidence and Process should be used additionally with four components of the city marketing-mix listed above.

3.3. The limitations of the 4 P's marketing-mix approach to place marketing

In the place marketing literature one may also encounter opinions strongly skeptical about the direct use of the classical four element marketing-mix for the purposes of place marketing. For example M. Florek devotes a separate chapter of the book entitled "Podstawy marketing terytorialnego" ("Fundamentals of place marketing") to the subject of "Limitations of price and distribution tools application in place marketing" (Florek, 2007, pp. 137-149). Referring to distribution in place marketing M. Florek underlines the subproducts that together form the city-product (for all the city's stakeholders) are produced and offered in the city – the place of production and sale, therefore the clients must change their location to "buy" the product and "in case

² For example J.W. Wiktor considers the Internet as a specific communication environment of the company. See: (Wiktor, 2005).

of place marketing distribution refers mostly to the internal and external accessibility of the city (place)” (Florek, 2007, p. 137). In this context the cited Author notes that in case of place marketing the provision of information seems a vital element of the place’s distribution and gives examples of agents providing information about the place what resembles the cited observations of V. de Elizagarate. Once again similarly to de Elizagarate M. Florek underlines significant and still growing importance of the Internet as a source of information. M. Florek points out that in case of place marketing “the object of the transfer in the distribution channels are exceptionally the clients (in the majority of cases) and not the products. The distribution channels therefore create the conditions that enable flow of clients towards the place (of consumption) and make the consumption itself easier” (Florek, 2007, p. 140). The cited Author notes that if the improvements in place distributions mean improvements in the place itself and its accessibility “the product and distribution overlap and it may be justified to treat distribution already as part of the place’s (mega)product” (Florek, 2007, p. 140).

The direct adaptation of the price as a place marketing tool raises concerns as well. The city must not be sold in the same fashion as goods or services are sold by the commercial companies. M. Florek highlights two important price-related facts. First of all local government does not control all the decisions that result in the level of costs incurred by the client. The local authorities neither do control wages, nor do they control the prices of privately-owned commercial real estate. Even the level of the local tax rates may be limited by the central government (as it is in Poland) and therefore the contemporary local government seems to influence the costs of living, doing businesses, studying or tourist visiting in a very limited way.

M. Florek (Florek, 2007, p. 178). highlights that “However the application potential of product and promotion is high in the place marketing, the price and distribution tools have limited application. Their meaning in place marketing is increasingly associated with the place’s (mega) product”. Therefore the cited Author suggests to consider the price and distribution as components of the place’s product.

4. Contemporary examples of marketing instrument application

The range of marketing activities undertaken presently by local, regional and central authorities has never before been as wide. Often as a result of what might be called market segmentation, places focus on certain groups of stakeholders as *e.g.* tourists, business tourism organizers, BPO’s, industrial investors, new residents, students and many others. Certain products are developed in order to satisfy the needs of the client. To improve its offer, or product, the city may invest in what Kotler, Haider and Rein pointed as infrastructure and attractions. Using Cracow as an example, the city has been investing both in new attractions, *e.g.* two new museums that soon after opening in the year 2010 became hits (Brańka, 2013, p. 415), and infrastructure (*e.g.* new congress centre to be opened in October 2014). These actions surely improve the city’s attractiveness among tourists and business tourism organizers. In today’s economy potential investors are another group eagerly attracted by the local, regional and central authorities. For this purpose business and IT parks are established and special economic zones created.

For the public opinion the most visible tool used to market places is promotion. Recently the place managers has been using virtually all promotion techniques the commercial sector has been using, including advertising (both ATL and BTL), PR, the use of the web pages, social

media and others. Sports sponsorship has also been used in place promotion and for example millions of spectators of the UEFA Champions League final on 24th May 2014 had an opportunity to learn the promotion slogan of Azerbaijan – the sponsor of Atletico Madrid team: “Azerbaijan: Land of Fire” as it had been placed on the Atletico’s uniforms.

Finally, it is worth to underline that in place marketing events seem an instrument of a much wider use than in case of businesses. Events may become part of a specific product of the place – attracting the visitors eager to participate in the event. A place may benefit from an event not only due to the inflow of the people participating in the event, but it may also profit from the image proliferation due to holding the event. An extreme example may be the world widely known Encierro (so called running of the bulls) in Pamplona that not only attracts participants and spectators during the 8 day festival dedicated to Saint Fermin but draws attention of mass-media from all around the world. The phenomenon occurs also in case of smaller-scale events (*e.g.* cultural and sports) where the event is both a product attracting the “client” but also an instrument of place promotion.

5. Conclusion

The presented facts show that the use of marketing tools has long preceded the emergence of the modern concept of place marketing and the creation of its theoretical framework including its operational/instrumental aspect. The provided analysis of the selected place marketing literature illustrates that many authors state that marketing-mix may be successfully adapted in place marketing, although there is no common view of the number or character of the major place marketing instruments. It is worth to underline that only one instrument of the marketing-mix (*i.e.* promotion or marketing communication) is unanimously considered by the cited authors as directly applicable in place marketing. Furthermore the cited authors either directly underline the importance of the place’s product in its marketing activity or they highlight particular elements of the product (as *e.g.* infrastructure, services and attractions by Kotler, Haider and Rein). The direct application of the remaining two instruments of the 4 P’s in place marketing (namely price and place/distribution) seems most difficult. In many cases the use of the price-related incentives seems to reflect the idea of sales promotion. The role of distribution is similarly unclear in place marketing. In case of places only information is transferred to the customer, and not the product, therefore the distribution activities might be regarded as part of either product (*e.g.* the improvement of accessibility of the place to the visitors) or promotion (*e.g.* providing information and promoting the place among potential customers).

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Chapter 14

The Concept of European Urban Space Management Based on Cultural Managers Competence on the Example of the SCOUT (Small Capital of Culture) Project

Jarosław Plichta

1. Introduction

The importance and role of cities and other settlements has changed with the increase in the mobility of resources – material, human and financial – not only on the European but also global scale. Competition between local government units is moving from the national to the international level. This often results in the depopulation of city centres and the emigration of the population or capital to more attractive locations. These local, urban problems, in turn, are moving from the micro-level of locality to the meso- and macro-levels of the economy, and causing a number of external effects. Coordination of activities in this area is not only a problem of the nation-states, but also has been recognized by the EU institutions. In the face of declining competitiveness of the EU and problems in implementing the concept of sustainable development, along with the intensification of migration within the EU, the focus is shifting towards the identification of the causes of these phenomena. At the same time, for many years, steps have been taken to internationalize activities in the area and institutionalize them¹. The main slogan has become cooperation, instead of competition. Awareness of competing at the European level begins to give way to the conviction of the necessity of synergy of joint activities regarding the management of residential spaces (cities, regions) in order to increase competitiveness on a global scale. This trend, apparently difficult to reconcile in the face of growing particularism of the member states' own interests within the community, is one of the attempts to counteract these tendencies and develop common tools to support management at the level of individual residential units. An important role in this process is played by cultural factors and resources

¹ One example is ATCM (Asociación for Town@City Management), non profit, the largest organisation of its kind in Europe mutual organisation, owned by members from the private, public and third sectors, which focusses on the creation, development, and management of vibrant and viable town and city centres (www.atcm.org).

which are, on the one hand, a field of conflict and rivalry, and on the other hand, they can become a field for cooperation. This issue has been noticed by the EU and a number of programs aimed at entities from different countries from and outside the EU have been initiated, creating conditions for the development of cooperation in this area.

EU funds have so far included a number of initiatives aimed at exchanging knowledge of the above mentioned problems at the local and national levels, and to develop communication tools and network structures to allow for internationalization solutions in this area. One such project is SCOUT (Small Capital Of cUITure) implemented by the Foundation of the Cracow University of Economics in cooperation with six partners from the UK, Czech Republic (2 partners), Greece, Sweden and Turkey². This article presents the general concept of this type of activity at the local level and international levels and presents the assumptions and preliminary results of international research conducted under the project.

2. Grounds and objectives of the concept of co-operation in the field of cultural management at the international level

The issues related to the development and dynamics of changes in residential units have been present in research since the early nineteenth century. The analyses and emergence of various concepts were limited for years due to the scarcity of empirical and comparative material relating to towns, which were relatively few. It should, however, be pointed out that some works provide insightful descriptions and study the processes of urbanization from the historical perspective³. From the Polish point of view the work of J. Miller from the University in Olomouc, "Urban Societies in East-Central Europe, 1500-1700" (Miller, 2008) is noteworthy. Initially developed on the basis of demographic and economic theories, it evolved from the problems of the location of industrial or agricultural activities on the ecological urban concepts or ideas rapidly developing after World War I. Since the end of the nineteenth century parallel development of different concepts follows, mainly in urban development as new economic and social phenomena (Grzelak, 2008). With the development of the marketing concept and the growing importance of the competitive phenomena, began to adapt experience in the management sciences to the management of local government units, cities or regions (Szromnik, 2007). This process intensified in Poland and other countries along with the expansion of the EU, which resulted in the development of concepts and approaches to the use of local resources, image building and promotion (Rosa, Smalec, 2011). On the basis of planning, one can point to the achievements and BCD models by Burgess, H. Hoyt's sectoral models, linear models by A. Soria, the industrial models by T. Garnier, the contemporary ones by Le Corbusier, or band models, radial models and network models by E. Howard (Solarek, 2011, pp. 51-71). A large contribution to the description of the phenomena present in large cities was the so-called Chicago School, represented by Louis J. Wirth, based on theories of social differentiation by E. Durkheim and H. Spencer (Turner, 2004, p. 98). L.J. Wirth believed that urban development can be analysed through the prism of the size and density of urban population, because they affect the diversity and heterogeneity of each population. He

² Project title: Destination manager for Small Capital Of cUITure.

³ Historical Urban Studies Series, Series editors: Jean-Luc Pinol and Richard Rodger, Ashgate Publishing Limited, Hampshire England.

claimed, that in a concentrated population that reaches a certain size, the inevitably emerges a proliferation of secondary social groups, reduced personal interaction and increased cultural heterogeneity. Consequently, there is a weakening of family ties and the traditional foundations of social control, such as religion, folklore and cultural heritage are undermined. The representatives of the Chicago School (Ernest W. Burgess, Chunsy D. Harris, H. Hoyt or Roderick D. McKenzie and others) saw the urban area as a kind of an ecosystem, where various zones, sectors and nodes have emerged as a result of competition for resources. The main drivers of urban growth by ecological concepts are population and production growth. They caused an aggregation of the various groups gathered around housing estates and business areas due to the necessity of survival and livelihood. The increasing population has caused an increase in competition for urban space, public resources, retail markets, etc. which are subject to processes of valuation and exchange. Competition leads to differentiation of urban areas due to the nature of their inhabitants, economic activity and culture. This has resulted in the need to seek alternative residential space on the outskirts of cities, where competition was weaker. An example is the development of not only the cities, but also migration in search of valuable resources such as land or bullion. This simplified model of biological selection was enriched in subsequent years by such research as A.H. Hawley's, which introduced the ecology of the city into the macro level analysis. Based on the achievements of the Chicago School, Turner created a theoretical model of urban ecology. The essential elements are the level of development of communication technology and transportation, and the level of production of goods and services (Turner, 2004. p. 99). The size of the population, as well as technology, determines the level of production. Both technology and increase the production scale of population infrastructure, i.e. roads, canals, ports, railways, airports, subway lines and other physical structures created in a given space. This further accelerates the distribution capabilities or mobility of the society in the sphere of information, goods and services. Thanks to the broadly understood resources, the distributive activity increases, due to the processes of formation of new administrative systems and power (authorities), such as banks, government agencies, local government, insurance, trade and other institutions needed to maintain the efficiency of these markets. The exchange, accumulation and redistribution processes take place in a specific institutional environment, having a direct impact on the increase of population, the number of towns and units, and their population density. With the increasing size and density of the population, there follows a reduction of impact urbanization forces, which prevents the expansion of urban areas. The populations of city centres, thanks to e.g. real property or services markets, are migrating outside to new locations. Systems of centralized authority may, for a time, stop the movement directed too far away from the centre of administrative control (e.g. agglomerations). The classic model of migration and settlement, due to the rising costs of living and quality of life in urban centres, assumed exponential population decline with increasing distance from the centre. However, recent research indicates a decrease in suburban areas with urban centres under the influence of modern information technology. The flow of resources through residential units will bear witness to how much they are integrated into the system, especially in the markets and hierarchical management structures. Residential units connected by the markets and managing authorities increase the efficiency and effectiveness of the circulation of resources.

The influence of the ecological theory and other concepts based on the importance of cities and towns as produced socially collectivities, created in the historical process, with a specific identity and relationships, along with the related networks with the environment that can be seen

in present day attempts at coordination of migration processes in residential unit resources outside the area of their existing management system and the acquisition of the “competitive” residential spatial units - towns and cities (Domnicka, 2011, pp. 35-520).

3. The problem of managing public urban space.

Discussions over the management of the public sphere should be combined with a more general debate on the public sphere and its definition, along with the importance in contemporary society. Public space is a spatial plane carrying out the functions of the public sphere (Lorens, 2010, p. 7). There is also the concept of the public domain, understood as a place where the exchange is possible and where it actually takes place (*e.g.* thoughts, ideas and behaviour patterns) between different social groups. It is more than public space itself – as opposed to private space. Public domain is the place actually accessible to all and open to receive any willing individual, regardless of its form of ownership. There is, therefore, nothing to prevent it from being privately owned or remain within the competence of private actors (Lorenz, 2010, p. 8). Coordination of processes associated with the development of cities and are regions facing a number of objective problems such as the free movement of resources, development of new technologies, competition and consequently a change of function of the residential units. The public space of cities, and the material or non-material resources gathered there, has a specific value, by which competition takes place between stakeholders representing private and social interests. Due to the fact that public space penetrates to the private space, there arises the problem of establishing, authorization and enforcement of property rights and the coordination of activities that increase value for stakeholders. An example of such phenomena is the intermingling of cultural resources owned by the society with private property (hotels, shops, etc.), where the economies of both parties are usually achieved by tax revenues for one, and achieving a localization pension to the other. Currently, this type of co-existence and the activities within the formal institutions is not enough to raise the value for major customers of the joint space. This applies to investors, tourists and residents alike. Fulfilling the expectations and needs of the major groups from the point of view of the target requires integrated actions and management skills allow for the avoidance of conflicts of interest and making full use of the stakeholders’ potential. Therefore, the knowledge, skills and managerial competence should be developed not only in the individual management structures for each of the entities operating in a shared space, but above all, they should be enriched by the relational component. It is about the ability to cooperate and build value in the common space based on and in order to increase the value of individual resources. This intellectual structural capital is today extended to all stakeholders, including purchasers of goods and services supplied in the common space. An example of the institutionalization of cooperation between different actors in a common area is a business improvement district (BID)⁴. The management of such a separate area of activity of various entities is implemented in a variety of legal forms, depending on the legal system of the country. The essence of such a quasi-project solution is common management. In addition to achieving the objectives, exchange of information, knowledge, experience and technology resources between private and public actors takes place. It is a kind of public-private partnership.

⁴ One can also find other names, such as: business improvement area (BIA), business revitalization zone (BRZ), community improvement district (CID), special services area (SSA), or special improvement district (SID).

4. Assumptions and concept of the international project SCOUT

Over the last decade, the tourism market has changed dramatically. In particular, today, the use of the internet (including social networks) for the promotion of destinations has become commonplace. Another important area of growth is environmentally sustainable tourism. Sustainable tourism seeks a balance between respecting a place and its use according to its stakeholders' interests (including local communities, visitors, enterprises and local governments). In order to achieve this aim, tourism needs to be managed through careful use of planning and monitoring tools. Sustainable tourism should:

1. Make optimal use of existing environmental resources (*e.g.* maintaining essential ecological processes and helping to conserve natural heritage and biodiversity).
2. Respecting the socio-cultural authenticity of host communities, conserving their traditions, cultural heritage and contributing to intercultural understanding and tolerance.
3. Ensuring long-term economic operations, providing socioeconomic benefits (including stable employment and income-earning opportunities and social services to host communities) to all stakeholders and contributing to poverty reduction.

New models for the management of tourism at a town, region and national levels are therefore essential. For these reasons, in some European countries (*e.g.* UK, Sweden), there are specialized Destination Partnerships based on a pool of expert professionals (with specific competences and skills), set up in town and city centres to respond more effectively to their needs and to ensure they maintain a pivotal role in local tourist development. It represents an evolution from the original Town Centre Management (TCM) concept. Destination Management also involves a co-ordinated and pro-active public-private bottom up partnership approach. The result is a joint strategic vision with integrated management of various tourism marketing activities implemented at local level, whilst supported by testing and analysis of visitor satisfaction levels that help to refine long-term initiatives offering qualitative and targeted marketing accompanied by international promotion campaigns.

The SCOUT project aims to fill gaps in knowledge with regards to the necessary skills and competences of professional managers involved in tourism in smaller towns and larger cities. The project will analyse all the different contexts in which tourism professionals work in different town centre partnerships across Europe. Some of them (*e.g.* UK and Sweden) have wide networks and long established experience in Town Centre Management (TCM). They consider it a good model: the town or city manager works on behalf of public and private sector interests, working on planning policies, urban revitalization schemes, security and marketing. In Italy or Spain, although TCM is well known and good practices exist, networks of practitioners are not so widespread. In Eastern Europe (*e.g.* Poland, Romania, Czech Republic) there are also different practices and schemes.

SCOUT's goal is not to adopt Town Centre Managements (TCMs) as a model but to find out each different professional profile with its competence and skills to create a pan-European network of specialists that includes Eastern and Western European practice in tourism management with a transversal theme: Small Capital Of cUITure.

The SCOUT project is also the first serious attempt to create a set of practice-based performance indicators on a pan-European level for cultural events organized in the broader context of urban renewal programs. This project promises to build a solid monitoring methodology for cultural events planned in the Small Capital Of cUITure of Europe and an operational tool for assessing expected future initiatives.

SCOUT project will link two connected themes: improving small and medium towns 'artistic and cultural heritage, and the effective professional management of place. European tourism policy and practice in recent years has witnessed increasing levels of interest there has been an increasing interest towards the cultural tourism which is considered today as one of the key priorities for the sector's growth and competitiveness, as recognized in the 2010 EU Communication on tourism⁵. As a result of this, many initiatives have been supported and promoted to sustain European cultural heritage including the European Capital of Culture Programme, European Heritage Days and the newly proposed European Heritage Label.

In order to attract heritage-focused tourists, town and city centres need professional managers with an in-depth understanding and competencies in the various multi-faceted and overlapping aspects of place management to manage cities in an integrated strategic fashion (for example, as Capitals of Culture or working towards the European Heritage Label). This integrated strategic approach should incorporate:

- increasing the accessibility to/from mini-capitals of culture and among them,
- increasing the visibility of these mini-capitals of culture,
- increasing the competitiveness of the local SMEs by providing them ICT tools for marketing and advertising,
- creating, adopting a specific brand of cultural heritage small towns and cities,
- creating a managers' network for cultural heritage small towns and cities in Europe.

This project intends to identify professional managers, especially in public administration and town centre management partnerships to study their professional profile, their competences, and skills.

5. Conclusion

The European added value of this project lies in the exchange of different tourism management models in order to recognize and validate knowledge, competences and skills of tourism professionals. Another added value is in planning a networking between western and eastern European countries, involving different stakeholders (institutions, associations) in facing tourism themes.

Countries are at different stages in developing Town Management or Destination Management schemes. These have proved their utility, if not crucial, to restore vibrancy and vitality in city centres.

The added value of SCOUT still lies in focusing the importance of attractiveness of small European town with strong touristic vocation and it aims at sharing successful tools and methodology in order to well manage and strategically plan tourism development.

The SCOUT project is aimed at enhancing and promoting Town Management or Destination Management schemes and will allow:

- the strengthening of cooperation among EU city centre stakeholders and supporters;
- the sharing of tools and initiatives for growth "at a European level";
- the increment of knowledge and best practices exchange for countries that are undertaking;

⁵ 2010 Communication on Tourism (COM(2010) 352 final).

- town centre revitalization through the setting up of Town Management or Destination Management schemes;
- the acquisition of new ideas and approaches to touristic themes (impact of tourism on the urban environment, city branding, new technologies and innovative ideas to make a city centre attractive);
- support and dissemination of project results toward the network partner and all relevant stakeholders (also local, regional, national and international institutions).

The SCOUT project indicates the direction of actions not only for European institutions, but above all, it is a response to the emerging issues and changes taking place in the area of residential units in Europe. Regardless of organizational solutions adopted, the essence of this type of activity is to be a methodological and organizational tool for adaptation and development of such solutions in all EU countries. The basis for its evolution is the intellectual potential and the ability of its use by partners at both the conceptual and actual stages.

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Chapter 15

Leisure Time Management by Participation in Domestic Tourism in Poland by Provinces

Małgorzata Luberda

1. Introduction

Tourism occupies an increasingly important place in the modern world, being one of the fastest growing areas of life. It has been calculated, that in the whole world, every year, about 650 million people travel. By 2020, the number of travels in world tourism will increase three times, and the revenue from it will have nearly quadrupled (Różycki, 2006, p. 120).

According to the estimates of the World Travel and Tourism Council (WTTC), the total demand in world tourism in 2007 amounted to about 7 trillion USD. Experts of the World Tourism Organization (UNWTO) estimate that the number of tourists worldwide in 2020 will be 1,561 million (Niemczyk, 2010, p. 5).

Worldwide turnover coming from the services related to various forms of travel make tourism one of the leading economic sectors in the world. At the same time, services for tourism are increasing their position in the hierarchy of the needs of consumers, who travel with a growing frequency.

The topic of choice for this paper deserves considerable attention due to the continuous development of tourism. Tourism is evolving, and the main driving force behind the changes is the requirements and needs of tourists. Tourism has become a vital part of the global market, ranking second in the world economy, after the computer and electronics industry. The tourism industry is, therefore, a very important place in the economy of most countries.

The present paper lists the results of a survey conducted by the Institute of Tourism in February 2013 at the request of the Department of Tourism of the Ministry of Sport and Tourism. The main objective was to describe the participation of Poles in tourism in 2012, Departament Turystyki, Warszawa, 2011. This and previous studies have demonstrated the dynamics of the phenomenon. The study included short- and long-term domestic and foreign travels.

The surveys focused on Polish citizens' participation in tourism (trips) of at least one night away from home – whether for leisure, recreational and cognitive purposes, or professional ones (delegation, settling interests), religious purposes, or family and medical trips (staying in a spa). A national trip was regarded as a voluntary leave from the place of residence, accompanied by spending

at least one night outside the person's home city, town or village, and a trip abroad as one involving at least one night stay in another country. The study did not include those trips abroad whose aim was to perform additional or seasonal paid work in another country (Łaciak, 2013, p. 13).

The author distinguished short-term trips (2-4 days old), combined with at least one overnight stay outside the place of residence, but not more than three nights, and long-term trips of at least five days, and thus involving spending by at least four nights away from home.

The main category used in the article is the category of participation in tourism. Because one person can participate in all kinds of trips (short-term domestic travel, national, long-term, short-term foreign, foreign long-term), the percentage relating to the level of participation of the population in different types of trips does not add up to a hundred. The category of participation in tourism thus brings the answer to the question whether a person made a tourist trip or none at all.

To determine the level of tourist activity, the category of frequency of trips was applied. In relation to the population it is the average number of trips per person in a certain time, for example, during one year, among the participants of tourism.

The main objective of the study was to analyze the tourist traffic in 2012 and to estimate the intensity of tourism in Poland (including domestic tourism) and the changes over time.

A general working hypothesis is the statement that the participation of Poles in national short-term trips is higher than the long-term ones.

The analysis was based on secondary sources, represented by the literature and published studies from different research centers such as: World Tourism Organization (UNWTO), Institute of Tourism in Warsaw, Central Statistical Office (GUS), and The Public Opinion Research Center (CBOS).

2. The concept and meaning of leisure

Leisure has been defined by a team of UNESCO experts in an international study as including "the range of all activities in which an individual can be engaged in willingly or for leisure, entertainment, the development of their knowledge or self-training, voluntary social participation, and freedom from professional, family and community obligations." This definition is derived from Dumazedier's concept of leisure (Czajka, 1974, p. 39). As E. Wnuk-Lipiński (1972, pp. 10-11) states, leisure time is "the time remaining at the personal disposal of an individual having fulfilled their professional, family, and school duties, and having met the biological needs of the organism".

The definition of leisure proposed by A. Zawadzka (1983, p. 22) is noteworthy. According to her, leisure time is the time utilized for optional activities, undertaken on a voluntary basis, for rest, entertainment, comprehensive development and participation in social life.

On the basis of those definitions of leisure, it should be noted that it is primarily the time preferably managed subject to the freedom of the individual's choice. Its characteristic feature is the personal feeling of the freedom of choice and a sense of autonomy during the activities in its duration. It is also a sphere of life not occupied by work and other responsibilities. Leisure time is, therefore, opposed to working time. It is based, however, on taking up activities manifested in relaxation and recuperation of the human individual's strength (Woźniak, 2010, p. 237).

The time at the disposal of an individual, after completion of professional, family and social duties can be utilized passively or actively (Tab. 1). The passive forms not only impoverish

the mental sphere of the individual, but also have destructive impact on their physical condition. Reasonably utilized leisure time should therefore involve active leisure, which enables the realization of its creative function for the human being (Niemczyk, 2008, p. 40).

Table 1. Types of leisure activities

Passive recreation		Active recreation	
At home	Out of home	At home	Out of home
-	clubbing organized trips spa	self-study creativity crafts gardening hobby	education tourism culture other
		other	

Source: Cieloch, Kuczyński, Rogoziński, 1992, p. 52.

A person can spend their free time at home, or outside the home. The choice of space and forms of leisure time activities depends on many factors, including the amount of time the individual can utilize. Due to the duration of leisure time, the following are distinguished (Bywalec, Rudnicki, 2002, p. 72):

- leisure time during the day, *i.e.* short-term leisure,
- leisure time during the weekend, *i.e.* mid-term leisure,
- leisure time during the year (holidays, vacation), *i.e.* long-term leisure.

Each of the identified types of leisure time is characterized by a different structure its utilization. In the case of short periods, the dominant forms are home-based, and as the duration of leisure time increases, so does the spatial mobility of the individual (Niemczyk, 2008, p. 41).

W. Siwiński (2000, p. 23, 40) stresses that this time should be rationally used for: rest (mental recuperation), pleasurable entertainment, social activities on a voluntary and disinterested basis, development of individual interests and talents by learning or practicing amateur activities, such as art, science or sports. The same author mentions the functions of leisure, such as rest, entertainment, self-motivated education, and social participation.

The duration of leisure time and the activity of the consumer manifested at that time is an individual matter. This does not mean, however, that any consumer can use their time in a completely arbitrary manner (Kolny, 2004, p. 303). The activity is dependent on a number of objective and subjective factors, and religious determinants (Kieźel, 2005, p. 90).

3. Tourism as a form of leisure time management

One form of leisure time activities is tourism, defined as “the phenomenon of spatial mobility of people, which is related to a voluntary change of residence, the environment and the rhythm of life”, as well as the environment, and the entry into personal contact with the environment visited (cultural, natural, social) (Przeclawski, 1996, p. 30).

World Tourism Organization (UNWTO) defines tourism as a whole activity of people who travel and stay for leisure, business or other for no longer than a year without a break outside

of their everyday surroundings, with the exception of trips in which the main goal is rewarded gainful activity (Gołembski, 2002, p. 23).

There are many reasons for the rapid development of tourism and its increasing importance for the economy and meeting the needs of consumers. The most important include the peaceful development of international relations, improvements in transport and communication systems, increasing well-being, elimination or reduction of barriers to cross borders, globalization, economic and political relations, increase in the level of education, employment changes (increase in leisure time), moving to the next level in meeting non-material needs, and others. All these phenomena and their causes are also present in Poland (Górecka, 2011, p. 2).

4. Participation of Poles in tourism in the light of empirical studies¹

Activity of Poles in tourism

Participation² of Poles in tourism was estimated on the basis of surveys conducted by the Institute of Tourism among Polish citizens aged 15 years or more. The study used a division into tourist trips into domestic and foreign ones, as well as short-term (2-4 days) and long-term (five or more days) ones.

Research of the Institute of Tourism and the Ministry of Economy (Department of Tourism) shows that tourist activity of Poles is characterized by high fluctuations. It is accompanied by permanent changes in the structure of mobility, *i.e.* the popularity of tourist trips abroad is steadily growing.

In 2012, the level of participation of Polish residents in foreign tourism was higher than in 2006. A rising tendency can be observed. In 2010 and 2011, we observe a decrease in participation in domestic long-term trips and domestic short-term trips. A year later, there has been a noticeable increase in this type of trips. The growth rate reached 1.07 for long-term domestic trips and 1.32 for short-term domestic trips, respectively. A similar level of participation can be seen in short-term tourism in 2010 and 2011, as well as in the short-term domestic travels in 2006 and 2007 (Tab. 2).

In conclusion, it is worth noting that the forecasts relating to Polish participation in domestic tourism are optimistic (it is to be fostered by *e.g.* the appreciation of the Polish currency in the world markets) (Grabowska, 2006, p. 198).

¹ It has been estimated by the Department of Tourism of the Ministry of Sport and Tourism (DT MSIT) based on data from the Institute of Tourism collected on behalf of DT MSIT.

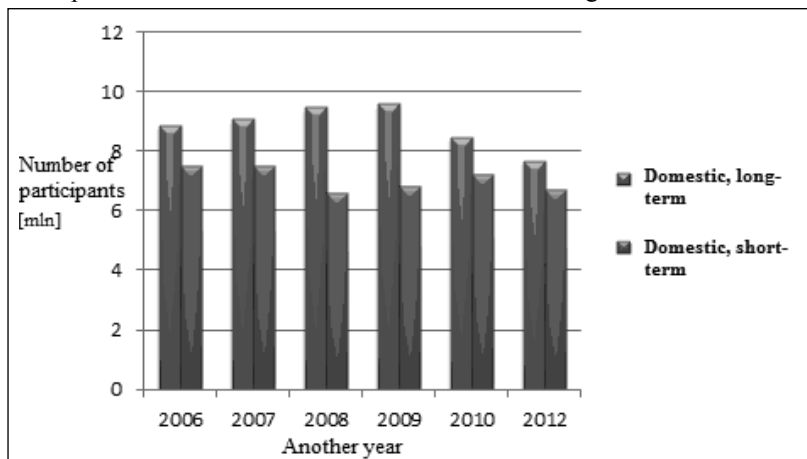
² Participation in tourism mobility (traveling) refers to the people who had at least once taken part in a given type of trip (travel); some of the people had been involved in more than one type of travel.

Table 2. Participation of Poles in tourism (number of participants aged 15 and over, expressed in millions) in 2006-2011

Tourism	Participants (in millions)							Dynamics indicator (2006=1)					
	2006	2007	2008	2009	2010	2011	2012	07/06	08/06	09/06	10/06	11/06	12/06
Domestic, long-term	8.9	9.1	9.5	9.6	8.5	7.7	9.5	1.02	1.06	1.08	0.95	0.86	1.07
Domestic, short-term	7.5	7.5	6.6	6.8	7.2	6.7	9.9	1	0.88	0.91	0.96	0.89	1.32
Domestic (total)	13.1	13.3	13.1	13.4	12.5	11.9	13.9	1.01	1	1.02	0.95	0.91	1.06

Source: own, based on: Łaciak, 2012, http://www.intur.com.pl/inne/wyjazdy_polakow2008.pdf, <http://www.intur.com.pl/inne/wyjpol10.pdf>, Wj Pol 2012.pdf [05.2013].

Figure 1. Participation of Poles in domestic travels short and long term in 2006-2012



Source: own work based on data from Table 2.

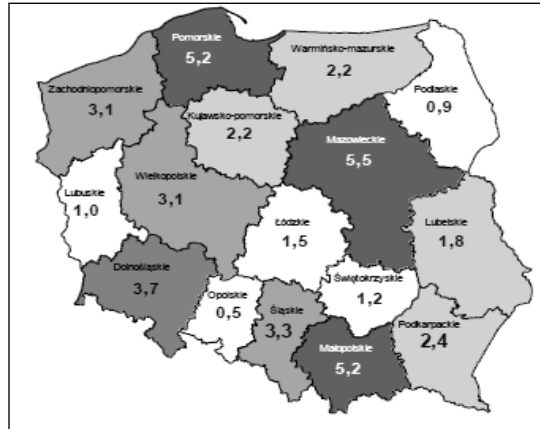
5. Directions of domestic trips by province

In 2012, most tourists who spent at least one night in a given region, it was Mazowieckie, Pomorskie and Malopolskie. These three provinces received 37% of all domestic tourism. The next four: Dolnośląskie, Slaskie, Zachodniopomorskie i Wielkopolskie received 31%. These seven provinces were visited by more than two-thirds (68%) of all tourists from around the country (Łaciak, 2013, pp. 47-50) (Fig. 2).

Three of these provinces have mountains in their area (Malopolskie, Slaskie i Dolnośląskie). Mountains are major tourist reception areas. Their varied landscape makes them very attractive as a place of leisure and escaping from urban areas. They are visited by tens of millions of tourists annually (Kurek, 2004, p. 183).

Two are coastal provinces (Pomorskie and Zachodniopomorskie); the last two are located centrally in Poland. The provinces which received the fewest of domestic tourists are: Opolskie, Podlaskie, Lubuskie, Swietokrzyskie and Lodzkie.

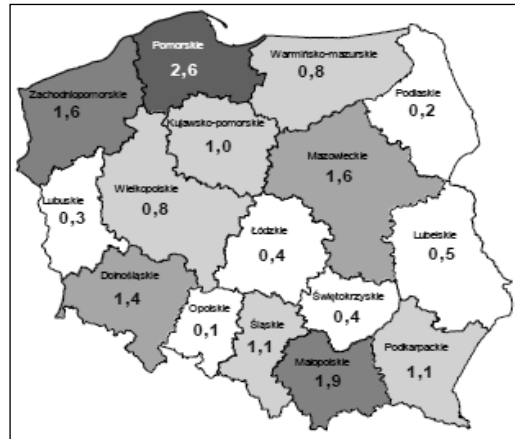
Figure 2. The intensity of domestic tourism in 2012 by province and the number of trips (in millions)³



Source: study by the Polish Institute of Tourism.

During long-term trips of at least five days, Polish tourists frequently visited Pomorskie, Małopolskie, Zachodniopomorskie, Mazowieckie and Dolnośląskie. These provinces received a total of 58% of national long-term tourists. The provinces which received the fewest domestic long-term tourists when were: Opolskie, Podlaskie, Lubuskie, Łódzkie, Świętokrzyskie and Lubelskie (Fig. 3).

Figure 3. The intensity of domestic tourism in 2012, by province and the number of long-term trips (million)⁴



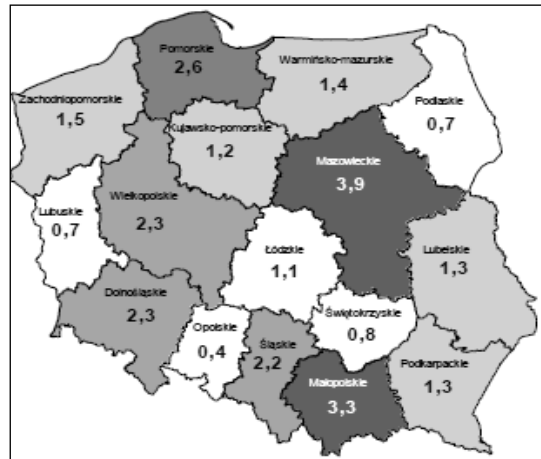
Source: study by the Polish Institute of Tourism.

³ Note: The total number of visits in the provinces is 1.1 million higher than the number of trips, because some individuals visited more than one province during one trip.

⁴ Note: The total number of visits in the provinces is 0.8 million higher than the number of trips, because some individuals visited more than one province during one trip.

The reception of domestic tourists traveling short-term (Fig. 4) had the largest share in Mazowieckie and Malopolskie, followed by Pomorskie and Wielkopolskie, Dolnośląskie and Slaskie. These six provinces received 61% of participants in short-term domestic tourism. Because traveling briefly is more frequently limited to the area of one's own province, the reception is greater in those regions with large city centers. The fewest short-term tourists were received by the following province: Opolskie, Lubuskie, Podlaskie, Swietokrzyskie and Lodzkie.

Figure 4. The intensity of domestic tourism in 2012, by province and the number of short-term travels (million)⁵



Source: study by the Polish Institute of Tourism.

Comparing the distribution of domestic tourism in 2011 and 2012 and taking into account the total number of long-term and short-term trips, we can see that in the last year, Poles often traveled to Pomorskie, Malopolskie, Mazowieckie, Wielkopolskie, Dolnośląskie and Podkarpackie. The largest increase was recorded in trips to the provinces of Wielkopolskie, Pomorskie, Malopolskie, Podkarpackie and Mazowieckie. A similar, total number of visits were recorded for the province of Lubelskie and the smallest one for Podlaskie (Tab. 3).

⁵ Note: The total number of visits in the provinces is 0.3 million higher than the number of trips, because some individuals visited more than one province during one trip.

Table 3. The intensity of tourist traffics in 2008 and 2012 by province and number of trips (in millions)⁶

	2008	2009	2010	2011	2012
Dolnośląskie	3.2	2.8	2.8	2.7	3.7
Kujawsko-pomorskie	2.2	1.8	1.6	1.6	2.2
Lubelskie	2.1	1.7	1.3	1.8	1.8
Lubuskie	1.4	0.9	1.0	0.8	1.0
Lodzkie	0.9	1.2	1.4	1.2	1.5
Małopolskie	3.0	2.4	2.8	2.8	5.2
Mazowieckie	4.4	3.5	3.9	3.4	5.5
Opolskie	0.6	0.7	0.5	0.4	0.5
Podkarpackie	2.1	1.7	1.5	1.4	2.4
Podlaskie	0.8	0.8	1.4	1.5	0.9
Pomorskie	3.7	3.7	4.5	2.8	5.2
Śląskie	2.4	1.8	2.6	2.5	3.3
Świętokrzyskie	1.1	0.9	1.3	1.0	1.2
Warmińsko-mazurskie	2.1	2.0	2.1	1.8	2.2
Wielkopolskie	2.4	2.4	2.4	1.6	3.1
Zachodniopomorskie	3.3	3.5	3.9	2.8	3.1
Total number of visits	35.7	31.8	35.0	30.1	42.8
Number of trips	34.9	30.8	33.9	29.6	40.7

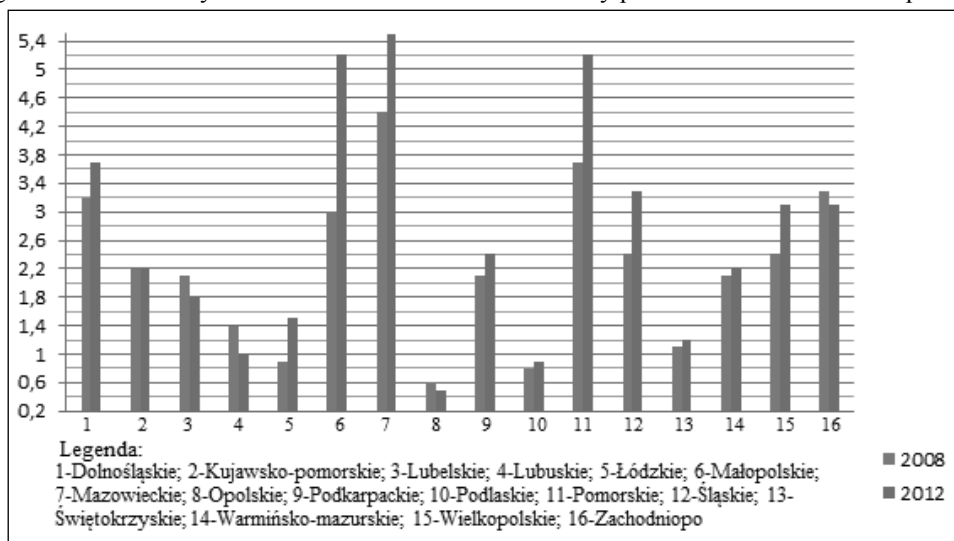
Source: study by the Polish Institute of Tourism.

The intensity of domestic tourism in 2012 by province and by the number of both long and short-term trips is shown in Figure 5.

Referring the number of visits to various provinces in 2012 to the largest number from 2008 leads to the conclusion which regions which recorded the largest decline in arrivals, and which were the least affected in terms of the reception of domestic tourists.

⁶ Note: The total number of visits in the provinces is larger than the number of trips in general, because some individuals visited more than one province during one trip.

Figure 5. The intensity of tourist traffic in 2008 and 2012 by province and number of trips



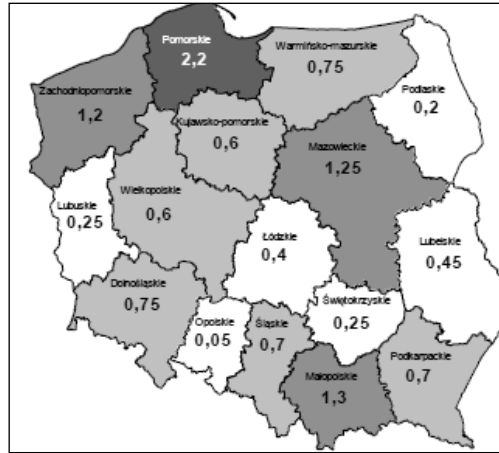
Source: own work based on data from Table 3.

6. Holiday destinations chosen by Polish citizens

In July and August 2012, Poles made 5.75 million domestic long-term holiday trips – about 0.1 million (2%) less than the year before (Łaciak, 2013, pp. 50-52). This is 39% of all trips for at least five days made by Polish residents throughout the year.

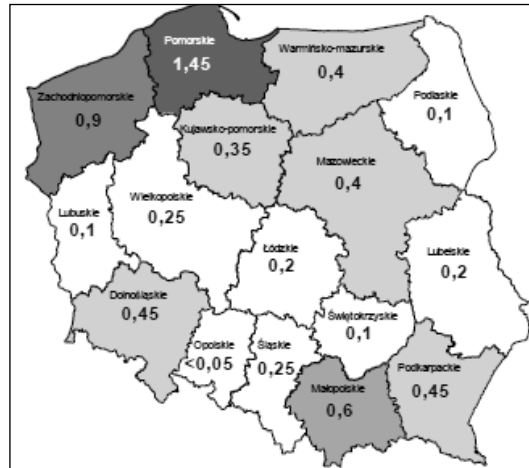
The largest number of long-term summer trips was reported to be to Pomorskie and Zachodniopomorskie (both received 2.35 million trips, *i.e.* 39%). Next in the number of visits were Małopolskie, Śląskie, Warmińsko-mazurskie, Podkarpackie, Mazowieckie and Kujawsko-pomorskie (Fig. 7). These eight provinces were a destination of 83% of all long-term summer travel.

Figure 6. The intensity of domestic tourism in July and August 2012, by province and the number of trips (in millions)⁷



Source: study by the Polish Institute of Tourism.

Figure 7. The intensity of domestic tourism in July and August 2012, by province and the number of long-term travel (in millions)⁸



Source: study by the Polish Institute of Tourism.

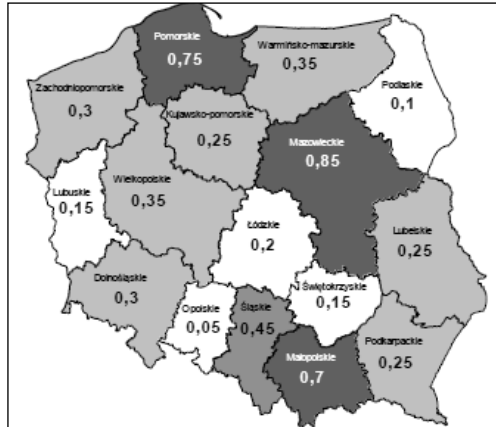
Short (2-4 day) trips in July and August 2012 were made 5.35 million times by Poles, which about 1.75 million (49%) more than a year earlier. This is one-fifth (21%) of all short-term travels by Polish residents throughout the year (Fig. 8). Most brief stays are reported to be to Ma-

⁷ Note: The total number of visits in the provinces is 0.45 million higher than the number of trips, because some individuals visited more than one province during one trip.

⁸ Note: The total number of visits in the provinces is 0.35 million higher than the number of trips, because some individuals visited more than one province during one trip.

zowieckie, Pomorskie, Malopolskie and Slaskie provinces. Arrivals into these four provinces accounted for half of all summer weekend trips made by the Polish population.

Figure 8. The intensity of domestic tourism in July and August 2012, by province and the number of short-term travels (in millions)⁹



Source: study by the Polish Institute of Tourism.

In the summer of 2012, the majority of tourists (total long-term and short-term trips) arrived in Pomorskie and Malopolskie, Mazowieckie and Zachodniopomorskie. Next, according to the number of visits is: Warmińsko-mazurskie, Śląskie, Podkarpackie and Śląskie. These eight provinces received more than three-quarters (76%) of the total domestic tourist traffic in July and August. More tourists than in 2011, traveled primarily to Mazowieckie, Pomorskie and Malopolskie, less – especially to Zachodniopomorskie, Opolskie and Podlaskie. The largest increase was noted in the number of trips to Mazowieckie, Malopolskie, Dolnoslaskie, Pomorskie and Podkarpackie. The largest decrease was noted for Opolskie, Podlaskie and Zachodniopomorskie.

7. Changes in the intensity of domestic tourist traffic in Poland in 2008-2012 in spatial distribution

Against the background of the entire 2008-2012 period the Poles made the most of national long-term tourism trips in 2012 and 2008. In 2009 and 2012 we note a decrease in the number of domestic trips for at least 5 days. In 2009, the number of trips was similar to that in 2010. In 2011, we see another drop: about 18%, and in 2012, and increase to 14.7 million trips. As a result, throughout the period 2009-2011, there was a decline in the number of trips to most of the provinces (Tab. 4, Fig. 9).

⁹ Note: The total number of visits in the provinces is 0.1 million higher than the number of trips, because some individuals visited more than one province during one trip.

Table 4. The intensity of tourist traffics in 2008 and 2012 by province and number of long-term trips (in millions)¹⁰

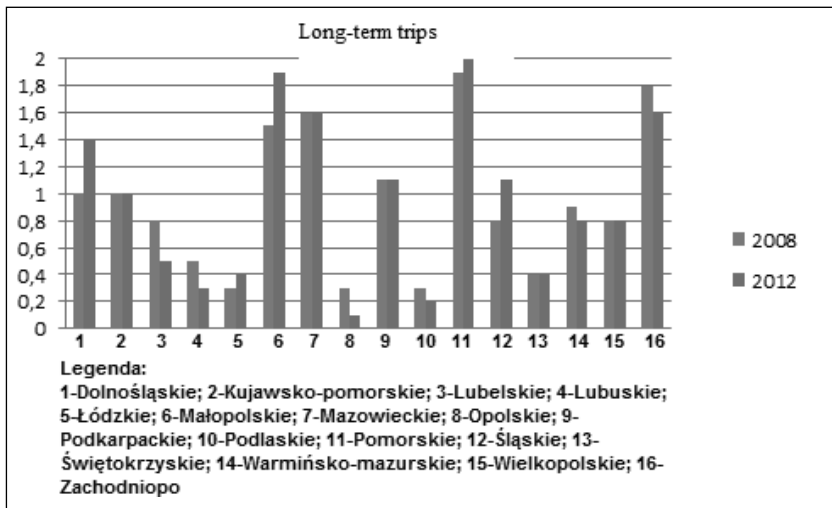
Province	2008	2009	2010	2011	2012
Dolnośląskie	1.0	1.0	1.0	1.0	1.4
Kujawsko-pomorskie	1.0	0.8	0.7	0.5	1.0
Lubelskie	0.8	0.7	0.3	0.4	0.5
Lubuskie	0.5	0.4	0.3	0.4	0.3
Lodzkie	0.3	0.3	0.4	0.3	0.4
Małopolskie	1.5	1.2	1.3	1.4	1.9
Mazowieckie	1.6	1.1	1.4	1.5	1.6
Opolskie	0.3	0.3	0.2	0.1	0.1
Podkarpackie	1.1	0.9	0.9	0.8	1.1
Podlaskie	0.3	0.4	0.4	0.3	0.2
Pomorskie	1.9	2.1	2.5	1.6	2.6
Śląskie	0.8	0.7	0.8	0.8	1.1
Świętokrzyskie	0.4	0.3	0.5	0.5	0.4
Warmińsko-mazurskie	0.9	1.0	1.0	0.8	0.8
Wielkopolskie	0.8	0.6	0.6	0.5	0.8
Zachodniopomorskie	1.8	1.9	2.2	2.0	1.6
Total number of visits	15.0	13.7	14.5	12.9	15.8
Number of trips	14.3	13.3	13.7	12.5	14.7

Source: study by the Polish Institute of Tourism.

Referring the number of visits to various provinces in 2008 to the largest number from 2012 leads to the conclusion which regions which recorded the largest decline in arrivals, and which were the least affected in terms of the reception of domestic tourists.

¹⁰ Note: The total number of visits in the provinces is larger than the number of trips in general, because some individuals visited more than one province during one trip.

Figure 9. The intensity of tourist traffics in 2008 and 2012 by province and number of long-term trips



Source: own work based on data from Table 4.

A similar analysis was performed for short-term travels (Tab. 4, Fig. 10). The provinces: Mazowieckie, Dolnośląskie, Pomorskie and Małopolskie received the most tourists from the entire 2008-2012 period for at least one night. A decrease in short-term trips was recorded only in Lubuskie.

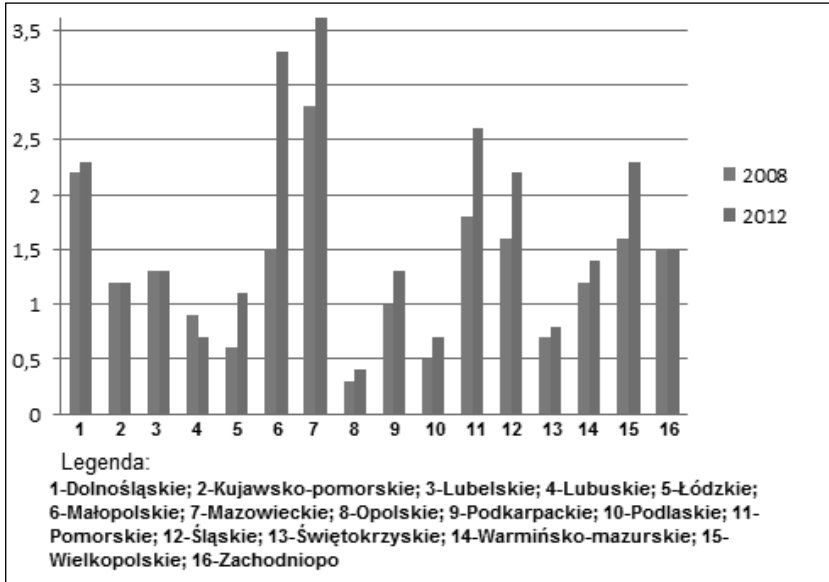
Table 5. The intensity of tourist traffics in 2008 and 2012 by province and number of short-term trips (in millions)

Province	2008	2009	2010	2011	2012
Dolnośląskie	2.2	1.8	1.8	1.7	2.3
Kujawsko-pomorskie	1.2	1.0	0.9	1.1	1.2
Lubelskie	1.3	1.0	1.0	1.4	1.3
Lubuskie	0.9	0.5	0.7	0.4	0.7
Łódzkie	0.6	0.9	1.0	0.9	1.1
Małopolskie	1.5	1.2	1.5	1.4	3.3
Mazowieckie	2.8	2.4	2.5	1.9	3.9
Opolskie	0.3	0.4	0.3	0.3	0.4
Podkarpackie	1.0	0.8	0.6	0.6	1.3
Podlaskie	0.5	0.4	1.0	1.2	0.7
Pomorskie	1.8	1.6	2.0	1.2	2.6
Śląskie	1.6	1.1	1.8	1.7	2.2
Świętokrzyskie	0.7	0.6	0.8	0.5	0.8
Warmińsko-mazurskie	1.2	1.0	1.1	1.0	1.4
Wielkopolskie	1.6	1.8	1.8	1.1	2.3
Zachodniopomorskie	1.5	1.6	1.7	0.8	1.5
Total number of visits	20.7	18.1	20.5	17.2	27.0
Number of trips	20.6	17.5	20.2	17.1	26.0

Source: study by the Polish Institute of Tourism.

The intensity of tourist traffics in 2008 and 2012 by province and number of short-term and long-term trips is presented in Figure 10.

Figure 10. The intensity of tourist traffics in 2008 and 2012 by province and number of short-term trips



Source: own work based on data from Table 5.

8. Conclusion

J. Pięta defines tourism as a form of active rest outside the place of permanent residence, associated with cognitive objectives and sport activities (Pięta, 2008, p. 82).

2008 was moderately good for domestic tourism in Poland. For the third year in a row, the participation rate in the total domestic trips remained at the same level (41%). 2009 should be considered against this background, when Poland was stricken by the global economic crisis in many areas. The participation of Poles in tourism in 2010 was more influenced by the world crisis than it had been in 2009. Much fewer Poles traveled across the country: 12.5 million aged 15 and above, and 2.0 million children (1.3 million less in total).

In 2012, after a significant decline in the previous two years, the level of participation of the Polish population aged 15 and above in national tourism was about six percentage points higher than in 2011. This resulted in a significant increase in participation in national long-term trips (for 5 or more days) and short-term ones (2-4 days).

In 2012, after years of reduced participation in tourist trips, Poles showed greater activity. Greater participation, after a period of lower activity, is justified in individual cases. Additionally, one can assume that the psychological mechanism at work here was people adapting to the crisis. Not without significance is the rationalization of compensation. Due to the crisis, many individuals cannot afford very large investments or large purchases, but short-term tourist trips are within

their financial capabilities. The significant increase in participation in domestic travels is of interest: the decisive factor is a more reliable selection of facilities and lower cost.

The observed phenomena confirm the previously assumed hypothesis that the participation of Poles in national short-term tourism is higher than in the long-term one.

For the years 2009-2010, the increase of domestic trips made by Poles by ca. 3.2% (*i.e.* 1.1 million) was presented. Experts assume that higher prices abroad convinced about 400,000-700,000 Poles to travel inside the country only. However, hope for the development of domestic tourism can negatively verify the deterioration of the financial situation of Polish families. As a summary, it can be stated that the activity of domestic tourism will translate into an increase in demand for hospitality services, while spending on foreign travel will be reduced (Gotowt-Jeziorska, 2011, p. 9).

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Chapter 16

Knowledge Management in a Tourist Enterprise as a Way to Adapt an Offer to the Changing Needs of Polish Seniors in the Field of Tourism and Recreation

Paulina Kawala

1. Introduction

In today's so-called turbulent environment, there are organizations whose most important asset is knowledge and the proper management of it is necessary not only to obtain and maintain a competitive advantage, but above all, to exist in the current market. It is a specificity of organizations prospering within the knowledge-based economy, which – according to the Lisbon strategy – are based on the production, distribution and use of information and knowledge, promoting the rapid development of economy and society (Kordel et al., 2010, p. 33). There is a need to adapt management methods to rapidly changing economic, political and social conditions, and it applies to all sectors of the economy, including the tourism and recreation sector, which undergoes some changes itself as well. These changes are mainly related to the computerization of services offered by the tourist industry (Gwóźdź, 2009, p. 83) (the purchase of airline tickets, reservation of accommodation, and searching for information and opinion on the Internet), as well as the change in the style of traveling and resting – tourism 3S (sun, sand, sea) is replaced by tourism 3E (entertainment, excitement, education) (Kowalczyk, 2014; <http://podroze.gazeta.pl>). Furthermore, traveling tourists are increasingly older, what is justified by the demographic aging of populations in developed and developing countries.

There are various processes leading to the increased influence of knowledge on the management of the company in today's economy, and – in the face of such profound socio-economic transformations – there is a need to adapt the methods of managing, to new conditions prevailing in the business world. These methods must take into account the specificity of the new models of organizations that operate in the conditions of high turbulence ambient, such as: learning, intelligent, network, virtual and fractal organization (Mikuła et al., 2007, pp. 42-72). They are all based on the continuous learning of all employees of the company, which is called the process of organizational learning and runs in constant, planned and organized way. The process

of organizational learning is the goal of knowledge management (King, 2009, pp. 5-6). The ideal knowledge-based company is the intelligent organization which distinctly stands out against the background of traditional enterprises (Schwaninger, 2009, p. 7)¹.

The tourist enterprises employees have to use daily high potential of knowledge, often from different disciplines – the tourist offers, various types of insurance, addresses of the Polish embassies or the permitted weight of luggage, as well as procedures related to proper registration of hotel guests, psychological knowledge allowing to identify the preferences of different groups of customers or concerning the sales skills. 5 levels of the advancement of tourist organization based on knowledge are currently distinguished (Januszewska, Nawrocka, 2010, pp. 35-47) and *i.e.* company of chaotic knowledge, company aware of knowledge, using knowledge, managed by knowledge and knowledge-centric².

Increasing the knowledge resources of the tourist company employees, including the knowledge of the technological innovations that are ubiquitous in the tourism sector, as well as its efficient use, is often indicated as the main factor of a competitive advantage of the company. Whereas, the conscious and proper knowledge management of the tourist organization participants, as well as the company itself, enables long-term maintenance of the leading position among the competition on the market (Kutzner, 2012, pp. 89-110; Kachniewska, 2012, pp. 13-34; Olszewski, 2012, pp. 61-78).

2. The characteristics of seniors' tourist market in Poland compared to high-developed countries

The level of participation of Polish seniors and people aged 55+ in tourist trips is not high (33% in 2010; KB Pretendent, 2011, p. 8). Meanwhile, in developed countries, seniors actively involves in the tourism and leisure market – it is estimated that about 50% of older people in Western Europe and The United States travel (Śniadek, 2007, pp. 21-30). Why is there such a difference?

The most important reason is the difference in health status and financial situation of Polish and foreign seniors. It is estimated that approximately 38% of current seniors in Poland are disabled. Although subjective assessment of their own health is gradually improving, 85% of people over the age of 70 and 72% of people over the age of 60 do not evaluate their health as good (GUS, 2010, pp. 44-45). At the same time, seniors from high-developed countries positively assess their own health, as well as the level of the general well-being (45% of seniors in 2007; over 70% claim they are happy) (Śniadek, 2007, pp. 21-30; Eurostat, 2011, p. 75; Zalewska, 2012, pp. 258-275). Therefore, a broad health prevention is recommended among seniors and people aged 55+ based primarily on sport and recreation activities, as well as travelling (Ministry of Labour and Social Policy, 2012, p. 18).

¹ More on this topic in T.H. Davenport, M. Leibold, S. Voelpel (2006), *Strategic Management in the Innovation Economy*, Erlnegn, Wiley.

² There are other classifications in the literature *e.g.* J. Darroch and R. McNaughton, who distinguish the enterprise ignoring knowledge management, enterprise aware of knowledge management, enterprise scientific knowledge-oriented, enterprise fully knowledge management-oriented (Pierścioneek, Jurek-Stepien, 2006, pp. 43-44).

In 2012, the largest group of Polish seniors received a pension of 1,411 PLN (Rzecznik Praw Obywatelskich, 2013, pp. 8-9) most of which (83%) were spent on expenditure on housing maintenance and buying food and necessary medicines (Ministry of Labour and Social Policy, 2012, pp. 10-11). The financial situation of the elderly in developed countries is much better – the pension repeatedly exceeds Polish retirement pension in the United States, people over 50 years of age achieve a total revenue estimated at about \$ 1.6 trillion (Śniadek, 2007, pp. 21-30).

In addition, a large part of current seniors in Poland very often do not have the developed needs of travelling and sightseeing, as well as using wellness services. The present seniors in Poland often still do not see the health value of tourism and recreation and prefer traditional methods of disease prevention, as well as the treatment itself (in 2004 seniors spent 685 million zlotys on the most important cure ailments associated with senile; Śniadek, 2007, pp. 21-30). However, elder people in Poland are increasingly turning attention to the services related to maintaining health and fitness, which is also reflected in changes in the structure of consumption (Bylok, 2013, pp. 123-142). On the other hand, a relatively large amount of current seniors participate in the pilgrimage tourism and health resort tourism (spas). As to the former, it is anticipated that this trend will change. The future generation of retirees have a different attitude to both the religion and ways of practicing it and leisure activities that are more similar to the preferences of the current seniors in developed countries. This form of tourism can transform into a religious-cognitive tourism, not necessarily focused on religious activity (Kociszewski, 2013, pp. 78-85). In contrast, seniors who decide to go to a sanatorium often do so because it is related to funding, as well as your doctor and family incentives.

On the other hand, seniors from the Western Europe or North America are deeply convinced of the health value of tourism and recreation (in terms of holistic) and believe that traveling is their due reward for former severe and long-term work. Their consumption is focused on spa services and wellness treatments as well as these prolonging youth (e.g. cosmetic surgery), as seniors feel average 14 years younger and look about 8 years younger than what their metrics tell (Śniadek, 2007, pp. 21-30). In addition, they show a greater demand for luxury (high quality of benefits), events specially adapted to their needs (single persons, active grandparents with grandchildren), cruises, airline and tourism products and services which are regarded as healthy. Such trends are not noticed generally in Poland yet.

Knowing the profile of Polish senior and their travel preferences, as well as those of the younger groups, and regularly monitoring developments in those areas, it is easier to hit the tastes and needs of older people and prepare a specialized tourist offer for them. This will enable the tourist organization to succeed and provide it with many customers, because the so-called “silver market heads” regularly exceeds and nothing predicts any change in this trend. Therefore, it is important to continuously expand the knowledge base of all employees in the tourist organization and improve the process of organizational learning and sharing the knowledge.

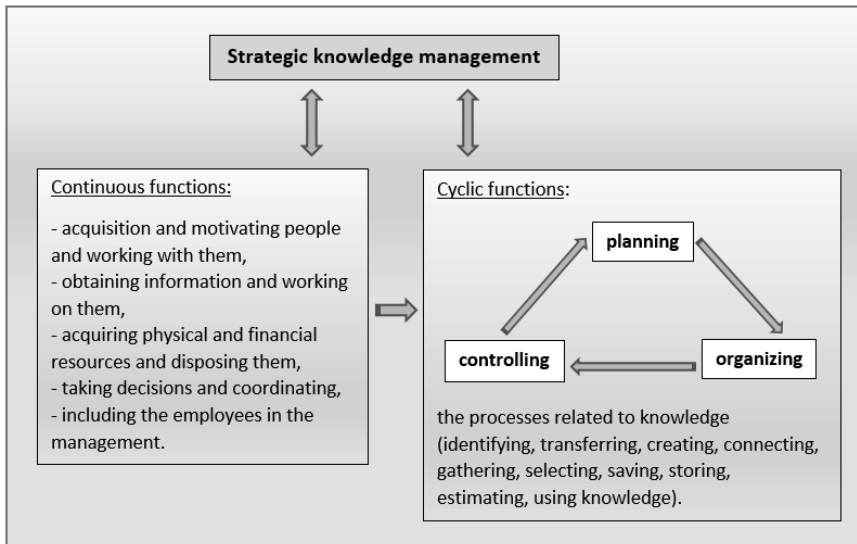
3. Knowledge management in a tourist enterprise

Knowledge management is a relatively new concept and arose as a result of the rapid progress of science and technology, as well as the profound social-economic changes (Kłak, 2010, p. 23). In contrast, there are already many definitions of it. For example, one can give a definition of T.A. Stewart, who writes that it is “the possession of knowledge about what we know, acquir-

ing and organizing it and using it in a manner that brings benefits” (Steward, 2001, p. 112) while I. Watson indicates that it is acquiring, analysing, storing and using the knowledge (Watson, 2003, pp. 13-14). Both of these definitions can be successfully translated into the travel industry connected with the elderly people. An example of the above statement may be gaining knowledge about the current needs of seniors and those approaching retirement age in Poland (e.g. by arranging the systematic study of tourist preferences or only familiarizing the results of such studies carried out by external companies), then analysing the results, evaluating them and drawing creative conclusions which result in making new offers or developing innovative projects that promote certain (desired or anticipated) consumer behaviour of seniors on the Polish tourist market.

The functions of knowledge management are divided into cyclic, which include planning, organizing and controlling, and continuous functions, such as acquisition and motivating people and working with them, obtaining information and working on them, acquiring physical and financial resources and disposing them, taking decisions and coordinating, with simultaneous including the employees in the management of the organization (Mikula et al., 2007, p. 117).

Figure 1. The functions of knowledge management



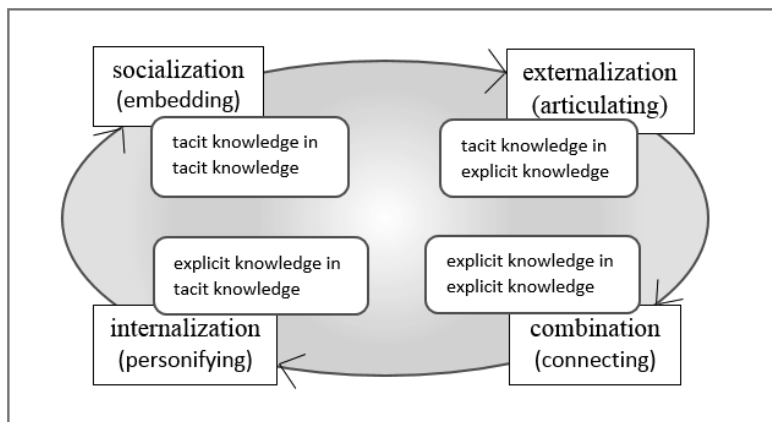
Source: own work based on Mikula et al., 2007, p. 118.

In the case of such explicit functions one can refer to the tourism industry, as each tourist organization, both the hotel and the tour operator, regularly plans and organizes activities of the company, and controls the results obtained. It is similarly in the case of the acquiring knowledge by new employees of travel companies which is needed to understand the specificity of senior tourists and meet their needs. When it comes to continuous functions, they are all fulfilled in the tourist organization, also in the case of broadening the offer for older people – there is a need to obtain the relevant employees, or training those already possessed and motivate them to work with elder customers, as well as acquiring the proper financial and physical resources to achieve the intended project (e.g. the promotion of “silver heads” tourism).

Due to the turbulent environment characterizing the tourist industry, as well as progressive changes in the range of customers themselves, their preferences and interests the process of knowledge management requires a regular, widely understood improvements. This is reflected in the models of knowledge generating, which are mechanisms of acquiring, transferring, developing, using, and sometimes estimating the knowledge. According to W.M. Grudzewski and I.K. Hejduk one can adopt three basic types of models of knowledge generating, *i.e.* the process, resource and Japanese model (Grudzewski, Hejduk, 2002, pp. 15-19).

The first one focuses on the theoretical approach of the way of creating and using knowledge in the companies, which is done through the use of operational functions, whereas the resource models are based on the mutual transformation of knowledge of three types (personalized, codified and established) with the use of human and financial resources, as well as the knowledge of the surroundings. On the other hand, knowledge is treated as confirmed, deeply grounded belief in the Japanese model. It is based on the distinction between explicit and tacit knowledge, as well as the distinction of the four groups of knowledge assets (experimental, conceptual, synthetic and routine knowledge), which are constantly created, developed and modified in the spiral process of SECI (socialization, externalization, combination and internalization).

Figure 2. The spiral process of SECI



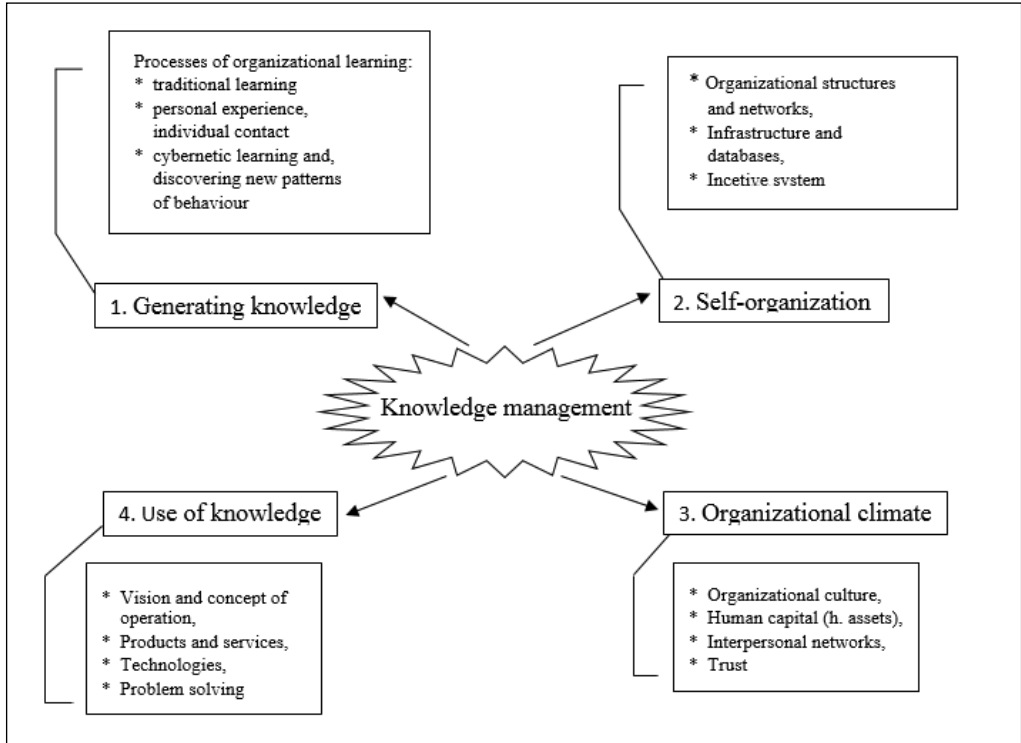
Source: own work based on Mikula et al., 2007, p. 129.

Moreover, the process of knowledge generation can be carried out using the theory of organizational learning, which is based on the traditional, empirical and cybernetic learning (Mikula et al., 2007, pp. 124-132). Especially the latter type of learning, *i.e.* cybernetic learning (verification of knowledge, the rejection of old habits and adopting new norms, rules and principles of functioning of the organization and a fresh way of thinking), is important when it comes to creating innovative offers for Polish seniors, as their preferences, needs, expectations, and financial capabilities will undergo systematic changes in the pattern of senior citizens from developed countries (Śniadek, 2007, pp. 21-30).

Knowledge management has an extensive range of impact, which is included in the four planes (generating knowledge, self-organization, organizational climate, the use of knowledge). Generating knowledge about current tourist needs and preferences of Polish seniors follow by

the traditional learning from present publications, research reports and training, as well as through personal experience of the employees due to individual contact with an elder client and getting acquainted with his wishes or complaints related to the planned or completed journey.

Figure 3. Four planes of impact of knowledge management in a knowledge based organization



Source: own work based on Mikula et al., 2007, p. 116.

It should be also kept in mind that seniors undergo consistent changes, therefore, the cybernetic learning and discovering new patterns of tourist behaviour of elder people in Poland are important, because they will become similar to the behaviour of Western European or American seniors. At the same time, they will be subjected to the current modifications related the present changes in consumer styles and fashions prevailing in tourism. The acquired knowledge of new tourist preferences of Polish seniors can then be organized by the staff in relevant databases using innovative technological infrastructure, and the self-organization of the tourist organization participants should be strengthened through appropriate incentive systems.

The application of knowledge is mainly based on the creation of a new vision of tourism for the elderly, as well as the innovative conception of action, *i.e.* promoting the offer and acquiring customers using new technologies, organizational structure or procedures.

A separate issue concerning knowledge management in a tourist enterprise is to break the reluctance of sharing the knowledge with other employees, what often occurs. The study conducted by M. Morawski shows that the effectiveness of knowledge transfer within the organization de-

pendents primarily on the so-called soft parts of management, which include values, attitudes and behaviour of employees. The main purposes of knowledge sharing are: a high sense of loyalty to the organization, high level of professionalism, a sense of responsibility for the achieved results and their quality, and for the development of less experienced employees.

It is also significantly important to have the possibility of additional gratifications in the form of cash or other prizes, and selection of the role of a master in the field. It seems that strongly motivating for knowledge sharing would be the participation in extra pay or rewards received by individuals or teams of employees, which previously carried out training. Knowledge is passed mainly during the training, in the direction from the key personnel who have many years of experience to younger employees or less experienced (Morawski, 2012, pp. 54-55). Moreover, a crucial way of gaining knowledge by tourist employees is talking with clients, listening to them, because close contacts between employees and clients affect the better defining and innovative meeting their needs. The customer remains the ultimate verifier of the company's offer, while its role has evolved and he becomes to be an active player in the tourist market and shape the offer as well as create the value of it (Januszewska, 2010, pp. 35-47).

4. Conclusion

The tourist enterprises in Poland still do not utilize the potential that is carried by the tourist market of elder people. The offer is modest, because tour operators have in mind primarily the small purchasing power of Polish seniors. At the same time, in Western Europe or in The United States, senior tourist activity is an important factor of development of the tourism industry – up to 60% of the population of retirement age in the Netherlands or France travels, it is similar in the UK (50%) and Germany (40%) (Śniadek, 2007, pp. 21-30).

In Poland, however, a real tourist industry of the elderly concerns rather the generation of future seniors who have a different attitude to the ways of spending free time and other needs associated with it. It is already noticed, that the present stereotype of a poor and lonely senior is changing into an active senior who is a consumer interested in life (Bylok, 2013, pp. 123-142). The generation that will enter the retirement age for a dozen or so years professes similar values as those from Western countries, is characterized by the similar level of education, used technology, lifestyle (including the terms of leisure as well) and is interested in the longest preserving health and youth. This generation should also be more prosperous than today's seniors – it is estimated that annual purchasing power of the people who retire in 15 years, will amount to about 80 billion zlotys (Śniadek, 2007, pp. 21-30).

Therefore, the status of tourist preferences, not only Polish current seniors, but also younger people, should be regularly monitored as it is expected that the consumer tourist behaviour, well-established in youth, will not change drastically in old age (Bylok, 2013, pp. 123-142). Each tourist and recreational organization should be prepared for a gradual yet consistently progressive influx of older clients. To achieve this, all employees of tourism enterprises, and they themselves, must regularly expand and modify resources of knowledge of the biological, social and cultural effects of aging and effectively manage the knowledge accumulated in the organization.

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Chapter 17

Directions of Undertakings Activating Tourism from Ukraine to Cracow¹

Iryna Manczak

1. Introduction

Directions of undertakings that activate tourism from Ukraine to Cracow have been decided to be analysed in two dimensions, *i.e.*, exogenous and endogenous. The exogenous dimension mostly comprises of factors on which stakeholders of a chosen destination have no or limited possibility of influence, because, usually, they are generated outside of a given territorial structure. In turn, the endogenous dimension spreads over internal relations in the city or is an effect of bonds existing between local groups of interest (Czernek, 2012).

This study will pay a special attention to selected undertakings that activate tourism from Ukraine to Cracow. It was stated that these are:

- institutional activities that aim at simplifying already existing procedures regulating the entry of Ukrainian tourists on the territory of Poland,
- joint initiatives undertaken by various entities that act for the development of tourism in Cracow and Lesser Poland.

The study aims at presenting the complexity of issues of tourism management in the city and the European Union law. Due to this, in order to carry out deliberations, it was required that one related to the interpretation of the European Union law and depicted the specificity of the visa regime that exists between Poland and Ukraine. Furthermore, entities that could initiate activities dedicated to the development of the Ukrainian tourists' segment in Cracow were indicated.

2. Visa regime between Poland and Ukraine

The existence of visa traffic between Poland and Ukraine constitutes an important determinant of political and legal character that influences the arrival tourism from Ukraine to Cracow, as well as determines the scale of tourism. An indispensable condition that every Ukrainian traveller needs to meet when travelling to the European Union countries, is to be in possession

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of a visa that authorizes him to enter the Schengen territory. In the light of the above mentioned statements it was decided that the most significant institutional undertaking that activates tourism from Ukraine to Cracow is, above all, visa traffic liberalization.

On the international arena, Ukraine is seen as the main recipient of the European visa policy². A dialogue directed at visa liberalization was initiated in the year 2008. It is worth mentioning that activities undertaken by the European Union for visa facilitations for the citizens of Ukraine³ arise from the Eastern Partnership program guidelines⁴. Poland, as the ambassador of this diplomatic project and a country that has an open migration policy (Kapuśniak, 2010), has not only declared support for activities leading to gradual liberalization of the visa traffic for Ukraine from its very existence, but also for their complete removal⁵.

At present, Polish consular service is obliged to obey the visa regime and follow decisions of the Community Code on Visas (*Polska w strefie...*, 2009). In view of the legislation in force, a visa procedure means a procedure that aims at granting permission for a foreigner to enter the country (Boratyński et al., 2004). Potential Ukrainian tourists who are interested in travelling to Poland must apply for visas in Polish consulates located on the territory of their country⁶. Usually, they do it with intermediation of a tourist agency. An applicant, in his passport, can be granted such visas as: airport, transit, entry, residence, diplomatic, business or diplomatic courier visa. From the point of view of the carried out deliberations the residence visa, issued for the purpose of tourism, is of the greatest meaning⁷.

At this point it needs to be stressed that obtaining a visa is conditioned by submitting necessary documentation required by diplomatic – consular posts⁸, as well as paying a visa fee. On the basis of the agreement on visas facilitation of 2008 it has been reduced from 60 Euro to 35 Euro⁹. Establishing a lower visa rate, more favourable for the Ukrainian travellers, must be treated as a real

² In the year 2012 there were 14.2 m of Schengen visas issued, including 1.2 m issued in diplomatic – consular posts in Ukraine (Apostolidis, 2013, p. 3). This constituted 8.5% of the total visas that were issued.

³ Apart from Ukraine such countries like Armenia, Azerbaijan, Belarus, Georgia and Moldova constitute a circle of addressees of the Eastern Partnership.

⁴ This program defines the dimension of the eastern policy of the European Union that was inaugurated during Czech presidency in 2009. On the level of diplomacy, the Eastern Partnership is treated as one of the main directions of the European Neighbourhood Policy (ENP) carried on towards the eastern neighbours of the Union (*Partnerstwo Wschodnie...*, 2009). ENP was started in 2004. This was not a tool used to spread the Union eastwards, even though it did not preclude the perspective of membership. Its principles were to strengthen trade – economic cooperation, cooperation in the scope of mobility (inter alia visas facilitation), mobilization of sectoral cooperation, introduction of possibilities for neighbours to participate in the European Union programs and agencies (Sadowski, 2013, pp. 12-13).

⁵ Elimination of the visa requirement would constitute a signal for the citizens of Ukraine that the European Union is ready to treat them as Europeans with equal rights. Additionally, it would significantly increase support for the European Union within the Ukrainian society (Wojnarowski, 2008, p. 123).

⁶ A basic legal act that regulates procedures of issuing short-term visas is the Regulation of the European Parliament and of the Council (EC) No. 810/2009 of 13 July 2009, establishing the Community Code on Visas, the Official Journal of the European Union L 243 of 19 September 2009.

⁷ This type of visa also authorizes to travel in order to visit, take part in sport events, conduct cultural activity or participate in international conferences.

⁸ A list of visa related documents is accessible on the Internet pages of consular – diplomatic posts and visa centres.

⁹ The mentioned agreement introduced a facilitation of obtaining long – term, multiple entry visas by selected categories of travellers and creating more broad possibilities to exempt from visas' fees.

instrument of activity in terms of conducting visa dialogue between the European Union and Ukraine¹⁰. In the light of the legal provisions in force, a foreigner, who applies for visa, is also obliged to demonstrate that he is in possession of funds that will allow him to support himself during his stay abroad¹¹.

In recent years a new institutional solution for accepting visa applications has been introduced that not necessarily is favourable for persons applying for visas and at the same time, to some extent, hindering tourism from Ukraine to Poland. Once the agreements on visas have been amended in 2010, a common Community Code on Visas begun to be operational. The European Union legislature introduced a possibility to use services of external contractors when accepting visa applications by diplomatic and consular representations. As a consequence visa outsourcing was employed. Due to this, so called visa centres came into existence. This institutional solution became a binding practice in the work of diplomatic and consular posts located on the territory of Ukraine. It is worth to mention that in the agreement on visa facilitations there was nothing mentioned about such activities, as well as additional fees arising out of the use of service of external mediators¹² (Apostolides, 2013, p. 7). Thus, even though the visa rate was reduced in 2008, the cost of obtaining visa rose after the fee in question had been introduced.

In the European Union reports Ukraine is considered to be the most advanced neighbour in terms of visa liberalization process. This is justified by this country aspirations to conclude an association agreement with the European Union. An especially important moment in negotiations between the European Union and Ukraine was the 14th EU – Ukraine Summit held on 22 November 2010. During this meeting the “Action Plan for Visa Liberation” agreement was concluded. This Action Plan outlined key directions for diplomatic policy that leads to the implementation of visa-free travelling between the European Union and Ukraine, inter alia, (Apostolides, 2013, p. 9): security of documents (including biometrics), illegal migration (including readmission), public order and safety, external relations and basic rights. Detailed actions heralded a review of the Ukrainian legislation and institutions from the technical point of view, in order to determine their concordance with the European Union standards. Moreover, their aim was to present a necessity to implement solutions that ensured migration control in the Schengen area. Currently, the realization of these goals is also supported by so called Complex Institutional Development Programs. They envision an increase and improvement of administrative and institutional abilities of individual states of the Eastern Partnership, as well as their support in this subject matter by the European Union countries (Taczyńska, 2013).

A guaranty of the efficient control of borders and counteracting illegal migration must be recognized as a group of necessary conditions that legitimate visa-free travelling (Dudzińska, Kaźmierkiewicz, 2014, p. 1). It arises from the reports made on the order of the European Commission and the agency for the external borders management, Frontex that Ukraine does not constitute a source of illegal migration¹³. Another argument for visas liberalization concerns long-term migration streams from Ukraine to the European Union member states. The European Union

¹⁰ Children and students are not charged for a visa fee.

¹¹ Regulation of the Ministry of Interior and Administration of 29 September 2003 regulates the amount of funds that a foreigner, who enters the territory of the Republic of Poland, should possess.

¹² Legal status for external contractors and charging fees for services they render was regulated in 2013. At present, this fee amounts to 18.5 Euro. All individuals who apply for visa must pay the fee, including children and students.

¹³ The most exposed to illegal migration is the Ukraine – Slovakia border. About 40% of the total number of stopping on the eastern border of the European Union takes place here (Jaroszewicz, 2012, p. 14).

statistics show that in recent years this country generated relatively low number of migration of this kind to the Schengen area¹⁴.

The Polish authorities' stand proves that there is a great understanding and interest in keeping a significant border traffic with Ukraine. However, no-visa traffic introduction between both countries requires, among others, an acceptance of the remaining member states of the European Union. It must also be said that Ukraine is the only neighbouring state on the almost all borders of which (except border with Romania) exist small border traffic agreements with the European Union bordering countries¹⁵ (Jaroszewicz, 2012, p. 26). In accordance with the interpretation of the international law, these agreements are considered to be the most effective instrument out of the visa liberalization range.

3. Institutional initiatives supporting Ukrainian inbound tourism to Cracow

Initiatives undertaken by various entities potentially interested in tourists from Ukraine were treated as the second key pillar of actions that activate tourism from this country to Cracow. It must be stressed that a vital aspect of the presented issues is the effectiveness of these undertakings. Undoubtedly, their implementation requires an adequate marketing strategy to be accepted by the city, as well as working out the ways of their realization and integration of various circles that actively operate in the tourism sector. Here, it must be pointed out that such arguments as the following act in favour of creating tourism business networks, *inter alia*: team effectiveness, acquiring experience in a collective way, risk sharing and spread of various resources.

It is worth to mention that the effectiveness of individually undertaken marketing activities is, after all, restricted by resources of knowledge and funds, the shortfall of which is commonly noticeable in the tourism trade (Kachniewska, 2014, p. 37). As a result it is a necessity to establish cooperation. In the subject matter literature it is understood in categories of establishing and stepping up cooperation between entities of the city, *i.e.*, self-governing bodies, tourism organizations and tourism enterprises or sole tourism enterprises that operate within the city in support of tourism development (cf. Panasiuk, 2014, p. 110). For the purpose of these deliberations it was decided to define entities that could perform marketing activities for the benefit of the Ukrainian tourists' segment development in the capital of Lesser Poland (Fig. 1). It was decided that such entities like: economic self-regulating trade organizations, Małopolska Organizacja Turystyczna (Lesser Poland Tourism Organization – MOT)¹⁶ and local government can be qualified to this group of entities.

In the subject matter literature, the self-regulating economic organization is considered as one of the oldest forms of collective activity of enterprises' social category. According to the Polish legislature it represents a circle of entrepreneurs. Furthermore, it arranges activities for the benefit of the enterprise and at the same time contributes in the economic development of the country (Gronkiewicz-Waltz, Wierzbowski (eds.) (2008); Antkowiak et al., 2012). It needs to be stressed

¹⁴ For example, in 2012 there were 632 thousand legally residing Ukrainian citizens in the European Union. There is no need to think that there will be an increased number of their inflow, due to the liberalization (Dudzińska, Kaźmierkiewicz, 2014, p. 1).

¹⁵ Regulation No. 1931/2006 of the Parliament and the Council of the European Union defines rules for small border traffic.

¹⁶ This association is concerned with promoting tourism development in the south of Poland.

that the main tasks ascribed to the self-regulating economic organization relate to the integration of the entrepreneurs' circle of a given trade and representing their interests before administrative bodies, as well as shaping positive relations with recipients of these services (Żywicka, 2013, p. 225). Moreover, it can play an important role in creating social capital, because the empowerment to take actions allows him to enforce the existing rules of activities. In consequence, this can lead to an ease of mutual distrust between participants of the economic life (Matysiak, 2005, p. 56). In the strict sense the quoted remarks conform to the range of initiatives established for activating tourism and building chain relations between local tourism trade entities.

The tourism self-regulating economic organization in Poland operates on two territorial – organizational levels. The Polish Chamber of Tourism (PIT) is recognized to be its most important organization. This organization represents economic interests of the associated entrepreneurs who run their businesses in the field of tourism and in particular before the public authority bodies¹⁷. Apart from this, there are tourism trade chambers that operate in regions. A division in Lesser Poland is a part of PIT's structure¹⁸. The Cracow division, as a representative of the tourism self-governing organization, should perform activities that aim at the development of tourism in the south of Poland, including Cracow¹⁹. At this point it must be stressed that the organization in question could undertake initiatives that are dedicated for activating the Ukrainian inbound tourism to the capital city of Lesser Poland.

Figure 1. Potential initiators of marketing activities for the Ukrainian tourists segment development in Cracow



Source: own study.

The Cracow Chamber of Tourism (CCT) is another entity that fulfils the role of the trade self-regulating organization in Cracow. The chamber associates enterprises that run their businesses in the field of tourism traffic services in Lesser Poland²⁰. Its tasks are in line with the PIT's,

¹⁷ The cited definition is included in §1 of the chamber statute.

¹⁸ Apart from the Lesser Poland division, PIT has another ten divisions: Lower Silesia, Kuyavian-Pomeranian, and Łódź, Mazovian, Podlaskie, Pomeranian, Silesian, Warmian-Mazurian, Greater Poland and West Pomeranian.

¹⁹ PIT's essential tasks were defined in the statute §10, whereas §11 constitutes their exemplification.

²⁰ In accordance with the CCT's mission, its goal is to propagate tourism as an important factor in the region tourism development, promotion of high standards, education, circle integration and representation of its interests, www.kit.krakow.pl [26.05.14].

however, due to obvious reasons their mainly have Cracow and the Lesser Poland Voivodeship in their range²¹. It primarily clusters local tourism entrepreneurs.

Another subject category that can act as an initiator of marketing activities is the Lesser Poland Tourism Organization (MOT)²². MOT operates on the basis of the Associations Act and the Act on the Polish Tourism Organization. The association has an extended organizational structure²³. It must be mentioned the Cracow city is also a member of this organization²⁴. According to the statute entry, MOT fulfils, among others, the following tasks:

- supporting tourism development in accordance with the Lesser Poland strategy development;
- integrating Lesser Poland tourism organizations by cooperation of the public and non-public tourism economic sector, associations operating in the sector and other organizations and entrepreneurs;
- coordinating activities in the scope of planning and realization of tourism events, tourism services and other products for tourism.

The above mentioned tasks require undertaking a cooperation in the field of tourism on various decision making levels and involvement of entities that not only represent the Cracow or Lesser Poland tourism trade, but also bodies of public authority and social organizations. The presented areas of cooperation that MOT is involved in prove that the institution has a broad experience in the field of establishing bonds and building relations with various partners. On the basis of this, it was chosen as a potential initiator of marketing activities dedicated to the Ukrainian inbound tourism.

The last entity chosen for the benefit of these deliberations is the self-government, including its communal level. It mainly concerns the Division of Information, Tourism and the City Promotion of the Cracow City Hall²⁵. Information policy, tourism and city promotion issues are within its scope of responsibilities. Its structure comprises of, inter alia, such organizational cell as: the Tourism Development Department, the Tourism Marketing Department, the Promotion and City Promotion Activities Coordination Department²⁶ (Tab. 2). The departments' activities, mentioned below, depict their particular authorizations in supporting tourism development in Cracow. Moreover, they perfectly fit the competence range of the previously characterized self-regulating economic organizations representatives and MOT. Thus, it must be concluded that building chain relations between the self-governing body, self-regulating economic organization and MOT can guarantee a coming out with effective marketing programs and initiate a synergy mechanism necessary to achieve the set objectives. Furthermore, building cooperation in this system is a proof of applying essential, as well as proven solutions in the economic practice, the task of which is to enhance competitiveness of the destination.

²¹ The PIT's essential tasks were defined in the statute §7, whereas §8 constitutes their exemplification.

²² MOT was established in 2002.

²³ A list of members is available on the MOT web page, www.mot.krakow.pl.

²⁴ The city joined MOT on the basis of the Resolution No. CXVIII/1099/2002 of the Cracow City Board of 10 July 2002.

²⁵ Resolution No. 2835/2013 of the President of the Cracow City of 14 August 2013 is the foundation for the operation of the City Hall Department in question. This resolution contains a detailed range of its activities.

²⁶ Only those departments that are important for these deliberations were mentioned. A complete list of them is available on web page www.bip.krakow.pl.

Table 2. The scope of responsibilities of selected departments of the Division of Information, Tourism and the City Promotion of the Cracow City Hall

Specification	The scope of duties of the organizational cell
Tourism Development Department	<ul style="list-style-type: none"> ● performing activities that influence tourism development in Cracow, including: <ul style="list-style-type: none"> – creating new attractions and products for tourism purposes, – organizing undertakings that aim at improving quality of the Cracow tourism product, including tourism services, ● collecting and compiling data concerning tourism and tourism-related infrastructure and the city's tourism resources, as well as creating and running tourism monitoring system that includes, inter alia: <ul style="list-style-type: none"> – inbound tourism offer, – inbound tourism traffic, – tourism economy, ● cooperation with entities that have a significant influence on the development of tourism traffic in Cracow (e.g., transporters, travel organizers, entities that run tourist information offices, including the Krakow Festival Office and external institutions and organizations)
Tourism Marketing Department	<ul style="list-style-type: none"> ● cooperation with self-governing bodies' representatives, tourism trade and other organizations in the scope of Cracow tourism promotion, ● organizing the city involvement in trade fairs, exhibitions, national and international shows of tourism characteristics, ● acquisition and organization of trade press trips and study tours, ● updating the contents of web pages and municipal services concerning tourism and supervision over their subject matter contents; coordination of cooperation in the scope of contents of the municipal Internet services with the official tourism portal krakow.travel
Department of Promotion and Coordination of the City Promoting Activities	<ul style="list-style-type: none"> ● outlining the city's long-term promoting goals and projects they implement and determining methods of their achievement, ● carrying out promotion and advertisement campaigns abroad, ● initiating promotion-related activities and their organizing or co-organizing with external entities, ● updating the contents of web pages and municipal Internet services in the scope of promotion

Source: Zarządzenie, No. 2385/2013.

4. Conclusion

Summing up topics raised in this study, it can be stated that the undertakings that motivate the Ukrainian inbound tourism to Cracow were examined in a character of exogenous and endogenous activities. The liberalization of visa traffic between Ukraine and Poland was counted as exogenous activity. On the present stage of development of the diplomatic relations, the existence of visa regime between both countries is justified by Polish membership in the European Union. By virtue of the fact that a given factor is generated outside Cracow, local stakeholder have no possibility to influence it. An institutional mechanism that to a great extent leads to the restriction of the Ukrainian tourism traffic to Cracow was discussed.

Undertaking joint initiatives for the increase of the number of Ukrainian guests coming to the capital of Lesser Poland was counted as endogenous activities. These are activities based on relations existing in the place of destination that make use of institutions operating in the tourism sector. Mainly the key entities that have necessary competences, as well as predispositions to build chain relations in the field of tourism were pointed out. For this reason the existing institutions that represent tourism trade in Cracow and self-governing body were invoked.

Deliberations that were made until now allow to observe that there are institutional resources in the Lesser Poland capital city that allow to build business chains dedicated for the activation of selected segments relating to tourism. Self-governing body could act as their coordinator and the tourism economic self-regulating organization and MOT as their fulfilling bodies. Initiating undertakings in this system would allow to minimize cost of the marketing undertakings preparation, as well as spread the risk associated with their implementation. It also must be mentioned that the worked out solutions could be used in marketing campaigns undertaken for the development of other geographic segments of the Cracow tourism market.

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Chapter 18

Trends in Changes in Volumes and Fields of Activities of Medium-sized Enterprises in Poland in 2007-2011¹

Paweł Krzemiński, Marek Dziura

1. Introduction

Subjective and objective structure of Polish economy and the variety of its policy areas and entities, which determine the economic development in Poland have been under the processes of privatization, restructuring and adjustments since 1990. The main objectives of Polish structural transformation since that time are (Karpiński et al., 1999, p. 34 ff.; Karpiński, 1986, pp. 58-60):

- the increase in the competitiveness of products and services,
- the prevention of low productivity of labor,
- the increase in the economic efficiency of enterprises through the allocation of resources in higher productivity sectors,
- the modernization of companies by the implementation of modern techniques and technologies for workflow and products,
- the use of processes for structural changes in order to overcome the negative impact of the deterioration of general conditions of business development,
- the acceleration of economic growth.

Therefore, one of the more perceived characteristic of Polish economy since 1990 is a changing dynamics in the various economic areas, which causes a high variability in economic structures and their differentiation degree. The issues and requirements in enterprises' development have always been and still are widely described in the literature on both theoretical and practical aspects (see: Pierścionek, 1996; Machaczka, 1998; Starczewska-Krzysztozek, 2008). However, much less attention has been focused on the study of the aspects and directions of structural

¹ Issues presented in this paper are just a limited scope of the publication about research of statutory audit, because of the large dimension of their cross functional analysis and data periodisation, article No. 69/KEiOP/3/2012/S/069 – about.: *The intensity and directions of transformation in the economic structures of small, medium and large enterprises in Poland in 1998-2011*, and No. 076/WZ-KEOP/03/2013/S/3076 – about. *Assessment of economic and financial development of companies in Poland according to their size, ownership type and the business branch*.

changes in business activities in Poland, including the influence of cross-sectional studies about grades volumes, types of business and ownerships, *etc.* The purpose for these analyzes and assessments is the verification of the accuracy of overall regularities in structural changes in enterprises' development. On their basis a conclusion, denial or correction of real compatibility between the occurring changes in analyzed economy areas can be made, taking into account the overall theoretical regularities from economic literature. This justifies the conduct of such researches in order to obtain the outcomes, which will contribute in a better understanding of the successfully implemented frameworks during the period of economic transformations. In fact, they may even create a basis for evaluating the effects of structural changes in Polish economy (Chomątowski, 2009, pp. 31-36; Krzemiński, 2010, pp. 179-194; Krzemiński, 2008, pp. 247-259). The assessment of such results can be made, *inter alia*, by the use of analysis of measurement results (Kolegowicz, Szymła, 2010, pp. 66-67):

- changes in the size of enterprises,
- changes in the structure of companies' economic activities,
- changes in the structure of modernity of enterprises' types,
- changes in the level of innovations and degrees of modernity of subjects,
- changes in the volume and structure of gross value added index.

Such assessment can be carried out with the use of analytical structural sections, *ie* class size, types of business activities, ownership forms, legal and organizational forms, *etc.* Firstly, the results of these analyzes usually contain the separation of structures' elements according to their increasing or decreasing trends, which is followed by their individual transformation intensity measurement and analysis. Therefore, the methodology is designed, not only to quantify the amount of changes in the individual units of the isolated economic structure, but also to measure the degree of researched objects' structural transformations in the analyzed periods of time. The high variation of economic structures is characteristic for entities distinguishing in terms of development dynamics. Such units are considered in Poland as collective enterprise with a further division into volume grades. These groups of companies stand out in terms of generated revenue, employees' number, assets' value and other economic values characterizing the quantitative development of enterprises and the dynamics of their sizes and structures transformations.

Due to the limited size of the publication, this paper presents the results of analysis of changes in the business activities of enterprises employing 50-249 people. According to the Central Statistical Office (GUS) in Poland, these units are classified as medium-sized companies. They are included in the group of small and medium size enterprises (SMEs). They represent an interesting object for studies, because of their essential participation in the subjective economy structures, as well as a high contribution to economic and social development of the country. This research was conducted using metrics expressing the potential of manufacturing, characterized by the expenses incurred in order to increase the production capacity and the magnitude of their business effects. Thus, the description of changes in medium-sized enterprises in Poland, as well as the directions and trends of transformation the 2007-2011 following indicators were used: the number of workers, the value of fixed assets, capital expenditures and revenues.

2. Changes in the size and growth of the number of workers, fixed assets, investment expenditures and sale revenues in Polish enterprises hiring 50-249 people in 2007-2011

In the analysis and evaluation of business activities' transformation the most important indicators are production and employment². Changes in these values are the most noticeable in companies and business branches with outdated production techniques and technologies. As a result of the reduced demand for their product and services, which in consequence limits output and employment. On the other hand, it simultaneously accelerates the pace of development in sectors and individual units with modern techniques and technologies, which results in their growth and higher demand for their output. Therefore, in the first place, a research of changes in the size and dynamics of medium-sized companies' activities in Poland was carried out on the basis of the Polish Classification of Activity (NACE) sections (PKD 2007 classification), which divided the total amount of workers according to business branches in which they operate.

In 2007, medium-sized entities were employing 1,568,753 people, while in 2011 this number increased to 1,580,066 (Tab. 1). In the period 2007-2011, in terms of total number of personnel employed in branch, the sector was dominated by manufacturing section (653,004 people in 2011), followed by wholesale and retail trade, repair motor vehicles section (300,088 people) and construction section (162,142 people). On the other hand, the least number of employees in 2007-2011 was recorded, not only in undertaking sections, such as education (2515 people in 2009), arts, entertainment and recreation section (4931 worker in 2011) and in other services section (5654 hired in 2009), but also in mining and quarrying (11,607 people), financial and insurance (12,382 appointed) and agriculture, forestry and fishing (14,696 engaged) sections.

Table 1. Number of workers in enterprises hiring from 50 to 249 people by NACE sections in Poland in 2007-2011 (data given in the number of people)

Sections	2007	2008	2009	2010	2011
Agriculture, forestry and fishing	18,841	16,736	15,769	15,507	14,696
Mining and quarrying	11,148	11,299	11,733	10,985	11,607
Manufacturing	691,011	664,516	658,162	653,612	653,004
Electricity, gas, steam and air conditioning production and supply	23,576	24,140	23,106	20,898	21,463
Water supply; sewerage, waste management and remediation activities	47,727	48,063	49,865	53,720	55,816
Construction	157,380	168,083	169,812	168,331	162,142
Wholesale and retail trade; repair of motor vehicles	307,470	314,697	321,879	316,370	300,088
Transportation and storage	71,892	73,820	80,612	80,631	83,625
Accommodation and catering	19,798	22,472	23,909	25,936	26,748
Information and communication	31,382	36,331	37,416	37,189	36,547
Financial and insurance activities	6,509	7,330	9,333	10,585	12,382

² The analysis of trends in changes of sales revenues, as the size derived from realized (sold) production are presented later in this paper.

Real estate activities	43,995	43,797	44,326	43,395	43,958
Professional, scientific and technical activities	56,971	59,948	62,896	61,097	63,045
Administrative and support service activities	49,972	55,941	58,171	54,711	58,038
Education			2517		
Health and social assistance	22,326	22,658	25,618	29,683	31,976
Arts, entertainment and recreation	3162	4225	4603	4158	4931
Other services	5593		5654		
Total	1,568,753	1,574,056	1,605,381	1,586,808	1,580,066

Status on 31.XII.

Source: own study on the basis of: *The Activities of Non-financial Units*, 2009; 2010, p. 49 and next; 2011, p. 48 and next; 2012, p. 46 and next; 2013, p. 46 and next.

The dynamics of transformation in the number of personnel appointed in medium-sized companies in 2007-2011 according to NACE sections is presented in Table 2. Comparing 2011 to 2007, the growth rate of the total number of personnel employed in medium entities was 100.72%, which confirms an increase in the total employment by 0.72% or in other words 11 313 people (Tab. 2). The highest growth rate, by comparing the years 2011 and 2007, was recorded in financial and insurance activities section (190.23%, the increase of 5 873 employees), arts, entertainment and recreation section (155.95%, increase of 1 769 hired) and health and social assistance section (143.22%, growth by 9 650 people). However, the reduction in employees was spotted in the sections: agriculture, forestry and fishing (78.00% in 2011, a decrease of 4 145 employees), electricity, gas, steam and air conditioning production and supply (91.04%, a reduction of 2 113 people), manufacturing (94.50%, a decrease of 38 007 workers) and wholesale and retail trade, repair of motor vehicles (97.60%, a reduction of 7 382 hired). It should be noted that in agriculture, forestry and fishing section, as well as manufacturing section during the whole period 2007-2011 a decrease in the number of employed personnel was reported (a downward trend since 2007).

Table 2. Dynamic of the number of workers in enterprises employing 50-249 people by NACE sections in Poland in 2007-2011 (in %, previous year =100%)

Sections	2008	2009	2010	2011	2011/2007=100
Agriculture, forestry and fishing	88,83	94,22	98,34	94,77	78,00
Mining and quarrying	101,35	103,84	93,62	105,66	104,12
Manufacturing	96,17	99,04	99,31	99,91	94,50
Electricity, gas, steam and air conditioning production and supply	102,39	95,72	90,44	102,70	91,04
Water supply; sewerage, waste management and remediation activities	100,70	103,75	107,73	103,90	116,95
Construction	106,80	101,03	99,13	96,32	103,03
Wholesale and retail trade; repair of motor vehicles	102,35	102,28	98,29	94,85	97,60
Transportation and storage	102,68	109,20	100,02	103,71	116,32
Accommodation and catering	113,51	106,39	108,48	103,13	135,10
Information and communication	115,77	102,99	99,39	98,27	116,46
Financial and insurance activities	112,61	127,33	113,41	116,98	190,23
Real estate activities	99,55	101,21	97,90	101,30	99,92
Professional, scientific and technical activities	105,23	104,92	97,14	103,19	110,66
Administrative and support service activities	111,94	103,99	94,05	106,08	116,14
Education					
Health and social assistance	101,49	113,06	115,87	107,72	143,22
Arts, entertainment and recreation	133,62	108,95	90,33	118,59	155,95
Other services					
Total	100,34	101,99	98,84	99,58	100,72

Source: own study on the basis of data presented in Table 1.

A very important production factor, which determines the dynamics and directions of progress of each company is called possessed assets. Only in conjunction with the human resources can they decide on the dynamics of growth and structure of outcomes from business activities. Table 3 presents the value of fixed assets in medium-sized companies in 2007-2011 according to the NACE sections. In 2007, the total value of fixed assets of all medium-sized businesses in Poland equaled 282 162.29 million PLN, and increased in 2011 to 304 852.33 million PLN. In 2007-2011 the highest value of fixed assets was held by companies in manufacturing section (59 814.98 million PLN in 2007 and 78 686.40 million PLN in 2011), entities active in the real estate market (61 729.00 million PLN in 2007 and 54 413.45 million PLN in 2011) and entrepreneurs engaged in wholesale and retail trade (29 657.68 million PLN in 2007 and 39 040.37 million PLN). The small value of owned fixed assets was characteristic for sections: education (160.72 million PLN in 2009), other services (288.24 million PLN in 2009), art, entertainment and recreation (1 535.30 million PLN in 2011), mining and quarrying (2 503.30 million PLN),

health care and social assistance (2 787.73 million PLN) and agriculture, forestry, hunting and fishing (3 392.62 million PLN).

Table 3. The value of fixed assets in companies hiring 50-249 people by NACE sections in Poland in 2007-2011 (data presented in millions of PLN)

Sections	2007	2008	2009	2010	2011
Agriculture, forestry and fishing	2 754,92	2 868,17	2 864,48	2 936,29	3 392,62
Mining and quarrying	2 311,75	2 669,61	2 868,56	2 459,81	2 503,30
Manufacturing	59 814,98	62 079,93	68 992,18	74 059,84	78 686,40
Electricity, gas, steam and air conditioning production and supply	40 964,02	16 338,47	14 926,92	12 636,37	16 645,23
Water supply; sewerage, waste management and remediation	11 937,68	13 846,18	16 549,77	20 058,02	21 533,27
Construction	9 751,32	11 971,90	14 011,04	17 308,04	16 932,24
Wholesale and retail trade; repair of motor vehicles	29 657,68	33 065,92	35 148,65	35 404,40	39 040,37
Transportation and storage	6 715,03	8 476,37	8 405,81	9 068,94	10 201,40
Accommodation and catering	4 275,19	4 219,24	5 431,50	5 818,79	6 855,15
Information and communication	5 219,44	6 295,02	7 590,10	8 241,97	6 827,40
Financial and insurance activities	33 991,84	16 874,07	20 729,99	23 253,53	24 860,47
Real estate activities	61 729,00	56 099,67	51 149,47	47 949,34	54 413,45
Professional, scientific and technical activities	5 378,30	19 890,29	26 491,93	7 963,01	10 213,30
Administrative and support service activities	5 753,06	5 441,93	9 376,93	8 847,05	8 424,70
Education			160,72		
Health and social assistance	1 098,36	1 054,74	1 790,69	2 154,92	2 787,73
Arts, entertainment and recreation	482,47	938,40	1 248,94	1 192,82	1 535,30
Other services	327,25		288,24		
Total	282 162,29	262 129,91	288 025,92	279 353,14	304 852,33

Source: own study on the basis of: *The Activities of Non-financial Units*, 2009, p. 62 and next; 2010, p. 62 and next; 2011, p. 60 and next; 2012, p. 58 and next; 2013, p. 58 and next.

Table 4 present the data about dynamics of changes in the value of fixed assets in medium entities in 2007-2011 of NACE sections. Dynamics of changes in the value of total fixed assets in mid-sized units in 2011 in comparison to 2007 was 108.04% (Tab. 4). The largest growth in values of fixed assets between 2007 and 2001 characterized the companies active in arts, entertainment and recreation (318.22% in 2011 compared to 2007, the increase in value in 2007-2011 was 1052.83 million PLN) and health care and social assistance (253.81% and growth of 1689.37 million PLN). A significant rise in the value of fixed assets was also noted in business connected to manufacturing branch (18,871.42 million PLN). The fall in value of fixed assets in the analyzed period of time took place in enterprises functioning in production and supply of electricity,

gas, steam, hot water and air conditioning section (growth rate of 40.63% between 2007 and 2011 and the reduction in the total value of 24,318.79 million PLN), financial and insurance activities branch (73.14%, a decrease of value by 9131.37 million PLN), section related to real estate activities (88.15% and a fall in value of 7315.55 million PLN).

Table 4. Dynamics of fixed assets in 50-249 employees enterprises by NACE sections in Poland in 2007-2011 (in %, previous year = 100%)

Sections	2008	2009	2010	2011	2011/2007= =100
Agriculture, forestry and fishing	104.11	99.87	102.51	115.54	123.15
Mining and quarrying	115.48	107.45	85.75	101.77	108.29
Manufacturing	103.79	111.13	107.35	106.25	131.55
Electricity, gas, steam and air conditioning production and supply	39.88	91.36	84.65	131.72	40.63
Water supply; sewerage, waste management and remediation activities	115.99	119.53	121.20	107.35	180.38
Construction	122.77	117.03	123.53	97.83	173.64
Wholesale and retail trade; repair of motor vehicles	111.49	106.30	100.73	110.27	131.64
Transportation and storage	126.23	99.17	107.89	112.49	151.92
Accommodation and catering	98.69	128.73	107.13	117.81	160.35
Information and communication	120.61	120.57	108.59	82.84	130.81
Financial and insurance activities	49.64	122.85	112.17	106.91	73.14
Real estate activities	90.88	91.18	93.74	113.48	88.15
Professional, scientific and technical activities	369.82	133.19	30.06	128.26	189.90
Administrative and support service activities	94.59	172.31	94.35	95.23	146.44
Education					
Health and social assistance	96.03	169.78	120.34	129.37	253.81
Arts, entertainment and recreation	194.50	133.09	95.51	128.71	318.22
Other services					
Total	92.90	109.88	96.99	109.13	108.04

Source: own study on the basis of data presented in Table 3.

The next analysis concerns the economic size characterizing quantitative development of medium-sized enterprises in Poland is the value of investments. They are related to the acquisition, creation of new fixed assets for own purpose, as well as their reparation, improvement and modernization. It also refers to the improvement of leaseholds and other expenditures related to the construction of all types of fixed assets. They determine, both the number of workplaces and the level of their technical supply, and also the development of the whole company. The outcome of expenditures for investments and growth is strictly connected with the transformation in sizes and structures of employment and production. The analysis of the changes in dynamics and trends of investment values brings the focus to the differences in the various business activities in each sections of the Polish

Classification of Activity (NACE), which brings a possibility of identifying the highest and the lowest expenditures, as well as preferred directions in the business investment category. The value of investments in medium-sized firms in 2007-2011 according by NACE sections is presented in Table 5, while the rate of changes in the capital expenditure is shown in Table 6.

In 2011 the total investment value of medium-sized enterprises was 30,364.48 million PLN (Tab. 5) and was lower than the value in 2007 by 2184 million PLN. In 2007-2011 the most expenditures for investment were taken by manufacturing enterprises (10,044.82 million PLN in 2011), and on the other hand, the minimum investments were made in education branch (9.15 million PLN in 2009) and arts, entertainment and recreation section (70.13 million PLN in 2011). Small values of incurred expenses in investment category are also presented in the health care and social assistance (499.63 million PLN in 2011), professional, scientific and technical firms (454.39 million PLN), mining and quarrying (338.03 million PLN) and agriculture, forestry, hunting and fishing section (413.88 million PLN).

Table 5. Investment expenditures in companies employing 50-249 people by NACE sections in Poland in 2007-2011 (in millions of PLN)

Sections	2007	2008	2009	2010	2011
Agriculture, forestry and fishing	363.16	427.09	235.83	293.63	413.88
Mining and quarrying	409.30	410.99	337.36	351.24	338.03
Manufacturing	11,078.13	10,931.83	8,956.32	8,380.06	10,044.82
Electricity, gas, steam and air conditioning production and supply	1250.67	1227.89	639.42	704.57	1219.09
Water supply; sewerage, waste management and remediation activities	1394.89	1783.18	3100.63	3208.25	2501.91
Construction	2725.66	2414.85	2128.27	2579.07	2788.35
Wholesale and retail trade; repair of motor vehicles	4784.80	5254.22	4550.64	4107.51	4215.80
Transportation and storage	1458.14	1429.45	1367.34	1384.51	1641.83
Accommodation and catering	204.38	354.59	290.76	492.27	442.13
Information and communication	580.12	876.38	703.57	855.36	746.20
Financial and insurance activities	3502.85	1076.16	570.28	950.01	1756.44
Real estate activities	1961.25	1591.47	1875.55	1663.56	1338.01
Professional, scientific and technical activities	578.36	378.47	668.75	384.71	454.39
Administrative and support service activities	1887.35	987.12	984.08	1157.56	1893.84
Education			9.15		
Health and social assistance	249.03	225.94	280.80	345.23	499.63
Arts, entertainment and recreation	79.76	126.41	162.19	60.30	70.13
Other services	40.14	46.33	25.36		
Total	32,547.99	29,542.37	26,886.30	26,917.84	30,364.48

Source: own study on the basis of: *The Activities of Non-financial Units*, 2009, p. 54 and next; 2010, p. 55 and next; 2011, p. 54 and next; 2012, p. 52 and next; 2013, p. 52 and next.

In 2011 compared to 2007, the growth rate of value of total investment in medium-sized units was 93.29%. This resulted in the decrease in the value in described category by 2 183.51 millions PLN (Tab. 6). The investment dynamics between 2011 and 2007 in the companies engaged in the accommodation and food service branch was 216.33% (a growth of 237.75 millions PLN), health care and social assistance section 200.63% (an increase in the value by 250.60 millions PLN) and water supply, sewerage, waste management and remediation businesses 179.36% (a rise by 1107.02 millions PLN). However, the value of expenditures for investment decreased in the other eight sections of medium-sized enterprises, especially in the following branches: financial and insurance, real estate and professional, scientific and technical.

Table 6. The dynamics of investment expenditures in companies hiring 50-249 employees by NACE sections in Poland in 2007-2011 (in %, previous year = 100 %)

Sections	2008	2009	2010	2011	2011/2007= =100
Agriculture, forestry and fishing	117.60	55.22	124.51	140.95	113.97
Mining and quarrying	100.41	82.08	104.11	96.24	82.59
Manufacturing	98.68	81.93	93.57	119.87	90.67
Electricity, gas, steam and air conditioning production and supply	98.18	52.07	110.19	173.03	97.47
Water supply; sewerage, waste management and remediation activities	127.84	173.88	103.47	77.98	179.36
Construction	88.60	88.13	121.18	108.11	102.30
Wholesale and retail trade; repair of motor vehicles	109.81	86.61	90.26	102.64	88.11
Transportation and storage	98.03	95.65	101.26	118.59	112.60
Accommodation and catering	173.50	82.00	169.30	89.81	216.33
Information and communication	151.07	80.28	121.57	87.24	128.63
Financial and insurance activities	30.72	52.99	166.59	184.89	50.14
Real estate activities	81.15	117.85	88.70	80.43	68.22
Professional, scientific and technical activities	65.44	176.70	57.53	118.11	78.57
Administrative and support service activities	52.30	99.69	117.63	163.61	100.34
Education					
Health and social assistance	90.73	124.28	122.95	144.72	200.63
Arts, entertainment and recreation	158.49	128.30	37.18	116.30	87.93
Other services	115.42	54.74			
Total	90.77	91.01	100.12	112.80	93.29

Source: own study on the basis of Table 5.

Along with the transformation it the size and structure of employment, changes affecting the effects from all business activities start their coexistence, especially in the form of sales revenue. By the analysis of tendencies and direction of the volume and dynamics of sales revenue a difference in each individual of the NACE sections economic activities can be found. Growth

indicators provide a way of identifying and emphasizing the highest and continuously increasing sales revenues in concerned business operations. The following Tables 7 and 8 present the value of sales in medium enterprises in 2007-2011 according to NACE sections (Tab. 7) and the dynamics of variations in the value of sales (Tab. 8).

In 2011, the sales revenues in the analyzed companies were 393,552.12 millions PLN (Tab. 7) in comparison to 2007 it increased by 81.341 millions PLN. In the described period of time the highest revenues were recorded in manufacturing sections (194,564.25 millions PLN). On the other hand, the lowest value of sales were achieved by branches: education (354.42 million PLN in 2009), accommodation and food services, arts, entertainment and recreation, financial and insurance, as well as agriculture, forestry, hunting and fishing, mining and quarrying, health care and social assistance.

Table 7. Sales revenue in companies with 50-249 employees by NACE sections in Poland in 2007-2011 (in millions of PLN)

Sections	2007	2008	2009	2010	2011
Agriculture, forestry and fishing	2749.54	2513.63	2531.57	2795.37	3076.78
Mining and quarrying	2986.66	3169.30	3215.23	3383.04	4175.26
Manufacturing	157,941.66	156,992.01	157,675.91	169,300.35	194,564.25
Electricity, gas, steam and air conditioning production and supply	13,472.75	6187.87	6347.43	7273.47	7164.08
Water supply; sewerage, waste management and remediation activities	7236.67	8351.77	8244.99	9767.34	11 189.86
Construction	43,054.61	53,605.57	52,315.03	50,871.85	56,991.60
Wholesale and retail trade; repair of motor vehicles	17,369.50	19,963.22	21,450.36	21,928.49	21,338.87
Transportation and storage	16,999.86	17,380.59	19,316.94	20,377.26	24,132.06
Accommodation and catering	1846.54	2035.02	2260.10	2420.45	2880.29
Information and communication	9,148.67	10,968.09	10,677.55	11,259.03	10,951.62
Financial and insurance activities	3248.96	3189.02	3644.77	4453.30	4767.29
Real estate activities	10,269.32	10,972.68	11,634.68	12,477.71	13,644.00
Professional, scientific and technical activities	15,368.94	18,379.88	18,003.00	19,266.35	19,576.06
Administrative and support service activities	6300.53	8512.28	8741.64	9195.24	11 418.13
Education			354.42		
Health and social assistance	1993.15	2271.89	3044.36	3613.88	4022.80
Arts, entertainment and recreation	1562.15	2745.52	3358.46	2176.65	3659.17
Other services	661.54		636.30		
Total	312,211.05	327,238.34	333,452.74	350,559.78	393,552.12

Source: own study on the basis of: *The Activities of Non-financial Units*, 2009, p. 52 and next; 2010, p. 53 and next; 2011, p. 52 and next; 2012, p. 50 and next; 2013, p. 50 and next.

In 2011 in comparison to 2007, the growth rate of changes in the value of total sales revenues in medium-sized enterprises was 126.05%, what led to an increase in revenues by 81,341.07 millions PLN (Tab. 8). The highest value of growth indicator was recorded in units functioning in arts, entertainment and recreation sector (234.24% and a growth of 2097.02 millions PLN in value), health care and social assistance (201.83% and an increase in value by 2029.65 millions PLN), administrative and support branch (181.22% and a growth in value by 5117.60 millions PLN). The significant increase in sales revenues in 2011 in comparison to 2007 was also noted in both manufacturing (123.19% growth index and a rise in value by 36,622.59 millions PLN) and construction services (132.37%, an increase in value by 13,936.99 millions PLN). However, the sales revenues in the described period of time decreased in the production and supply of electricity, gas, steam, hot water and air conditioning companies (growth indicator of 53.17% in 2011, which led to a reduction of value by 6308.67 millions PLN).

Table 8. The dynamics of sales revenues in companies appointing 50-249 workers by NACE sections in Poland in 2007-2011 (in %, previous year = 100 %)

Sections	2008	2009	2010	2011	2011/2007= =100
Agriculture, forestry and fishing	91.42	100.71	110.42	110.07	111.90
Mining and quarrying	106.12	101.45	105.22	123.42	139.80
Manufacturing	99.40	100.44	107.37	114.92	123.19
Electricity, gas, steam and air conditioning production and supply	45.93	102.58	114.59	98.50	53.17
Water supply; sewerage, waste management and remediation activities	115.41	98.72	118.46	114.56	154.63
Construction	124.51	97.59	97.24	112.03	132.37
Wholesale and retail trade; repair of motor vehicles	114.93	107.45	102.23	97.31	122.85
Transportation and storage	102.24	111.14	105.49	118.43	141.95
Accommodation and catering	110.21	111.06	107.09	119.00	155.98
Information and communication	119.89	97.35	105.45	97.27	119.71
Financial and insurance activities	98.16	114.29	122.18	107.05	146.73
Real estate activities	106.85	106.03	107.25	109.35	132.86
Professional, scientific and technical activities	119.59	97.95	107.02	101.61	127.37
Administrative and support service activities	135.10	102.69	105.19	124.17	181.22
Education					
Health and social assistance	113.98	134.00	118.71	111.32	201.83
Arts, entertainment and recreation	175.75	122.33	64.81	168.11	234.24
Other services					
Total	104.81	101.90	105.13	112.26	126.05

Source: own study on the basis of data presented in Table 7.

3. Trends and directions of changes in business operations of medium-sized enterprises in Poland in 2007-2011

By the analysis of the intensity and direction of changes in economical metrics of each individual sections of medium-sized enterprises' functioning in 2007-2011 every kind of activities can be identify and measured in terms of growth trends according to their adopted quantitative development measures. These transformations are presented graphically in Figures 1-4, in which the color white represents the increase in value of analyzed instrument in relation with the previous year, while the cells filled with gray color describe a decries in the indicator value.

Figure 1 presents the dynamics of the number of employees in medium companies. On its basis it can be noted that in 2007-2011 the regular increase in the number of staff employed occurred in the following branches: water supply, sewerage, waste management and remediation, transportation and warehouse management, accommodation and food service, financing and insurance, as well as health care and social assistance.

Figure 1. Dynamics of number of workers in enterprises with 50-249 employees by NACE sections in Poland in 2007-2011 (in %, previous year = 100 %)

Sections	2008	2009	2010	2011
Agriculture, forestry and fishing				
Mining and quarrying				
Manufacturing				
Electricity, gas, steam and air conditioning production and supply				
Water supply; sewerage, waste management and remediation activities				
Construction				
Wholesale and retail trade; repair of motor vehicles				
Transportation and storage				
Accommodation and catering				
Information and communication				
Financial and insurance activities				
Real estate activities				
Professional, scientific and technical activities				
Administrative and support service activities				
Education				
Health and social assistance				
Arts, entertainment and recreation				
Other services				
Total				

	value of dynamic indicator's more than 100%
	value of dynamic indicator's less than 100%

Source: own study on the basis of Table 2.

Figure 2. Dynamics of changes in fixed assets category in enterprises appointing 50-249 people by NACE sections in Poland in 2007-2011 (in %, previous year = 100 %)

Sections	2008	2009	2010	2011
Agriculture, forestry and fishing
Mining and quarrying
Manufacturing
Electricity, gas, steam and air conditioning production and
Water supply; sewerage, waste management and remediation
Construction
Wholesale and retail trade; repair of motor vehicles
Transportation and storage
Accommodation and catering
Information and communication
Financial and insurance activities
Real estate activities
Professional, scientific and technical activities
Administrative and support service activities
Education
Health and social assistance
Arts, entertainment and recreation
Other services
Total

	value of dynamic indicator's more than 100%
	value of dynamic indicator's less than 100%

Source: own study on the basis of Table 4.

In the described period of time, we can observe an annual increase in the value of fixed assets held by medium-sized units in the following sections: manufacturing, water, sewerage, waste management and remediation supply, wholesale and retail trade, repair of motor vehicles. Except for 2008, in which the reduction in the value of fixed assets in comparison to 2007 was observed, an annual increase in the subsequent years occurred additionally in units functioning in: financial and insurance, as well as health care and social assistance branches (Fig. 2).

The analysis of transformation in the dynamics of investment expenditures in medium-sized enterprises presented in Figure 3, confirms the lack of NACE sections, which could be characterized by a regular growth in the value of investments. On the basis of the same picture, it can be concluded that the period 2008-2009 can be seen as a time of continuous fall in the value of investments in the majority of branches. Noteworthy is also the increase in the capital for investment in 2008-2010 in entities active in water supply, sewerage waste management and remediation section, the growth is also noticeable in 2009-2011 in health and social care branch.

Figure 3. The dynamics of investment expenditures in units employing 50-249 people by NACE sections in Poland in 2007-2011 (in %, previous year = 100 %)

Sections	2008	2009	2010	2011
Agriculture, forestry and fishing				
Mining and quarrying				
Manufacturing				
Electricity, gas, steam and air conditioning production and				
Water supply; sewerage, waste management and remediation				
Construction				
Wholesale and retail trade; repair of motor vehicles				
Transportation and storage				
Accommodation and catering				
Information and communication				
Financial and insurance activities				
Real estate activities				
Professional, scientific and technical activities				
Administrative and support service activities				
Education				
Health and social assistance				
Arts, entertainment and recreation				
Other services				
Total				

	value of dynamic indicator's more than 100%
	value of dynamic indicator's less than 100%

Source: own study on the basis of Table 6.

Changes in the growth rate of sales revenue in the described period of time is presented graphically in the Figure 4. It points out the annual increase in their value of the companies functioning in the following sections: mining and quarrying, transport and warehouse management, accommodation and food service, real estate, business administration and support, health care and social assistance.

Except for 2008, the enterprises in financial and insurance sector can also be taken into account, as well as units in manufacturing branch. During the given period of time, excluding 2008 entities involved in the operations in water supply, sewerage, waste management and remediation section have also recorded a growth in their sales revenue.

Figure 4. Dynamic of sales revenues in the units hiring the total number of 50-249 employees by NACE sections in Poland in years 2007-2011 (in %, previous year = 100%)

Sections	2008	2009	2010	2011
Agriculture, forestry and fishing		--	--	
Mining and quarrying	--	--	--	
Manufacturing		--	--	
Electricity, gas, steam and air conditioning production and		--	--	
Water supply; sewerage, waste management and remediation	--		--	
Construction	--			
Wholesale and retail trade; repair of motor vehicles	--	--		
Transportation and storage	--	--	--	
Accommodation and catering	--	--	--	
Information and communication	--		--	
Financial and insurance activities		--	--	
Real estate activities	--	--	--	
Professional, scientific and technical activities	--		--	
Administrative and support service activities	--	--	--	
Education				
Health and social assistance	--	--	--	
Arts, entertainment and recreation	--	--		
Other services	--	--	--	
Total	--	--	--	--

value of dynamic indicator's more than 100%

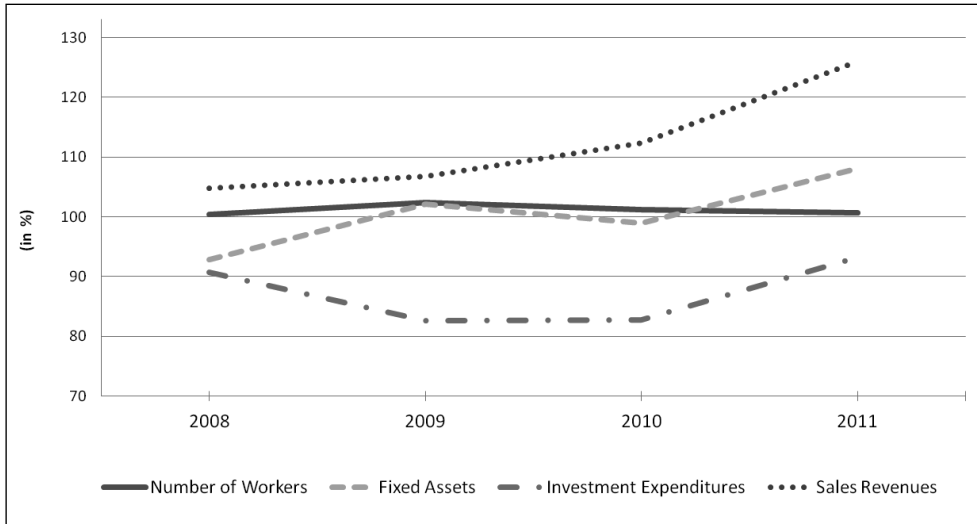
value of dynamic indicator's less than 100%

Source: own study on the basis of Table 8.

4. Conclusion

In order to show the trends in the dynamics of analyzed economic metrics, which characterized the quantitative development of medium-sized entities in Polish economy, the calculated values of dynamics indicators in 2007-2011, which were presented earlier in Tables 2, 4, 6 and are shown collectively in the Figure 5.

Figure 5. Dynamics of the joint number of workers and value of fixed assets, investment expenditures, sales revenue in units hiring 50-249 people by NACE sections in Poland in 2007-2011 (in %, 2007 = 100 %)



Source: Own study on the basis of Tables 1-8.

Summarizing the outcomes of the analysis and evaluation of transformations in the size and dynamics of medium-sized enterprises in Poland in 2007-2011, it can be noted that the increase in the number of employees, value of assets, expenditures for investment and sales revenues, *i.e.* in comparison to 2007 indicates:

- reduction in the expenditures for investments (growth rate of 93.29% in 2011),
- slight increase in the number of employees with minor fluctuations (100.72% in 2011),
- growth, despite variations in the value of fixed assets (108.04% in 2011),
- regular increase in the value of sales revenues (126.00% in 2011).

Additionally, a NACE section, which would be characterized by an increase in all analyzed indicators describing its business activity during the given period of time cannot be specified. However, companies engaged in the water supply, sewerage, waste management and remediation branch during the entire analyzed period were characterized by a regular (annual) growth in the number of employees and the value of fixed assets, as well as investment expenditure (excluding 2011) and sale revenue (excluding 2009). Moreover, with some exceptions, a relatively clearly growing development tendency in business activities, which is characterized by the increase in the analyzed quantitative progress indicators. It is marked in the following sections: health and social services, which were characterized by a regular increase in the employees number and the value of sales revenues, as well as the value of fixed assets and investment expenditures (excluding 2008, where a decrease in the value of the last two factors occurred in comparison to 2007). In the case of medium-sized enterprises active in the financial and insurance branch such regular progress do not exist anymore in comparison to the two business sections, which were referred above. However, it should also be noted, that the financial and insurance sector of medium-sized units in 2007-2011 was described by the annual increase in the number

of personnel hired, as well as, with the exception for 2008, a growth in the value of fixed assets and investments. In the remaining sections of business for medium-sized companies in Poland during 2007-2011 such clear developmental trend cannot be identified.

It should be taken into account, that the results of changes in the economic values of the analyzed quantitative economic progress in medium-sized units in Poland in 2007-2011 are the basis for the determination of duration, intensity and the direction of trends in the developmental changes of subjects classified to individual sections of economy. The outcomes of that research may lead to deeper thoughts about declared and actual structural policy implemented in the evolution of Polish economy during its transformation phase. It must be emphasized, that such study requires a more detailed analysis and assessment and will not be fully presented in this article. The outcomes described in this paper are merely a part of results of constantly carried out researches.

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Chapter 19

Advantages and Disadvantages of Franchise Systems for Franchisees in the FMCG Industry – Results of Pilot Studies in Małopolskie Voivodeship¹

Karolina Orzel

1. Introduction

The franchise system combines the economies of scale offered by its founder with the franchisee's local knowledge and entrepreneurship, thereby contributing to the increased profitability and success of the participants of this system. A franchise agreement may be therefore defined as a set of rights and obligations of the franchisor and the franchisee which legally protects the interests of both parties (Grace, Weaven, 2011, p. 366). Such a definition has its basis in the agency theory, which is often referred to in the source literature while analysing franchise systems. This is particularly important in the case of such relationships where an agreement between the agent and the employer governs the order of joint and individual activities.

A franchise relationship is characterised by a series of acts of exchange, the success of which depends on the skilful management of benefits and costs as perceived by the partners (Harmon, Griffiths, 2008, p. 256), since the advantages and disadvantages of the system are perceived differently by its founder and by its participant. The analysis of literature shows that most studies, which raised this topic, have been developed with an emphasis on franchisors. On the other hand, there is a growing interest in the analysis of franchise relationships from the franchisee's perspective. The aim of this paper is to present the results of pilot studies that are complementary to the existing gap – to present the franchisees' viewpoints and the advantages as well as disadvantages of the system as seen by them.

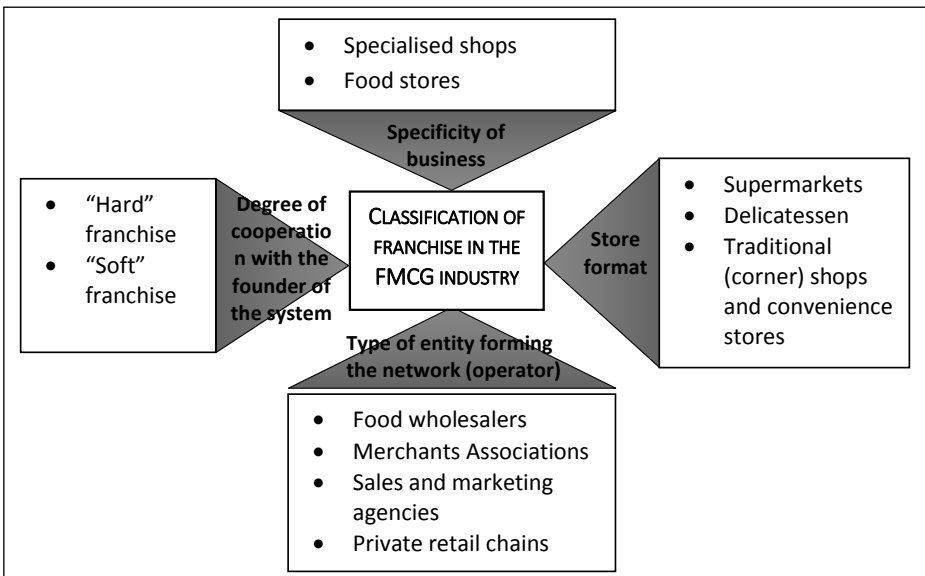
¹ This publication was financed from funds granted by the Ministry of Science and Higher Education to the Faculty of Management, Cracow University of Economics, on research for young scientists and doctoral students.

2. The specific nature of franchise in the FMCG industry in Poland

The use of franchise in the FMCG sector has a very specific nature. In other industries, the most effective and simultaneously the most widely used method of its application is opening new facilities due to difficulties related to adapting the current functioning of the company to new standards. In the food industry, it is a tool for market consolidation, *i.e.* joining the existing facilities to the system and the effective competition with supermarket chains and discount stores. Therefore, with a primary view to build purchasing loyalty of store owners, “franchise” in the FMCG sector offers a wide range of forms and rules for cooperation between the system organiser and the franchisees.

Due to the profound fragmentation of the industry, the multitude of formats and the limited range of operation of some network operators, the principles of cooperation within franchise may differ significantly. The following figure shows several divisions according to inter alia the store format, the assignment to a given type of operator and the degree of cooperation.

Figure 1. Classification of franchise in the FMCG industry



Source: own study based on distributed data.

The division of franchise stores according to the specific nature of business and store format is identical with the sector-specific guidelines and regards the products offered, the size of a facility and the width of the assortment offered. The two remaining divisions, however, are characteristic of franchise relationships only.

Thus, according to the type of entity (operator) and the range of its business as the founder of the system, there are:

- food wholesalers – the largest entities in the industry, such as Eurocash, whose networks are nationwide;
- merchants associations – networks established on the initiative of shop owners who have decided to associate in order to negotiate more favourable agreements with their suppliers. These proved to be a very tempting target for distributors, and currently, all the major networks that have been created as a result of such initiatives are the property of wholesalers;
- sales and marketing agencies – companies representing the interests of groups of shops, offering them support in terms of image, promotion, as well as coordination of business contacts with suppliers. Examples of such networks include FJ and Koniczynka;
- private retail chains – it is a relatively recent phenomenon of creating and releasing franchise offers by companies that had previously built networks of only their own facilities. They decided for franchise in order to accelerate the development of these networks and thus gain access to even more favourable commercial conditions. Examples of such networks include Topaz, Kefirek and Delikatesy Blask.

The last division of franchise systems concerns the degree of cooperation between the franchisee and the network founder; it exists contractually only in Poland and only in the food industry. Here, there are:

- “soft” franchise – which is an “enriched” form of cooperation of distributors with shops, offering usually a limited scope of support in relation to hard franchise (usually limited to the common visualisation of stores, organisation of discounts in the form of newsletters and basic trainings);
- and “hard” (classic) franchise – such offer of franchise includes a number of tools which provide the knowledge of how to sell, exhibit and promote products, maintain relationships with customers, advertise one’s store, *etc.* In return for the transfer of know-how, the franchisor seeks to ensure its own profit by additional fees or establishing mandatory sources of supply in conjunction with a high share of these supplies in the total deliveries to the store.

This kind of division into forms of cooperation was justified to distributors and wholesalers by many specific conditions in the industry as well as the mentality and commitment to traditionalism of Polish owners of grocery stores which a few years ago effectively prevented the introduction of the classic franchise on a large scale. Besides, it was also important to rapidly join and consolidate as many shops, to which the supply of goods would be performed, as possible, which could be done due to soft franchise.

3. Description of the study

The aim of the study was to analyse the franchisor-franchisee relationships from the perspective of a participant of the system and to determine the advantages and disadvantages of the participation of a given facility in a network structure. Questionnaire surveys were conducted with the representatives (franchisees or store managers) of facilities in the FMCG industry in Małopolske Voivodeship. The population of the survey was a group of 96 economic entities. The structure of these entities in the various types of networks was as follows:

- Facilities associated based on soft franchise – 84 entrepreneurs (87.5% of studied population);
- Facilities associated based on hard franchise – 12 entrepreneurs (12.5% of studied population).

The survey sample was randomly selected giving a group of 32 entities. In individual types of networks, the structure was as follows:

- Facilities associated based on soft franchise – 24 entrepreneurs (75% of studied population);
- Facilities associated based on hard franchise – 8 entrepreneurs (25% of studied population).

Out of 32 scheduled interviews (meetings organised between March and April 2014), 21 meetings were held successfully (properly completed questionnaires) – return at the level of 65.62%. In individual types of networks, the structure of those entities was as follows:

- Facilities associated based on soft franchise – 13 entrepreneurs (61.9% of studied population);
- Facilities associated based on hard franchise – 8 entrepreneurs (38.1% of studied population).

4. Analysis of answer structure

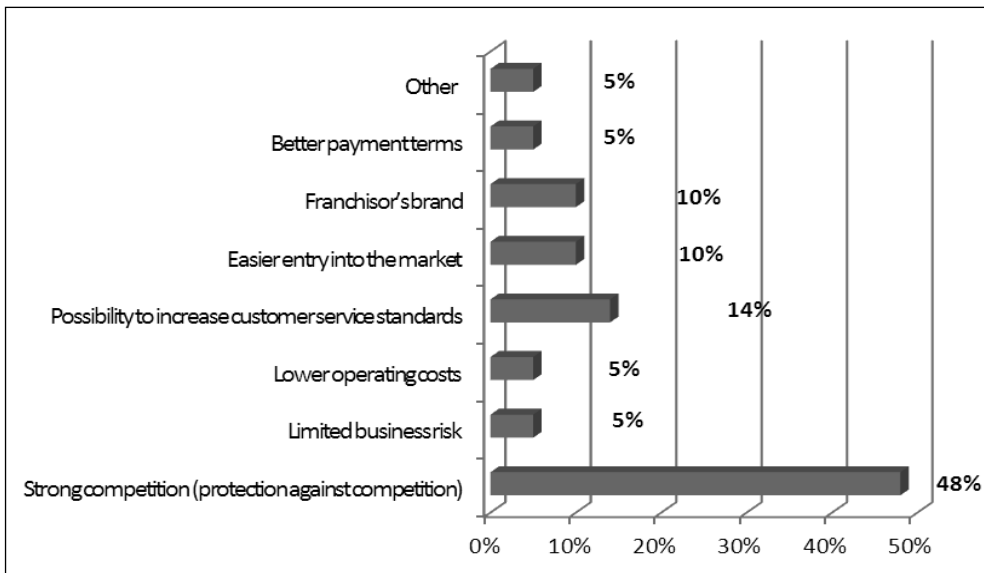
In the survey questionnaire given to franchisees, there were 22 questions, which focused primarily on:

- the integration of stores under a network,
- the specific business nature of those networks,
- the reasons for starting cooperation under such business model,
- barriers that are met by network participants, and
- the advantages and disadvantages of being a franchisee.

The Author focused her attention on the last three issues set forth hereinabove.

During the study, the franchisees were asked to provide an answer regarding the main reason for joining the current franchise system. They could choose one out of 11 reasons specified in the questionnaire or indicate other ones. Figure 2 shows the structure of provided answers.

Figure 2. The reasons for joining a franchise network

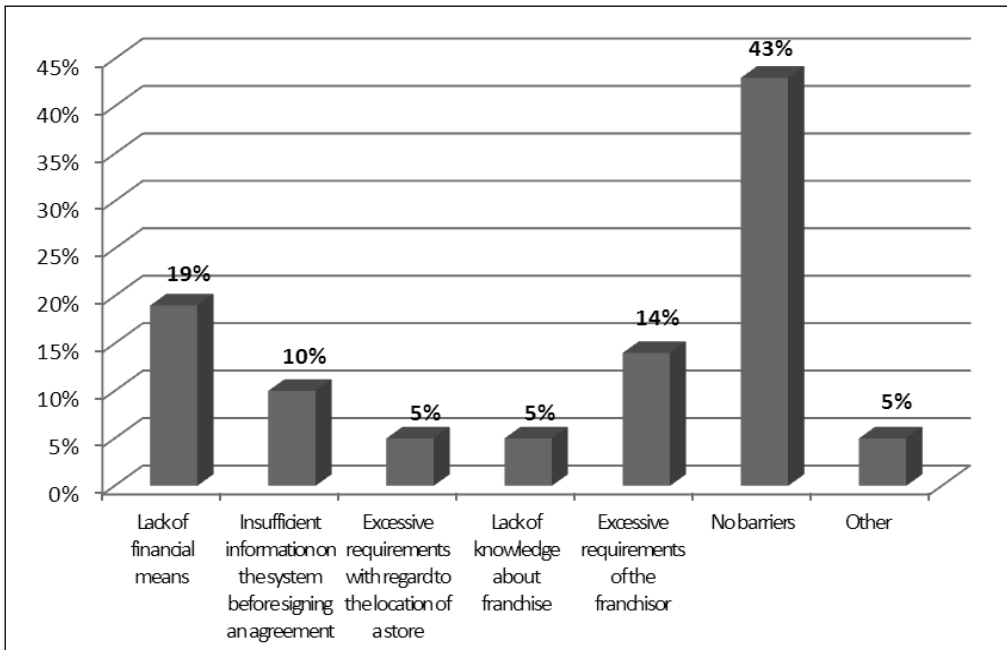


Source: own study based on the results of the pilot study.

The surveyed franchisees primarily indicated strong competition on the FMCG market as the main reason for joining the franchise system (*i.e.* 48% of all answers given). Other reasons included the possibility to increase customer service standards (14%), easier entry into the market (10%) and franchisor's brand (10%). It results from the above that companies by resigning from traditional forms of trade in favour of more modern distribution organisation, first of all take into account competition structure and not effectiveness reasons.

The next question referred to specifying the most important barrier that made the decision of joining the system difficult. The surveyed franchisees could choose one out of 6 barriers provided in the questionnaire or indicate other difficulties. Figure 3 shows the structure of provided answers.

Figure 3. The structure of barriers with regard to joining the franchise system



Source: own study based on the results of the pilot study.

It results from the above data that most entrepreneurs (43%) did not consider the conditions for joining the franchise network to be difficult. Other franchisees mentioned lack of financial means (19%) and excessive requirements of the franchisor (14%) as barriers for integration.

Lack of important barriers for joining the network is the reflection of the policy of the franchisors that operate within the FMCG sector that focuses on the systematic increase of the number of stores in the network. In practice (referring to earlier discussions with system founders), the requirements concerning *e.g.* size are very flexible, however, the financial standing of a store as well as the form of customer service (self-service preferred) are more important. Having brands that offer operation both under soft franchise and hard franchise allows franchisees to integrate

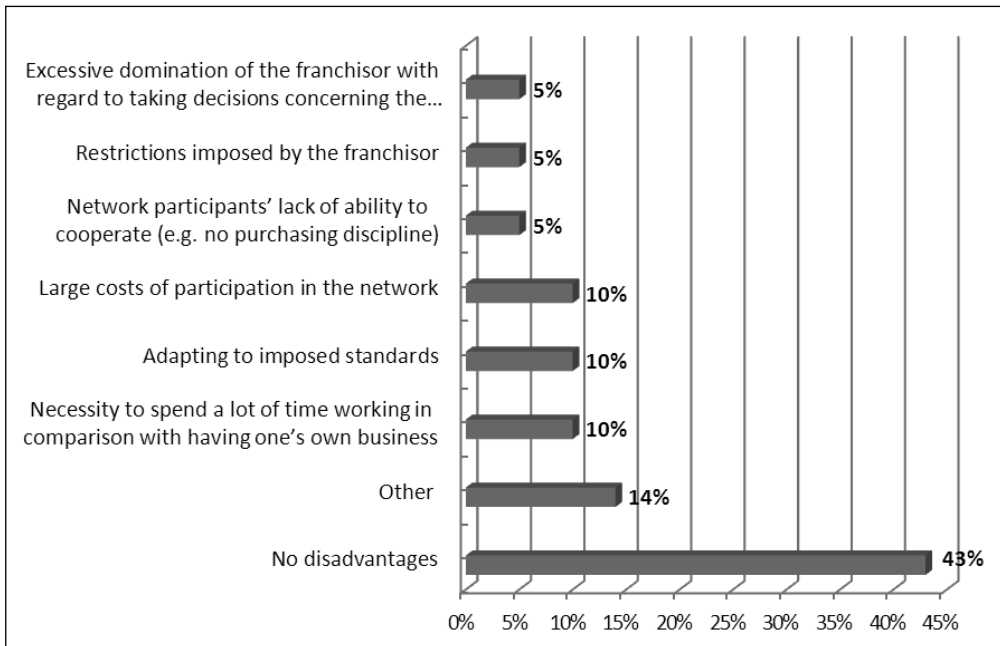
new units into the systems and therefore to strengthen their position on the market (example: Eurocash).

The following question referred to the selection of disadvantages perceived by the franchisees and specific to the studied franchise network. The list of negative features presented to the franchisees to choose from was selected based on the analysis of literature. This list included the following disadvantages:

- Improper network organisation;
- Burdensome agreement;
- Necessity to spend a lot of time working in comparison with having one's own business;
- Unclear division of roles in the network;
- Abuse of power by network head offices;
- Network participants' lack of ability to cooperate (e.g. no purchasing discipline);
- Employees in the head offices have no competences;
- Excessive control of the franchisee by the franchisor;
- Adapting to imposed standards;
- Large costs of participation in the network;
- Restrictions imposed by the franchisor;
- Excessive domination of the franchisor with regard to taking decisions concerning the system.

The surveyed franchisees could indicate one disadvantage out of those set forth in the questionnaire or provide other ones not specified on the list. The structure of answers given to this question is shown in Figure 4.

Figure 4. The structure of negative features of the franchise system perceived by the franchisees



Source: own study based on the results of the pilot study.

With regard to the aforementioned question, a considerable group of surveyed franchisees (42.9%) did not see any major disadvantages of the network they cooperate with. Ca. 10% of answers indicated the following disadvantages: the necessity to spend a lot of time working in comparison with having one’s own business, adapting to imposed standards, large costs of participation in the network. The remaining answers were rather of marginal nature (chosen once) or were not chosen at all.

The aforementioned results allow to conclude that almost half of surveyed franchisees are satisfied with the cooperation under the current system, which is also confirmed by the results of a control question that referred to repeated integration with the system. To this question, over 72% of surveyed franchisees answered affirmatively (see Tab. 1).

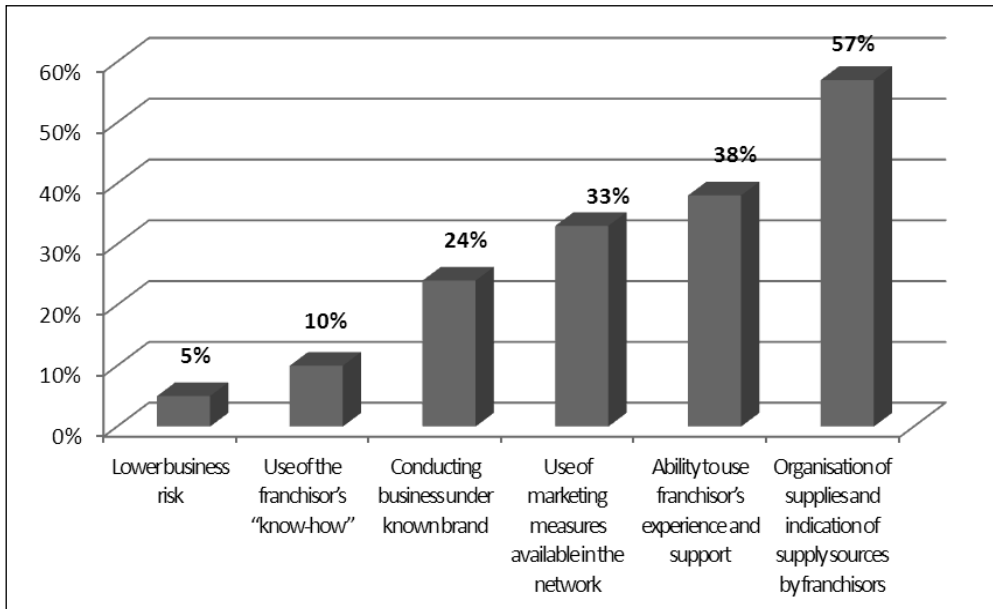
Table 1. The structure of answers to the question regarding repeated integration with the franchise system

Would you decide once again to operate under franchise?	Yes	No	Difficult to say
	71.4%	9.5%	19.0%

Source: own study based on the results of the pilot study.

The analysed issue referred to the selection of main advantages of the franchise network perceived by the franchisees. The surveyed franchisees could indicate as many as 3 advantages out of those set forth in the questionnaire or provide other ones not specified on the list. The structure of answers given to this question is shown in Figure 5.

Figure 5. The structure of advantages of the franchise system perceived by the franchisees (in percentages)



Source: own study based on the results of the pilot study.

The largest advantage for the franchisees is the organisation of supplies and indication of supply sources by the network founder – this advantage was selected by 12% of franchisees. Furthermore, in the opinion of the network participants, the ability to use franchisor's experience and support as well as the use of marketing measures available in the network were the most attractive advantages. The answers to the aforementioned question are reflected in the opinions indicated while analysing the advantages, which indicates credibility of these indications and the most valuable measures for current and future franchisees.

5. Conclusion

On the basis of the survey conducted among franchisees, several basic conclusions may be drawn and the plans for future operation and development of those organisations may be outlined.

According to the franchisees, the main reasons for joining the system are high competition in the FMCG industry and the possibility to increase customer service standards. At the same, most surveyed franchisees did not consider the conditions for joining the franchise network to be difficult. Among smaller barriers for integration, the lack of financial means and excessive requirements of the franchisor were mentioned. The franchisees do not notice considerable disadvantages and three fourths of them would decide to join the system again. If there are any negative features, the franchisees mention the necessity to spend a lot of time working in comparison with having one's own business, adapting to imposed standards and large costs of participation in the network. The largest advantage for the franchisees is the organisation of supplies and indication of supply sources by the network founder – assistance that is sector-specific and that facilitates the consolidation of this industry.

The identification of advantages and disadvantages of the system perceived by the franchisees, as presented hereinabove, constitutes valuable information for theorists who investigate the secrets of network connections, including franchise, as well as for practitioners (system founders, managerial staff) in order to create optimum offer for new franchisees.

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Chapter 20

Managing a Cultural Route on the Example of the Wooden Architecture Route in the Małopolska Region

Szymon Flaga

1. What is cultural heritage and cultural route?

In encyclopaedic terms, *cultural heritage* is total output of communities in such fields as science, art, architecture, education or technology, produced over a span of historical development, transmitted from generation to generation (Smolski, Stadtmüller, 1999). Cultural heritage can be further divided into *tangible* and *intangible heritage*. *Tangible heritage* includes, among others, monuments, works of art, collections of valuable exhibits and everyday objects (heritage in a physical dimension). Whereas *intangible heritage* can include, for example:

- traditional oral accounts (including language as a carrier of intangible cultural heritage),
- games and musical traditions,
- customs, rituals and annual rites and other socio-cultural practices,
- knowledge and skills relating to co-existence with nature and the universe, such as traditional methods of treatment or medical and love spells,
- knowledge and skills used in traditional craftsmanship.

All this and many more phenomena, which are not listed here, in all their richness and diversity, can be described with the term *intangible cultural heritage* (<http://niematerialne.nid.pl/>).

Some part of the cultural heritage has been lost. What survived from the past ages, cultures and traditions, what is the output of generations must be protected. This is one of the reasons for the creation of *cultural routes*, which are based on the existence of a material and immaterial output of communities. Community can be understood here in a broad way, starting from the local, through the national, and ending with the global community (Franik, Mierniczak, 2014).

Definition of a cultural route determines it as “a blazed and marked material route which connects sites and places selected according to an agreed thematic key, which is a unique and representative example illustrating broadly understood cultural heritage of a given region, community, ethnic group, national minority or nation” (Franik, Mierniczak, 2014). By providing tangible heritage, the route should make it possible to get to know both its tangible and intangible elements, treating them as an inseparable whole.

A cultural route can also be seen as a specific form of travel, addressed to particular users, interested in a given theme. Therefore, it may also have an educational dimension, set to “discovering”. The main objectives of the creation of the Route include the protection of cultural heritage and its protection.

UNESCO, an organization founded on **16 November 1945**, makes a special contribution to the protection of cultural heritage, as over the years it has contributed to the protection of tangible and intangible heritage around the world. From the point of view of management of sites on the Wooden Architecture Route in the Małopolska Region, a very important date was 3 July 2003. The first entry of sites on the Wooden Architecture Route on the UNESCO List of World Cultural and Natural Heritage Sites concerned **four wooden churches of southern Małopolska** in: Binarowa, Dębno, Lipnica Murowana and Sękowa. Another entry, which was made on 23 June 2013, included **wooden Orthodox churches in the Polish and Ukrainian region of the Carpathian Mountains**. Within the Małopolska Region, these are four Orthodox churches in: Brunary Wyżne, Kwiatów, Powroźnik and Owczary (<http://www.unesco.pl/>).

In addition to the sites covered by the special protection of UNESCO, currently, in Małopolska, there are 253 sites on the Wooden Architecture Route (<http://drewniana.malopolska.pl/>).

2. The Wooden Architecture Route in Małopolska

An important part of the cultural landscape of Małopolska are gems of wooden architecture, which include, among others, religious buildings – churches and Orthodox churches – and secular buildings, such as manor houses, wooden complexes of buildings or rural cottages. Collection of these sites forms a rich heritage of ancestors which, thanks to the creation of the Route, can be discovered and, most of all, protected.

The Wooden Architecture Route contains real treasures, also on a global scale. This was confirmed by entering eight sacral sites on the UNESCO List of World Cultural and Natural Heritage Sites.

Until the mid-twentieth century, wooden architecture was popular in the areas of southern and eastern Poland. However, attempts were made to replace wood with other materials which were considered more durable. Over the years, this process occurred very quickly, hence the sites which managed to survive to the present are extremely valuable, both in terms of culture and history. Therefore, the need for protection and the idea of blazing a route currently including 253 sites on the Wooden Architecture Route was born.

The main reason for visiting the Route is simple curiosity, for example, about the functioning of a manor house in years past, what was used to adorn the walls of temples, how food and clothing was produced in a peasant hut... just a desire to plunge into the atmosphere of old times.

A vast majority of sites on the Wooden Architecture Route are sacred sites – more than 170, however, secular architecture is much more diverse. On the Route, one can see residential buildings (manor houses, cottages), public utility buildings (bathing facilities, taverns) and farm buildings, which could include, for example, granaries. These buildings, due to the functional nature, were used until their technical condition allowed for it. Then, new buildings were constructed, therefore, the oldest sites on the Route are those of the late nineteenth and early twentieth century (Frank, Mierniczak, 2014). Among the residential buildings, manor houses arouse particular interest in terms of architecture and history.

The Wooden Architecture Route runs across the territory of four regions: Małopolska, Silesia, Podkarpacie and Świętokrzyskie. The Route marking was standardized and a common logo and graphic

design of signs directing to the sites on the Wooden Architecture Route was adopted for all the regions. Logo of the Route presents stromal arrangement of beams, characteristic of wooden construction (Fig. 1). It is included on road signs, information boards and promotional materials, and is functioning on the Internet. They clearly indicate that the person is entering the world of wooden architecture.

Figure 1. Logo of the Wooden Architecture Route



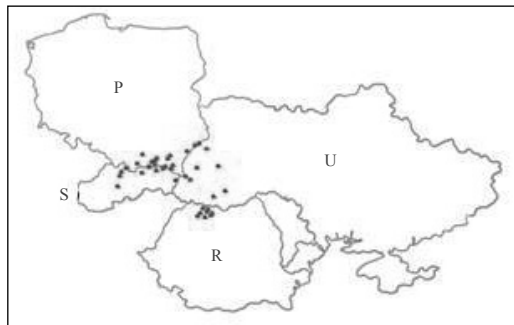
Source: Małopolska Tourist Organisation.

Of course, Poland is not the only place where examples of wooden heritage can be found. Sites distinguish by the UNESCO, which are unusual in the world scale, can be found also in our neighbours:

- 9 sites in Slovakia,
- 8 in Ukraine,
- 8 in Romania.

Along with the southern Poland, it presents a very interesting space containing 33 UNESCO sites (Fig. 2).

Figure 2. The UNESCO sites in the area of Poland, Slovakia, Ukraine and Romania



Source: *Thetris, Zarządzanie obiektem na Szlaku Architektury Drewnianej*, 2013.

It is a favorable arrangement, allowing for the creation of an international route running through the Carpathian Mountains – the Carpathian Wooden Architecture Route in the future.

3. Wooden Architecture Route's operation

The initiator of activities aimed at creating the Wooden Architecture Route was the Association of Małopolska Municipalities and Poviats. It took place in the late 90s of the twentieth century. Since 2001, the creation and development of the Wooden Architecture Route has

been the task of the Małopolska Regional Government. Since 2008, the institution managing the Wooden Architecture Route in the Małopolska Region on behalf of the Regional Government is the Małopolska Tourist Organisation. Currently, the Route includes 253 wooden sites and complexes of buildings (Małopolska Tourist Organisation, 2013). The buildings vary both in terms of intended use, historical or cultural circumstances and the nature of ownership, which significantly influences management of the sites. Even though given site is included in the Route, the managing authority of the Wooden Architecture Route (in this case the Małopolska Tourist Organisation) has no ability to make decisions about its operation (management of the site lies in the hands of the owner). This situation is improving, among others thanks to the consents of the owners given in a special *form of willingness to join the Wooden Architecture Route* to make the site available to tourists. As a result, the owners have the opportunity to determine the schedule convenient to them, and on the other hand, tourists receive specific information facilitating discovering a site from the inside.

Accessibility of sites on the Wooden Architecture Route can be divided into two groups:

1. Sites adapted for tourists, available all year round during the opening hours specified by the owner, *e.g.*, the *Rzym* tavern in Sucha Beskidzka.
2. Museum sites, available all year round during the opening hours of the institution, *e.g.*, the Vistula Ethnographic Park in Wygielzów.

Enlisting a site as a part of the Wooden Architecture Route brings many benefits. The most important are (Franik, Mierniczak, 2014):

- The opportunity to attract more visitors through the participation in the project, and thus becoming a part of a larger community.
- Extensive promotion of the Wooden Architecture Route allows to reach a wider audience.
- The site and access to it are marked, which affects better visibility of sites in the field.
- There is a high probability that a tourist coming to a given site on the Wooden Architecture Route will also explore interesting places nearby.
- The owner of a site on the Wooden Architecture Route can count on easier access to grants for restoration works.
- Entry on the Wooden Architecture Route can translate directly into economic growth of smaller local communities; offering accommodation, catering services, increase in sale at petrol stations and in shops can contribute to the improvement of the quality of life.
- Caring for the local welfare affects the unification of local institutions and entrepreneurs.
- Increasing the competitiveness of the municipality, which makes it more attractive to investors.

4. Enlisting a site on the Wooden Architecture Route

1. Administrator of the site makes a request to the Marshal Office of the Małopolska Region to include the site on the Route:
 - the request should be addressed to the department of the Marshal Office competent for tourism,
 - the administrator is required to fill in an application and a declaration stating that the site will be made available to tourists.

2. The Marshal Office asks three following institutions to pass their judgement on the application (Franik, Mierniczak, 2014):
 - the Regional Centre for Research and Documentation of Historic sites in Krakow (ROBiDZ),
 - the Małopolska Tourist Organisation (MOT),
 - the Polish Tourist and Sightseeing Society (PTTK).
3. The consulting institutions familiarise themselves with the request submitted by the site administrator and pass a positive or a negative judgement.
4. The Marshal Office announces its final decision.

Table 1. Cooperation of Local Government Units with the Marshal Office on development of the Wooden Architecture Route

Marshal Office of the Małopolska Region	Powiat Office	Municipal Office
Provision of know-how (the Marshal Office of the Małopolska Region has qualified personnel to blaze and mark the Route; necessary cooperation with experts assessing applications at the stage of selecting sites). The Marshal Office, as the owner of the Wooden Architecture Route brand on the market of tourist services, takes actions aimed at its promotion, image development and animation. Support for the sites on the Wooden Architecture Route in applying for funds from external sources. Development of the elements of visual identification. Provision of training for the owners/administrators of sites. Organisation of study visits aimed at popularizing the Route in the country and abroad	Creation of new tourist information points. Support for the activities undertaken by municipalities. Cooperation with non-governmental organizations, associations and private companies in order to develop the market of tourist services related to the Route. Dissemination of information materials about the sites on the Route in the powiat. Taking measures for development of tourist infrastructure in the vicinity of the Wooden Architecture Route	Inclusion of the sites on the Wooden Architecture Route in the programme of regional events. Programme of cooperation with schools in the municipality directed at the education of children and teenagers in the field of local cultural heritage. Cooperation with the owners opening sites for tourists, as a part of which assistance is offered, for example, in finding seasonal employees. In addition, if the municipality is the owner of the site, its tasks will include taking care of the immediate surroundings of the site, ensuring fixed opening hours and maintaining information boards

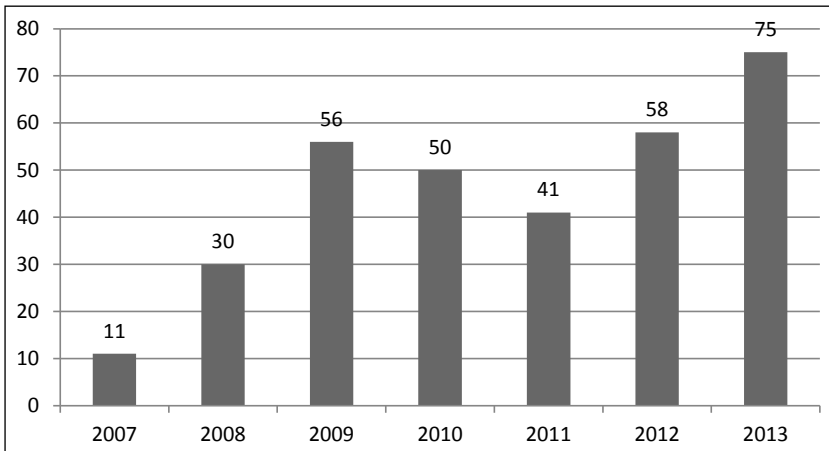
Source: own work based on: Gawel, 2011a.

5. Measures aimed at animation of the Wooden Architecture Route

After blazing and marking the Wooden Architecture Route, the next step was promoting it and in consequence opening of usually closed sites in 2008. The idea of the Open Wooden Architecture Route is successful due to the commitment of and funding from the Małopolska Region, which entrusted implementation of the project to the Małopolska Tourist Organization. Every year, from May to September, a few dozen of sites on the Wooden Architecture Route open their doors to visitors from around the world and encourage discovering the beauty hidden in them.

Between 2007 and 2013, the scheme of making sites available, which was used in the Open Route project, allowed for the opening of approximately 320 sacral sites. Division into individual years is presented in Figure 3.

Figure 3. The number of sites made available within the Open Wooden Architecture Route project between 2007 and 2013



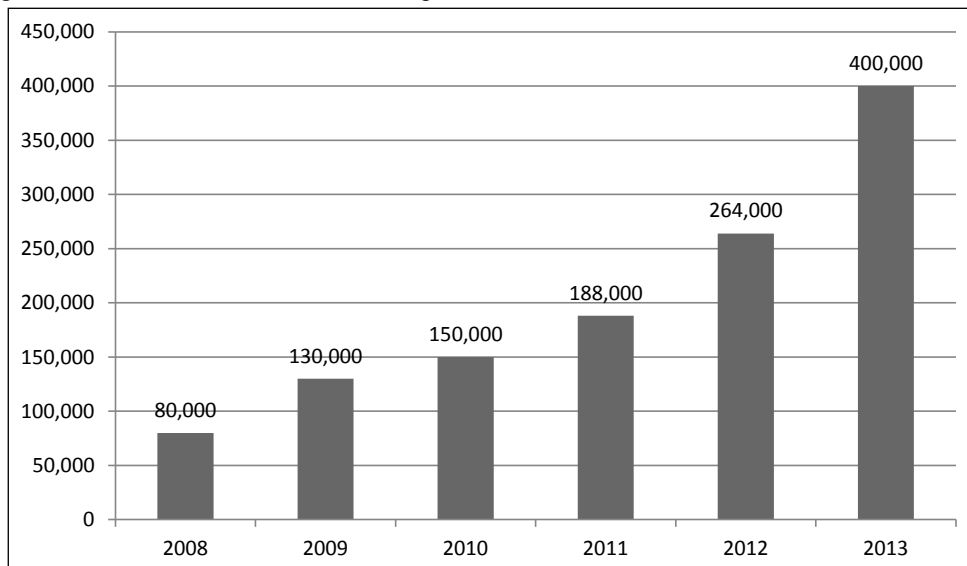
Source: own work based on: Franik, Mierniczak, 2014.

In 2014, it is planned to open 80 sites as a part of this project.

The opening period of sites (from May to September) is associated not only with increased tourism, but also the wall paintings – polychromies. In order to preserve them in a good condition, it is necessary to ensure proper temperature and humidity inside the sites.

The number of tourists visiting the Open Wooden Architecture Route was increasing year in, year out between 2008 and 2013. Approximately, the Wooden Architecture Route (Open Route and other sites) is visited by 700,000 tourists per year. Figure 4 presents the number of tourists visiting the open sites on the Wooden Architecture Route with breakdown into individual years.

Figure 4. The number of visitors on the Open Wooden Architecture Route



Source: own work based on: Franik, Mierniczak, 2014.

The most important undertakings implemented within the Open Wooden Architecture Route project (2008-2013) include, among others (Franik, Mierniczak, 2014):

1. Replacement of nearly 249 information boards located next to of the Route's sites and supplementation of signs directing to the sites (104 E-10 and E-22a signs).
2. Entering 23 new sites on the list of Wooden Architecture Route.
3. Organization of the 7th edition of a series of concerts called "Music in Magic Wood"; moreover, in 2013, the concerts were also held in churches inscribed on the UNESCO list, located outside Małopolska – in Haczów and Blizne; what is more, thanks to the cooperation with the Carpathian Europe Institute from Nowy Sącz, additional 4 concerts were organized in the UNESCO churches in the Małopolska Region – in Owczary and Kwiaton, and in Slovakia – in Kežmarok and Lodomirová.
4. In 2011 and 2013, media cooperation was established with the RMF Classic radio station, TVP Kraków, Dziennik Polski and many Internet services in order to promote the series of concerts "Music in Magic Wood".
5. Cooperation with the media also covered the transmission of holy masses from a few dozen selected wooden churches located on the Wooden Architecture Route in Małopolska; this task was undertaken by Religia TV.
6. Promotional materials about the Wooden Architecture Route were prepared in several languages; total circulation amounted to more than 464 thousand copies, forwarded to be distributed in sites on the Route and in tourist information points.

6. Music in Magic Wood as an extension of the Wooden Architecture Route offer

An important element accompanying the Open Route project is a series of concerts called “Music in Magic Wood”. Through the organization of such events, it is possible to draw people’s attention to the sites which are often little known or forgotten. In addition, this initiative allows local residents and tourists to get to know and appreciate the cultural value of these sites anew, and thus understand the idea of functioning of the Route.

As a part of the concerts, works of both Polish and foreign composers are performed. During meetings their participants have the opportunity to listen to the music coming out of faithful copies of historic instruments. Listeners have the unique opportunity to encounter the music of different cultures, communities and religions. At concerts, artists perform old music, but also folk, highlander music and even jazz or opera arias. All concerts are held in the sites of the Wooden Architecture Route. To encourage participation, in addition to the unique atmosphere of the meeting, the admission is free, which makes it possible for everybody to grow rich culturally, regardless of financial status.

7. Promotional activities undertaken to popularize the Wooden Architecture Route

Promotional measures undertaken in the field of tourism are slightly different from those implemented in the classic transactional depiction. Here, the main emphasis is placed on establishing ties between the client (tourist) and the product, that is, the Wooden Architecture Route. In summary, it is much more important to create such a relationship in order to arouse only positive memories and feelings in a tourist travelling the Wooden Architecture Route. As a result, the opinion of a satisfied tourist will reach a wider audience, thereby encouraging others to visit sites on the Route (Franik, Mierniczak, 2014).

Implementation of promotional activities, and development and activation of the Wooden Architecture Route by the Local Government of the Małopolska Region takes place in cooperation with the local partners. Since 2008, the majority of activities promoting the Wooden Architecture Route have been carried out by the Małopolska Tourist Organisation on behalf of the Local Government. In addition, initiatives in this area are also taken by Local Government Units and owners of sites.

Key measures aimed at promotion of the Wooden Architecture Route can be divided into those implemented by the Małopolska Region (mainly tasks undertaken since the Route has been blazed until 2008), and those carried out by the Małopolska Tourist Organisation (after 2008).

The activities performed by the Małopolska Region include mainly (Franik, Mierniczak, 2014):

- publication of a guide book to the Wooden Architecture Route,
- publication of an album dedicated to the Wooden Architecture Route,
- initiation of the Małopolska Days of Cultural Heritage,
- preparation and printing of brochures and leaflets informing about the Wooden Architecture Route,
- promotion of the Route at national and international tourist trade fairs.

From among the main activities carried out by the Małopolska Tourist Organization, it is worth noting (Franik, Mierniczak, 2014):

- Management of the website www.drewniana.malopolska.pl, dedicated entirely to the Wooden Architecture Route; the website contains news on the Route and on the series of concerts “Music in Magic Wood”, descriptions of all the sites included on the Route along with numerous photographs showing their beauty, as well as a map which facilitates finding the sites in the Małopolska Region; the website is also functioning in foreign languages, namely English, German and French. Work related to the extension of the website with a new functionality for visiting key monuments (UNESCO) is being carried out.
- Information about the sites is also distributed within the project of the Małopolska Tourist Information System, through the website <http://visitmalopolska.pl> and a promotional publication *Małopolska, Wooden Architecture Route*. Project of the MTIS was implemented by the Regional Government of Małopolska Region in cooperation with 25 local government units. Since 2013, the task of maintaining the project of the MTIS has been the responsibility of the Małopolska Tourist Organization.
- Promotion by a special car intended for promotional activities of the Małopolska Tourist Organization – Małopolski Camper. It is an innovative way of conducting promotional measures in the field, which makes it possible to reach a wide audience outside the country. In June 2013, the camper promoted the Wooden Architecture Route in the Netherlands, Belgium, France and Luxembourg. In September 2013, it visited the Czech Republic, Slovakia and Hungary. The camper has its own blog <http://campermalopolski.blogspot.com> and a website on <http://facebook.com>, which contains accounts of already travelled routes and information about the planned events (*Złoty Szlak Architektury Drewnianej*, 2013).
- Inviting journalists to the Wooden Architecture Route as a part of study visits resulted in press articles reaching the regional, national and international audience; articles about the Route can be found, among others, in: National Geographic, Polityka, Newsweek, Gość Niedzielny and Dziennik Polski.
- Organization of two press conferences on cultural events and sites of the Open Wooden Architecture Route, which are held before the beginning of the summer season and to sum up the season.
- Promotion at tourist trade fairs between 2011 and 2013; the Wooden Architecture Route was presented at 26 international and 10 national trade fairs as one of the main products of the region of Małopolska.
- Production of a 30-minute film entitled “Wooden Soul of Małopolska”, which describes the Route and reflects the unique atmosphere of the sites found on the Route.
- Cooperation with TVP1 resulted in the creation of the material entitled “Małopolska – Wooden Architecture Route”, transmitted in 2013 as a part of the programme “Nie ma jak Polska” aired by Telewizji Polskiej S.A. On 23 and 24 April, well-known TV presenters – Maciej Orłoś and Anna Karna, wandered along the Wooden Architecture Route, visiting interesting places in the region on their way. This measure facilitated popularization of the Route among a wider audience, thereby encouraging tourists to get to know the offer of the Wooden Architecture Route in Małopolska.

Tourist offer prepared as part of the Wooden Architecture Route in Małopolska was particularly appreciated by the Polish Tourist Organization. On 18 October 2013, during Poland’s largest tourist trade fair – Tour Salon in Poznań, the Wooden Architecture Route in Małopolska

was recognized as the best Polish tourist product in 2013 and was awarded the Gold Certificate of the Polish Tourist Organisation.

8. Conclusion

Projects such as the Wooden Architecture Route in Małopolska offer an opportunity to notice and protect cultural heritage, found frequently in this area of Poland. Opening the sites located on the Route brings benefits in terms of creating an interesting offer for tourists, which attracts them to little-known places of the region. The Open Wooden Architecture Route project created the need for employing people for tourist services, minor conservation work and maintenance of order inside the sites. The Małopolska Tourist Organisation started cooperation with an employment agency in the Małopolska Region, and as a part of the project, the Conservator gives work to a few dozen people, who were long-term unemployed. Numerous measures taken for the promotion and development of the Wooden Architecture Route and a significant increase in the number of tourist prove the right direction of management of this cultural heritage.

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Chapter 21

The Significance of KIBS Firm Location for Business Tourism Companies in Krakow¹

Krzysztof Borodako, Jadwiga Berbeka, Michał Rudnicki

1. Introduction

Krakow has a great potential as a business tourism destination. At the same time, it is featured by a concentration of KIBS firms in the metropolitan area – in terms of firm numbers as well as the diversity of services provided. As it is shown in the literature, the geographical and sectoral concentration of firms has implications for product development, innovation, and inter-firm relations. The problem, widely discussed for manufacturing, is not well recognized in tourism, which was the main reason to conduct research of this matter in Krakow.

The main goal of the paper is an assessment of the importance of territorial proximity of KIBS suppliers for business tourism enterprises as the determinant of their cooperation.

The paper is structured as follows. A brief and selective literature review is given in the first part, which provides a theoretical and empirical background for the rest of the paper. Second, the methodology of the study is presented, and finally the empirical results of the research.

2. Literature review

2.1. KIBS scope of the term and forms of classification

Tuominen and Toivonen (2011, p. 394) have shown that knowledge-intensive business services (KIBS) are characterized as expert-based business-to-business services, where knowledge plays an important role in both the service delivery and the output of the service. An examination of the foreign literature reveals numerous approaches to defining the concept of KIBS. One of the first attempts was by Miles, who understands KIBS as services that – as a result of the creation, accumulation, and dissemination of knowledge – support the business processes of other enterprises (Miles et al., 1995, p 18). Later attempts to define the term have been slightly different from the original, underlining such factors as: the strategic contribution of these services

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to the activities of companies/clients (Miozzo, Grimshaw, 2005), the contribution of KIBS to companies in the private and public sector (Muller, Doloreux, 2007), or their provision of a range of expertise – for the purpose of solving a company’s problems (Koschatzky, Stahlecker, 2006).

An issue that is strongly accented in the literature is the role of KIBS in innovation in companies. Amara, Landry, and Doloreux (2009, p. 407) hypothesize that service innovation results from the creation of new combinations of knowledge. The core competence of KIBS resides in their capability to combine, in a new unique body of knowledge, codified scientific and technical knowledge, with tacit knowledge based on extensive experience to “help other organizations deal with problems for which external sources of knowledge are required” (Miles, 2005). KIBS can be classified in different ways, depending on various assumptions. The most frequently accepted classification of KIBS services in studies (*e.g.*, OECD) and literature (Pardos, Gomez-Loscos, Rubiera-Morollon, 2007) is according to NACE (Statistical Classification of Economic Activities in the European Community). Other classifications of KIBS can also be found (National Science Board, 1995; Wong, He, 2005; Javalgi, Gross, Joseph, Granot, 2011; Borodako, Berbeka, Rudnicki, 2014).

KIBS include a wide range of services, *e.g.*, banking and financial, legal, accounting, marketing, advertising, human resource management, and design consultancies. Abecassis-Moedas et al. (2012) indicated that while the international development of manufacturing activities is often based on economies of scale, KIBS need alternative paths because of their knowledge intensity and importance of strong and close relationships with the client. This is heightened in the case of creative KIBS such as architecture, advertising, web services, branding, or design agencies, which are based on creative processes and individuals, thus reducing economies of scale even further. Internationalization is becoming a major challenge for creative KIBS companies which in the past were small and operated locally, whereas today, the markets for creative services are becoming global. The importance of this phenomenon is growing significantly in terms of both demand and service offering: clients are starting to buy creative services from foreign consultancies, and a few creative KIBS are starting to operate globally. However, most still operates in the old “small and local” model, based on local demand and local service offering. The specificity of business tourism operators that organize events in a given location determines the nature of the cooperation with local KIBS entrepreneurs, as well as KIBS firms operating globally.

2.2. The essence of business tourism

The International Tourism Fair (ITB) in Berlin every year attracts almost 11,000 exhibitors from over 180 countries around the world, as well as more than 7,000 journalists, and approximately 180,000 visitors. The value of transactions during each annual fair in recent years has been more than 6 billion euros. The ITB Fair is just one example of the huge number of trade fairs organized for various sectors of the economy. However, fairs themselves are only part of the meetings industry – commonly known as business tourism – one of the most profitable branches of tourism: many other events are also organized. In fact, today, there are over 10,000 events hosted annually (10,700 in 2011, and 11,156 in 2012, according to the International Congress and Convention Association – ICCA – in 2013) – and these are just the “official” figures published by the ICCA, based on data made available to the Association.

Although business tourism is relatively young, it is one of the fastest growing tourist sectors (Rogers, 2008). The literature shows that it can generate high revenue for the host city (Beaulieu, Love, 2004) through direct, indirect, and induced expenditure. The World Tourism Organization estimates that business tourism accounts for 15% of the world tourism market, and the daily expenses of business travelers are 50% higher compared to tourists traveling for pleasure.

Business tourism is often defined as journeys made by employees or other persons in connection with their work (Davidson, Cope, 2003). It is understood that the main premise of the trip, its most important element, is meeting people – business partners, experts, academics, and practitioners. For this reason, business tourism is often equated with the “meetings industry”, also referred to as MICE tourism (meetings, incentives, conferences/conventions, and exhibitions/events). At the same time, the literature draws attention to the following characteristic features of business tourism: the difficulty of assessing its size internationally, bespoke acquisitions, a specific model of service (due to the requirements/expectations of customers), profitability and specialization (efficient organization and specialized service potential is needed in promotion and customer service), and the volatility of worldwide investment (Gaworecki, 2007).

The meetings industry is a complex and fragmented industry, combining the interests of many stakeholders representing service providers, intermediaries, and the organizers of the events themselves. Because they encompass such a broad spectrum of stakeholders, it is not surprising that individual destinations pursue an active policy of attracting events, thus providing income for many businesses (Cheung, Law, 2002). Cooperation between business tourism and local KIBS suppliers may turn out to be an important element in gaining a competitive advantage by some regions over others.

2.3. Territorial proximity of enterprises

Many factors should be taken under consideration while discussing the problem of cooperation between the business tourism sector and KIBS suppliers. One of them is the aspect of suppliers' location in reference to tourism enterprises' seats. The problem refers to the spatial proximity of enterprises, which could even be rooted in industrial district theory. Although the concept of industrial district was initially used to describe relations in manufacturing (Marshall, 1898; Pyke, Becattini, Sengerberger, 1992), it has also been recently applied to tourism (Hjalager, 2000). Some research has even proved that an industrial district approach was valuable for tourist literature (Mottiar, Ryan, 2007). In this light, one can observe the enterprises at the destination (for example in a city) as a group and pay attention to their interrelations and embeddedness in the local area. An important element of an industry district is the milieu, which can be of social or professional character (Ottati, 1994). In the case of a small tourist destination it is rather a social milieu, whereas in case of a city it is mainly a professional one.

The second theory concerning firms' agglomerations, also stressing proximity and interactions between actors in the same area (also tourists destination), is a cluster (territorial) concept (Porter, 1990). Porter finds the source of the competitive advantage of individual firms in a location or proximity. Thus, the essence of the two concepts or approaches is found in three factors: proximity, interconnectedness, and variety of participants.

In the literature, there is a model dedicated to the tourist market, describing relations at a destination, partially based on industry district and cluster concepts, but also incorporating social

capital, called Tourism Local Innovation System (Prats, Guia, Molina, 2008). This concept also stresses the importance of territorial proximity.

Short distances not only facilitate the coordination of individual actors, they also play a role in the institutionalization of behavioral rules and transfer of knowledge and learning (Boschma, Lambooy, 2002). Strong inter-firm relations and the existence of a social and professional milieu encourage the flow of information, leading to a high level of innovation in an industrial district. Pilotti (2000) expressed the opinion that: "Places should be considered as a context in which learning processes and institutional variables are bound together with economic and social factors". This refers especially to cities that have a high concentration of enterprises. Jacobs (1969) claimed that diversified urban economies triggers new ideas and innovations. The co-location of many different individuals, firms, and sectors enhances knowledge exchange and the recombination of different pieces of knowledge in novel ways, which generates variety in major cities.

Next to such variety of area, knowledge creation tends to concentrate in space, leading to inter-area variety of knowledge. Research and Development is spatially concentrated, often in connection with the presence of universities and private R&D centers (Anselin, Varga, Acs, 2000). However, it is not necessarily the case that places of knowledge creation and places of innovation overlap. When there is little overlap, one speaks of a knowledge paradox (Boschma, 2008). Mostly, geographical proximity is the prerequisite for knowledge diffusion and innovation (Audretsch, Feldman, 1996). It is shown in the literature that geographical proximity may encourage the creation of trust-based relationships or other institutions that facilitate effective knowledge transfer between local agents (Maskell, 2001). Space and proximity also, however, contribute to the spreading of tacit knowledge and the capacity of learning as supportive elements of innovation (Maskell, 2001).

It should be stressed, however, that there are also different approaches in the literature. Boschma (2008, p. 208) claims that: "Geographical proximity is neither a necessary nor a sufficient condition for interactive learning and innovation. This happens only when other barriers of knowledge diffusion are overcome, such as cognitive, social, and institutional distance. These other forms of proximity need to be secured between actors in order to make them connected, and to enable effective knowledge transfer. Other forms of proximity may act as a substitute for geographical proximity, because they can help to provide the necessary trust to exchange knowledge without the need for geographical proximity".

Thus, the desire to identify the relations of business tourism enterprises in Krakow and their partners providing KIBS, with special attention paid to geographic proximity, was the main reason to undertake this piece of research.

3. Methodology

A directed selection of firms was applied: a request to participate was sent to selected tourism firms located in the city of Krakow. The selection criteria were as follows: the first group consists of entities recommended by the Krakow Convention Bureau Municipality of Krakow, namely professional congress organizers (PCO), destination management companies (DMC), and restaurants specializing in business clients. The second group of respondents was business hotels (three-, four- or five-star standard) and event companies registered in a dedicated database. The last group comprised convention centers and other private venues that host events in Krakow

and that had participated in previous studies on the meetings industry in Krakow in 2009-2011. Questionnaire surveys were conducted by email in May-June 2013. A total of 241 firms received an invitation to participate. Ninety firms returned the completed questionnaire, which amounted to a return rate of 37.34%. Most Krakow enterprises participating in the research knew the research team; cooperating by supplying data for analysis of Krakow’s meeting industry prepared for the Krakow Convention Bureau of the Municipality of Krakow for almost four years. A special survey program (Remark Web Survey) was used to gather the data. Various indices were calculated in order to calculate the percentage of enterprises using specified types of KIBS and the significance of the particular services.

4. Results

More than half of the respondents to a survey declared themselves an employee (55%), with only 28% the owner or co-owner of surveyed companies (the rest did not reply to this question). Less than one-third of respondents stated that they had managerial positions – president or director (15% and 16% respectively) – while every third respondent was a specialist. More than one-third (35%) of the companies participating in the study were micro-enterprises (employing up to nine people). Analysis of the length of time companies have been present on the market shows that there is a relatively even distribution, but with most companies younger than ten years old – 36%. Most important from the point of view of the research (survey) results was the sector they represent – in the studied sample, there were most entities from the (overnight) accommodation sector (37%) and professional organizers (both PCO and DMC companies and event organizers) – 27 % (see Tab. 1).

Table 1. Structure of the respondents and surveyed companies

Status	[%]	Position	[%]	Number of employees	[%]	Age of the company	[%]	Industry	[%]
(co-) owner	28%	specialist	32%	up to 9 persons	35%	0-9	36%	accommodation	37%
employee	55%	head	22%	10-49 persons	25%	10-19 years	28%	gastronomy	8%
no reply	17%	director	16%	50-249 persons	17%	over 20 years	20%	organizer (PCO, events)	27%
no reply		president	15%	over 249	7%	10.1-20 years	16%	other	11%
		15%	no reply	16%		no reply	17%		

Source: own calculations based on the research.

When presenting research results concerning the range of cooperation of Krakow companies, it is also very important to analyze the dominant knowledge intensive business services used by these entities. The results of the study show that the largest group of companies used advertising services (87%), IT services (84%), accounting services, accounting and tax advisory services (70%), and legal services (68%). The next most popular types of knowledge-based services are services related to events and meetings, the proportion of which was over 50%, confirming the importance and significance of this group of services to Krakow companies (Tab. 2).

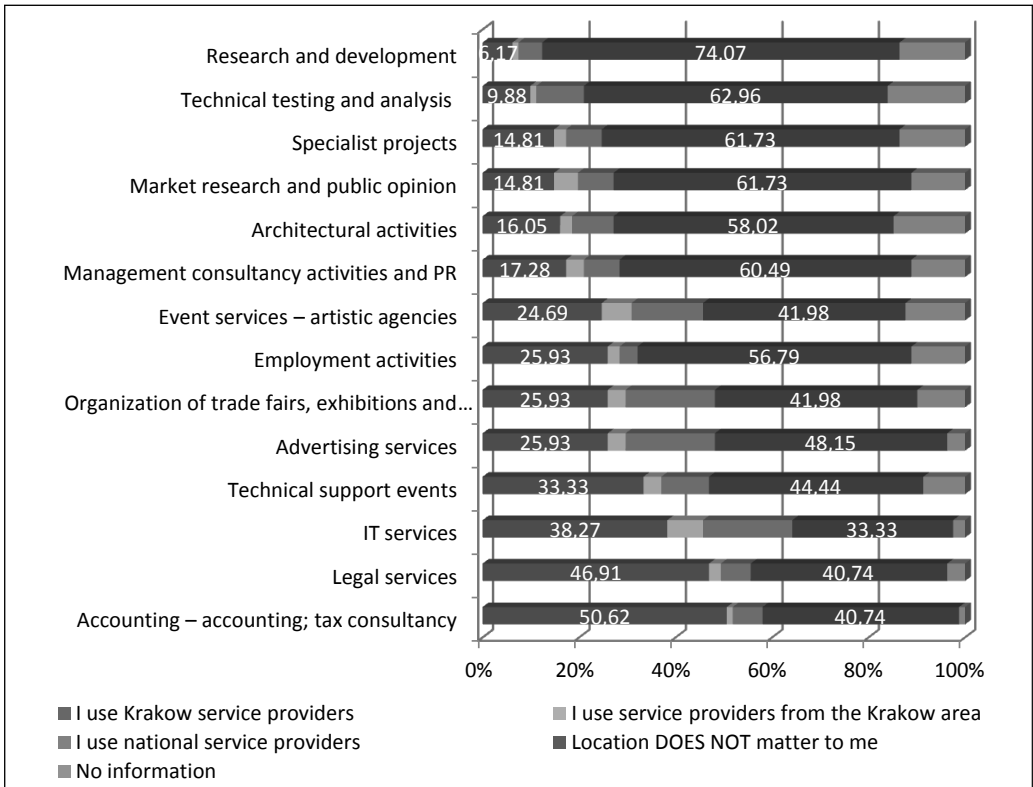
Table 2. Percentage using specialized business services in Krakow

Type of business services	Yes [%]	No [%]
Advertising services	87	13
IT services	84	16
Accounting – accounting; tax consultancy	70	30
Legal services	68	32
Organization of trade fairs, exhibitions and congresses	59	42
Technical support events	57	43
Event services – artistic agencies	54	46
Market research and public opinion	51	49
Management consultancy activities and PR	45	55
Specialist projects	42	58
Employment activities	41	59
Architectural activities	40	60
Technical testing and analysis	31	69
Research and development	25	75

Source: own calculations based on the research.

The results also show that the location of firms providing knowledge-based business services is relevant for many actors in the field of business tourism in Krakow. This is noticeable in the changing percentage of firms indicating the use of Krakow (*de facto* local) suppliers – with the largest share being companies providing accounting and tax consultancy services (50.62%) and legal services (46.91%). On the other hand, the (lack of) significance of location was expressed by indicating the answer “location does not matter to me”. In this matter, the smallest percentage of respondents indicated IT services (33.33%) and accountancy and bookkeeping services (including tax advice) and legal services (40.74%). This may confirm the need for frequent meetings between partners or the need to work at the head office (of the company in the tourist sector).

Figure 1. Importance of the location of KIBS providers for the surveyed companies



Source: own calculations based on the research.

The largest percentage of respondents did not attach importance to the location of knowledge intensive business service providers (KIBS) in the case of research and development (74.07%) and technical testing and analysis (62.96%) – Figure 1.

5. Conclusion

In conclusion, it could be stated that the problem of the location of suppliers has been a key element of research for many years. This study focused on a specific area of the tourism market – mainly business tourism companies and their relations with suppliers of knowledge intensive business services. Many of the studied firms confirm cooperation with such KIBS suppliers and this could be assessed as a very valuable situation for the increase in competitiveness of these firms. As the results show, the respondents indicated that the cluster concept seems to be the core solution for these firms. Most use KIBS on a local level (city level of Krakow) and also indicated that location plays a role in cooperation partly based on knowledge generation and exchange. This study has some limitations – the sample of the research firms did not cover the whole group of business tourism firms, and it was very difficult to overcome the intensity of this cooperation.

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Chapter 22

The Commercialization of the Polish Regional Airports: The Krakow Airport Case Study¹

Adriana Paliwoda-Matiolańska, Marek Górski

1. Introduction

Air transport is the form of transport which has been dynamically changing in the last 20 years or so. Evolution of airports to become service-focused business entities is an example of these changes. This occurred as a result of institutional changes based mostly on deregulation and increased competition in the air transport market. Limitation of the state control made airports convert their model of functioning from the traditional, based on activities of a public use organisation, to a commercial, business model. The segment of low-budget carriers significantly affected the change in the behaviour patterns of consumers in the market of aviation services by attracting new groups of clients who take advantage of air transport and force the natural segmentation of airport clients. However, this negatively impacted the revenues generated on traditional aviation services. Airports, especially those of regional nature, started competing not only about passengers but also about airlines, reducing airport fees. Fiscal legislative changes within the European Union were another important factor, which reduced the possibility of passengers buying products in the duty-free areas in airports and significantly affected reduction in revenues. In general, privatisation and commercialisation of airports increased their autonomy, knowledge and motivation to make use of trade possibilities which are provided in the airport premises.

It is especially important in case of developing airports which did not base their activities earlier on commercial aspects and plan for expanding the scope of services. The Krakow Airport im. Jana Pawła II is an excellent example of this. The dynamic development of the airport, manifesting but in the continuous increase trend in passenger traffic (with over 3 million people at present), the investments planned in the infrastructure, and a major share of low-cost carriers (61%) in the structure of passenger traffic, as well as the location of the airport in a place which is a demanded tourist destination, make the functioning of the non-aviation area require a thorough analysis. The objective of this paper is thus the attempt of the analysis and assessment of the role and significance of the non-aviation services offer of the regional airport: the Krakow Airport.

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2. Role and significance of the commercial offer of airports

The literature on air transport commonly recognises the fact that trade activities and non-aviation services ensure financial stability in many airports (Freatly, O'Connell, 1998). The data presented by the Airport Council International (ACI) indicate that the significance of commercial proceeds in the structure of the general proceeds of airports has been increasing since 1995 and currently constitutes about a half of all the proceeds (Graham, 2008, 2009). According to the ACI Report of 2012, proceeds from non-aviation services constituted 44% of the total income on the average for the airports of the world (ACI Economic Report, 2012). Obviously, the situation differs depending on the geographical location or the number of the passengers supported by the given airports. In Asia, income from commercial services may reach as much as 51% of the total income (ACI Economic Report, 2012). Analysing significance of these proceeds in terms of the size of the airports, large facilities which support over 20 million passengers generate larger income from non-aviation services (about 56%). In case of medium-size airports (4-20 million passengers), it constitutes 45%, and in small airports (less than 4 million passengers) it is 35% (Rekowski, 2011).

Both in European and North-American airports, proceeds from retail trade in the airport premises are most important. Moreover, the retail trade sector has also identified benefits resulting from the fact that the passenger waiting for his/her flight may be a splendid source of income, and enhanced their activities in airports, especially in the departure lounges (Rowley, Slack, 1999). The spatial structure of the existing trade area and its quality significantly affect the amount of proceeds generated from their functioning. Its expansion requires learning and understanding tastes, motivation factors and behaviour patterns in passengers in airport trade premises. This is why analysis and attempt of assessment of client preferences, including in particular in newly opened regional airports, seems to be a highly important issue.

3. The Krakow Airport im. Jana Pawła II: the characteristics of the facility

The Krakow Airport im. Jana Pawła II is located in Balice, about 11 km to the west of the centre of Krakow. Since the very first passenger flight in the history of the aerodrome (29 February 1964), the facility has undergone many stages of modernisation and expansion, finally becoming the largest regional airport in Poland. Table 1 presents the comparison of passenger traffic in the Krakow Airport in the years 2008-2012. The year 2012 may be viewed as record-breaking in practically any respect in the history of the airport, with **3,438,758 passengers**. 11 out of 12 months of this year were record-breaking in terms of the number of passengers served.

Table 1. Passenger traffic in the Krakow Airport in the years 2008-2012

Year	2008	2009	2010	2011	2012
January	200,499	166,307	170,552	179,999	200,697
February	208,156	164,928	170,862	178,390	207,126
March	236,533	188,126	213,299	211,095	240,352
April	238,937	214,550	187,677	238,390	287,382
May	273,614	238,748	260,942	271,443	328,054
June	284,720	263,859	285,575	287,222	343,810
July	311,385	299,313	317,187	316,519	375,481
August	311,686	285,742	312,792	317,570	354,280
September	296,808	268,418	298,275	304,817	340,385
October	246,094	236,705	272,527	278,521	304,212
November	153,022	175,324	192,231	215,430	223,025
December	162,507	178,302	182,077	214,664	233,954
Total	2,923,961	2,680,322	2,863,996	3,014,060	3,438,758
Dynamics		92%	107%	105%	114%
Increase		-243,639	183,674	150,064	424,698

Source: internal materials of the Krakow Airport.

The passenger air traffic in the Krakow airport may be broken down into 3 main groups related to the destination country. The basic breakdown is into domestic and international flight, the latter being additionally broken down into flights to and from the Schengen zone and other (Non-Schengen). The precise numbers of passengers in flight and the percentage share in the total passenger traffic in the Krakow Airport in 2012 are given in Table 2. It also includes data related to the breakdown of passenger traffic into regular and other connections.

Table 2. Structure of passenger traffic in the Krakow Airport in 2012

Air traffic broken down into:			Air traffic broken down into:	
Domestic	Schengen	Non-Schengen	Regular	Other
433,273	1,853,631	1,151,851	3,254,305	184,453
13%	54%	33%	95%	5%

Source: internal materials of the Krakow Airport.

Another breakdown of passenger traffic in the Krakow Airport has to be emphasised as highly important, into low-cost and traditional carriers. It is presented in Table 3, with the data about passengers travelling with traditional and low-cost lines, chartered flights, General Aviation and flights redirected to Krakow from other airports in 2012. Traditional airlines carried 1,153,663 passengers in 2012 to and from Krakow, which is the share of 33.5% of the total number of passengers. In case of low-cost airlines, this number was 2,100,642 passengers, or 66.1% of the total number. 169,201 passengers served by charter lines were 4.9% of the total number of passengers in 2012.

Table 3. Carriers in passenger traffic in the Krakow Airport in 2012

Carrier type	Traditional	Low-cost	Charters	General Aviation and other	Redirection	TOTAL
January	64,325	128,883	6,345	793	351	200,697
February	67,034	129,813	9,785	345	149	207,126
March	79,210	151,900	7,572	1,642	28	240,352
April	93,705	185,899	6,213	1,565	-	287,382
May	121,785	196,753	8,606	910	-	328,054
June	122,371	189,562	30,869	681	327	343,810
July	132,543	211,409	30,982	547	-	375,481
August	113,290	210,033	30,545	412	-	354,280
September	117,028	197,308	25,340	709	-	340,385
October	100,335	191,887	7,819	2,264	1,907	304,212
November	71,960	144,920	4,280	992	873	223,025
December	70,077	162,275	845	419	338	233,954
2012	1,153,663 33.5%	2,100,642 61.1%	169,201 4.9%	11,279 0.3%	3,973 0.1%	3,438,758

Source: internal materials of the Krakow Airport.

High dynamics of the increase in the number of served passengers and the same leading position among regional airports in Poland could not leave the infrastructure of the Krakow airport unaffected. Therefore, undertaking actions aimed at expansion and modernisation of the Krakow Airport infrastructure was regarded as absolutely necessary.

4. Non-aviation services and their assessment in the opinion of Krakow Airport passengers

In order to prepare the relevant analyses, the poll was conducted from 24.05.2013 to 21.06.2013 in the departure waiting area in the Krakow Airport. Their main objective was the analysis of the level of satisfaction of passengers with specific aspects of non-aviation services available currently in the Krakow Airport and the analysis of expectations and preferences of passengers in terms of the started expansion of the Krakow airport terminal. The poll covered 80 passengers selected purposefully. The selection was based on the carrier type: low-cost lines 61%, traditional lines 34% and charter flights 5%. An additional criterion was also used of the destination places according to the zone: Schengen 54%, Non-Schengen 33%, and domestic connections 13%². The structured questionnaire with the clear objective was used as a tool for collecting the necessary information, including 14 basic and 4 register questions. The structure of the questioned group was as follows. The largest number of the respondents were in the 35-44 age group (20 persons). Then, according to the number of passengers: 26-34 (16 persons), 16-21 (13 persons),

² Moreover, the distribution of respondents in the sample is close to the distribution of the selected features in the general population.

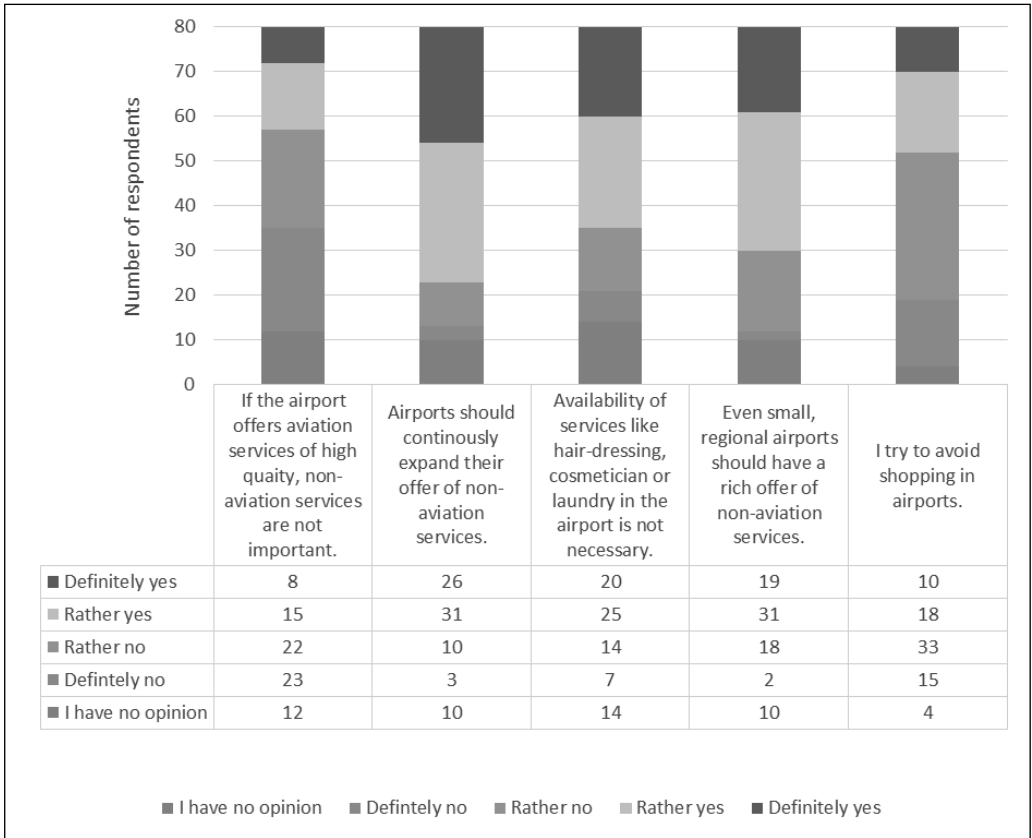
22-25 (10 persons), 45-54 (10 persons), 55-64 (6 persons) and 65-75 (5 persons). 54 respondents were male, and 26 were female. The participants in the poll included 38 respondents from Poland, 14 from the United Kingdom, 3 persons from Denmark, Finland, Germany, Norway and Italy each, 2 persons from Holland, India, the Republic of Southern Africa and the United States each, as well as 1 person from Belgium, the Czech Republic, France, Greece and Switzerland each. The largest group in the respondents were the passengers for whom the main reason of air travel was rest (53 persons). 16 respondents were travelling in business, and the remaining group defined their travel objective as "Other" (11 respondents). 21 passengers arrived in the Krakow Airport accompanied, with persons not joining them for travel. The total number of the persons accompanying was 54, which is on the average 2.57 person per a single passenger. They form an additional stream of prospective clients for the service offer of the airport.

A definite majority of passengers consider non-aviation services important. The respondents were to put a mark in the seven-step scale how important it was, according to them, for the airport to offer non-aviation services. The average result was at the level of 5. As many as 32.5% respondents marked the highest value in the scale: 7.75% passengers believe that services of this type are significant in the offer of the airport (marks 5.6 and 7). Only 13.75% respondents marked two lowest answers, believing that additional services are of little importance. The Krakow Airport passenger will not find any restaurant, shops and other service outlets nearby. Thus, taking advantage of services in the terminal area becomes the necessity, which is why the reasons of the respondents could not be different.

In the next part of the study, the group of respondents was to express opinion about five statements directly related to the commercial area of the airport³. In examinations of attitudes and habits in passengers, considerations may have definitely more certainty than only derived from reactions to the previous questions, which did not really have to be thoroughly thought over. Does the passenger confirm with behaviour and attitude that non-aviation services are highly important for him in the airport? Does he/she actually value these services as declared? The summary of passenger opinions on correctness of each of the statements is given in Figure 1 presenting also the said data in a visual way.

³ The question were designed so that the responses could not be confirmation or negation of the opinion expressed in the direct question about importance of non-aviation services.

Figure 1. Summary of responses from passengers in the Likert scale



Source: own work.

According to the respondents, even high quality of aviation services in the airport cannot compensate insufficiently developed range of non-aviation services. A major part of passengers believe that airports should continuously expand their offer of services, which applies even to small, regional airports. Majority of the respondents admit that they do not avoid shopping in airports. The statements were also analysed in terms of distribution of the responses according to the carrier type and the destination zone. The percentage values of the provided responses in terms of the type of the carrier are given in Table 4.

Table 4. Attitudes of passengers to non-aviation services depending on the type of the carrier

Statement	Variant of response	Carrier type		
		Low-cost lines	Traditional lines	Charter lines
If the airports offer aviation services of high level, non-aviation services are not important.	Definitely yes	12%	4%	-
	Rather yes	12%	7%	60%
	Rather no	29%	26%	20%
	Definitely no	20%	33%	20%
Airports should continuously expand offer of non-aviation services.	Definitely yes	39%	22%	20%
	Rather yes	35%	41%	60%
	Rather no	16%	7%	-
	Definitely no	-	7%	20%
Availability of services in airports like hair-dressing, massage, beautician or laundry is exaggeration.	Definitely yes	24%	22%	40%
	Rather yes	35%	22%	40%
	Rather no	14%	26%	-
	Definitely no	10%	7%	20%
Even small, regional airports should have rich offers of non-aviation services.	Definitely yes	27%	19%	20%
	Rather yes	39%	37%	40%
	Rather no	22%	22%	20%
	Definitely no	2%	4%	20%
I try not to shop in airports.	Definitely yes	12%	11%	20%
	Rather yes	16%	33%	20%
	Rather no	47%	30%	40%
	Definitely no	18%	19%	20%

Source: own work.

The most significant differences were found in the responses related to avoiding shopping in the airport. Passengers of traditional and charter lines definitely more often avoid airport shops than those of low-cost lines. The resulting relation may be explained with the specific nature of activities of low-cost carriers. The low-cost airline functioning model assumes offering passengers only a flight with a small hand luggage in the price of the ticket. Other services, including catering on board, are available at additional charges, often several times higher than airport prices. Passengers of traditional and charter airlines enjoy catering without additional charges. It is thus understandable that those travelling with low-cost airlines prefer airport services. The analysis of the responses from passengers who take advantage of charter flights features some inconsistency. On one hand, they indicate high importance of non-aviation services and believe that even small airports should have a rich offer, while on the other hand they tend to believe that if airports offer aviation services of high level, non-aviation services are not important (Tab. 4). However, this suggests that expansion of the commercial area should not be done at the expense of the basic services.

After learning opinions and attitudes of passengers as regards non-aviation services, the level of satisfaction with this type of services available in the Krakow Airport during the period of the study was analysed. As a result, it was possible to list the aspects of services which are best

perceived in the Krakow airport as well as those which still require improvement. The passengers were asked to assess individual service aspects available in the Krakow Airport with the provided scale of five degrees. One neutral option was added in case a passenger does not take advantage of the given type of services during the stay in the airport.

Specific aspects of non-aviation services in the Krakow Airport were assessed by a large number of passengers not quite favourably. The worst results came for availability of shops, prices in shops and prices of catering services. Clearly enough, the prices to quality ratio for the offered goods should be different in the opinion of the passengers. Low assessment of availability of shops and slightly better (yet still not excellent) assessment of availability of catering services result from the steadily increasing passenger traffic in the Krakow airport and the increase in the number of international passengers who have contact with very well developed airports in Europe in this respect on a daily basis. In this situation, the services offered by the Krakow Airport are no longer satisfactory for the ever more demanding clients. The largest number of “Good” marks came for availability of catering services, availability of bank services and ATMs, internet access, the Business waiting lounge and availability of toilets.

In view of the expansion of the Krakow Airport, significant changes will certainly apply to the range of non-aviation services. After collecting opinions of passengers on the current situation, they were asked about preferences as regards the new types of services which could be implemented in the airport area. For this purpose, all types of non-aviation services present in 20 European airports (with direct connection to Krakow) were listed, with the most frequent of them included in the questionnaire. The responders could select maximum 10 items from the list which represented new types of services necessary in the Krakow airport. The results proved to be surprising to some extent, even from the point of view of a person working daily in the terminal area. From among all the proposed new services, 10 most often selected by respondents were selected for presentation in Table 5.

Table 5. Ten most desirable new types of services in the Krakow Airport

Service	No. of respondents	Percentage	Rank
“Charge” kit for phone charging	26	32.5%	1.
Tranquil lounge	25	31.25%	2.
Money changing unit	24	30%	3.
Chemist	23	28.75%	4.
Clothes shops	22	27.5%	5.
Sleeping spaces	19	23.75%	6.
Electronics shops	18	22.5%	7.
Showers	17	21.25%	8.
Cabins for smokers in departure lounges	17	21.25%	9.
Xerox / print / scan services	14	17.5%	10.

Source: own work.

The first rank for the most desirable services was assigned for a unit which would allow charging mobile phones of different brands. This response was selected by 26 passengers (32.5%). The question about availability of this type of device or “borrowing” a charger is one of the most often asked by passengers. Some of them forget to take a charger, others leave it in the registered luggage which cannot be taken back by the passenger after the check-in. At the time of omnipresent mobile devices with touchscreens, in which the battery often is sufficient for 1 day of a regular usage, setting up this device in the airport is considered necessary by passengers. The proposal of setting up a tranquil space in the airport was also welcomed by the respondents. 25 passengers voted for this convenience (32.25% of the total number). Many travellers spend several hours in the airport. Noise coming from the other parts of the terminal may be quite discomforting after this time. This is why a large number of respondents recommended this type of service. In fact, the Business Lounges are present in the airport, available for anyone (the charge without the loyalty card is PLN 120). However, they are only available in the reserved area. Thus, taking advantage of this service is impossible for the passengers who appear in the Krakow Airport more than 2 hours before the departure, when the check-in for majority of flights is starting. 24 passengers (30%) decided that a unit for changing banknotes could be useful. Travellers often have only banknotes, whereas coins are needed to buy a ticket in the city public transport machine (inside the bus), for luggage boxes and for the observation deck entry, banknotes are not accepted there. Changing money is often possible in catering points, but it is not certain at all times. According to 23 passengers (28.75%), a chemist is also needed; questions about it are asked several times in month, on the average. The question about new types of services in the Krakow airport confirmed consistency in passenger opinions about low assessment of availability of shops (with the average of 2.61 in the marking scale from 1 to 5). 22.5% and 27.5% respondents voted for new clothes shops and electronic shops, respectively. This element of the service offer, just like availability and variety of catering facilities, seems to be the priority in the process of evolution of the range of non-aviation services in the Krakow Airport. 23.75% of the votes (19 persons) were given for sleeping spaces in the terminal area; at present, these are not available at all, even if temporary rearrangement of benches or other structures is taken into account to provide for rest possibilities. Passengers would also like to have access to shower units. The obtained result (21.25% of the respondents) was certainly dependent on the time of the year in which the study was conducted. With unbearable heat, even with air conditioning, travellers could feel the need to refresh. It may be questionable whether this service would be economically justified in times other than the two hottest months in the year. Smokers lament about lack of places for smokers after the security inspection is passed, which may be the reason for the high need for cabins for smokers in the departure lounges (21.25%). At present, smoking is only possible in the outdoors, in front of the terminal. As a solution to the problem, air conditioned cabins in the departure lounges are used in some European airports. According to the respondents, a similar service should be also implemented in the Krakow Airport. Passengers often request to have a printout of the misplaced Ryanair boarding pass. This airline charges PLN 332⁴ for turning up in the airport without the printed boarding pass, so passengers do whatever it takes to avoid it. The airport employees cannot respond to requests for free printing of the lost document, which is why a xerox/print/scan place was highly valued by the respondents. This application is obviously just one

⁴ The charge was reduced to PLN 71 (April 2014).

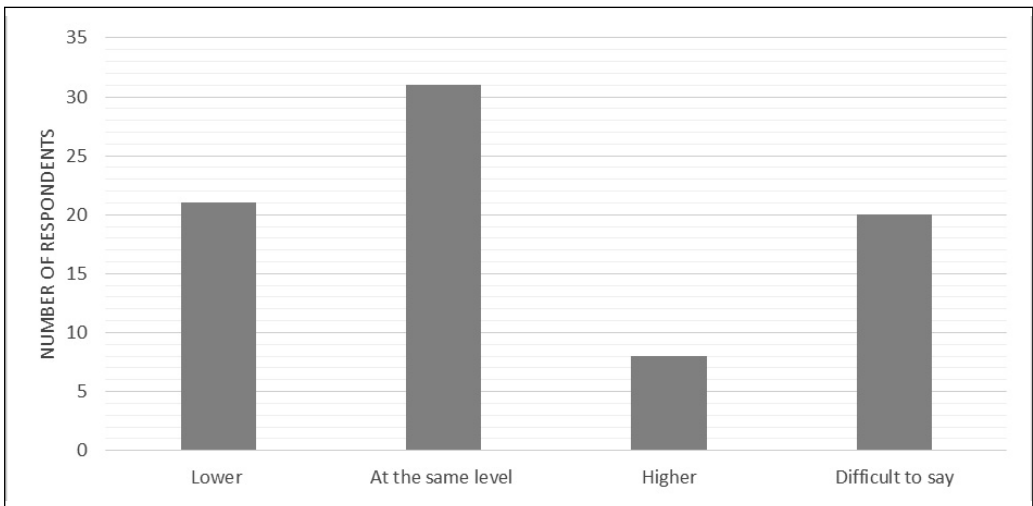
of many, as an urgent need to scan documents or other important materials is frequent in a place like the airport.

Travellers were also asked about the type of catering services in the Krakow Airport which are least developed, in their opinion. This question allowed isolating the most neglected area in the whole offer of catering services, one which should be corrected first.

The largest number of respondents stated hot meals (31.25%). The second place was for fast food locations (15%) with snacks (8.75%) and cafes (7.5%) ranked third and fourth. These results faithfully present the situation in the Krakow Airport if the current catering offer of the analysed facility is analysed. There are in total 7 places where café and small snacks are served in the premises of the airport (3 in the public area and 4 in the reserved area). Hot main dishes are offered only by Panorama, the only restaurant in the airport, located in the public area. In the opinion of the passengers, a single place of this profile is insufficient, especially because after the security inspection only minor snacks are available. As many as 37.5% respondents could not indicate the weakest area of the catering services offered by the Krakow Airport. One of the possible conclusions is that the responders had reservations as regards the range of catering services in entirety, without stating the weakest link.

Another question referred to comparing the level of prices offered by trade points in the Krakow Airport and other airports visited by passengers. The point was to state whether the prices were lower, higher or at the same level. This question was intended to check whether the opinion expressed by travellers in the earlier question applied only to the discussed airport, or whether it was identical for majority of airports. Figure 2 illustrates the obtained results.

Figure 2. Comparison of prices offered by service points in the Krakow Airport and in other airports



Source: own work.

26.25% respondents state that prices in the Krakow Airport are lower than in other airports, 38.75% believe that the prices are of the same level, and 10% are convinced that the prices are higher than in other airports. For 25% passengers, this comparison was too difficult. The an-

swers obtained justify slightly low assessment of the level of prices of catering services (with the average of 2.4 in the scale from 1 to 5) and shops (with the average of 2.5) in the Krakow Airport. It turns out that passengers complain about high prices not only in the discussed facility, but also in other airports. Majority of passengers state that these prices are lower or of the same level as in other airports, despite dissatisfaction expressed in another part of the questionnaire. Passengers travelling to the Schengen zone and those using services of low-cost carriers believe the prices in the Krakow Airport to be lower. The responders from domestic flights mostly admit that the prices are the same as in other airports, whereas the inquired travellers of traditional airlines mostly believe that the prices are higher than in other airports.

5. Conclusion

Most of the clients of the Krakow Airport pay special attention to its commercial area. The development of the Krakow airport results in increase in meaning of non-aviation services. The current shape of the commercial area and the level of satisfaction from its operation in the Krakow airport are not satisfying. The adopted hypothesis that Krakow Airport passengers do care about the commercial offer of the airport, and its present condition is not satisfying for them, has been positively verified.

A major part of passengers believe that airports should continuously expand their offer of services, which applies even to small, regional airports. Majority of the respondents admit that they do not avoid shopping in airports. The other part is probably discouraged with high prices as compared with shops and gastronomy outlets in the city. Women pay more attention to the presence of non-aviation services in the airport offer (with the average assessment of significance at 5.81). Passengers flying less frequently (less than 10 times a year) assign slightly more significance to non-aviation services (with the average of 5.4). Also those travellers who take advantage of air transport for business purposes value non-aviation services more (with the average of 5.63), similarly to travellers to the Schengen zone (with the average of 5.56) and unlike travellers to the Non-Schengen Zone and domestically. Low-cost airlines passengers tend to avoid shopping in the airport more (28% of the respondents) than travellers using services of traditional carriers (44% responses) and charter carriers (40%). The older the passenger, the more attention he/she pays to the airport offering non-aviation services.

Specific aspects of non-aviation services in the Krakow Airport were assessed by a large number of passengers not quite favourably. The worst results came for availability of shops, prices in shops and prices of catering services. Clearly enough, the prices to quality ratio for the offered goods should be different in the opinion of the passengers. Low assessment of availability of shops and slightly better (yet still not excellent) assessment of availability of catering services result from the steadily increasing passenger traffic in the Krakow airport and the increase in the number of international passengers who have contact with very well developed airports in Europe in this respect on a daily basis. The current range of additional services (as the study proved) is not sufficient for passengers. The services offered by the Krakow Airport are no longer satisfactory for the ever more demanding clients.

Expansion of regional airports in Poland increases competitiveness between these entities and at the same time forces professionalization and improvement in management processes. Along with dynamic development of airports in Poland, which reflects changes in the aviation mar-

ket and in the economy in our country, needs and expectations have been evolving in terms of the range of services offered by the airports. Segmentation of airport clients is also confirmed. The dominant presence of low-budget aviation carriers in regional airports forces investments in the expansion of the commercial area. It is important for the clients of these airlines and constitutes a substitute source of income resulting from reductions in flight charges. The study conducted in the Krakow Airport area allows a preliminary indication of the increasing importance of the commercial area for the clients of the Polish airports, thus also for their functioning. The shape of this realm affects the general assessment of the airport, which is why giving it the appropriate form is very important. It also requires further enhanced studies on the structure and functioning of the commercial area in the Polish airports, both at the level of the individual facilities and in consolidated approach.

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Chapter 23

Resources and Competencies of Cooperatives in the Sphere of Production. An Example of Dairy Cooperatives from Świętokrzyskie Province

Izabela Konieczna

1. Introduction

Adopting to changing requirements of the customers and to the changing environment is the way to be more competitive. One of the areas in the enterprises that affect its competitiveness is production. The purpose of this paper is to analyze the validity and the state of resources and competencies in the field of production in comparison with competition, basing on selected dairy cooperatives from Świętokrzyskie province. This goal stems from fact that each enterprise otherwise sees the importance of used resources and competencies in the field of production. The analysis is based on the results of direct interviews conducted with the help of the questionnaire. In the questionnaire it was assumed that the sphere of production consists of the following resources and competencies (Stankiewicz, 2002, p. 119):

- status of machinery,
- the flexibility of the machinery,
- modernity of applied technologies,
- the extent of vertical integration of production activities,
- the level of automation and robotization of manufacturing processes,
- development opportunities of production capacity,
- knowledge and abilities of production managers,
- technical culture of employees,
- the level of computerization of production processes.

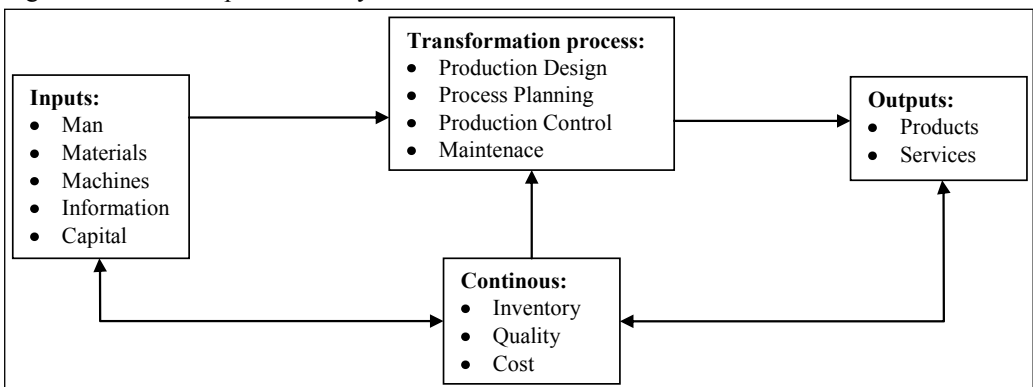
2. The essence of production

Production function is that part of an organization, which is concerned with the transformation of a range of inputs into the required outputs (products) having the requisite quality level (Kumar, Suresh, 2008, p. 3).

Production is defined as the step-by-step conversion of one form of material into another form through chemical or mechanical process to create or enhance the utility of the product to the user (Kumar, Suresh, 2008, p. 3). I. Durlik claims that production is the use of various types of materials, technologies and services in order to produce new products and services required by the customer (Durlik, 1995, p. 8). Production is also defined as a set of coordinated work processes in which the conscious and purposeful human activity, that is, work, transforms items of work products (goods and services), using the means of work (Pasternak, 2005, p. 19). Z. Dach defines production as a conscious and purposeful human activity, adapting resources and forces of nature to produce goods aimed at satisfying human needs (Dach, 2007, p. 38). W. Samuelson in turn defines production as a process wherein the factors of production are transformed into finished products (Samuelson, 2009, p. 228). Taking into account all mentioned above definitions of production we can say that production is a value adding process, and at each stage of processing, there is value addition (Kumar, Suresh, 2008, p. 3).

The production system of an organization is that part, which produces products of an organization. It is that activity whereby resources, flowing within a defined system, are combined and transformed in a controlled manner to add value in accordance with the policies communicated by management (Kumar, Suresh, 2008, p. 3). A simplified production system is shown in Figure 1.

Figure 1. Schematic production system



Source: Kumar, Suresh, 2008, p. 3.

We can distinguish the following types of production process (Waters, 2001, p. 186):

1. *A single project – the unit production.* Unit production is characterized by a unique (or repetitive in irregular and unspecified periods of time) production of single (or at most a few) products. Such production occurs when the demand is disposable, the demand has been wrongly estimated, specializing in plants is limited, and normalization (typing, unification) production is also limited (Pasternak, 2005, p. 103). Unit production is generally production of unique, rare products, and therefore the process is characterized by great diversity (Waters, 2001, p. 186). Unit production has the following features (Borkowski, 2008, p. 75):

- varied range of production,
- universal machinery,
- universal instrumentation,

- highly qualified staff,
 - non-uniformity of capacity utilization,
 - a range of preparatory work,
 - lengthening of the production cycle,
 - low efficiency,
 - low productivity,
 - an increase in manufacturing costs.
2. *Serial production.* Serial production is such a type of production, in which the number of products made once is larger and creates a so-called batch or series. Mass production can be unique, *i.e.* one-time or recurring during the repeatability period (Durlik, 1995, p. 121). Serial production in comparison with the production unit has the following features (Borkowski, 2008, pp. 75-76):
- more effective use of machinery and equipment,
 - more possibilities for the use of mechanization and automation of production,
 - a decrease in inventories of work in progress,
 - developed division of labor,
 - a higher level of specialization of workstations,
 - shortening of production cycles.
3. *Mass production.* Mass production is the production, in which the number of products made during the production is great, so great that on workstations is performed the same job continuously throughout the period of production (Durlik, 1995, pp. 121-122). Mass production is based on long-term production of the products in one or more variants similar to each other. In this situation there is not significant the number of products, but the continuity of their manufacture (Pasternak, 2005, p. 104). Mass production is characterized by the following features (Borkowski, 2008, p. 76):
- production of a large number of products and continuity of loading of individual posts operations,
 - using the production line,
 - high level of specialization of machinery and equipment with a high level of mechanization and automation,
 - short production cycles,
 - low production costs,
 - efficient materials management,
 - comprehensive maintenance of machinery and equipment.
4. *Continuous production.* Continuous production is used in the manufacture of a large number of individual products or groups of related products. In this process, the product is more a material stream than a set of single components. This type of production requires highly specialized equipment that can operate 24 hours a day without retooling or interference (Waters, 2001, p. 189).

3. An analysis of the validity of resources and competencies used by dairy cooperatives in the field of production

The analysis is based on the results of direct interviews conducted with the help of the questionnaire in three out of six dairy cooperatives, which is 50% of the population. Cooperatives' executives were asked to assess the degree of importance of each resource and competence used by cooperatives in the field of production from the point of view of competition. Interview results are shown in Table 1, Figure 2 and Figure 3.

Table 1. Assessment of the validity of resources and competencies used by cooperatives in the area of production from the point of view of competitiveness

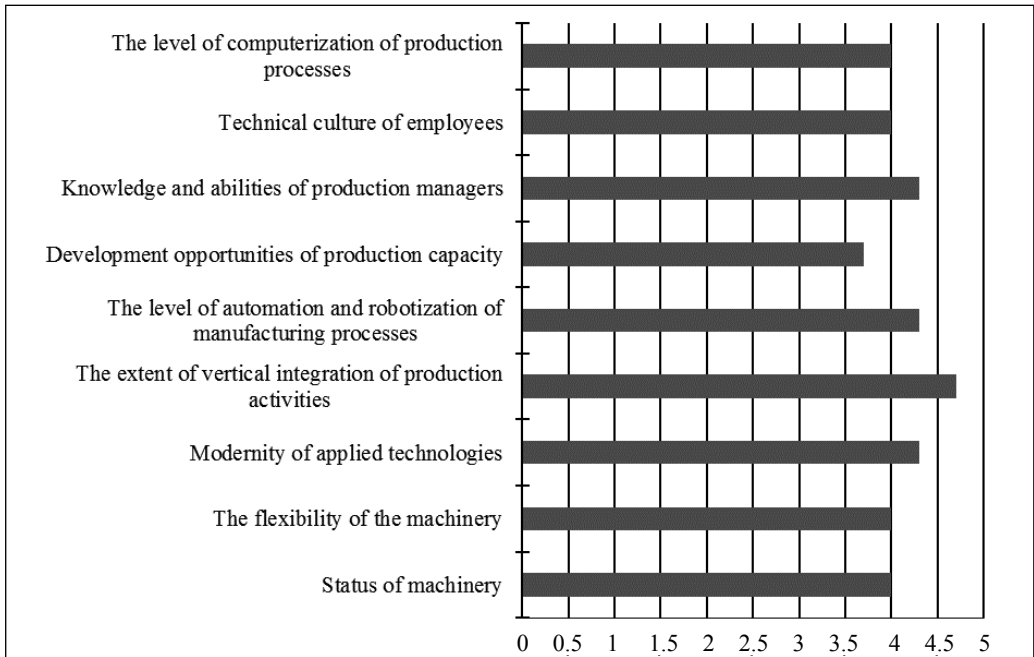
Resources / competencies of the cooperative in the field of production	The degree of importance															Number of indications					Average rating											
	Cooperative																															
	"A"					"B"					"C"																					
	0	1	2	3	4	5	0	1	2	3	4	5	0	1	2	3	4	5														
Status of machinery					x					x							x							1	1	1	4.0					
The flexibility of the machinery					x					x							x									1	1	1	4.0			
Modernity of applied technologies					x					x							x									2	1		4.3			
The extent of vertical integration of production activities					x								x					x									1	2		4.7		
The level of automation and robotization of manufacturing processes						x						x						x									2	1		4.3		
Development opportunities of production capacity						x						x														2		1		3.7		
Knowledge and abilities of production managers					x							x											x					2	1		4.3	
Technical culture of employees					x							x						x										3			4.0	
The level of computerization of production processes					x							x												x					3			4.0

Rating scale: 5 – extremely important, 4 – very important, 3 – quite important, 2 – little important, and 1 – completely unimportant.

When a cooperative does not have particular resource or competency – 0.

Source: own work.

Figure 2. Assessment of the validity of resources and competencies used by dairy cooperatives in the area of production from the point of view of competitiveness

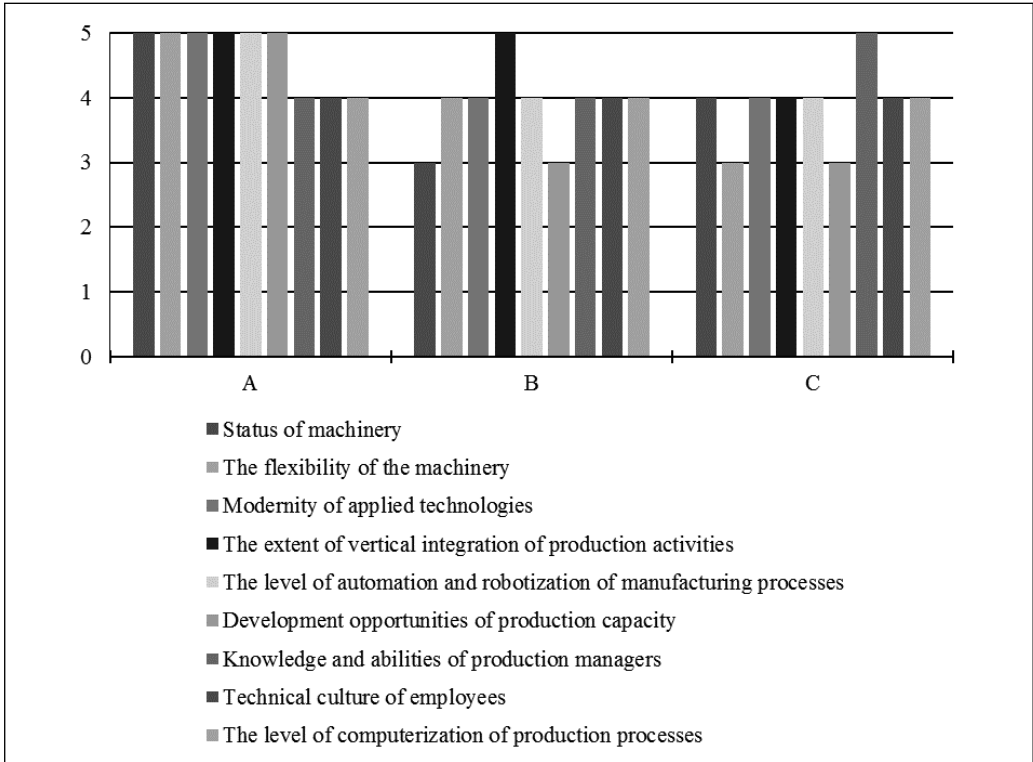


Source: own work.

When analyzing Table 1 and Figure 2, it is clear that:

- Status of machinery, and the flexibility of the machinery were considered as extremely important by one cooperative, as very important by one cooperative, and as quite important by one cooperative.
- Modernity of applied technologies, the level of automation and robotization of manufacturing processes, and knowledge and abilities of production managers were found as extremely important by one cooperative, and as very important by two cooperatives.
- The extent of vertical integration of production activities was considered as extremely important by two cooperatives, and as very important by one cooperative.
- Development opportunities of production capacity was found as extremely important by one cooperative, and as quite important by two cooperatives.
- Technical culture of employees and the level of computerization of production processes were considered as very important by all cooperatives.

Figure 3. Assessment of the validity of resources and competencies used by individual dairy cooperatives in the area of production from the point of view of competitiveness



Source: own work.

Analyzing the assessment of the validity of resources and competencies, used by particular cooperative, from the point of view of competitiveness (Tab. 1 and Fig. 3), it is clear that:

- Cooperative “A” considered as extremely important the status of machinery, the flexibility of the machinery, the modernity of applied technologies, the extent of vertical integration of production activities, the level of automation and robotization of manufacturing processes, and development opportunities of production capacity, while knowledge and abilities of production managers, technical culture of employees, and the level of computerization of production processes were found as very important.
- Cooperative “B” considered as extremely important the extent of vertical integration of production activities, while as very important were found the flexibility of the machinery, the modernity of applied technologies, the level of automation and robotization of manufacturing processes, knowledge and abilities of production managers, technical culture of employees, and the level of computerization of production processes were found as very important. In the same time, the cooperative pointed out that, the status of machinery, and development opportunities of production capacity are quite important.

- Cooperative “C” considered as extremely important the knowledge and abilities of production managers, whereas as very important were found the status of machinery, modernity of applied technologies, the extent of vertical integration of production activities, the level of automation and robotization of manufacturing processes, technical culture of employees, and the level of computerization of production processes. In the same time, the cooperative pointed out that, the flexibility of the machinery, and the level of computerization of production processes were found as little important.

4. Analysis of resources and expertise in the field of finance in comparison with competitors

In the second part of the questionnaire, cooperative executives were asked to assess the state of resources and competencies used by cooperatives in the sphere of production. The interview results are shown in Table 2 and in Figure 3.

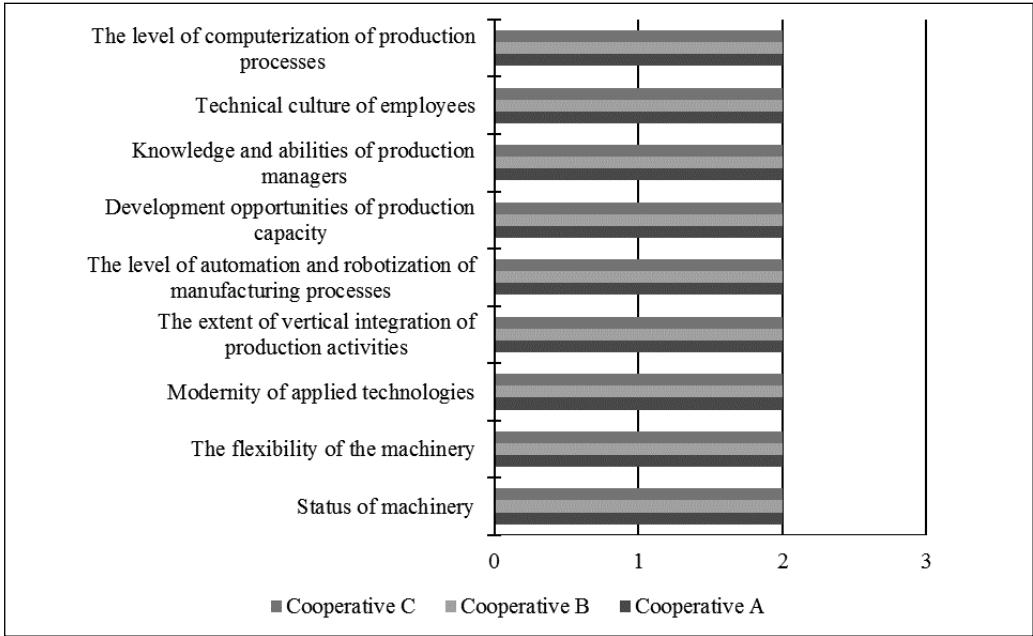
Table 2. Evaluation of the state of resources and competencies used by cooperatives in comparison with competitors

Resources/competencies of the cooperative in the field of production	State Cooperative									Percentage of indications		
	“A”			“B”			“C”					
	B	S	W	B	S	W	B	S	W	B	S	W
	Status of machinery		x			x			x			100
The flexibility of the machinery		x			x			x			100	
Modernity of applied technologies		x			x			x			100	
The extent of vertical integration of production activities		x			x			x			100	
The level of automation and robotization of manufacturing processes		x			x			x			100	
Development opportunities of production capacity		x			x			x			100	
Knowledge and abilities of production managers		x			x			x			100	
Technical culture of employees		x			x			x			100	
The level of computerization of production processes		x			x			x			100	

State: B – better, S – similar, W – worse.

Source: own work.

Figure 4. State of resources and competencies used by dairy cooperatives in comparison with competitors



State: 1 – better, 2 – similar, 3 – worse.

Source: own work.

Taking into account the state of resources and competencies used by dairy cooperatives in comparison with competitors, and analyzing Table 2 and Figure 4, it is clear that similar state of used resources and competencies occurs in all cooperatives in all indicated resources and competencies, *i.e.* in status of machinery, the flexibility of the machinery, modernity of applied technologies, the extent of vertical integration of production activities, the level of automation and robotization of manufacturing processes, development opportunities of production capacity, knowledge and abilities of production managers, technical culture of employees, and in the level of computerization of production processes.

5. Conclusion

Cooperatives, like other enterprises, to be more competitive, must constantly adapt to changing requirements of the customers and to the changing environment. One of the areas in the enterprises that affect its competitiveness is the sphere of production, in which a very important role play resources and competencies. An analysis of the validity of resources and competencies in the area of production, based on the results of conducted research in dairy cooperatives from the Świętokrzyskie province, shows that from the point of view of competitiveness, cooperatives assess the highest the extent of vertical integration of production activities. The lowest in terms of validity, the cooperatives found development opportunities of production capacity. Taking

into account the assessment of the state of resources and competencies used by cooperatives in the area of production it can be seen that all cooperatives recognized that the state of all kinds of resources and competencies is similar to the competition.

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PART III

DIRECTIONS AND METHODS OF IMPROVING THE EFFECTIVENESS OF ORGANIZATION FUNCTIONING



Chapter 24

Organization Development in the Sustainability Context

Aneta Wysokińska-Senkus

1. Introduction

Organizations, which want to achieve a high competitive position through continuous improvement of their management systems, should focus on developing a comprehensive, long-term strategy, consisting in defining strategic goals in the economic, social and environmental areas as well as in their consistent implementation. A prerequisite to be successful in the rapidly changing environment is enrichment of the organization strategy with a set of indicators, which can be used to evaluate the organization performance.

According to the words of Bill Hewlett, a co-founder of Hewlett-Packard: “It is not possible to manage something that is not measured” and to the words of Tom Peters: “If you do not measure, you cannot control”; indicators have to be determined for all specified goals.

The Department for Business, Innovation and Skills is a department being a part of the United Kingdom Government with the importance of a ministry, which proposes “The path of organization success”, which is arranged in a process consisting of: determination of key goals; designing measures; determination of effectiveness; initiating improvement (Department for Business, Innovation and Skills, 2010).

The purpose of this article is to identify key groups of indicators, which can be used to determine the effectiveness of management and the identification of the variables, which are critical for organization development in the sustainability context.

2. Materials and Methods

The study was multidimensional and has covered 180 organizations in Polish, which had implemented at least three management systems: QMS, EMS and OHSAS; thirty-five experts from the field of: management and economics, computer science and other – social and natural sciences. The leading international organizations that has implemented the philosophy of sustainability were also examined in the study. For the data collection the CAWI and Delphi method were involved. For the data analysis the TwoStep Cluster Analysis and case studies were used.

The TwoStep Cluster Analysis is post-hoc analysis that allows to segment the sample and to determine critical variables of the organizational improvement in the context of sustainability at the same time.

3. Key criteria for measuring management effectiveness

The problem of the effectiveness has been constantly evolving. While the sales volume, the expenditure incurred and the like were the most important indicators of organization performance a few decades ago, the emphasis is put on the indicators, which measure adequacy and the degree of implementation of strategic goals from many perspectives – from the perspective of finances, processes, resources, environment, *etc.* The literature provides many methods and tools for evaluating organizational performance from the perspectives mentioned above, however, almost every method, if applied individually, seems to be incomplete, since it omits many important perspectives.

John Elkington introduced the concept of the “triple bottom line” (“corporate sustainability”) in 1994, which he equates with three foundations, on which the business should be based regardless of the economic situation in the twenty-first century, namely: economic cycles of growth and recession, mergers and divisions of organizations, enthusiasm or apathy of the society and the activity or passivity of governments (Elkington, 1997, p. 125).

One of the main assumptions of the “triple bottom line” concept is the focus of the organization on economic goals, namely on the maximization of profit. The second foundation is created by focusing on the human aspect of the organization and the implementation of goals based on corporate social responsibility. The third one consists in the focus on ecological and environmental performance.

The organizations that want to achieve a high level of efficiency should focus on three performance aspects: financial, social and environmental ones. The measurement of the performance in these three aspects in the long-term contributes to a success of organizations.

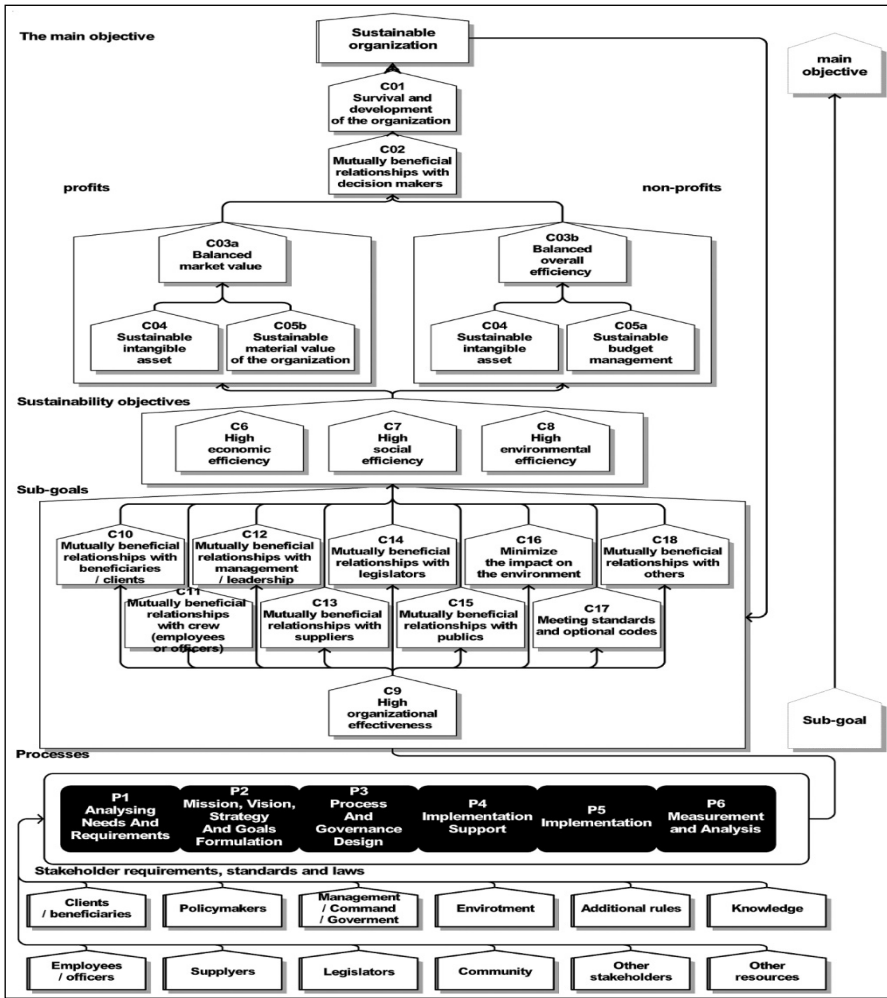
4. Organization goals in the sustainability context

It is on the basis of the identified requirements and conditions within the organization that the organizations should set the goals and prioritize them appropriately.

Each organization aims at survival and development (Kalleberg et al., 1991, pp. 136-161), (Brüderl et al., 1992, pp. 227-242). Therefore, it can be assumed that a synonym for an organization, which has achieved a long-term success, will be a sustainable organization that carefully responds to the challenges of the changing world and is able to distinguish temporary fluctuations from emerging trends.

It is through the discussion among the experts involved in carrying out studies within the project that the relations among indicated sub-targets, which should be defined in organizations, were distinguished, put in order and determined. The efficiency indicators, selected on the basis of the analysis of literature, specialized websites and specialized online forums, were assigned to the determined model goals.

Figure 1. The tree of goals in the model S-HPD&I



Source: own study, 2013.

The achievement of the target C_{01} – “survival and development of the organization” is affected by the degree of the accomplishment of the target C_{02} – “mutually beneficial relations with investors”. It is taking the decision on further continuation of the activity, the sale or closure of the business that may be accompanied by a factor of emotions – e . In all models, there is also the factor s_n – the degree of plan realization, measured within the range from 0 to 1 (e.g.: the degree of satisfaction of the shareholders’ needs or the degree of the achievement of the planned value).

$$C_1 = C_2 \times e \tag{1}$$

where:

C_1 – Survival and development of the organization,

C_2 – Mutually beneficial relations with investors,
 e – A factor of emotions.

The result of such a relationship may be: C_{01a} – the dynamic development of the organization that ensures survival; C_{01b} – the moderate growth of the organization that ensures survival; C_{01c} – the maintenance of the status quo without development; C_{01d} – restructuring of the company through development; C_{01E} – company restructuring that ensures survival; C_{01f} – sale of the organization; C_{01g} – closing down the organization. It should be noted that the factor e – the factor of emotions can be so strong that there are known cases of closing down prosperous organizations. The factor e can be measured within the range from 0 to 1. The lower the value of the factor, the greater the influence of the factor of emotions is and the greater risk for the development of the organization is.

The achievement of the target C_{02} – “mutually beneficial relations with investors” is affected by the value of the organization expressed by its market value determined by the target C_{03} – “sustainable market value”, which is a combined result of the targets C_{04} – “sustainable intangible assets” and C_{05} – “sustainable intrinsic value”.

$$C_3 = 0,6C_{04} + 0,4C_{05} \quad (2)$$

where:

C_{03} – Sustainable market value,
 C_{04} – Sustainable intangible assets,
 C_{05} – Sustainable intrinsic values.

In the case of creating a high market value, the panel of experts concluded that the intangible assets are more important in achieving the goal C_{03} – “Sustainable market value” than intrinsic values, and therefore it was for the goal C_{04} – Sustainable intangible assets that the coefficient of 0.6 was assigned and for the goal C_{05} – Sustainable intrinsic values that the coefficient 0.4 was assigned.

The achievement of the targets in the total value sphere, *i.e.*: C_{03} , C_{04} , C_{05} is affected by the accomplished targets in the sustainability sphere, *i.e.*: C_{06} – high economic efficiency, C_{07} – high social efficiency, C_{08} – high environmental efficiency.

$$W_{(C_{03}, C_{04}, C_{05})} = 0,6C_{06} \times 0,2C_{07} \times 0,2C_{08} \quad (3)$$

where:

$W_{(C_{03}, C_{04}, C_{05})}$ – The sustainable market, intrinsic and intangible value,
 C_{06} – High economic efficiency,
 C_{07} – High social efficiency,
 C_{08} – High environmental efficiency.

The creation of the sustainable development of the organization is affected by accomplishing the targets in the areas of: C_{10} – mutually beneficial relationships with customers, C_{11} – mutually beneficial relationships with employees, C_{12} – mutually beneficial relationships with the management board, C_{13} – mutually beneficial relationships with suppliers, C_{14} – mutually beneficial rela-

tionships with legislators, C_{15} – mutually beneficial relations with the society, C_{16} – minimization of the impact on the environment, C_{17} – fulfilled requirements of optional standards and codes, C_{18} – mutually beneficial relationships with other stakeholders.

$$f_{s(C_{10}-C_{18})} = 0,20C_{10} \times 0,15C_{11} \times 0,14C_{12} \times 0,12C_{13} \times 0,11C_{14} \times 0,10C_{15} \times 0,06C_{16} \times 0,06C_{17} \times 0,06C_{18} \quad (4)$$

where:

- $f_{s(C_{10}-C_{18})}$ – Mutually beneficial relations with stakeholders,
- C_{10} – Mutually beneficial relationships with customers,
- C_{11} – Beneficial relationships with employees,
- C_{12} – Mutually beneficial relationships with the management board,
- C_{13} – Mutually beneficial relationships with suppliers,
- C_{14} – Mutually beneficial relationships with legislators,
- C_{15} – Mutually beneficial relations with the society,
- C_{16} – Minimization of the impact on the environment,
- C_{17} – Fulfilled requirements of optional standards and codes,
- C_{18} – Mutually beneficial relationships with other stakeholders.

C_{09} – “high organizational effectiveness” is a kind of a supporting target but it is very important in the hierarchy of the targets related to the maintenance of the effective business organization. Therefore, it determines the accomplishment of all sub-targets and contributes to obtaining of the products of the processes: R_1 – identified needs and requirements; R_2 – mission, vision, strategy, targets of the organization, indicators; R_3 – main processes, supporting processes, corporate governance; R_4 – secured adequate resources and information management principles; R_5 -products of accomplishing the processes or objectives, R_6 – data from the analysis of implementation results as well as products of the accomplishment of the supporting processes: R_7 – knowledge resources; R_8 – leadership model; R_9 – integrated management system.

C_{13} – high organization performance

$$f_{(C_{09})} = C_{09} (R_1 \times R_2 \times R_3 \times R_4 \times R_5 \times R_6 \times R_7 \times R_8 \times R_9) \quad (5)$$

where:

- $f_{(C_{09})}$ – high organization performance,
- R_1 – identified needs and requirements,
- R_2 – mission, vision, strategy, organization goals, indicators,
- R_3 – main and auxiliary processes, corporate governance,
- R_4 – adequate resources secured and information management principles,
- R_5 – products of implementation of processes or goals,
- R_6 – data from the analysis of the implementation results,
- R_7 – knowledge resources,
- R_8 – leadership model,
- R_9 – integrated management system.

5. Indicators for organization performance

On the basis of a discussion in the panel of experts, representatives of the scientific community and practitioners, the indicators were selected, which should be monitored in the effective business organizations.

It was in order to create a catalog of indicators according to the S-HPD&I model that the professional literature and popular scientific discussion forums on management such as Linked. in and Elsmar Forum were analyzed that resulted in cataloging about 1,000 potential indicators, which could be used to monitor the organization performance within different ranges.

Then, this long list was discussed in the panel of experts for their usefulness in practice. As a result, there were 462 indicators left on the list, which were included in the survey. At the same time, the scope of these 462 indicators was treated as a point of reference.

Table 1 shows general characteristics of the indicators examined.

Table 1. Characteristics of the indicators examined

		Goals	Number of indicators	The average number of indications in the group	Average WRO	Number of measured indicators	Number of indicators / Number of separate indicators
			pcs.	%	(0–1)	pcs.	%
performance measurement	C ₀₃	Sustainable market value	2	75.4	0.94	1	50.0
	C ₀₄	Sustainable intangible assets	9	29.5	0.52	5	55.6
	C ₀₅	Sustainable intrinsic value	7	32.5	0.62	6	85.7
	C ₀₉	High organizational performance (effectiveness)	4	59.6	0.87	4	100.0
The objectives of stakeholders	C ₀₂	Mutually beneficial relations with investors	95	33.9	0.58	67	70.5
	C ₁₀	Mutually beneficial relations with customers	90	40.1	0.68	70	77.8
	C ₁₁	Mutually beneficial relations with employees	90	25.2	0.43	47	52.2
	C ₁₃	Mutually beneficial relations with suppliers	66	20.9	0.40	32	48.5
	C ₁₄	Mutually beneficial relations with legislators	36	24.2	0.45	20	55.6
	C ₁₅	Mutually beneficial relations with the society	30	13.0	0.26	9	30.0
	C ₁₆	Minimization of the impact on the environment	33	49.8	0.76	28	84.8

The table does not include: C₀₁ – survival and development of an organization – in this group, there are non-financial sustainability targets; (C₀₆ – high economic efficiency; C₀₇ – high social efficiency; C₀₈ – high environmental efficiency) – since it was recognized that the indicators are repeated in other areas and in the case of a sustainable development, it is not the fact of the measurement but rather setting measurable targets that is the aim; C₁₂ – mutually beneficial relationships with the management board (the decision on distinguishing this group was taken in the process of analyzing results); C₁₇ – fulfilled requirements of optional standards and codes (it was recognized that optional codes are a kind of law sources; C₁₈ – mutually beneficial relationships with other stakeholders – it is an open group of indicators for those willing to apply the method in practice.

Source: own study, 2013.

Such a number of reference indicators shows how organizations perceive their goals and stakeholders. The comparisons amongst the factors selected and analyzed in this study were carried out with the use of the relative evaluation indicator, which shows the importance of the analyzed factor.

The hierarchy “of importance” of stakeholders is shaped in a very similar way as above, if we analyze the columns: The average number of indications in the group; the average WRO; the number of measured indicators; the number of measured and/or separated indicators. The table shows that the most important goal of the examined organizations was to achieve a high market value, mainly by ensuring proper functioning of an organization, which contributes to the achievement of the high intrinsic and intangible value. It should be noted that the examined companies valued still more intrinsic value than the high value of intangible assets. It is covered both by the WRO indicator and the number of the measured and/or separated indicators.

The analysis of the stakeholders’ hierarchy shows that customers were the most important for organizations, then shareholders or investors, employees, legislators, suppliers, environment and society at the end. Such a hierarchy reveals a deficit of attention attached to maintaining mutually beneficial relationships with the society.

The analysis of organizations’ activities, of the leaders of sustainability, showed that maintaining mutually beneficial relationships with the society is much more important for those organizations. This fact may also be evidenced by the number of measured/separated indicators.

6. The critical variables for organization development in the sustainability context

It was decided also in the research process to determine the factors, which differentiate the test sample the most. They can also be variables influencing the achievement of advantages in the context of the implementation of the sustainability principles.

It was for this purpose that the two-stage clustering (TwoStep Cluster Analysis), described in detail in the annex, was applied.

The analysis was carried out in two stages:

1. In the first stage, the critical variables were separated out of 1,100 variables, which were the subject of the examination. On the basis of this analysis, it was determined that the factors differentiating the survey population were the ones associated with business processes and with the indicators used in the organization.
2. Since the main goal of this study was to determine the factors of organization performance, only the analysis of the indicators used in organizations was repeated. The analysis covered 181 variables.

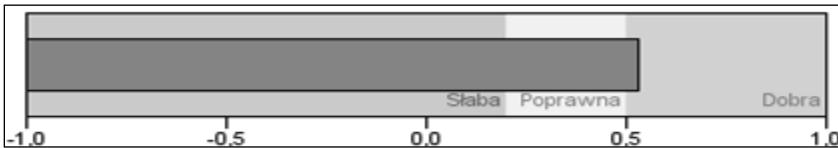
It was according to the clustering algorithm construction that the research hypothesis H:0 about the independence of the analyzed variables was adopted. As a result of the procedure of separating critical factors with the use of the two-stage clustering using the SPSS 21 software, 28 critical factors were obtained, which differentiate the examined sample the most. It was assumed at the same time that a variable could be a critical variable, if it exceeded the threshold of importance = 0.50. It should be also emphasized that one feature, if we consider segmentation, could be important while separating one or more segments.

The analysis carried out in this way resulted in a very good quality segmentation expressed with the so-called silhouette index (silhouette index – SI silhouette coefficient, SIL index) proposed by P.J. Rousseeuw (1987, pp. 53-65). This index defines:

- the cluster consistency – it measures, how closely the objects in the cluster are related;
- the separation – it measures, how different clusters are separated from each other.

Both the analysis carried out on 1,100 variables and the analysis carried out on 181 variables showed a good AI indicator. The measure of the SI indicator for the analysis of 181 variables is shown in the Figure 2.

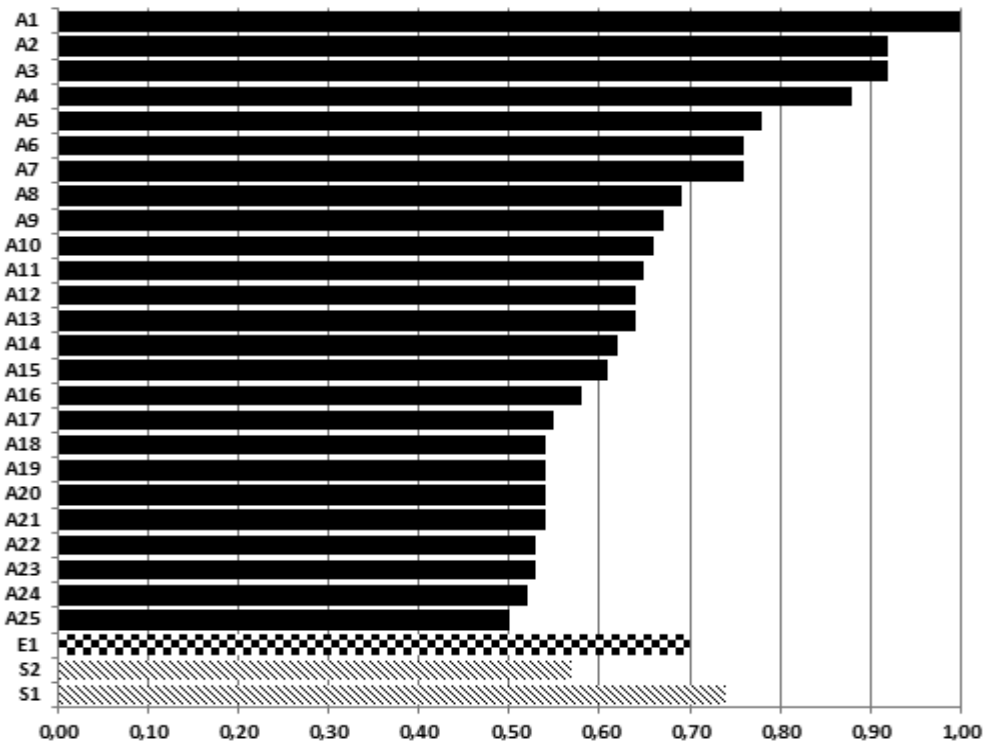
Figure 2. The evaluation of the SI indicator for the analysis of 181 variables



Source: own study, 2013.

The critical variables determined during the two-step clustering are shown in the Figure 3.

Figure 3. The importance of individual variables determined during the two-step clustering



A1 – the share of the distribution channel in total sales; A2 – the number of customers per employee; A3 – the share of purchases of products of the organization in customer spending; A4 – investments in customer training; A5 – the number of offers submitted by the organization; A6 – the average time of production of a new product; A7 – the share of employees with specialization degrees; A8 – the number of employees being members of trade and industry associations; A9 – the value added per employee; A10 – the share of marketing costs in sales; A11 – the number of completed transactions in relation to the contact database; A12 – reliability of a product; A13 – product presentations for potential consumers; A14 – the share of accepted offers; A15 – the average time of use of a product; A16 – the market share; A17 – deletions from databases of suppliers; A18 – the frequency of transactions with individual customers; A19 – the number of customers; A20 – expenditures for acquisition of new customers; A21 – keeping a customer; A22 – productivity of employees; A23 – sales volume; A24 – gross margin; A25 – credit rating; S1 – the share of employees from the local market; S2 – the share of local suppliers; E1 – the percentage of recycled materials used in the manufacturing process.

Source: own study, 2013.

The critical variables, which are presented in the Figure 4, divide the test sample into four segments, which are shown in the Table 2.

Table 2. The critical segmenting variables in a two-step clustering and their average values in the segments

Characteristics of the identified segments		WEIGHT FACTOR	Segments			
			I	II	III	IV
Segments share			47.6%	20.0%	16.7%	16.7%
ECONOMIC VARIABLES						
A1	Participation in Distribution Channel Sales Total	1.00	0.00	0.25	5.00	5.90
A2	Number of Customers	0.92	0.00	0.25	4.60	5.70
A3	Product Purchasing Organization Participation in Customer Spending	0.92	0.00	0.25	4.60	5.70
A4	Investment In Customer Training	0.88	0.00	0.42	4.80	5.80
A5	Number of Offers Issued	0.78	0.00	0.25	4.20	5.80
A6	Average time for New Product Development	0.76	0.00	0.42	4.50	5.80
A7	Share of Workers With Degrees of Specialization	0.76	0.00	0.17	3.70	4.00
A8	Number of Employees Participating in Trade Or Industry Associations	0.69	0.00	0.42	3.10	5.80
A9	Value Added per Worker	0.67	0.00	0.92	4.80	5.90
A10	Marketing Cost per Sale	0.66	0.00	0.75	4.60	5.90
A11	Number of Completed Transactions in Relation to Contacts Database	0.65	0.00	0.83	5.00	5.80
A12	Product Reliability	0.64	0.00	0.42	4.20	5.90
A13	Presentations Products Potential Consumers	0.64	0.00	0.25	3.80	5.90
A14	Share of accepted ofer	0.62	0.00	0.67	4.60	5.90
A15	Average product usability time	0.61	0.00	0.42	3.50	5.70

A16	Market Share	0.58	0.00	1.42	5.00	5.90
A17	Suppliers Dataase Deletions	0.55	0.00	1.00	4.60	5.90
A18	Transaction Frequency with the Same Customer	0.54	0.00	1.08	4.60	5.80
A19	Number of Customer	0.54	0.00	1.08	4.60	5.80
A20	Cost of Attracting New Customers [Versus Retaining Existing Ones]	0.54	0.00	1.08	4.60	5.90
A21	Keeping a customer	0.54	0.00	1.08	4.60	5.80
A22	Performance of Employees	0.53	0.00	2.33	4.70	5.80
A23	Sales Volume	0.53	0.00	4.25	5.00	6.00
A24	Gross Margin	0.52	0.00	4.75	5.00	5.70
A25	Credit Agency Debt Ratings	0.50	0.00	0.42	4.40	0.90
SOCIAL VARIABLES						
S1	The share of employees from the local market	0.74	0.00	0.42	2.70	5.70
S2	Participation of Local Suppliers	0.57	0.00	1.08	5.00	5.80
ENVIRONMENTAL VARIABLES						
E1	Recycling Level in Production	0.70	0.00	0.25	3.10	5.80

The following four segments were separated through the analysis of the whole sample:

- I – we have fulfilled the basic requirements – 47.6% – this group did not monitor any of the separated 28 critical factors. As for the other indicators, which were included in the survey, this group usually monitors only the ones, which are required by law or optional standards. However, these indicators are not seen as useful in the management of the organization.
- II – we look for our own way – 20.0% – this group of organizations declared monitoring of most separated critical factors, however, it did not feel the positive effects of their use.
- III – We have a plan – 16.7% – this group monitored all separated critical factors. This group was satisfied with the use of all factors, which were identified as critical. This group includes the organizations, which consistently strive after improvement.
- IV – we look for perfection – 16.7% – this group includes the organizations, which monitored all separated critical indicators. At the same time, all organizations were very satisfied with their use of the selected indicators. These organizations were satisfied with all indicators that were applied by them. At the same time, the organizations in this group monitored much more indicators than other organizations: for example the ones from the sector I.

All organizations of the private, public and non – profit sector should constantly strive after implementation of the multifaceted goals, set on the stage of creation of the mission, vision and strategy.

The process of formulating goals should be preceded by a diagnosis of many aspects arising from functioning of the organization in a certain environment: economic, social and environmental one.

7. Conclusion

The organizations, which want to achieve a high position in the market, should constantly carry out the analysis of many aspects resulting from the conducted business activities and the strategy of the company: economic, social, environmental and ethical ones (relating to human and consumer rights).

All organizations of the private, public and non – profit sector should constantly strive after implementation of the multifaceted goals, set on the stage of creation of the mission, vision and strategy. The measurement of the effectiveness in these three aspects in the long run contributes to the success of the organization; therefore, organizations should define their goals and measures for effectiveness of their implementation and then take appropriate actions to develop the organization.

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Chapter 25

Contemporary Trends in Managing Organizations of the Third Sector

Janusz Fudaliński

1. Introduction

When dealing with the issues of managing organizations of the third sector, we should refer to several fundamental dilemmas:

- specific objectives determined by these organizations (separate from the sphere of public and business organizations),
- the possibility of adaptation management concepts verified in the other two sectors in connection with the above,
- and, as a consequence, creating new concepts the symptoms of which appear but which are still not operationalized within the business sector and public organizations.

Thus the article aims at indicating the possibility to improve the process of managing non-profit organizations. Assuming the hypothesis that both the application of existing solutions and the attempt to shape new ones may be reflected in the improvement in the effectiveness of managing organizations of the third sector.

2. Specific character of managing non-profit organizations

Traditionally, non-governmental organizations were not willing to pay the highest attention to the effectiveness of their activities, management efficiency and quality (Drucker, 1995, p. 119 and further). This began to change in the 1980s. Then, in Anglo-Saxon countries, many social functions were transferred distinctively from state administration organizations to non-governmental organizations (Gumkowska, 2005, p. 4, 20). State administration often lacked specific skills and knowledge and the separation of the role of the employer from the role of the contractor was supposed to foster additionally transparency of activities and effectiveness (Gumkowska, Herbst, 2005, p. 7).

Such transfer of functions and directing public funds to non-governmental organizations strengthened and increased this sector's significance. Along with flowing public funds, strict re-

quirements appeared related to reporting, effectiveness and quality. A real need for a professional approach to the process of managing non-profit organizations emerged (cf. Fudaliński, 2013a).

3. Critical analysis and dilemmas in the field of management concepts for non-profit organizations

Starting from the function of the purposefulness of activities of non-profit organizations, it is clear that they are characterized by a major distinctness which indispensably also affects the special character of the management process. It is difficult to agree with the statement suggesting that the sector of non-profit organizations does not include competition phenomena – on the contrary, currently they are becoming more and more intensive. This, in consequence, generates pressure on costs and forces the focus on determining and implementing objectives which may be operationalized also in a measurable formula.

From the etymological point of view, we may observe the development of management concepts for non-profit organizations on the basis of analogies related to business. While the industrial revolution initiated radical changes in the second sector, the 1970s and the 1980s was a period of a dynamic growth in the numbers and development of non-profit organizations. The main drive for their actions at that time was satisfying the social needs and focusing on program activities. Separate organizations handled the citizens' needs taking over these functions from the state administration (Courtney, 2002, p. 26). They were interested only in social problems. Thus, it is not surprising that they did not pay particular attention to the effectiveness and quality of management in the initial phase of development (Drucker, 1995, p. 119). Intuition, experience, willingness, the trial-and-error method and any other signs of exercises on a living organism did not withstand the test of time. It became obvious that it was necessary to move to a stage related to a professional approach to the management process. In addition, funding of the third sector from public funds supported, on the one hand, organizations in their activities, on the other hand, however, forced the need to conduct detailed financial statements and analyze effectiveness. This involved the need to draw up a new management model – strategic management (Courtney, 2002, p. 110).

However, while the idea of strategic management undoubtedly has its great qualities, at the present stage of the development of the non-profit organization sector in many industrialized countries it does not seem to be an optimum solution. Nonetheless, the demand meaning a transition to the professionalization of management in the third sector was easier to conduct due to the already established and empirically verified theories on the ground of business and partially the public sector, and the problem, as a matter of principle, could come down to analyzing and trying to apply verified solutions at the level of the non-profit organizations sector (Fudaliński, 2013b, pp. 42-47).

The first major dilemma is found in the word “could”. Despite the fact that the concept of benchmarking has been operating and applied, more or less consciously, for several decades, the process of spreading proven solutions to new organizational forms runs by no means at an impressive pace.

The second dilemma refers to the uneven development of the non-profit organizations sector in the global scale. This process, after all, often takes place in a prolonged time function and though it seems that its dynamics intensifies on a global scale, the result in the formula of creating

democratic systems and the effect, in the form of developing civil initiatives, is, however, significantly shifted in time. This is strengthened by **the third dilemma** – cultural differences. Changes in the mental sphere last for the longest time and their effect is not always certain. **The fourth dilemma** is a diverse but acceptable models of the development of the non-profit organization sector, depending on numerous variables.

4. Contemporary concepts of management and non-profit organizations

Contemporary concepts of management which may be applied regarding third sector organizations include:

- management based on information;
- creative management;
- management based on trust, management on the experience economy;
- project-based approach to management;
- sustainability as a new formula of modern approach to managing non-profit organizations.

Knowledge and intellectual capital are currently the most important paradigms in organizations where the most important roles are served by intangible resources – information, competences, skills. The model which was created as one of the effects of “the era of information and knowledge” is a learning organization. In such organization, due to constant learning, creating, disseminating and using knowledge in daily activities, employee competences are continuously being perfected. The sum of their skills and competences increased by the synergy effect and the supply of information and knowledge from the environment, constitutes resources used in the knowledge management process at the level of employees and the entire organization (Brzeziński, 2009, p. 10).

Contemporary organizations need to rely on information supply, need to be characterized by the capacity to acquire information, clean this supply of information noise, the ability to process information as well as to use it to make decisions. The organization’s position in the environment depends, after all, on the quality and speed of making decisions which is particularly significant also in the sector of non-profit organizations. Without a proper control over the course of information supply effective management of organizations does not have a right to exist currently and it should be stated that the significance of this factor in the future will be growing.

An appropriate system of information circulation makes it possible to acquire reliable and credible information. Information which becomes a tool of work connects the managerial personnel and employees-specialists in a given field **in a network of relations** with the remaining participants of the organization and with the environment

From the point of view of the scope of information which the managers have, the following types are distinguished (Glinka, Kostera (ed.), 2012, p. 500):

- managers dominating in terms of information;
- managers balanced in terms of information;
- managers dominated in terms of information – with poorer resources of information than their subordinates;
- managers complementary in terms of information – with different resources of information than their subordinates.

The classification referred to above is important regarding third sector organizations because it indicates, on the one hand, the hierarchical dimension of the information management process, shaped in the source by the business sphere and, on the other hand, it is of an arranging nature indicating the direction of arranging the information chaos which often takes place in non-profit organizations and is one of the major problems determining the poor effectiveness of management.

Creative management remains in a natural correlation related to control over the course and application of the information supply. Globalization processes as well as the common system of information exchange result in the fact that information, like any other element of the market, will probably not so much lose its value with time but will be only the basic component generating creative actions, focused on the formation of core competences. Creativity as a combination of intelligence and creative awareness at employees, the team and the entire organization forms a new paradigm of organization and management which becomes the determinant of evolution in particular organizational structures. It may thus be foreseen that the learning organization will transform into a creative organization in the future. Therefore, it is necessary to characterize the creative organization as one of the modern management concepts. Assuming that creativity is: "...man's ability to creatively use the intellectual potential when creating new, original ideas in the form of concepts, products *etc.* with the use of knowledge, experience as well as creative revelation, taken from inexhaustible resources of creative imagination" (Brzeziński, 2009, pp. 10-20), then creating new organizational systems involves the need for a permanent change in the scope of references of the organization's activities to more comprehensive and multi-dimensional ones as well as with a more flexible and holistic approach to management processes. Creativity may become a fundamental paradigm leading towards new forms of organizations of the future and different methods of managing them as well as a stimulus to explore next, future paradigms necessary in management sciences.

The best model of work organization in the creative organization is organization based on creative teams. A creative team is a group of employees constituting a meaningful whole under common leadership, most often established on an ad hoc basis to execute a specific task. It is characterized by having extensive knowledge, an innovative, exploratory way of thinking, inspiring and full of passion in searching for unconventional solutions. Teams are treated as flexible formulas of work organization. The configuration of teams depends on the personal composition, the intelligence potential, the creative awareness and the team leader. The level of the team's autonomy depends on the maturity and effectiveness of its participants. Teams may combine competences in the field of designing and execution of objectives. The team itself chooses the leader bearing in mind his substantive qualities and, above all, to his ability to generate creative energy, passion, formulate challenges (West, 2000, pp. 64-65). This indication seems particularly valuable for non-profit organizations focused on the future regular development for which the culture of teamwork (as opposed to group work) is the proper component of daily activities. Structural solutions should foster this vision in a natural manner also contributing to the formation of synergic effects (cf. Wach, 2008). At the same time, it should be noted that establishing the desired system of teams in the organization has the form of a process (Kosieradzka (ed.), 2013, pp. 174-175) focused on increasing the effectiveness of its activities. The organization derives useful information from the environment. Thanks to receiving information and knowledge about the environment, the organization increases its potential contained in human resources (Brzeziński, 2009, pp. 79-88).

In this context, it is worth noticing that creative management should enable the full development of the individual potential of employees and their responsibility and, at the same time, build a sense of perspective and the belief that the entire organization's success is determined by the harmonization of individual objectives with the organization's objectives.

In the age of turbulent changes of a global nature, the flood of information as well as management concepts which rapidly become obsolete, trust is the only category which integrates human actions and helps reduce the fear of the unknown and variable future. Particularly now this category is, on the one hand, disavowed to a certain extent as compared to the global geopolitical situation and the decrease in the significance of the credibility of signed agreements, in particular in the international aspect¹. On the other hand, the need to think in the categories of values and observe them is emphasized because numerous business processes in the age of the virtualization of the organization's activities are based on trust, related reputation and shaping the desired culture of cooperation on this basis. These deliberations have particular reference to the non-profit organization sector, as part of which functioning without the compliance with these basic values seems to be impossible and deprived of the basic core on which the essence of third sector organizations is based.

"Trust is the belief on the basis of which individual A in a given situation agrees to the dependence on individual B (person, entity, organization *etc.*), having the sense of relative safety despite possible negative consequences" (Grudzewski et al., 2009, pp. 15-19). Trust is a factor which absorbs the managers' attention more and more often as a result of currently visible tendencies in the global perspective.

The dependence between trust and the effectiveness of the organization's activities presented above demonstrates the fact that trust may serve as a strategic resource because (Kordel, 2002, pp. 77-80):

- thanks to trust, the organization may respond to changes in a turbulent environment; it makes it possible to use opportunities and neutralize threats;
- the demand for trust exceeds the supply; only a small number of organizations may classify trust as their resources;
- interpersonal trust is a type of "employee shareholder structure" which binds them to the company;
- trust demonstrates a high resistance to reproduction or automatic copying due to the long process of building it and the difficulty in defining its essence and the method of formation;
- trust increases with time;
- trust cannot be replaced with other useful values because it is a stimulus for other cultural standards;
- trust may be the basis of a highly competitive strategy of operation;
- trust cannot be shaped by administrative regulations and codified organizational regulations;
- trust covers all aspects of the company's functioning;
- trust in the organization affects the ability to shape activities in the company;
- trust is important for an effective functioning and development of the company now and in the future.

¹ This is proven by the situation in Ukraine, previously signed guarantees of safety for this country which are not respected currently.

In the context of these discussions, it seems reasonable to state that non-profit organizations cannot function properly without management focused on the culture of trust. Apart from the classic calendar of managerial skills, it is necessary to inculcate a culture of trust integrating the work environment and employees and as well as volunteers – which is a great challenge.

The project-based approach to management issues in organizations of the third sector implies, in fact, a gradual departure from activities based on permanently valid guidelines, procedures and techniques and placing the main weight on objectives achieved by the implementation of projects, namely partial tasks performed on the basis of single plans.

In the presented review of selected concept which may be applied in the sector of non-profit organizations² it is also worth mentioning a new and slightly controversial theory – *sustainability*. Its major assumptions come down to accepting such formula of management which provides the ability to continue activities even in a hyper-dynamic environment as well as will provide an impulse for continuous regeneration. In the context of the assumptions referred to above, the concept of *sustainability* means: “the organization’s ability to constantly learn, adapt and develop, revitalize, reconstruct and refocus in order to maintain a permanent and distinguished position on the market by offering outstanding value to buyers today and in the future, due to an organic variability constituting business models and resulting from the creation of new possibilities and objectives in response to them, balancing the interests of various groups” (Grudzewski, Hejduk, 2011, p. 102).

Sustainability reaches to the paradigm of management based on knowledge and trust which become an immanent feature and, at the same time, a value determining the process of effective³ management in organizations of the third sector. Organizational intelligence, necessary in non-profit organizations, is being shaped due to the ability to adequately adapt to the environment and due to learning processes. The paradigm of *sustainability* determines two types of strategies for the organization: “the red ocean strategy” and “the blue ocean strategy” (cf. Grudzewski, Hejduk, 2011, pp. 95-110). It should be noticed that the acceptance and approval of the idea of *sustainability* assumes, at the same time, the existence of two types of organizational structure – the fractal organization or the amorphous organization. The fractal structure assumes the existence of the same dependences in each component of the organizational structure. The organizational unit is the reflection of the entire organization. The amorphous structure is characterized, on the other hand, by the lack of formally determined dependences. It is fuzzy, without form and even anarchic. As a result, the cooperation of employees in such organization needs to be based on trust. In this way, the theory of *sustainability* assimilates another paradigm – of an organization based on trust which may exist in the form of a number of organizational forms (Fig. 1).

² The study includes a selective choice and characteristics of management concepts assuming the possibility of application in third sector organizations as the main criterion of selection and taking into account its specific nature as well as the author’s undoubtedly subjective view on the needs in this respect in the future on the basis of signals coming from third sector organizations.

³ Effectiveness regarding non-profit organizations is specifically understood. At a high level of generality, it refers to the possibility to achieve statutory objectives but in correlation with social usefulness of performed activities as well as coherently regarding the environment’s requirements, maintaining relevant product-service standards.

Figure 1. Organizational forms of an organization based on trust



Source: prepared by the author on the basis of: Grudzewski, Hejduk, 2011, p. 107 and further.

It may be assumed without greater controversies that every form of cooperate requires the establishment of an organization based on trust. The factor supporting the establishment of an organization based on trust is knowledge treated as a key component in man’s development and activities. Knowledge, equally with natural capital resources, is the most important source of achieving competitive advantage. Knowledge multiplies due to the synergy effect as well as the admission of the possibility of errors as the method of learning and failures and sometimes even destruction, as a method to revive and renew the organization. In this sense, the presented concept seems to be completely coherent with the specific nature of third sector organizations as well as challenges they face, as a concept with the quality of “integrated” (holistic) combining various ideas.

5. Implications resulting from the analysis of contemporary management concepts possible to be used in the non-profit organizations sector

As it was mentioned previously, *sustainability* is a theory which includes numerous aspects of management. Table 1 presents a comparison of the most important assumptions of modern management theories along with the assessment of possible projections of future trends in this respect. As is shown by the prepared list – *sustainability*, combining the elements of various contemporary management paradigms, is based on the principles of a holistic, constantly developing perspective of reality as well as trust in order to achieve the model of a smart organization which creates and transfers knowledge as well as modifies its behavior.

Table 1. Comparative analysis of major assumptions of modern management theories

Area of comparison	Contemporary, previous paradigms	<i>Sustainability</i>	Future trends
Capital	Material and financial capital	Knowledge capital and social capital (knowledge and trust)	Further growth in the significance of knowledge capital and social capital
Organizational structure	Formalized, separated positions as well as a system of connections between them	Fractal or amorphous	Departure from formalized structures, structures are created only in order to execute a project, after its execution the structure changes, each employee may be a manager, at a certain point in his career
Organizational form	Corporation businesses as well as companies and non-profit organizations	All forms of organization based on trust	Development of organizations based on trust

<p>Strategy</p>	<p>Applying business strategies (without greater significance for the third sector): focus on one business, vertical integration, related diversification, non-related diversification, reduction, disposal and liquidation, or their combinations</p>	<p>“Red ocean strategy”, “blue ocean strategy” (significant for third sector organizations)</p>	<p>Departure from classic strategies assuming achieving advantage by eliminating the competition, towards the strategy of survival, due to overtaking competitors, in the case of third sector organizations – the professionalization of activities, establishing organizational culture based on trust, adopting participatory management formulas of activities focused on aptly identified, poorly managed or improperly handled areas.</p>
<p>Target market</p>	<p>Traditional markets: goods, services, financial</p>	<p>Each market with areas “to be filled”</p>	<p>Experience economy</p>
<p>Natural environment</p>	<p>Noticing the need for symbiosis with the natural environment as well as CSR</p>	<p>Symbiosis with the environment, stressing the need for survival</p>	<p>Noticing the organization’s position through the prism of its involvement in the preservation of the natural environment and CSR activities</p>
<p>Role of managers</p>	<p>Technocrats, controllers, supervisors. Allocation of tasks, managing experts’ knowledge, drawing up plans and supervising their execution, accounting for task execution, controlling and stimulating</p>	<p>Coaches, players, process managers, managers of human resources, leaders and entrepreneurs. Integrating knowledge, stimulating creativity, supporting innovation, promoting learning</p>	<p>Creators of organizational culture based on trust. Stimulating processes, fostering innovativeness and creativity</p>

Source: prepared by the author.

Taking into account the directions in which management sciences develop, it may be assumed that managing organizations in the future will be based on the capital of knowledge and trust, and organizational forms will evolve towards organizations based on trust. A departure from rigid, “administrative” organizational structures will be noticed. The role and task of managers will also change – from decision-makers, controllers and planners towards leaders, players and coaches supporting innovativeness and creativity.

6. Towards “social management” in organizations of the third sector

Reviewing the contemporary management formulas characterized previously, we may direct the conclusion to the need for searching for an integrated concept the idea of which will be, as a matter of principle, related to and dedicated to third sector organizations. A new conceptual category on the ground of management sciences – **social management may be considered as such** (cf. Fudaliński, 2013b). Differences between organizations belonging to the sphere of business, public organizations, public companies and non-profit organizations are undeniable. It is also obvious that at an appropriate level of detail these differences will multiply and will naturally require the use of different rules in the management process. Therefore, as part of the identified objective, we may state that *social management* is a conceptual category referring to social organizations (social companies, non-profit organizations) which, due to the focus on the achievement of specific, social objectives, require the application of participatory formulas of understanding and executing management functions, relying on the formula of trust. As a consequence, they are characterized by a specific organizational culture as well as create the need to perceive the organization’s functional areas (human resources management, finance management, marketing management *etc.*) in a manner ensuring complete transparency and satisfaction for stakeholders.

7. Conclusion

Challenges of the contemporary times seem to point out to the need to search for new concepts taking into account (see: Borowiecki, 2011, p. 84 and further) not only the emerging, sometimes hardly acceptable trends, but also to notice certain formulas of thinking and acting, sometimes outlined in a broader manner. Technologies of the 21st century, especially these enabling fast information flows, seem to surprise people with the consequences of their existence but they also demonstrate certain threats in respect to crisis phenomena growing on a global scale. “Outraged” movements, protests against limiting the freedom of virtual communication are clear signs of the integration of numerous diverse social and national groups. The system of grass-roots self-organization and decisions, based on fostering legal norms, is not anything wrong. However, when deprived of an organizational form and focused on chaos, it may result in negative phenomena. The analysis of contemporary trends in the area of management indicates the existence of numerous diverse concepts which may be valuable in an attempt to apply them in non-profit organizations and, depending on the level and stage of their development, should certainly be gradually applied. However, from the micro-economic point of view, the idea of social man-

agement, fully coherent with contemporary expectations and the demand of the sector of non-profit organizations for a new management paradigm, integrating all previous assumptions, also the concept of strategic management, is integrated with this constellation's architecture. This idea goes beyond the frames of traditionally understood strategic management which intrinsically (not in name only) focuses on strategically oriented actions related to the function of purposefulness of the tasks being executed. However, social management, without denying its importance, takes another step on the function of time expectations: it recognizes the composition of any civil organization as the basis for activities: self-organizing community for which the ability to self-organize is a basis and a value on its own and the adoption of directions of operation – is rather a derivative. However, taking into account the state of development of the Polish non-profit organization sector, it should be assumed that at the present stage the idea of strategic management, as an indirect formula, is applied correctly, although the dynamics of changes makes it already possible to notice new trends in this respect.

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Chapter 26

Changes to Requirements Towards Direct Production Employees in the 20th Century

Maciej Walczak

1. Introduction

I. Durlik defines the production system as follows: “(...) intentionally designed and organized material, power and information system operated by man and used to manufacture particular goods (products or services in order to satisfy various consumer needs” (2000, p. 31). On the other hand, Z. Jasiński emphasizes the crucial role of three elements of production systems: the means of work (*e.g.* tools, machines), the objects of work (*e.g.* materials) and people (2010, p. 27). The common element of both approaches is man. The need to involve man determines the socio-technical nature of production systems. What is more, man plays the dominant role in production systems. It is man who makes decisions on establishing a given system, defines objectives and tasks, determines the conditions for their implementation, manages processes.

However, despite the supreme role of the social system over the technical one, man is not completely independent. People need to adapt to conditions which result from actions in combination with the technical subsystem. They are mutually closely related in the production process. Thus, changes occurring in one subsystem affect the functioning of the other one (Jasiński, 2010, p. 27).

The purpose of this study is to present changes which occurred as a result of the development of production systems in the 20th century in the specific nature of the work of employees directly involved in the implementation of production processes. The first part of the study presents the evolution of production systems from the dominance of craft solutions until the contemporary age. The second part is devoted to the identification of the most important requirements facing employees in particular periods of the evolution of production systems.

2. Outline of the evolution of production systems

Even at the turn of the 19th and 10th centuries numerous goods were manufactured using craft methods. These methods were mastered by people thousands of years ago. Their characteristic feature are high requirements regarding the contractor’s skills, using simple tools and high labor consumption. Craft was executed in workshops which most often employed several people.

The basic changes in the subsequent period, namely craft production, were the increase in the size of companies, the application of labor division to a greater extent and its mechanization (Babiarz, Piotrowski, Pomianek, Wawrzyńkiewicz, Freund, 2004, p. 2). In the period of craft production, entrepreneurs accepted orders directly from customers (there were no agents in the form of commercial networks) and then executed them according to arrangements determined when agreement was concluded. The great problem of craft production was the lack of the interchangeability of parts and the need to match them during the assembly. The quality of products manufactured in this manner was the result of numerous factors, including, among others: the contractor's skill and experience, as well as his scrupulousness when assembling the final product. The inseparable characteristics of craft production included: high costs of production, regardless of the quantity of manufactured goods, unfinished structure with a negative impact on the product's reliability, insufficient resources to conduct research and implement new technologies (Womack, Jones, Roos, 2008, p. 27).

The most important elements distinguishing mass production from craft production include: the introduction of specialized machines at a large scale, the use of assembly lines, the effective use of the interchangeability of parts and the far reaching specialization of employees. An important element distinguishing mass production was also the introduction of the so-called "production for the warehouse" as opposed to production for orders implemented in craft forms. The use of mass production made it possible to substantially reduce unit costs and thus reduce the product's price. The second important advantage is the high quality of products achieved as a result the stability of processes and the distribution of research and design costs into a large number of sold pieces.

The next phase in the evolution of production systems may be considered variant production which consists in manufacturing numerous types (variants) of the same product. This solution was supposed to reduce the main disadvantage of mass production, namely offering the same product to all customers. However, just like mass production, it assumes manufacturing for the warehouse which, in combination with the existence of numerous variants of the product, leads to a complication of the production, storage and distribution processes. In addition, the risk that part of the production will not be sold at all increases (Babiarz, Piotrowski, Pomianek, Wawrzyńkiewicz, Freund, 2004, p. 2).

The beginning of the second half of the 20th century was characterized by a dynamic development of the application of IT tools in controlling production processes. This period saw the establishment of solutions regarding CIM (Computer Integrated Manufacturing) and FMS (Flexible Manufacturing Systems). Solutions as part of FMS should be considered particularly important from the point of view of employees directly involved in the implementation of production processes. Such systems as: the flexible manufacturing module, the flexible manufacturing cell, the flexible manufacturing line or the flexible manufacturing network (Brzeziński, 2007, p. 71) changed the character of work at these workplaces in a radical manner.

The last significant phase of development of production systems should be related to such concepts as: lean production, agile production and mass customization. The most important characteristics of lean production include the pursuit of elimination of wastage from processes, the focus on values and the formation of the habit of continuous improvement among people (kaizen philosophy). The essence of the agile approach in production is explained by H.M. Hormozi as follows: this is a new manufacturing method making it possible to obtain competitive advantage. Companies which implemented it "manufacture high-quality products free from defects with a short time of marketing (Hormozi, 2009, pp. 133-134). (...) The purpose of the agile ap-

proach is to deliver products which completely satisfy the customers' requirements and needs." On the other hand, mass customization is a strategy which allows a company to design, manufacture and provide customers with large quantities of customized products adapted to the specific needs of customers, in time and at a price which are similar to mass manufacturers (Tu, Vonderembse, Ragu-Nathan, 2004, p. 375).

The evolution of production systems may also be examined in connection with types of organizations which were defined along with the development of scientific management. The most important types of organizations include: pre-Taylor, Taylor, human relations, humanized and contemporary. Solutions developed as part of particular types of organizations had an essential impact on the organization of production processes.

3. Categories of works in production processes and related functions of employee competences

The employee's ability to cope during the work process strongly depends on his competences. There is a number of classification of works and the criterion used most frequently is the functional division of work. M. Jabłoński believes that the identification of the contractor's role at the workplace is more important than the typology of positions in the discussion on employee competences. Therefore, the relation occurring between physical and intellectual work may be considered the key aspect (Jabłoński, 2011, p. 114).

The different nature of works was included in the classification by K. Haller who indicated the fact that the employees use (after: Jabłoński, 2011, pp. 114-115):

- the physical effort of muscles even if it is negligibly small;
- memory, attention, *etc.* the mind but not requiring logical or creative thinking;
- logical and creative thinking.

On this basis we may distinguish three basic categories of work at the workplace: physical, handling and intellectual. It cannot be, however, stated that other categories are not present when one category of work is being performed. The effort of muscles and the skill in movements are dominant during physical work. Moreover, it is necessary to use the memory and attention at least to the minimum extent. Handling work mainly includes attention and memory, physical effort is not the essence of work but it is necessary to undertake control actions. Thinking is more closely related to memory and reproducing certain recorded patterns. Intellectual work consists in solving problematic situations exceeding typical routine actions, making decisions, being responsible for particular actions⁴. Elements of physical work and handling work are also present but they are secondary and do not affect the course of thinking processes themselves. The assignment of a given work to one of the three categories results from the intensity of actions of the physical, handling or intellectual nature.

Table 1 presents the dominant functions of employee competences and categories of work typical of production and administrative-office works.

⁴ Intellectual work may also be divided into routine and independent work. Routine work has a small diversity of tasks, it is characterized by using preconceived notions when a problem is qualified into a specified pattern. Therefore, routine intellectual work may be compared to handling work. Independent intellectual work consists in solving problems in connection with the need to conduct tests, perform experiments, *etc.* Namely, when it becomes necessary to develop a new mode of conduct (Haller, 1932, after: Jabłoński, 2011, p. 115).

Table 1. Functions of employee competences as well as categories for particular types of work

Types of work	Production works		Administrative-office works	
Functions of employee competences	Skill in action	Concentration		Creative thinking
Categories of work	Physical	Handling	Routine intellectual	Independent intellectual

Source: own study on the basis on Jabłoński, 2011, p. 115.

Competences may be divided into personal and technical. Personal competences should be associated with knowledge and skills represented by a given person. Technical competences should be considered particularly significant in production companies. These include (Spychała, 2005, p. 283):

- held technical knowledge regarding tools, objects of work and technologies used in a particular process;
- the ability to apply the held knowledge in practice;
- skills acquired as a result of the implementation of similar actions;
- qualifications resulting from education;
- practical preparation to perform specific production tasks.

Technical competences are reflected in the proper use of machines, tools, instruments, materials, raw materials, semi-finished products, technologies as well as methods of work in implemented processes. Shortages in any type of competences may lead to an improper execution of the task. Thus, to reducing the effectiveness of the work process.

4. Evolution of competence requirements towards production employees

Constant changes both of an evolutionary as well as revolutionary nature⁵ which took place in production systems in the 20th century had a significant impact on the requirements and conditions of work. The share of works performed manually and manual-machine works in production processes was gradually decreasing. The significance of manual capacities and physical force was decreasing. On the other hand, requirements regarding skills in operating machines and equipment increased. In the first decades of the 20th century work was so simplified that workers employed at factories often could not read. The specialization of positions made it possible to master a profession in several hours or days (Martyniak, 2002, p. 64). Currently, employees participate in numerous trainings and are even faced with the requirement of systematic self-education in order to improve qualifications and knowledge (Jasiński, 2010, p. 30) not only regarding technical competences but also general ones.

The degree of complication of contemporary equipment in factories forces the need of continuous improvement of knowledge from persons operating this equipment. For example, the implementation of a new technology is usually related to the installation of new machines. Operating them, on the other hand, requires different technical competences than those which were used

⁵ The beginning of the assembly line may be an example of a revolutionary change.

so far. Employees need to adjust to new conditions by acquiring new knowledge and skills regarding tools, objects of work and methods. The set of technical competences is thus not a permanent resource. Its characteristic feature is variability and development (Spychała, 2004, p. 285). Direct production employees have a growing contact with information processes in which "(...) the ability to receive, process, interpret information, the ability to rapidly analyze situations in a complex manner, the ability to make quick and correct decisions and the ability to skilfully assess their effects for the entire production system" (Jasiński, 2010, p. 29) turn out to be important.

For example, in the car industry, an employee gradually transformed from a factory worker into a supervisor watching over the efficient course of automated processes. Currently, his main duty is to control the machine's working parameters and, if necessary, make a decision eliminating any possible deviation from the standard. Modern car factories almost do not have any people any more at the stages of pressing and welding car bodies and varnishing. All actions are performed by robots and automatic conveyors. The greatest contribution of human work takes place at the stage of final assembly and technical control, namely where emphasis is placed on high flexibility of actions or making decisions.

From the point of view of types of organizations, the difference between a pre-Taylor organization and the contemporary organization is the belittled significance of technical competences for the benefit of soft skills, such as: communication, teamwork, making changes, learning, *etc.* Table 2 is an attempt to list the changes in this respect.

Table 2. Requirements towards employees in particular types of organizations

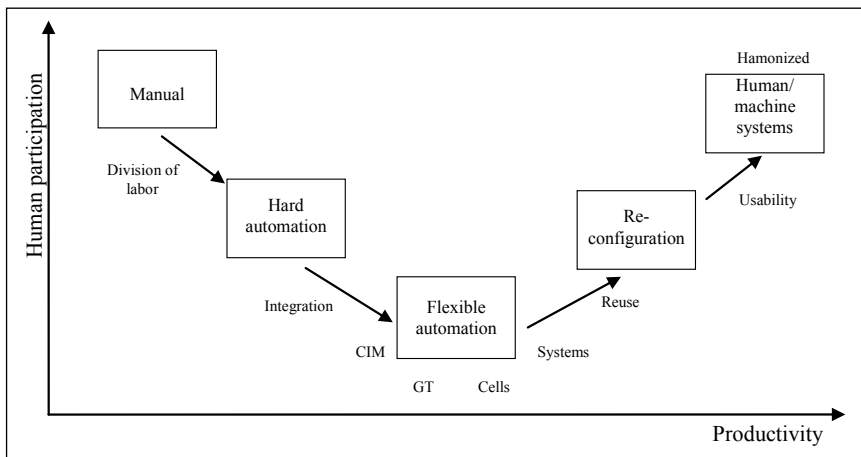
Type of organization	Characteristics of production process	Determinants of employees attitudes and skills	Desired attributes of competences
Pre-Taylor	performing the majority or all actions comprising the product's production process by the employee	learning the profession by terminating at a foreman and observing people experienced in the trade	– technical
Taylor	<ul style="list-style-type: none"> – division of labor, – specialization, – limiting accidental actions, – the work rhythm is determined by the machine or the supervisor, – works of an individual as well as routine nature, manual work as well as manual work in combination with machines is dominating, – intensification of human work, – implementation of actions: executive, control, preparatory and verification 	<ul style="list-style-type: none"> – thorough training is the basis of preparation for work, – formalized separation of conceptual works from executive works, – reduction in using employee intellectual and emotional potential, – no requirements regarding independence, initiative in actions, making changes, – no requirements regarding knowledge of the product's structure or the ability to repair and maintain equipment at the workplace, – eliminating contacts with other employees or persons from the outside, 	– technical

Human relations	<ul style="list-style-type: none"> - limiting physical effort as a result of progress in mechanization, - increase in intellectual effort related to the need to observe the workplace's environment, - expanding and enriching work, turnover on workplaces, - workshop production system 	<ul style="list-style-type: none"> - framework work instruction leaving a certain freedom in selecting the methods of work, - elements of self-organization, - replacing strict control with mild supervision as well as control of results, - taking into account the impact of informal groups on the efficiency of work, - promoting the affiliation to employee teams 	<ul style="list-style-type: none"> - technical, - communication
Humanized	<ul style="list-style-type: none"> - increase in the automation of processes, - reducing the employee's load related to routine actions, - limiting works regarding adjustments, inspections and maintenance of machines, - reducing the employee's role to the level of the operator of automated systems (starting the process up, controlling it and inspecting it), - man's pace of work depends on the pace of the machine 	<ul style="list-style-type: none"> - promoting creative attitudes, - emphasis on self-discipline and self-control, - diversity in employees competences and increase in their mobility, - creating autonomous task groups (e.g. quality groups), - the knowledge of the structure and operation of machines is required in order to detect and remove potential causes of failures, - relations between phenomena and processes need to be identified, and events predicted, - flattening hierarchical structures, - implementation of production by groups of employees 	<ul style="list-style-type: none"> - technical, - communication, - teamwork, - making changes
Contemporary	<ul style="list-style-type: none"> - implementation of most actions in production processes by the technical subsystem, - automation of information processes, including the analysis of data from production, - reducing man's role to creating new production systems and improving the existing ones, their partial inspections, maintenance, repairs 	<ul style="list-style-type: none"> - departure from mechanical treatment of the organization's resources, - organizational freedom and self-organization, - growth in the importance of competences, knowledge and employee attitudes, - collective methods and techniques of work, - sharing and using knowledge, creative thinking, searching for innovations is required, - skills regarding the acquisition, processing and using information coming from various processes are required 	<ul style="list-style-type: none"> - technical, - communication, - teamwork, - making changes, - learning.

Source: own study on the basis on Jabłoński, 2011, pp. 12-25.

According to H.A. ElMaraghy, people will be an important factor determining the success of present and future production systems. Despite numerous achievements in the field of automation and robotization, a significant share of people is still necessary not only in making decisions but also in the direct implementation of processes. This belief results from the fact that man was and still is the most flexible element of production systems (ElMaraghy, 2006, p. 273). The relationship between the share of people and machines in production systems and the achieved productivity is presented in Figure 1. The high share of the human factor, initially limited as a result of growing mechanization and automation of processes, is again becoming significant due to the need to increase the flexibility of contemporary production processes.

Figure 1. Level of human factor involvement as compared to development of production systems



Source: ElMaraghy, 2006, p. 273.

Another factor clearly becoming more and more significant and increasing competence requirements towards employees, apart from the increase in the significance of knowledge in all processes implemented in contemporary companies⁶, is creative focus and self-creativity (Mikuła, 2012, p. 22). Without these features, persons with knowledge which is valuable from the company's point of view simply do not use it.

It should also be emphasized that the fact that an employee demonstrates an attitude of trust towards the other party to the contact is more and more significant. The lack of trust is destructive on teamwork and thus on the course of team learning process, on the satisfaction from interpersonal contacts as well as on the level of stress at the workplace (Mikuła, 2012, pp. 22-23).

⁶ The significance of knowledge in contemporary organizations is even emphasized by the definition: "knowledge-based economy".

5. Conclusion

The outline of the evolution of requirements towards employees implementing production tasks presented in the study demonstrates the scale of changes in this respect which took place as a result of organizational-technical progress taking place in the 20th century. On the one hand, requirements regarding predispositions for physical work were reduced. On the other hand, employees are expected to undergo systematical education, widen their knowledge, gain a habit of teamwork. According to Z. Jasiński, the increase in employee qualifications achieved in this manner leads to the levelling of knowledge with the managerial personnel. Thus, “the manager’s authority on account of knowledge disappears, the distance of authority diminishes” (2010, p. 31). As a consequence, requirements towards managers who need to act in a more flexible manner change. Treat subordinate employees as partners rather than as subordinates more and more often.

Another aspect of the functioning of contemporary organizations is the change to the attitude of employee loyalty towards the organization. Since the organization cannot ensure the stability of employment, the previous employee loyalty towards the organization was transformed into loyalty towards oneself (Mikuła, 2012, p. 23). Therefore, good employees will assess actions undertaken by themselves not only from the organization’s point of view but, first of all, from the point of view of benefits which they themselves will gain in the future.

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Chapter 27

Analysis of International Competitiveness in Selected Branches of the Agricultural-food Sector

Halina Smutek

1. Introduction

In the present circumstances, internationalization and globalization processes may present conditions ensuring the survival and development of a company subject to a new perspective of the method of conducting and noticing the need for changes in this respect (Stiglitz, 2004). This is a process which, in the opinion of Stiglitz, may create opportunities for the development of economies and societies and thus corporate businesses subject to paying attention to important related problems which include political and social problems the solution of which is the prerequisite for a positive assessment of the globalization process. Globalization, according to Stiglitz, is a process of close integration of states and people all over the world, resulting from the reduction in transaction costs, the limitation of barriers in flows of products, services, people and capital between countries. It is a progressing process, forcing adaptation actions. As a consequence, the market starts to operate not only within the domestic economy but also the global economy. In this sense, globalization is a process of limiting barriers for the market mechanism of allocation outside domestic borders (Szymański, 2001, p. 14).

Bearing in mind the fact that also Polish companies actively participate in international exchange in an active manner (undertaking business activities outside the borders of Poland) or a passive manner (importing products and investment capital), the problem of international competitiveness of sectors and companies is a significant area of competitiveness management (Gorynia, Jankowska, 2007). Bearing in mind the place and significance of the agricultural-food sector in the Polish economy, it is a significant area of strategic analyses, both at the macro, meso and micro-economic level.

2. Determinants of competitiveness of sectors in international and global perspective

The process of formulating objectives as well as methods and the manner of their implementation under global conditions leads to the internationalization of business. Currently it is said that globalization is a prerequisite for corporate businesses to survive. The functioning of companies on the domestic market, especially if this market is not big, would be a factor limiting its development capacities focused on improving the competitive position by, among others, using means of production from various countries. Currently it is believed that the globalization of companies follows the first stage of their development, namely specialization and operation on the domestic market. Then, diversification and internationalization of the company's activities takes place.

The basic sources of competitive advantage are believed to be:

- differences in expenditures and effects of particular countries,
- the effects of scale,
- the effects of scope which result from the fact that the costs of combined production of two or more products are lower than their production separately.

The contemporary paradigm of management needs to take into account the international aspect of activities which is directly related to transforming the domestic environment into a global one. These changes generate the need for a different look at the process of formulating the company's strategic vision since both the scope of the company's activities as well as its strategies undergo transformation.

According to M. Porter, international competitiveness of a branch is also determined by its globalization potential. Porter stresses the fact that the sector's globalization capacities are defined by the number and the impact of factors enabling and inhibiting the pace of globalization processes (Porter, 2001, p. 270). Porter indicated the following among factors supporting this process:

- benefits of the scale in particular stages of the value chain;
- using the effect of experience;
- diversity of products;
- technological advantage;
- mobility of production.

On the other hand, Porter indicated the following groups among factors slowing down the globalization process:

1. economic:
 - high costs of transportation and storage,
 - various customer needs,
 - lack of access to channels of distribution,
 - pressure to involve domestic sellers,
 - availability of service and repairs,
 - market sensitivity to delays,
 - complex segmentation of geographical markets,
 - lack of demand on the international scale;
2. related to management:
 - diverse requirements regarding marketing activities,
 - intensified local services,
 - rapid technological changes;

3. institutional:

- restrictive state policy,
- resulting from the method of perceiving the environment and the significance of resources.

Porter's concept was developed and improved by Yip, the author of the model of assessment of globalization extent and potential of sectors and markets. The globalization potential of sectors is influenced by four categories of factors: market, cost, government and competitive. The strength of each of these factors is different depending on the sector's characteristics. Analyzing particular sectors, certain factors may indicate globalization tendencies, others – a typically local nature. Effective strategies of competition in the global dimension include the characteristics indicated above (Yip, 2004, p. 260).

Among factors of market globalization, Yip indicated similarities and differences in customer needs related to the product (service) dependent on the specific nature of the culture, the pace of economic development, environmental conditions stressing the fact that the fading of differences in this area influences the standardization of customer needs (Stnehouse, Hamill, Campbell, Purdie, 2001). Some of them purchase products and services in a global manner seeking suppliers offering the best offer regarding the product, the service and the price. A large part in this process is played by access to channels of distribution or the possibility to standardize the marketing concept which is not always possible due to cultural differences, the economic level of the customer's country. The existence of countries leading in certain sectors defining standards for products and services, affecting the development of global markets should be emphasized.

We may see that sectors characterized by a high level fixed costs demonstrate globalization tendencies which makes it possible to distribute costs into a higher value of sales which makes it possible to use the effect of scale. Obtaining benefits from the effect of scale and scope on the domestic market due to its size is often not possible. Thus the pursuit of developing activities on the global scale. The possibility to use the effect of experience indicates a high probability of consolidation of the competitive advantage in the case of developing activities on the global scale. Other cost factors affecting the possibility of globalization of activities indicated by Yip is the possibility to use the position of a global buyer which gives benefits in terms of costs and quality, an opportunity for positive cost effects due to the concentration of production and differences regarding the costs of production between particular countries as well as possibilities given in the case of an expensive development of new product by their entry into global markets when the domestic demand is unable to ensure required revenues.

An equally important group of factors is the government's policy, legislation and legal regulations which may constitute an impulse to the globalization of sectors. The liberalization of global trade, technical standards for products common in many countries, ethical requirements regarding marketing activities, protecting the domestic market by the government's policy, *e.g.* subsidies may affect the intensification of globalization processes regarding sectors.

The indicators of global competitiveness include the import and export of a given sector, the higher the greater its globalization potential. Companies operating on the global market, the actions of which indicate business connections with companies of a global nature, often choose this direction of competition themselves. The level of interdependence of markets and sectors in various countries is also stimulating for the global competition.

3. Methods of measuring international competitiveness of sectors

The concept of competitiveness of sectors in the international and global dimension presented in the previous item indicates a set of various criteria enabling the assessment of competitive potential in the international and global context of competitiveness. When analyzing the indicated measures, universal and clear meters may be assumed which make it possible to objectively assess the international measures of competitiveness of sectors.

The literature on the subject presents a number of indexes based on basic economic data, including the results of foreign trade, namely such as: the balance of foreign trade export and import, the index of import penetration or the index of pro-export production orientation.

The index of import penetration is a relation of import to the supply on the internal market and depicts the share of import in the supply on the market. It is calculated by dividing the import of the i branch by the total production of the i branch. The index of import penetration determines the share of import to the supply on the internal market. It may be used both for the entire economy and the sector or the branch. Regarding the branch, it has the form of:

$$WP = \frac{I_i}{X_i} 100 \quad (1)$$

where:

X_i – sold production i branch of production

I_i – value of import i branch of production

It is assumed that the higher the value of the index WP , the lower the competitiveness of a given branch.

The index presenting the relationship of export of import is a simple measure making it possible to identify relative advantage over business partners (Gorynia, Łązniewska, 2010, p. 122):

$$TC_{it} = \frac{X_{it}}{M_{it}} \quad (2)$$

where:

X_{it} – export of the i branch of production

M_{it} – import of the i branch of production

t – period of analysis

The value of this index exceeding one proves export specialization and relative advantage over competitors and thus the international competitiveness of the sector. On the other hand, the value below one indicates a deficit in turnover of foreign trade and thus a low position on the international market.

Changes in the area of intra-industry trade may be assessed by the Grubel-Lloyd index (*IIT Intra-Industry Trade*) (Gorynia, Łązniewska, 2010, p. 123):

$$IIT_{it} = 1 - \frac{[X_{it} - M_{it}]}{X_{it} + M_{it}} \quad (3)$$

where:

X_i – export of the i branch of production

M_i – import of the i branch of production

t – period of analysis

When:

1. $IIT_{it} = 0$ (0%) only intra-industry trade is present which means that the import (export) of a given branch is not accompanied by export (import). This indicates a low intensity or the lack of intra-industry trade.
2. $IIT_{it} = 1$ (100%) this indicates a high intensity of intra-industry trade, the volume of import in the branch is equal to the volume of export.

The index presented above makes it possible to analyze changes during the intensity of intra-industry exchange, making it possible to assess progress in international exchange. When analyzing time series, the growth in this index in the range 0.5-1 in the examined period means the development of intra-industry specialization, decrease in the range 0-0.5 in the examined period – the development of inter-industry specialization.

The concept of shown comparative advantage assumes the identification of product groups of particular significance to the export of a given country. The RCA index used to analyze comparative advantage was developed and popularized by B. Balassa in 1965 on the basis of the theory of comparative advantage by D. Ricardo. The index measures the intensity of specialization of international trade of a given country or a branch with respect to a given region or the world and is calculated according to the following formula:

$$RCA_{it} = \frac{X_{it} - M_{it}}{X_{it} + M_{it}} \quad (4)$$

where:

X_i – export of the i branch of production

M_i – import of the i branch of production

t – period of analysis

The RCA index assumes values from zero to infinity, while two intervals with different interpretations are distinguished. If $0 < RCA < 1$, then the country has no comparative advantages regarding products of the i sector, and if $RCA > 1$, then the country is characterized by comparative advantage depending on the volume of the RCA index.

One of the indexes of the competitiveness of foreign trade is *Lafay's Index* LFI constituting a variety of the index of revealed comparative advantages (RCA). It is based on the streams of export and import of a given country taking into account the balance of commercial turnover (Szczepaniak 2011, p. 50). The surplus in the trade of a given product or a group of products means having comparative advantages in the export of a given product (a group of products). The deficit, on the other hand, means no such advantages.

$$LFI_j^i = 100 \left\{ \frac{x_j^i - m_j^i}{x_j^i + m_j^i} - \frac{\sum_{j=1}^n (x_j^i - m_j^i)}{\sum_{j=1}^n (x_j^i + m_j^i)} \right\} \frac{x_j^i + m_j^i}{\sum_{j=1}^n x_j^i - m_j^i} \quad (5)$$

where:

$<0>$ – export of j product of i country

– import of j product of i country

n – number of products (sections or departments).

The size of the index is interpreted as follows:

LFI > 0; the examined country has comparative advantage in exporting a given product or a group of products.

LFI < 0; the examined country has no comparative advantage as compared to foreign countries in exporting a given product or a group of products

4. Indexes of international competitiveness in selected branches of the agricultural-food the sector

Polish agricultural-food products have been becoming increasingly important in foreign trade for many years. This is the result of using modern processing technologies and high-quality raw materials as well as producing traditional products according to original recipes which are highly valued on the international market. The food sector belongs to the most important and the most rapidly developing domains in the Polish economy and its share in the total sales of the domestic industry amounts to 24%.

Agricultural-food products are a product group which has continuously been giving Poland a positive balance in trade exchange since 2003. According to data from GUS for the 3rd quarter of 2011, it amounted to EUR 3.8 billion. On the other hand, data for 2012 indicates that the value of export of agricultural-food products amounted to EUR 16 billion. As compared to 2011, it grew by 15%, since the value of export in 2011 amounted to EUR 15.2 billion. Referring this data to 2004 when the value of foreign sales amounted to EUR 5.2 billion, the growth in revenues from export over the years 2004-2012 the growth in export amounted to 307.9% (GUS, 2004-2012).

The analysis of selected indexes makes it possible to assess the competitiveness of Polish food producers on international markets (see Tab. 1 and 2). The index of import penetration being the relation of import to the supply on the internal market indicates the share of import in the supply on the domestic market. This index increased by 2% the meat branch in the period 2004-2011 from 31.7% to 33.7%. It may therefore be stated that the dependence of the domestic market on import regarding this group of products did not undergo a fundamental change in the analyzed period. On the other hand, a considerable change to its level, from 24.7 to 48.4%, took place in the dairy branch. This means that the share of import in the supply on the domestic market increased by 23.7% over eight analyzed years.

The WP index for the group of cereal products and pastry products amounted to 43.9% in 2003, while in 2010 the index of domestic demand coverage with import increased by 12% to the level of 55.9%. Similar growth tendencies of the analyzed index occurred regarding two other product groups: non-alcoholic and alcoholic beverages – 14.6% as well as fruit and vegetable products 25.4%. The growth in the value of the import penetration index does not mean the lack of product competitiveness but to a large extent is the result of integration processes of the Polish economy with EU states.

Table 1. Results of foreign trade in selected branches of the agricultural-food sector

Indexes	Branch			
	Meat		Dairy	
	2004	2011	2004	2011
WP	31.7	33.7	24.7	48.4
RCA	1.58	2.23	1.48	2.19
IIT	64.63	79.43	27.03	61.75
LFI	4.91	2.88	3.49	2.8

Source: *ComExt-Eurostat, Agriculture...*, 2012; Pawlak, 2013.

The value of export of product groups of particular significance for a given country decides about the possession of comparative advantages. The values of the index of comparative advantages for the analyzed product groups indicate the possession of comparative advantages regarding the following branches: meat, dairy, cereal products and pastry products, fruit and vegetable products as well as the growth in the level of this index respectively for product groups of the following branches: meat – 0.65; dairy – 0.71; cereal products and pastry products – 0.55. The value of the RCA index regarding fruit and vegetable products amounted to a level indicating the existence of comparative advantages – 1.77 but, as compared to 2003 – 2.40, this index decreased. On the other hand, for the group of non-alcoholic and alcoholic beverages the value of the index below 1 indicates the lack of disclosed comparative advantages.

Table 2. Results of foreign trade in selected branches of the agricultural-food sector

Indexes	Branch					
	Cereal products and pastry products		Non-alcoholic and alcoholic beverages		Fruit and vegetable products	
	2003	2010	2003	2010	2003	2010
WP	43.9	55.9	48.3	62.9	34.1	59.5
RCA	1.33	1.83	0.26	0.61	2.40	1.77
IIT	43.9	55.9	48.9	55.9	34.9	59.5
LFI	1.23	0.94	-0.81	-0.59	3.20	0.39

Source: Szczepaniak, 2011.

The analysis of the Grubel-Lloyd index (*IIT Intra-Industry Trade*) makes it possible to assess progress in international exchange regarding a given group of products. The level of shaping this index for the meat branch in 2011 amounted to 79.43%. As compared to 2004 – 64.63%, this demonstrates a growth in the intensity of intra-industry trade. For the dairy branch, the index throughout the analyzed period increased from the level of 27.03% to 61.75% which indicates the transition from inter-industry specialization to intra-industry specialization which is also confirmed by the level of the RCA index. Similar tendencies relate to other analyzed product groups for which the values of the IIT index for 2003 ranging from 0 to 0.5 indicate inter-industry specialization. On the other hand, the values for 2010 indicate intra-industry specialization confirming the existence of comparative advantages. This regularity is not confirmed only for the group of non-alcoholic and alcoholic products.

Based on the streams of export and import, Lafay's index indicates the influence of the balance of commercial turnover on the existence or the lack of comparative advantages in the export of a given product group indicating the level of international competitiveness between branches. When analyzing the data contained in Tables 1 and 2 it may be stated that LFI values in the analyzed period were shaped at the level greater than 0 which means comparative advantage in the export of indicated product groups. However, it should be emphasized that the value of this index over the analyzed period decreased. In the case of the meat branch – by 2 points, fruit and vegetable products – by 2.81 points. On the other hand, for the group of non-alcoholic and alcoholic products, this index reached the level below 0 which means the lack of comparative advantage in this group of products.

Table 3. Index of import coverage with export TC for selected branches of the agricultural-food industry

Branches of activities	Year			
	2004	2009	2010	2011
Red meat	1.15	0.79	1.05	1.27
Milk and milk products	5.30	2.99	2.74	2.62
Fruit and vegetable products	3.14	1.92	1.75	1.81
Pastry products	10.74	1.35	1.53	1.72
Fruit and vegetable juices and beverages	4.10	3.30	2.12	2.30
Beer and malt	0.53	0.76	1.03	1.04
Alcoholic beverages	1.47	0.66	0.88	1.03

Source: on the basis of: Szczepaniak, 2011. The indexes take into account the volume of total export and import.

The index of import coverage of selected food industry products by their export was analyzed over the years 2004-2011. The adopted comparative period makes it possible to analyze the dynamics and the direction of changes in relations export – import. The value of the analyzed index for the majority of products reached a level above 1 which indicates the international competitiveness of branches. It sometimes may be seen that the tendencies of changes not always are proper and, in the case of such product groups as: milk and milk products, pastry products, fruit and vegetable juices, the TC index decreased for the pastry branch by 9 points. Regarding beer and malt, an increasing tendency by 0.5 points may be noticed.

5. Conclusion

The agricultural-food industry is one of the most dynamically developing sectors of the Polish economy. The data presented above makes it possible to indicate significant competitive advantages on international markets which is proven by the level economic indexes demonstrating competitiveness on international markets. The dynamics of international trade as well as the improvement in the majority of indexes demonstrate quite a high level of competitiveness of the agricultural-food branch as well as the existence of comparative advantages. One of the factors of competitiveness is the cost-price advantage. However, the quality of the Polish food industry products should not be forgotten. The analyzed branches determine the competi-

tiveness of the Polish economy on international markets to a large extent, including the EU market – 76% of export, Russian, American, markets of the Middle and Far East as well as the Asian market. Using the potential of the agricultural-food branch to its full extent requires the examination of potential export possibilities.

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Chapter 28

The Relationship between Employee Engagement and Financial Performance in the Business-to-Business Market

Henrik M. Lund

1. Introduction

The aim of this article is to analyze whether an organization with highly engaged employees also has a strong financial performance when operating in the B2B market. A considerable amount of research has already been done on this topic for B2C. However, when operating on the B2B market research has been very limited.

Research made on B2C has been able to prove the correlation between high employee engagement (here- after EE) and financial performance. Especially when the organization supplies products with a large amount of embedded service as is the case in banks, insurance companies *etc.*

In this article a Danish capital goods company will be analyzed in order to test if positive correlation between EE and financial performance can be proven when operating on the B2B market in Denmark. In order to measure the EE more than 600 employee interviews have- been conducted in the Danish company within a period of 7 years. The company consists of 5 business units, working in unequal markets, and the survey results are being analyzed for each business unit. The development in revenue has been chosen to represent the financial performance for the 5 business units.

The logical assumption is that high EE will have a positive impact on the revenue. It is at the same time obvious that EE is not the only factor influencing the revenue. Several other factors *e.g.* the 4 p's (product, place, price, promotion) will in some cases have a stronger impact than EE, and thus obscure any potential impact that the EE might have on the revenue. The question is if it is possible to prove a positive correlation on the B2B market, based on the data available for this analyze.

2. Literature review

In 1990 William Kahn was one of the first to make a formal definition of EE as: “The harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances” (Kahn, 1990).

Despite the relatively late definition (time wise) of EE, the term is not new; moreover, EE is a more narrow definition of one of the drivers contained in organizational behavior. Erickson describes the phenomenon: “Engagement is above and beyond simple satisfaction with the employment arrangement or basic loyalty to the employer – characteristics that most companies have measured for many years. Engagement, in contrast, is about passion and commitment – the willingness to invest oneself and expend one’s discretionary effort to help the employer succeed” (Erickson, 2005).

Engagement has similarities to, and overlaps with, two concepts that have academic pedigrees and have been the subject of empirical research – commitment and organizational citizenship behavior (Robinson, Perryman, Hayday, 2004). In other words employee surveys before 1990 would also include elements of EE, but Kahn was the first to make a formal definition.

Since the definition was published, several studies have tried to enhance it by contributing with more elements for a more complete picture of the EE. However, until now there is no unique definition which has been agreed widely. One of the studies concludes that meaningfulness, safety and availability are significantly related to engagement (May, Gilson, Harter, 2004); while Robinson, Perryman, & Hayday emphasize that EE is a result of two-way relationship between employer and employee. A positive attitude held by the employee towards the organization and its value (Robinson, Perryman, Hayday, 2004).

The Global Workforce Study introduces sustainable engagement which involves engagement, enablement, and energy. According to the study, being engaged is the extent of employees’ discretionary effort committed to achieving work goals (Watson, 2012). Employee engagement is a key to human capital management because it focuses on managing employees to produce for the organization rather than focusing on what the organization does to employees (Schneide, 2009).

As already stated, there is no unique definition of EE which the above examples illustrate. However, there is a growing consensus among the authors in describing EE including the following keywords:

- Meaningfulness in work.
- Attitude.
- Commitment.
- Passion.
- Proud of working for the employer.
- Applying skills.
- Work goals / employer goals.
- Two-way relationship.
- Understanding the company’s criteria for success.
- Prepared to put extra effort into the job.

Perrin concludes:

If engagement was once little more than a theoretical concept, that time is long gone. Not only can we now define it clearly and measure its existence and intensity, but we can also demonstrate its value to an organization in concrete terms. A key part of our research process was collecting

financial data on the public companies for which many of our respondents work (Perrin, 2003). However, with no unique definition of EE, there is no unique way of measuring EE. The large amount of employee surveys being performed in the majority of all larger companies are therefore based on a wide variation of questionnaires.

From a scientific point of view, it is highly complex to compare test results as long as the definitions and questionnaires are not comparable. Similar to the EE definition challenge, also Employee Satisfaction (hereafter referred to as ES) has been defined in multiple ways. One of the most popular definitions was made by Locke in 1976: “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences” (Locke, 1976).

Several alternative definitions have, however, been made since then.

While there are multiple definitions of EE and ES, there is also a “grey zone” between the two areas which will be shown in the data analysis in the present survey.

The importance of EE is highly recognized in the literature. Several studies have proven a correlation between engagement and organizational performance. Companies should invest in EE because EE is interwoven significantly with important business outcomes (Marcos, 2010). However, despite the importance of EE only a small number of companies are able to draw a connection between engagement and business outcome. A study performed by Lowe’s shows that among more than 200 companies surveyed less than a fourth of the respondents were able to make a direct cause-effect link between EE and specific business results (Coco, Jamison, Black, 2011).

A study in organizational effectiveness as a function of EE based on surveys within IT organizations concludes that there is a significant contribution of employee engagement towards organizational effectiveness (Aakanksha, Renu, Pooja, 2013).

A study of a Large Nordic Bank concludes that there is a significant relation between satisfied and motivated employees, and the bottom line result of the study is not narrowed down to EE, but concludes that employee satisfaction in general is directly correlated with revenue (Kristensen, Mørch, Sørensen, 2009).

While it is important to recognize that there are many variables that affect business outcomes, our analysis nonetheless shows a clear relationship between increased engagement, improved retention of talent and better financial performance (Perrin, 2003). The majority of surveys that successfully prove a correlation between EE and financial performance are measuring on lines of business with a high level of embedded service. Looking at the industry surveyed by Perrin it is clear that the majority of companies surveyed have a strong part of service imbedded in their products.

There is no unique definition of EE and ES. Thus outcomes from studies cannot be compared one to one. However, it is possible to point out a trend. A positive correlation between EE and economical performance is mainly found in studies related to public companies or companies selling products that involve a high level of service or support.

Although companies recognize the relationship between EE and economical performance, only a fraction of them measures the outcome of EE.

3. Research methods

This article analyzes the results from an employee engagement surveys done in a Danish Capital Goods Company from 2006 to 2012 and combines the findings with the financial results within the company.

The data are tested for correlation between EE and the financial result for each department.

The company surveyed has in the period of the surveys approximately 1000 employees. The areas of business are Energy, Industry, Healthcare and Infrastructure. However, organizational changes have been made during the period. The departments will hereafter be referred to as A to E. Products and services are provided to the Danish market only, and the revenue of the company was for the period of the surveys approximately 500 million Euros.

All the 5 departments operate on the B2B market, but the conditions for doing business are not equal.

Department A: Product sales – relatively short term contracts mainly sales to private companies

Department B: Product and project sales – medium term contracts sales mixture of public and private projects

Departments C, D and E: Project sales – long term contracts/sales based on public funded projects

The survey was conducted for each department, and the EE score is thus available for each department as well. Unfortunately, the company decided to change the supplier of surveys in 2010, and as already described the challenge regarding definitions and questions became reality.

From 2006 to 2010 the Engagement survey was conducted by Ennova and by Towers Watson from 2010 to 2012. Furthermore, the survey also suffers from organizational restructuring in 2006 and 2007 which has an impact on the results from two of the departments.

In the 2006-2010 survey the range of questions related to EE was limited to 3 questions:

1. I show enthusiasm for my company and my work.
2. I am one of those who contribute extra, when solving new tasks and when problems arise.
3. I often come with suggestions for improvements in relation to my work.

The number of answers and the response rate is listed in Table 1.

Table 1. Employee engagement survey 2007-2010

Year	Answers	Response rate *)
2006	886	84%
2007	962	90%
2008	914	85%
2009	981	92%
2010	1017	94%

*) Response rate express the percentage of employees participating in the survey

Source: employee survey performed by Ennova in the capital goods company 2006-2012.

The part of the employee satisfaction survey related to EE was defined by 6 questions as Towers Watson conducted the survey in 2010-2012.

The 6 questions asked were:

1. I believe strongly in the goals and objectives of my employer.
2. I fully support the Values of my company.
3. I would recommend my company to a friend as a good place to work.
4. I am proud to tell others I work for the company.
5. I am willing to put a great deal of effort beyond what is normally expected to help my company succeed.
6. I fully apply my skills and abilities in my work.

Regarding questions 3 and 4 it can be argued that they are not truly related to EE and should be considered as representing Employee Satisfaction. However, as stated in the literature review, there is no unique definition of EE and ES. Thus for this survey the company together with Towers Watson defined the 6 questions as representing EE.

The response rate was slightly lower in that period as shown in Table 2.

Table 2. Employee engagement survey 2010-2012

Year	Answers	Response rate*
2010	665	60%
2011	867	78%
2012	882	79%

*) Response rate express the percentage of employees participating in the survey

Source: employee survey performed by Towers in the capital goods company from 2010-2012.

In 2010 the survey was conducted twice. Once by Ennova and once by Towers. The relatively low response rate in the survey conducted by Towers in 2010 is a direct result of the employees getting tired of participating in too many surveys.

The questions asked in order to evaluate the EE were for both surveys backed by the theory. It will, however, not be possible to merge the 2 surveys into one correlation analysis.

Due to internal restructuring the EE survey was not conducted in 2013. The survey is, however, scheduled for 2014 – with a new research company in charge, but with the same set of questions as in 2010-2012.

4. Findings

Because the two surveys used different questions to map the degree of EE in the 5 departments, the results cannot be directly compared. In the following the findings will be described separately.

Results from the Ennova survey (2006 to 2010)

The score for the EE is a result of the 3 questions asked by Ennova. The scores are based on the responses for each survey item (e.g. “Agree” and “Tend to agree” out of a five point scale).

The result is converted into a score from 0 to 100 where the value:

- 80-100 express very high employee engagement
- 70-79 express high employee engagement
- 60-69 express medium employee engagement
- 50-59 express low employee engagement

Below 50 express very low employee engagement

In table 3 the result is displayed for each of the 5 departments in the company.

Table 3. Employee Engagement score from 2006-2010 split by departments

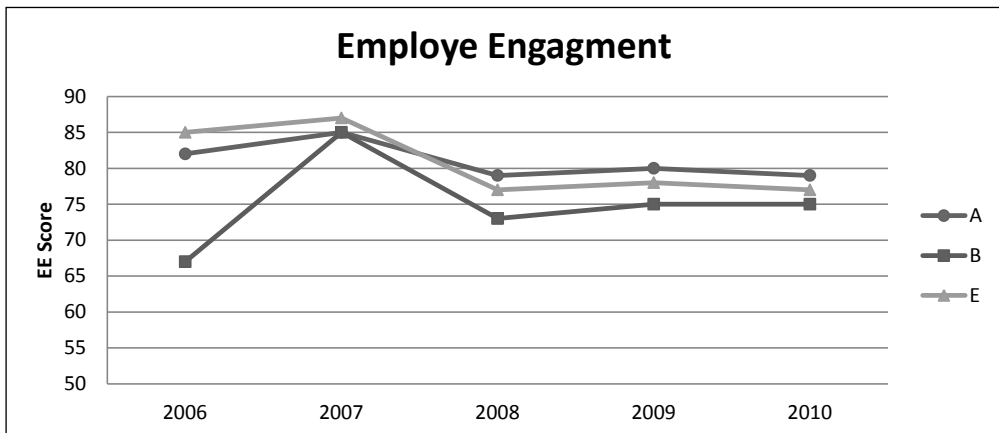
Year	Department				
	A	B	C	D	E
2006	82	67	-	80	85
2007	85	85	-	83	87
2008	79	73	-	74	77
2009	80	75	77	73	78
2010	79	75	76	76	77

Source: employee survey performed by Ennova in the capital goods company 2006-2010.

In the period 2006 to 2008, the company consisted of 4 departments. In 2009 department D was separated into 2 departments – C and D. Therefore the 2 departments are left out of the analysis in the period 2006-2010.

A simple graphical presentation of department A, B and E (Fig. 1) illustrates that the trend in EE follows the same pattern for the 3 departments. EE is apparently influenced by a common factor (or set of factors) across departments.

Figure 1. Employee Engagement for department A, B and E 2006-2010



Source: employee survey performed by Ennova in a Danish company.

The question is if the revenue for the departments follow a similar pattern, and if it is possible to prove a causal correlation between the EE and the revenue.

In order to present the financial performance for each department, the revenue figures have been indexed and presented in Table 4.

Table 4. Revenue per department from 2006-2010 (index for 2006 = 100)

Year	Department				
	A	B	C	D	E
2006	100	100	100	100	100
2007	121	101	-	194	116
2008	136	102	-	214	102
2009	130	112	109	141	149
2010	112	101	145	132	159

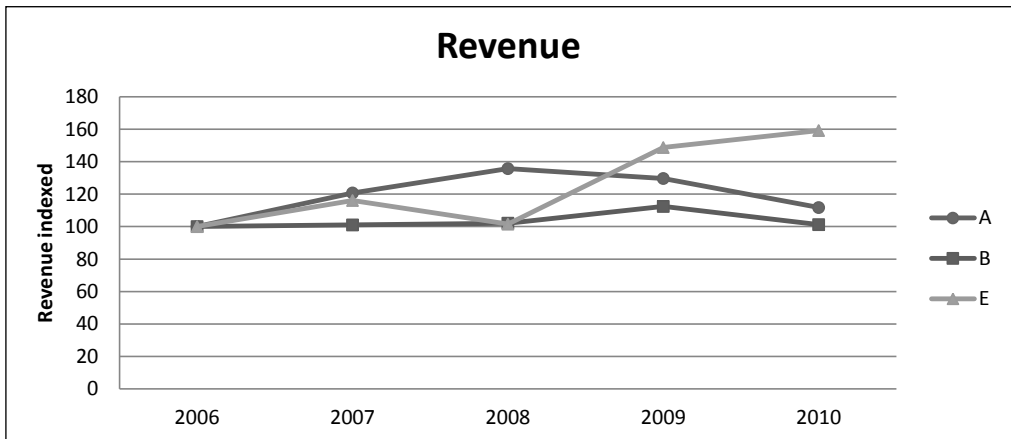
Source: revenue data from the 5 departments supplied by the Danish company.

Again the data suffers from the restructuring of department C and D, and they are both excluded from the analysis.

The graphical view of the revenue (Fig. 2) shows a decline for department A (short term business). The official explanation by the company is that this is a direct consequence of the financial crisis in 2008.

The crisis has no visual impact on the revenue for department B and E (long term contract business) until 2010. Any impact from the financial crisis will have a delayed impact due to the nature of the business on the two departments.

Figure 2. Revenue for department A, B and E 2006-2010



Source: revenue data from the 5 departments were supplied by the Danish company.

As illustrated in Fig. 2 the development in revenue for the 3 departments does not follow a common pattern, and the development over time does not follow the development in EE illustrated in Fig. 1.

Table 5 contains the calculated result of the correlation between EE and revenue for the 3 departments.

Table 5. Correlation between Employee Engagement and Revenue in the years 2006-2010

Correlation	A	B	C	D	E
R =	-0.29	0.05	N/A	N/A	-0.51

Source: calculations based on the survey conducted in the period 2006-2010.

The expectations of positive correlation between EE and Revenue were not met by the survey. For department A and E the correlation was even negative! The conclusion based on the first set of data is very clear. It is not possible to prove any correlation between EE and Revenue when comparing the data year by year.

Results from the Towers survey (2010-2012)

The data from 2010 to 2012 were based on 6 questions (see the description of the Towers survey), and there were no changes in the organization in the period. Moreover, there were no major financial changes on the market like the crisis in 2008, and the 5 departments were unchanged during the period (no organizational changes). It is, however, a considerable drawback that only 3 years of data are available until now.

Table 6. Employee Engagement score from 2010-2012 split by departments

EE	A	B	C	D	E
2010	95	90	91	94	90
2011	96	90	94	93	89
2012	96	79	90	93	91

Source: employee survey performed by Towers in the capital goods company 2010-2012.

Table 6 shows the result of the survey performed by Towers in the period 2010 to 2012, and Table 7 shows the financial result from the 5 departments in the same period (2006 = Index 100)

Table 7. Revenue per department from 2010-2012

Revenue	A	B	C	D	E
2010	112	101	145	132	159
2011	115	97	150	91	64
2012	122	98	157	118	113

Source: revenue data from the 5 departments 2010-2012.

Calculating the correlation based on only 3 year of data brings in a considerable amount of coincidence to the result. In Table 8 the correlation R is calculated.

Table 8. Correlation between Employee Engagement and Revenue

Correlation	A	B	C	D	E
R =	0.75	0.21	-0.32	0.77	0.52

Source: calculations based on the survey conducted in the period 2010-2012.

It is remarkable that department A and D has a significant strong correlation between EE and revenue. However, taking the results from 2006 to 10 into consideration (see Tab. 5) it is not

possible to conclude that there is a correlation for the entire period 2006 to 12. Furthermore, there is no correlation in department B. Department C even has a small negative correlation. This means that it is not possible to prove positive correlation for all departments – and thus there is no correlation for the company in total.

The change of survey questionnaire in 2010 did not affect significantly the assessment of EE. In both surveys the average score of department A was the best, of department B □ the worst.

No calculations of correlation on company level have been made. Calculation on department level is more accurate with the amount of respondents for each department.

Knowing that there is no correlation between EE and revenue measured by the departments individually, a potential result of strong correlation for the company in total would only be misleading.

The conclusion of the findings is that it is not possible to prove positive correlation between EE and revenue for the period 2006-2012 based on the 2 surveys made on the B2B market where the products sold are based on a small amount of service.

5. Conclusion

The logical assumption is that companies with highly engaged employees will have a stronger financial performance than companies with less engaged employees. Studies and literature have pointed out that there is a strong relation between EE and financial performance when the product being sold is related to service (*e.g.* public companies, banks *etc.*).

In the present survey it has, however, not been possible to prove any significant correlation between EE and financial performance (expressed by revenue) when operating with product sales on the B2B market. It does not mean that there is no such a correlation. Moreover, it means that other factors have a stronger influence on the revenue.

Customer comments from Net Promoter Score surveys (made by the same company in the same period of time) indicated that the reason for doing business with a specific supplier is a combination of several motivators¹.

Some examples of factors overruling a high EE when it comes to product sales:

- Product related issues (product, prices, performance, delivery *etc.*),
- Market situation in general (*e.g.* the financial crisis),
- Customer situation – if selling to OEM's the customers' own success is vital to the sales.

In case the sales are based on long term contracts (as was the case in 3 of the 5 departments surveyed) also time of measurement of EE becomes crucial to the calculated correlation with the revenue. EE in year 1 will in this case impact the revenue for several years, since revenue will be generated for as long as the contract runs which might be for several years.

The majority part of larger companies conducts employee surveys on a yearly basis, but only few companies are able to tie the EE to the financial performance. There is no doubt that EE and the financial results are correlated, and the higher element of service embedded in the product, the higher correlation. However, in order to make significant conclusions regarding the correlation between EE and revenue in B2B product sales, the major influencers have to be considered and isolated.

¹ Net Promoter Score survey conducted in the same capital goods company in the period 2010-2013.

The present analysis of data for EE and Revenue only cannot conclude a positive correlation between the two elements, when operating with product sales on the B2B market.

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Chapter 29

The Relationship between Net Promoter Score and Financial Performance in a Business-to-Business Market

Bjarne Lykke Soerensen

1. Introduction

The aim of the paper shows is to investigate correlations between Net Promoter Score (NPS) and financial performance. Does a customer with a high Net Promoter Score buy more than a customer with not so high NPS in a business-to-business market? Analysis of pertinent literature and available studies, that it is not easy to reach a clear conclusion based on this. The research done before is pointing in different directions. In order to solve the problem of the relationship between NPS and financial performance two distinct elements shall be scrutinized. Is NPS a valid indicator of the level of customer satisfaction or loyalty and does NPS give a prediction of the future financial performance of the company? The literature review does not give a clear answer to these two questions. Some research carried out shows that NPS is a valid indicator of the level of customer satisfaction; other studies show that this is not the case. Also, in regard to the relationship between NPS and future financial performance, the literature review does not give a clear answer; some studies show a relationship, other studies do not.

To answer the above questions a research project in a Danish company producing and selling capital goods has been conducted. Every year the company conducts a survey in customer satisfaction – Net and Average Promoter Score – and has done it since 2010. The article uses results of research conducted among customers of five different departments.

2. Literature review

Over the years a lot of research has been done in the correlations between satisfied customers and financial performance.

The first important discussion: Is the Net Promoter Score (NPS) a valid and reliable way to measure the level of satisfied customers? This issue has been heavily discussed. The general principal behind the Net Promoter Score is:

NPS is based on the perspective (Markey, Reichfeld, 2011) that every company's customers can be divided into 3 categories: Promoters, Passives, and Detractors. This is based on one question – "How likely is it that you would recommend the company to a colleague or a business partner?"

Customers respond on a 0-to-10 point rating scale and are categorized as follows:

- Promoters (score 9-10) are loyal and will keep buying and refer others.
- Passives (score 7-8) are satisfied but not enthusiastic customers.
- Detractors (score 0-6) are unhappy customers who can damage your brand and image.

Because the fact that the NPS is based on one question and the answer is given on a scale from 0-10, every customer will have a number from 0-10 called the Promoter Score. Often also the Average Promoter (the average of the promoter score in survey) called APS is used. To calculate the Net Promoter Score, the percentage of customers who are Promoters will be calculated and then the percentage of customers who are Detractors will be subtracted. If the company has only promoters, the score is 100. If there are only not satisfied customers – detractors, the score will be -100. The Net Promoter Score is developed to and mostly used in business-to-consumer markets.

Many researchers have assessed the Promoter Score to evaluate if NPS is a valid and reliable way to a measure satisfaction and loyalty among customers.

A study (Doorn, 2013, pp. 314-318) shows that NPS is as good or bad as other customer satisfaction tools. That means that the researchers make the conclusion that Promoter Score can be used to measure your customers' satisfaction or loyalty.

One of the problems by using only one number based on one single question to measure customer satisfaction is that customer satisfaction is a function of a lot of different elements such as product quality, product pricing, employee engagement, customization and more (Fornell, 2007). And on a business-to-business (B2B) market the buying behavior is more complex than on business-to-consumer (B2C).

Therefore, there is a risk that NPS gives a too simple picture of a very complicated function of different attributes with different weights. And with the high complexity in a B2B buying behavior in combination with very high involvement, it is questionable if the Promoter Score works well in a B2B marketplace. This idea is in line with studies showing that NPS is not such a strong indicator of measurement of such a complex topic as customer loyalty (Keiningham, 2008, pp. 79-90).

But again, other studies (Reichheld, 2003, pp. 46-54) have proven that NPS is a good and actually the best predictor of customer satisfaction and customer loyalty and retention.

Some of the researchers also mix two different topics. Is NPS a valid indicator of the level of customer satisfaction/loyalty, and does NPS give a prediction of the future financial performance of the company? These are two fundamentally different discussions and will in this article be kept as two separate discussions.

NPS can be criticized for converting a very complex function as customer satisfaction and loyalty into one single number, with the help of only one question. But studies have showed that the NPS gives a quite reliable and valid picture of the customer satisfaction, customer loyalty and retention. On the other hand, a significant number of researches has indicated that NPS does not give a reliable and valid picture of the customers' satisfaction level, so the NPS has to be used with that in mind and especially when it is being used in the B2B market. Still, the NPS and APS in this article will be used as a measurement of customer satisfaction and loyalty.

The next topic to discuss is whether there is a correlation between customer satisfaction and the financial performance of a company. This has also been analysed quite significantly over the years by various researchers. One of the very interesting examples is “Managing the value chain in a large Nordic bank”. In this case it was possible to prove a significant relationship between customer loyalty (satisfaction) and the bottom line results of the bank. This study was done in a financial industry, and one of the strengths in this research was the opportunity to compare different departments in the same bank with different levels of satisfied customers. Therefore, it was possible to compare the financial performance in the different departments without having the bias that normally will occur when comparing companies in different industries. One level of customer satisfaction is perhaps an acceptable level in one industry, but will not be an acceptable level in another one.

So the study done by (Kristensen, Mørch, Sørensen, 2009) is one of the most interesting in the research done to find relationship between financial performance and customer satisfaction. In this case the NPS is not used, but instead other ways of customer satisfaction measurement was applied.

The US researcher (Fornell, 2007) has also done a lot of research in the relationship between satisfied customers and financial performance. He has even developed a stock index for companies with customer satisfaction. The stock index “American Customer Satisfaction Index”. The idea behind the index is that if a company starts to lose satisfied customers, it will shortly after impact turnover and profit negatively.

In the research done by (Fornell) it has been proven that companies with high customer satisfaction are performing better in the stock market, and only just “a 1 percentage drop in customer satisfaction has cost the average company in the American Customer Satisfaction index slightly more than one billion dollars” (Fornell, 2006, pp. 3-14).

Other studies *e.g.* (Whitlark, Rhoads, 2011, pp. 8-13) have also reached the conclusion that customer satisfaction gives higher growth in revenue, but also with that comment that a large sample is important, and only significant changes are crucial. Some studies can even show a correlation between customer satisfaction and shareholder value (Anderson, 2004, pp. 172-185).

But again, also other researchers have not been able to get supporting evidence for a correlation between satisfied customers and growth in revenue and market shares.

A good example is (Keiningham, Cooil, Andreasson, Aksoy, 2007, pp. 39-51), which in a Norwegian study finds no evidence that satisfaction/loyalty is significantly correlated with change in revenue. Also a study done by (Morgan, Rego, 2006, pp. 426-439) is not able to prove a significant correlation between NPS and performance.

A study done by in 2008 (Sharp, 2008) doesn't show, that companies can use the net promoter score to predict future higher market shares. Also a study by (Keiningham, Aksoy, Cooil, Andreassen, Williams, 2008, pp. 79-90) “A holistic examination of Net promoter” cannot prove a link between NPS and growth in a company. Research done by Rego, Morgan and Fornell (2013, pp. 1-20) shows no correlation (even negative correlation) between customer satisfaction and development in market share. “This is because customer satisfaction is generally not predictive of firms future market share” (Rego, Morgan, Fornell, 2013). A study done by (Medjoudj, 2012, pp. 4793-4805) also gives the result that it is very important to develop better models to measure customer satisfaction to be able to give more reliable information to the company to secure profitability.

Even though some research done cannot prove a relationship between customer satisfaction and financial performance, several studies scientifically prove that if a company has satisfied and loyal customers, it will also have a positive impact on the company's financial performance. But here it is important that with financial performance main focus here is on growth in revenue, but also some studies have proven a positive correlation with profit and shareholder value.

All in all, there is reason to believe that there is a relationship between satisfied customers and financial performance based on the literature review, but due to the fact that so much research is not able to prove the relationship, there is still a quite comprehensive reasonable amount of doubt.

3. Research methods

To solve the problem described above the author will now take a closer look on promoter score and the relationship to the financial performance based on research done in a capital goods company in Denmark.

The surveyed company has around 1000 employees and is active in Energy, Industry, Health-care and Infrastructure. The company sells products, systems, solutions and services in the Danish market, but also has some production and R&D activities. Headquarter is placed in Copenhagen, and the company has a revenue of around 500 million Euro. The company has different level of market shares and NPS in the different industries where the corporation is operating.

This article makes an analysis of the results from customer satisfaction surveys done in the Danish company from 2010 to 2013 with the aim to find the relationship to the financial performance. The financial performance will be limited to the growth in revenue. The analysis will look for correlations between promoter score in departments and the growth in revenue in the departments. The analysis will also see if a satisfied customer has a higher purchase volume than a not so satisfied customer – which means: *is there a correlation between high purchase volume and high promoter score on customer level*. Another element that will be analysed is if there is a relationship between increasing or descending promoter score and increasing or descending purchase volume on the customer.

To make the analysis more reliable and valid, the APS will be used instead of the NPS. The reason for that is that for the NPS calculation you need a larger sample to make the survey representative compared with what you need with the APS. So to get statistical significant results, the NPS will need a large survey and therefore the APS will be used. On the single customer level the Promotor Score (PS) will be used.

Some basic information about the surveys is stated in Table 1.

Table 1. Customer satisfaction survey 2010-2013

Year	Number of customers participating in survey
2010	299
2011	341
2012	331
2013	282

Source: customer satisfaction surveys conducted in the capital goods company 2010-2013.

4. Findings

The APS is the answer to the question: “How likely is it that you would recommend the company to a colleague or a business partner? The answer is from 0-10, where 10 is the best score.

In Table 2 below the APS is divided into 5 departments shown over 4 years. In addition, a calculation of the APS for every department as an average over the 4 years has also been made.

Table 2. Customer satisfaction measured by Average Promoter Score in 2010-2013

Department	Average Promoter Score				The average APS of 2010-2013
	2010	2011	2012	2013	
A	7.8	7.9	7.9	8.3	8.0
C*	n.a	7.7	n.a	8.3	8.0
E	7.6	7.9	8.1	8.0	7.9
D	8.2	7.6	7.9	7.8	7.8
B	6.8	6.9	7.4	7.0	7.0

*In 2010 and 2012 not sufficient answers to make a reliable and valid APS for department C.

Source: customer satisfaction surveys conducted in the capital goods company 2010-2013.

In Table 3 the NPS is divided into 5 departments shown over 4 years. In addition, a calculation of the NPS for every department as an average over the 4 years has also been made.

Table 3. Customer satisfaction 2010-2013 measured by Net Promoter Score

Department	Net Promoter Score				The average NPS of 2010-2013
	2010	2011	2012	2013	
A	20	21	22	37	25
C*	n.a	n.a	n.a	n.a	n.a
E	n.a	13	27	26	22
D	35	10	25	7	19
B	-13	-10	1	-9	-8

*Not sufficient answers to make a reliable and valid NPS for department C.

Source: customer satisfaction surveys conducted in the capital goods company 2010-2013.

By taking a look on the average APS in Table 2 over the years, it can be seen that department A and C have the best performance in APS and department B has the worst performance in APS.

A calculation made with the Student's *t*-test based on Table 2 for assessing the statistical significance of the difference between the two APS means of department A and department B, shows that there is a statistically confirmed difference between departments A and B. *T* value is 5.52. So it can be stated there is a difference between departments A and B with a statistical significance of $p = 0.002$. Taking in considerations NPS (Tab. 3) it can also be stated, based on *t*-test, that there is a difference between departments A and B with the statistical significance $p = 0.02$.

So the conclusion is that department A is better than department B in NPS and a difference of APS is actually a huge difference. If the NPS from Table 3 is used instead, department A has

an average NPS over the 4 years of 25 and department B has an average NPS of – 8. So it is significant, that department A has a higher APS and NPS than department B.

Based on this a more deep analysis will be done in departments A and B. The development in revenue in department A and B, is done in Table 4.

Table 4. Revenue development in department A and B 2010-2013 (2010 Index = 100)

	Department A	Department B
2010	100	100
2011	103	95
2012	109	97
2013	117	114
Correlation Revenue/APS – R	0.91	-0.21

Source: customer satisfaction surveys conducted in the capital goods company 2010-2013.

It is difficult to make a clear conclusion here. It appears that there is a tendency that department A has a more consistent growth in revenue over the years, but the difference in the final index seen over 4 years is relative limited.

What is even more complex is that only department A has a significant correlation coefficient $R = 0.91$ between development in APS and development in revenue. Department B has no significant correlation coefficient $R = -0.21$, and the little correlation is even negative.

There could be several reasons for this very mixed result. One element is that there probably in some industries is a time shift between achieved customer satisfaction and an effect in the revenue development. And this time shift can be very difficult to estimate and correct for in a proper scientific way. An explanation could also be that a department as department B with low APS have less correlation between APS and revenue compared to a department as A with significant better APS.

Another problem is that departments A and B are operating in 2 distinct different markets, and therefore the drivers in the market and the market development are also totally different. As example: In department B the market growth mainly comes from projects done with public funding, and in department A the growth comes from sales to private companies.

Also the sales process is different in the 2 departments. In department B the sales process is mainly based on tenders and offers in a project business. In department A the sales process is done with cooperation agreements with industrial customers with main focus on products and systems.

This could lead to the assumption that satisfied customers do not impact growth in revenue so significantly in project business models based on tenders and offers as in a product and systems market with private customers. So therefore it is difficult to measure between different industries and business models. To eliminate this error – there will now be taken a closer look at the customers in department A.

The best way to find out if a satisfied customer buys more than a not so satisfied customer is to look at a simple correlation between the promoter score (PS) on every single customer and the purchase volume on every single customer.

Table 5. Customer satisfaction survey in department A 2010-2013 (Average Promoter Score survey – number of participating customers)

2010	68 answers from customers
2011	89 answers from customers
2012	64 answers from customers
2013	89 answers from customers

Source: customer satisfaction surveys conducted in the capital goods company 2010-2013.

Department A has around 350 customers, so it means that 18-25% of the customer base is included in the survey. In the representative sample around 120 customers were selected, so a response rate of 53-74% (different from year to year) is also at an acceptable level.

One bias element to be aware of is that the sales representative from the company perhaps can influence the answers given from the customers to a certain extent. The survey is not done by the sales reps, but by an external interviewer calling the customer on the telephone, but still there is a possible bias that the sales representative can and will instruct the customers to get better results. Despite these doubts the customer satisfaction survey can be seen as valid and reliable.

Table 6. Correlation between purchase volume and promoter score 2010-2013 in department A

	2010	2011	2012	2013
Correlation R	0.17	-0.02	0.02	-0.06

Source: customer satisfaction surveys conducted in the capital goods company 2010-2013; based on results from department A. Dataset where revenue is 0 is taken out.

The conclusion is clear: A customer with high purchase volume is not more satisfied than a customer with low purchase volume. This is to a certain extent a surprising result. It would be a natural conclusion to draw that a more satisfied customer also should be buying more and therefore, if the customer has a relatively high purchase, then the promoter score should also be relatively high. However, this is not the result. A correlation cannot be proven at all.

There can of course be many explanations for the results. One is that a large customer also has much higher expectations to the supplier than a smaller customer. Another explanation could also be that other factors have a higher impact on the customer purchase than the customer level of satisfaction (promoter score), *e.g.* the customers' general success and consequently the customers' total demand for the supplier's products and systems.

Another explanation could of course also be that customer satisfaction is so complex that the PS does not give the complete picture of it. The literature review has shown that customer satisfaction consists of a lot of elements as *e.g.* customization, products, product quality and pricing as very important elements to create customer satisfaction (Anderson, 2004).

So here more research has to be done. Again, the data from the Danish capital company can be used. How is the purchase development (increase or decrease) over the 4 years on a single customers? Is there a correlation between increasing or descending promoter score and increasing or decreasing purchase volume on the customer over the 4 years?

Here again – *no correlation at all can be proven*. Every time there is a customer with a positive correlation, you have a customer with negative correlation with means that around 50%

of the customers have a growth in purchase even the promoter score goes down or the customers have a decline in purchase even the promoter score goes up.

The general conclusion is that it cannot be proven that if a customer becomes more and more satisfied (promoter score going up), then the customer will also purchase more. There is no correlation.

So, the results from the customer and the department level are very similar. It cannot be proven based on our research in the Danish capital goods company that there is a relationship between NPS and financial performance defined as growth in revenue.

The author believes that the main reason why it has not been possible to prove a relationship is that it has not been possible in the analysis to make sure that other elements being equal and therefore not been able to isolate the impact on the customers' purchase from the promoter score.

It means that the main driver for a customer purchasing more could be *e.g.* the development in the customer's need for products, and thereby the customer's own success in the marketplace. Here it could have strengthened the research if the data on the capital goods companies have included market shares on the single customer level. This way the impact from the customers own success in the marketplace have could be eliminated.

But the literature review also was showing that the prices, products and customization will have a major impact on the customer's purchase (Fornell, 2006), and therefore it will never be possible to keep all other elements being equal.

Another important element is that the NPS is developed and mostly used in the consumer market. To use the NPS in a B2B market where there is a very complex buying decision process with a buying center and very high involvement in the buying process is not an easy transition.

Also the fact that the personal contacts from the companies' sales reps to the customers can give a bias effect on the NPS results, is very different from a consumer market.

So all in all it ends up in the question: What is driving sales to a customer in a capital goods market operated in a business to business environment? Is it customer satisfaction (promoter score) or other elements? Here the author has to conduct additional research before significant conclusions can be drawn.

5. Conclusion

In the discussion and literature review there could not be established a clear answer to the question whether NPS is a valid and reliable indicator of the level of customer satisfaction and customer loyalty. There could also not in the literature review be established a clear answer to the question. Is there a relationship between NPS and financial performance?

The author believes that one of the main reasons why the studies show different results is that it is not possible to compare different industries. Besides, most of the studies done have not been able to make sure that other elements being equal and therefore not been able to isolate the impact on the companies' financial performance from the promoter score.

The author has therefore conducted a research project in a Danish capital company to find a relationship between NPS and financial performance.

Based on this research it cannot be proven that a department with higher NPS has a significant better financial performance, but it is a fact that the best department in the NPS is performing

better than the worst department in NPS measured in growth in revenue. It can also not be proven that a satisfied customer has a higher purchase volume. No correlation can be proven.

There can be many explanations for the results – going from the point that NPS is not a reliable and valid indicator of customer satisfaction in a B2B market, or that other elements than the NPS have a much higher impact on the customer purchase development. In the author’s research the same problem is present as seen in the literature review. It is extremely difficult to keep other elements equal, and therefore the research has not been able to isolate the impact on the companies’ financial performance from the NPS.

So therefore, more research has to be made before significant conclusions can be drawn about what is driving sales to a customer in a capital goods market operated in a business to business environment and thereby creating a strong financial performance defined as growth in revenue.

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Chapter 30

Factors that Shape Organizational Culture

Mariusz Wyrostek

1. Introduction

Organizational culture has many functions. It affects both the organization itself, and – more or less indirectly – the environment. However, one should not forget that it is also influenced by various factors, which determine its original shape, affect it during its undisturbed existence, and even enforce changes within it. A highly general discussion of the determinants of organizational culture points to the existence of both internal and external factors. The internal are the ones which arise within the organization itself, while the external factors are derived from the wider environment and its culture.

2. Determinants of external nature

Among the external factors, certainly not without reason, the most often cited one is the national culture of the given country. The economic situation, applicable legal regulations, and under these, the market environment of corporate activities also have an external character in relation to organizational culture.

The role of the element of the environment, quintessential in this context (*i.e.*, national culture), can be found *e.g.* in the results of the work by one of the researchers. She mentions that entrepreneurs often emphasize the fact that they need to act in a hostile cultural environment, where neighbors and friends are jealous and suspicious. Honesty is approached with a tongue in cheek attitude, and wealth is considered to be the result of theft and exploitation of workers. Generally, the belief that a person can earn good money by honest work is certainly not widespread (Glinka, 2007, p. 77). This does not mean that national culture has only negative effects, or that it even hinders economic activity. Certainly not, this impact can be both negative (restrictive) and positive (stimulating). The cited conclusions of the study are intended to serve as an illustration of the relevance of the impact of the cultural environment – the organizational culture. Being aware of the ties between the two cultures, it is worth considering the elements that make up national cultures, and which also have an impact on the shape of organizational cultures of companies. Following this path, one should emphasize the characteristics of any society: religion, historical experience and geographical conditions. Religion is of particular importance,

especially when the organization operates in a highly orthodox society. It happens then that culture is actually subordinate to religion. This applies not only to religious symbols or rituals, but in particular to the deeper layers of culture, that is, values (Szałkowski, Bukowska, 2005, p. 81). Cultural values are deeply influenced by the processes of social development, referred to as historical experience. Not without significance is also the geographical environment, as evidenced by the existence of the mid-day break, or a siesta, in some countries with hot climates. This factor, motivated by geographical factors, significantly shapes the culture of nations and influences the culture and functioning of organizations. Cultural values prevailing in a country, sometimes called the national character, refer to the intensity of similar personal orientations in a given society (Sikorski, 2006, p. 39). Taking into account the fact that organizational cultures are imposed on national cultures raises the question of how the culture of a society affects the culture of an organization. The literature mentions the position pointing out to cultural transmission. It takes place between the three culture systems: macro-social – culture of the society; meso-social – organization; and micro-social – human individuals. The transmission of cultural values occurs primarily in childhood, mainly in the family. This applies to social and national culture. In contrast, secondary transmission takes place in different social groups to which a person belongs at a later time, and where he or she plays different roles (Sulkowski, 2002, pp. 143-144), which is particularly noticeable in organizations. It is, therefore worth, considering what has a greater impact on people: their national culture or their organizational culture. Another author, citing a study conducted in an international organization, states that organizational culture has a big influence on the behavior of workers, but national culture has even a greater impact. When we adjust this proposal to the effects of selection performed in the hiring process, we arrive at the conclusion that in the case of multinational corporations, it is expected to look for employees adapted to the prevailing culture in the organization, even if they are not typical representatives of the culture of their country (Robbins, 2004, pp. 453-454). Thus, the influence of national culture, which shapes organizational culture through its impact on both values and behaviors of people, becomes visible.

In addition to the national culture, a so-called business environment, or the market, has a significant impact on organizational culture. In addition to the impact of the market treated more generally, as a whole, one should pay attention to some of its most important elements. The regulations of the law are of an extreme importance, as they dictate the observation and execution of applicable legal and customary standards. Often too, the legal provisions entail changes in organizations which are certainly not without significance to the dominant culture. Another factor of influence to the organizational culture which can be included in the business environment is trade unions. Their impact on the culture is manifested in the fact that on the one hand, they care about employees and strive to respect their rights, which has a positive impact on organizational culture, as it helps to create an atmosphere of trust and strengthens their sense of security. On the other hand, the negative effects of the trade unions on the overall market situation are increasingly mentioned, through restrictions placed on companies in terms of modernization and development, which in the long run translates into a deterioration of the situation of workers, and by this, a destructive influence on culture. Often, under the guise of trade union activity, not a narrow group or even individual interests are realized, which yields results that are quite opposite from the statutory tasks and also a negative impact on the culture.

Also the economic situation of the state is of great importance for organizational culture, or the overall economic situation, which seems to be a more important factor, due to globalization.

While favorable conditions allow for flowering of various forms of organizational cultures, economic crises are becoming a real test of survival for many organizations. Turning to a more comprehensive treatment of the environment, one can, following one of the authors, conclude that the less dynamic this treatment is, the more should be invested in the development of a strong culture, which will translate into benefits for the institution. This does not mean, however, that in a turbulent environment one should resign from adjusting culture to its requirements, as that is what enables quick decision-making and taking action. In fact, the stronger a culture is suited to the environment, the fewer difficulties shall the employees face with meeting its requirements (Aniszewska, 2007, pp. 42-44). Such explanations seem to confirm the effect the market environment has on the organizational culture and its importance.

3. External determinants

The second parent group of determinants of organizational culture are internal factors. The following factors are of key significance: type of organization, enterprise characteristics and the characteristics of its human resources. The type of organization which represents the company is related to the nature of its business, industry and the form of ownership, and is reflected in manifestations such as company size, production profile, or the technologies used. These elements, within a wide range of choices are determined by different types of solutions for the operation of the company, and thus a significant condition in the prevailing culture.

All organizations can be broadly divided into those whose aim is to earn profit (commercial) and those whose priority instead of making profit is performing a variety of tasks, implemented as a service to the broadly defined public (non-profit). This separation becomes a reference point defining both the type and characteristics of the organization.

The industry of the company is equally important at the level of the impact on culture. Companies involved in heavy industry are commonly associated with extensive and rigid structures; those working in information technology are viewed as focused on innovation and teamwork, while those in the service sector bodies are deemed to be characterized by openness to customer needs and flexibility. Company profile and production technology, are also important factors, since other behaviors are expected in piece or mass production. At the same time, when the priority is technology, the focus is usually on the product, what often results in customer satisfaction suffering (Aniszewska, 2007a, p. 22). Not without significance is the size of the business, which entails a number organizational arrangements necessary to ensure the required degree of coherence, and which may result in a preference for certain departments of the company at the expense of others. Also, whether the organization is privately or publicly owned, whether it belongs to a group of people, its shareholders, or to one particular entrepreneur, is not without repercussions in terms of its culture.

The term “enterprise characteristics” in the analyzed perspective, includes: its history, organizational structure, possibility of participation, issues of employee motivation, as well as personnel policy, communication and mission.

The influence of history and tradition of the company on its culture is reflected, among others; by that organizations with long traditions usually display a much stronger tendency to ritualism and conservatism than young institutions. Organizational structure also provides a framework for culture, determining the internal business environment, which largely dictates the possible ways of acting and applied procedures (Stańczyk, 2008, p. 24).

The shape of the structure also depends on the level of hierarchization and formalism in the company, which are also determinants of its culture. Also, participation, defined as the acquisition, by the executive staff, of at least some of the functions, tasks and powers belonging to the managers (Piwowarczyk, 2006, pp. 82-83), is a very important contribution to the culture of the organization.

Motivating related to personnel policy, governance processes and communication allows employees to understand and accept cultural norms and values by which their behavior is shaped as well. It is important here that the motivating factors are either external or internal. The influence of external motivators, *i.e.* those which do not relate to the internal standards of organization, on culture is greatly limited. This is because even the changes in human behavior achieved due to them do not entail a change of mentality (Aniszewska, 2007, pp. 142-143) and attitudes.

Another important issue, referring to the previous one, is personnel policy. Two models are the most common ones: the sieve and human resources. The first contributes to the development of male cultures, where the focus is placed on the results, competition and individualism; however, it is not conducive to a good working atmosphere and contributes to high turnovers. The second one supports cultures of community, agreement and collectivity. It ensures good atmosphere and results at a stable, high level (Gielnicka, Aniszewska, 2007, pp. 66-68).

Communication as a tool for shaping attitudes and identity building also shapes the organizational culture. This is also done by forming relationships between superiors and subordinates, and the determination of management style, which also determines communication (Gielnicka, 2007, pp. 99-100).

Based on the summary of the characteristics of the organization as a factor in its culture, it is worth noting one more element, which is partly included in the foregoing statements, and which can also be treated more individually and directly. This refers to the mission of the company, as it is the ability to answer questions that justifies the existence of the organization, its sources of success and where it is going (Aniszewska 2007b, p. 44). It can, therefore, be said that, since what a company, what its characteristics are, depends to a significant degree on what its culture is.

The impact of human resources can be considered in three areas: the labor potential, management and founders. The characteristics of human potential are made up of individual values and norms preferred by the staff and brought to the company, such as professional and private experiences, acquired at work and among the family and friends. This also applies to personality traits, aspirations and expectations that interact with the characteristics, aspirations and expectations of other employees and supervisors. These interactions are subjected to the activities of the existing solutions and organizational requirements, the tradition-established patterns of thinking and acting have to be observed, and as a result shared values, norms and patterns of behavior are shaped (Sikorski, 2006, p. 38). The structure of employment is of significant importance as well. If the organization is dominated by older workers, it should be expected that pressure would be placed on stability and sense of security, while the predominance of young people is correlated with a willingness to take risks and entrepreneurship (Gableta et al., 2006, p. 160). In female-dominated companies generally a more tolerant towards misfits and individuals with differences can be seen, while different patterns occur in cases of male domination, where the workforce prefers building compact and close knit teams (Wajda, 2003, p. 263).

The decisive role of the management in shaping culture is often pointed at as well. The attitudes and behaviors of managers and their styles of management, along with their general prefer-

ences are usually closely followed by the workers, which favors the formation of specific cultural patterns (Sikorski, 2006, p. 38). Leaders in organizations remain role models for long periods, which, apart from a positive impact on the culture, also poses some risks in the form of supporting those models it even if they become outdated and useless (Stańczyk 2008, p. 24). The founders of a business always have some intentions related to it, and especially a vision of how it should operate. As founders are the first individuals in the business, it is they who decide who will be hired and communicate their values and expectations to the employees, thus creating organizational culture. Furthermore, their impact on the culture lasts at least as long as the founders play a role in the organization, and if they are distinguished by their unique charisma, their impact can last much longer (Szaban, 2007, pp. 447-448). The visible effects of the elements making up human resources on culture are further reinforced by the mutual interactions between employees, managers and founders of the organization.

The customers have significantly influenced organizations as well, along with the issues related to business ethics. The functioning of any organization is associated with satisfying various needs of individual people, or the general public, so they become customers of the organization. Customer characteristics shape their needs and expectations towards the organization, which affect both the business and its culture in a more or less indirect way. Although it is difficult to discern a direct impact of especially individual customers on corporate culture, it is certainly not right not to see their interactions. It is easier to illustrate this with an example of the main strategic customer, which is often a different organization, having a big impact on the operation of a company, and thereby its culture. Also corporate ethics affects the organizational culture. Ethical institutions maintain relationships with various groups of stakeholders on a voluntary basis. They are obsessed with ethics, in accordance with the morality of conduct, being honest with everyone. The individual's interest in such cultures is as important as the interests of the company. This usually involves the basis of individual, well-defined responsibilities (Aniszewska 2007a, p. 23). The aforementioned factors are difficult to classify as internal or external. This is because their impact is taking place right at the crossroads of culture and the environment.

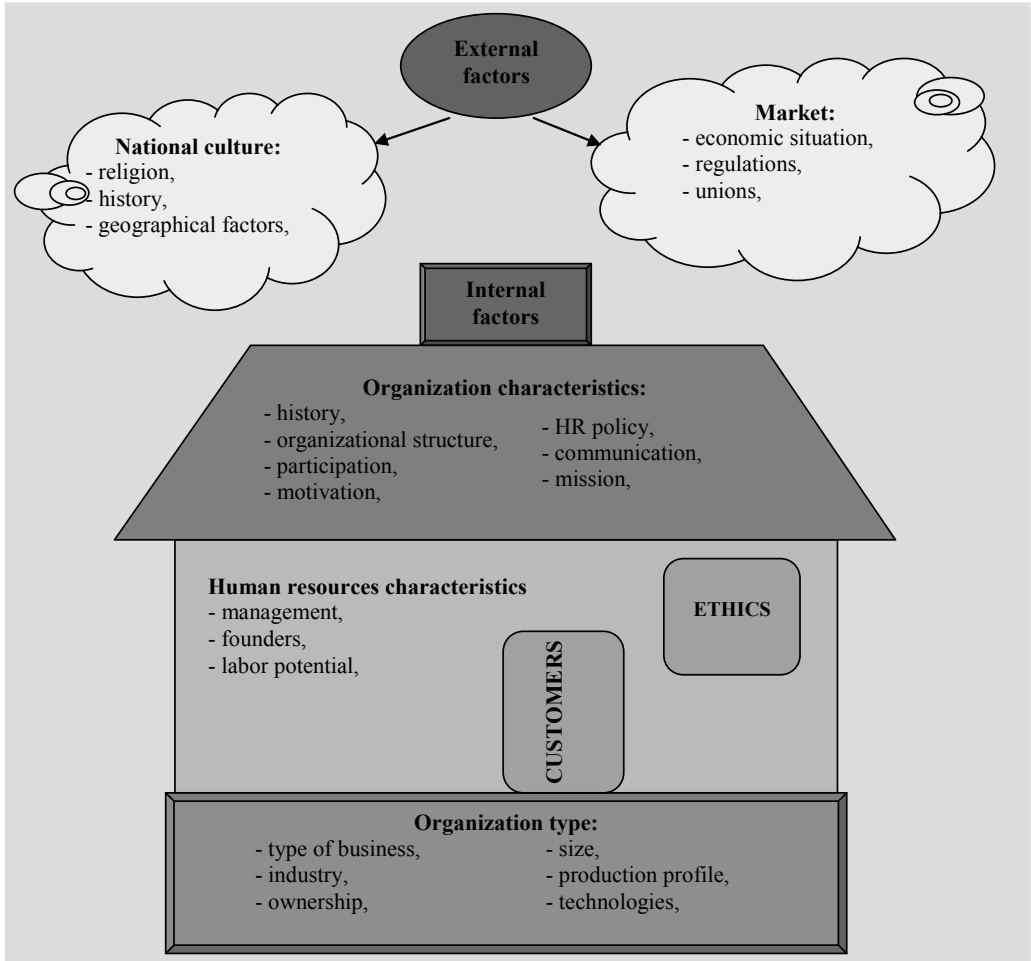
4. Model approach to organizational culture factors

The above essential characteristics of the internal and external environment of the organization that affect its culture are certainly not a closed list of determinants. Depending on the specifics of the company, this list could be greatly extended or adjusted for certain items. Nonetheless, the indicated elements seem to not only determine the culture of the organization, but also in some way interact with each other.

Figure 1 presents a proposal of a model for determinants of organizational culture, referring to the issues discussed above. The original source of internal factors, *i.e.* the type of organization, determines its general shape and is the basis, specific foundation, for the entire organization and its culture. Both the organization and its culture are made up of people. For this reason, the characteristics of human resources appear to provide content for what determines the type of organization on the one hand, and on the other, its specific features. Features of the organization often include providing shelter for people and their way of life, and simultaneously, being their coverage and justification. These sets of factors, portrayed respectively as the foundation, facade and roof, are among the internal determinants of organizational culture.

However, the organization, and thus its culture, are not suspended in a vacuum, but exist in a particular environment formed by external factors, the dominant ones being national culture and the market environment.

Figure 1. Organizational culture factors model



Source: own work.

As has been stated, culture is subject to influence, through various contacts, including ones from the customers of the organization. This is symbolized as the door to allow customers to enter the organization and contribute towards, and through which an organization can go up against their needs. In turn, in the light of the organization and the shape of its culture, as well as a prism view of reality, a kind of window on the world, is the business ethics in both the company and its individual members.

In this way, organizational culture is reminiscent of a house, which provides shelter and a point of reference for members of the organization, and acting as a source of their value. And the different parts of the house, responsible for its overall appearance and functionality, are shaped by different groups of determinants.

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Chapter 31

Selected Conditions for Pro-Innovation Organizational Culture in the Public Sector Organizations

Angelika Wodecka-Hyjek

1. Introduction

Promoting innovations in organizations from the public sector is currently one of the key trends in creating the modern state. Contemporary organizations from the public sector function in a variable and complex environment which stimulates them to initiate and implement innovations in all spheres of their activities. The need for innovations in the public sector is determined, in particular, by the articulation of the effectiveness of spending public funds, changes to the expectations of users of public services preferring modern, functional and flexible solutions as well as political pressures exposed in the age of criticism of the bureaucratic administration. When speaking about innovations in public administration we mean, first of all, the readiness and the capacity of the administrative structure to assimilate, generate and implement new solutions which may contribute to improvements in its actions and the state's functioning. Thus, innovativeness is here strongly related to such categories as adaptability, flexibility, creativity or entrepreneurship (Zerka 2011, pp. 11-12). The distinguished categories certainly are a significant element of the process of shaping the pro-innovation organizational culture in this specific area.

The interest in the issues of shaping culture in the organization became prominent in the 1980s as a result of attempting to explain social and cultural phenomena in organizations which, through peculiar patterns as well as specific behaviors of their employees, obtained a unique character. According to the definition by E. Schein, the organization culture may be defined as "...a set of basic assumptions a given group invented, discovered or developed during a confrontation with problems of the environment as well as problems with internal coordination which functioned so good that they were recognized by the group as verified and valid and which are passed on to new group members as the proper method of perceiving, Interpreting and acting towards the problems referred to above, external adaptation as well as internal integration..." (Schein, 1984, p. 3). H. Duivenboden and M. Thaens (2008, p. 219), on the basis of literature analysis, identify two approaches among researchers of the subject trying to explain the relation between the organization culture and innovations. The first treats the organizational culture as a sepa-

rate subsystem of the organization as a whole which may be distinguished from other elements. This subsystem mainly determines the success of the entire organization. The other approach, on the other hand, states that the organization's culture is a prism through which the entire organization is seen. Attributes of activities or typical phenomena are a symptom of organizational culture visible in all of its subsystems. The essence of this approach assumes that the organizational culture is a dimension of all structures and processes in the organization which results in the fact that each aspect of its functioning has a cultural dimension.

In this respect, the relation between organizational culture and the approach to change is particularly stressed which is a condition for creating and implementing innovations in public organizations.

The study attempts to demonstrate the determinants of the process of shaping as well as attributes for the pro-innovation organizational culture in organizations from the public sector in the context of the evolution of public administration.

2. Evolution of the public administration concept

In the current reality, organizations from the public sector operate for the benefit of a wide group of stakeholders which demonstrates the need to create values from the perspective of the external environment, namely an individual customer and his needs. In management sciences public administration is understood as a set of actions, activities and organization and executive projects conducted for the benefit of the public interest by various entities, authorities and institutions on the basis of the act and in forms provided by the law" (Izdebski, Kulesza, 2004, p. 93). It is aimed at shaping specific skills of participation in decision-making and in executing decisions (preparation of personnel) as well as at preparing administration assessment criteria taking into account the public interest. Its primary task is to provide answers to the question how defined objectives are best achieved and the basis for the assessment of the organization's efficiency and management (Antoszewski, Herbut, 2002, p. 37). Three concepts were shaped in the practice of the public administration's functioning:

1. The traditional, Weber's public administration, based on obedience towards the authorities, strict compliance with binding procedures as part of which professional and substantive officials perform clearly and precisely defined tasks taking into account only the public interest, ignoring their individual and group interests. M. Weber understood bureaucracy as a rational structure, based on precise, trustworthy, common and effective principles. Aiming at the maximization of relevant values, the modern state adopted the organizational structure commonly defined as bureaucratic as its relevant organizational solution (Supernat, 2005, p. 3). Despite the fact that "bureaucracy is perceived as a basic institutional feature of highly complex and diverse societies embodying the modern age (Mazur, 2011, p. 62), this notion receives a negative context in the literature and in the public discourse as a result of its functioning, emphasizing excessive inefficiency and unjustified growth. In the colloquial language, as a consequence of bureaucracy's deformation the notion "red tape" was adopted (Martyniak, 2002, p. 126).
2. *New Public Management* emphasizing the rights to services in relations between the customer and the authorities, recognizing the responsibility towards customers, treating effectiveness and achieving results as the core principle of actions in which innovativeness and professionalism becomes the main attribute (Zerka, 2011, p. 51; Osborn, Gaebler, 1992).

3. Co-management (responsive management), constituting the development of the New Public Management model, acknowledges public administration as an element of civil society in interaction with its members through appropriate participatory actions and consultations with the stakeholders (Zawicki, 2011, p. 17). Public organizations see openness, legibility and participation as the main principle of operation in this model (Zerka, 2011, p. 51).

These concepts may be considered as the next stages of public administration organizational development in which interactions with customers and participation in creating values through innovations become a guideline for management and a strategic task (Alberti, Bertucci, 2006 *quot. after* Baruk, 2013, p. 24).

In the perspective of distinguished concepts, we may also identify the determinants of creating and implementing innovations expressed in actions and attitudes of managers at public administration organizations.

An official, as defined by Weber, performs entrusted tasks in a scrupulous manner. His main duty is performing his superiors' commands and complying with organizational procedures. His duties do not include searching for new methods of solving problems or improving procedures governing the organization's functioning. An official is perceived as an element of the organizational system which has a constant and precisely defined scope of tasks and, at the same time, was equipped with detailed guidelines regarding the manner of their implementation.

He is expected to literally execute recommendations and procedures and not to creatively and reflexively interpret them. The criterion for his assessment is rather the scrupulousness in complying with procedures than the effectiveness and efficiency of actions. This fosters the development of a conservative organizational culture characterized by assurance and focus on procedures.

In the New Public Management model the official is a person with management skills, showing initiative as well as able to use management tools applied in the private sector. The official is expected to demonstrate anticipatory actions, create relations with the institution's clients as well as an effective and efficient conduct. The basic criterion for his assessment is the quality of the execution of entrusted tasks as well as the assessment of those he should serve as a public official. Equally great significance is attributed to the ability to undertaking innovative solutions.

The model of co-management is represented by an official with high substantive and management competences who is creative, innovative, focused on searching for information and data in order to solve the challenges he faces. He is also ready to interact and share his knowledge (Olejniczak (ed.), 2012, p. 31, 35, 40).

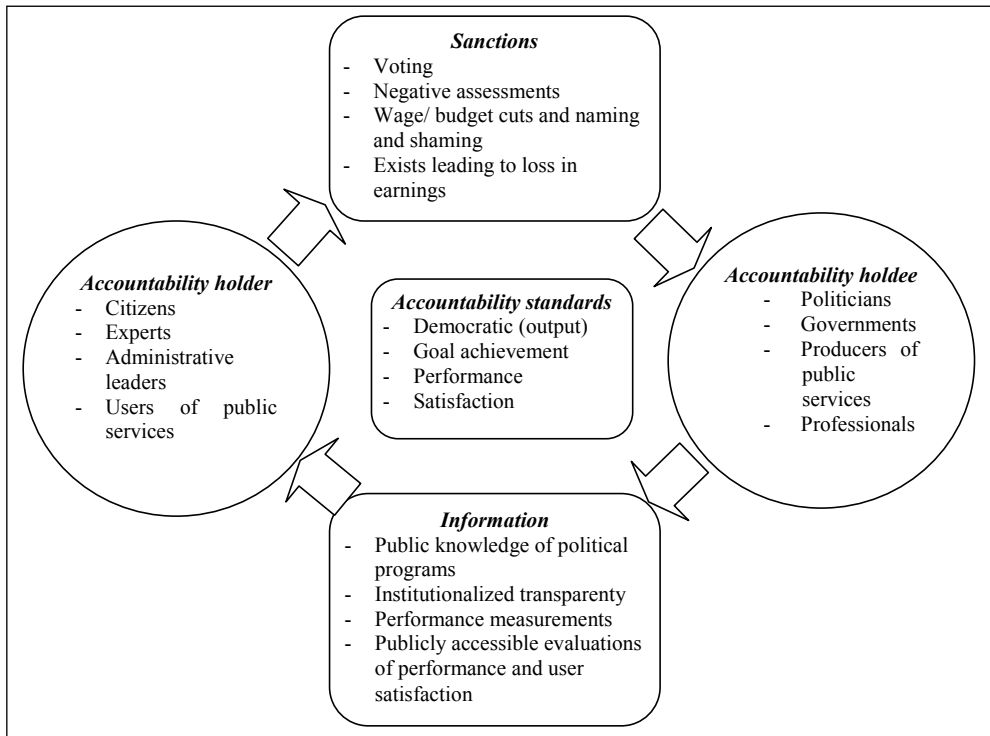
Contemporary organizations from the public sector are obliged to satisfy social needs in an individual manner which became the basis for searching for innovative solutions to problems on the basis of economic and social criteria. Stressing the paradigm of co-management in solving public matters determines the process of shaping the culture of public organizations by establishing institutionalized modes of conduct, establishing standards, values and behaviours.

3. Responsibility of modern public administration

The decision-making freedom in public administration organizations is limited by internal and external sources. Despite the manifestation of innovative attitudes and creativity, no manager in a public organization has complete control over its functioning and development because strategic decisions depend on political decisions. The tendency to implement innovations, including

in organizations is thus a derivative of the organizers' capacity to conduct a policy focused on the participation in creating values through innovations as well as political decisions from people in power (Baruk, 2013, p. 24). In this respect, a significant issue is the responsibility of public administration for decisions, including innovations, especially stressed in public management processes. E. In discussions regarding the measurement of responsibility in the process of creating innovations in the public sector, Sorensen (Sorensen, 2012, pp. 2-18) specifies the model perspective of responsibility consistent with the paradigm of New Public Management and its extension, namely the concept of co-management (Fig. 1). The basis for discussions is the definition of responsibility according to which responsibility is a relation between entities responsible and entities enforcing responsibility in which entities enforcing responsibility have rights regarding sanctions, necessary for an assessment, and then punishing or rewarding on the basis of standards of conduct accepted by both parties. Public authorities are usually brought to account on the basis of formalized standards but informal standards play a significant role in public management processes (Behn, 2001, quot. after Sorensen, 2012, p. 3).

Figure 1. The accountability model in public sector



Source: Sorensen, 2012, p. 7.

The key part of the model are standards of cooperation responsibility focused on achieving measurable results of activities by the public sector which are transparent, effective and satisfactory for the customers. The responsibility loop was closed with a feedback between entities

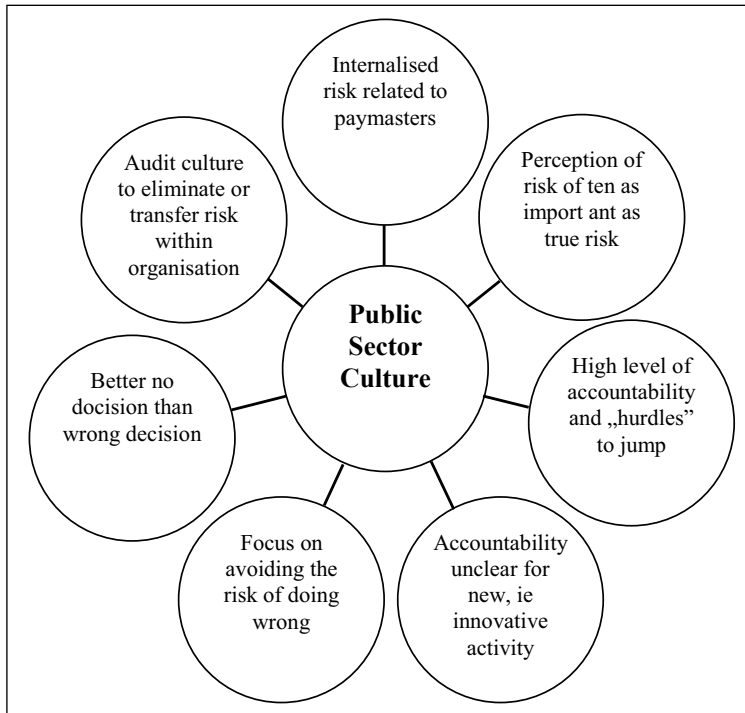
enforcing responsibility, namely citizens, external experts, leaders and users of public services who were given the right to enforce responsibility and assess the results of actions by voting, public assessment, and entities responsible – politicians, the government, the providers of public services (namely organizations from the public sector) and professionals who are obliged to publicly transfer information about their actions, the transparency of conduct and make the results of assessment public as well as examine the users' satisfaction. Undertaking innovative activities by organizations from the public sector is an expression of their development as well as the consequence of search for methods to increase the efficiency and effectiveness of actions, in particular regarding the provision of public services. It is a result of tests regarding the possibilities to satisfy the constantly growing social needs, with a simultaneous permanent deficiency of funds for meeting their demands, and is the answer to changes to technological, organizational knowledge and the manner of perceiving the citizens whose needs begin to constitute a source of inspiration for changes to public organizations. In this respect, exposing the need to shape organizational culture supporting the initiation and implementation of innovations in this specific area is a significant issue. However, we should remember that the public sector particularly stresses the context of social innovation the intention of which is to solve social problems, and the final objective is supposed to contribute to generating "the public good". Thus, social innovation should positively affect the quality of life or the increase in key quantitative indicators related to human life (Bukowski et al., 2012, p. 14).

4. Attributes of organizational culture focused on innovations

The issues of innovations in the public sector require the consideration of specific conditions. M.A. Smith and A.P. Starkey believe that the public sector is burdened with a risk of relative failure in the implementation of enterprising and innovative actions due to exposing formal procedures which form an organizational culture opposed to innovations while the individual attitudes of employees emphasize the desire to examine new ideas (Smith, Starkey, 2010, pp. 103-108). They also identify the attributes of the organizational culture of public organizations, significantly determining the development and the tendency to implement innovation (Fig. 2).

These include, in particular: culture of control eliminating undertaking risk, excessive exposing of risk leading to avoiding it and abandoning changes, an unclear responsibility for undertaken actions, professing the principle that it is better not to make decisions than to make bad decisions, limited undertaking of risk determined by the opinion from stakeholders and a high level of responsibility which provides the obligation of accountability and transparent conduct. The authors also paid attention to difficulties in justifying undertaken innovative actions to the general public which actions often change previous standards and arouse critical opinions.

Figure 2. Aspects of culture in public sector organizations which can impede development and implementation of innovations



Source: Smith, Starkey, 2010, p. 108.

Their opinion corresponds to the results of a comparison of the specific nature of perceiving innovations by the private and the public sector as a result of research conducted by I. Miles and R. Roste (2005, pp. 26-29)¹. The authors noticed that despite clear differences in motivation to innovative actions in the private and the public sector, determined by a different approach to employees, a diverse budget or the nature of relations, there also is a number of factors which demonstrate similarity in the compared areas. In this matter, they draw attention to the intensity of changes taking place in the public sector which changes result in the fact that this sector slowly perceives citizens as customers of public organizations and these, on the other hand, begin to compete with one another with the level of provided public services. At the same time, they suggest that the diversity of organizations within the public sector itself is the reason to conduct more detailed research.

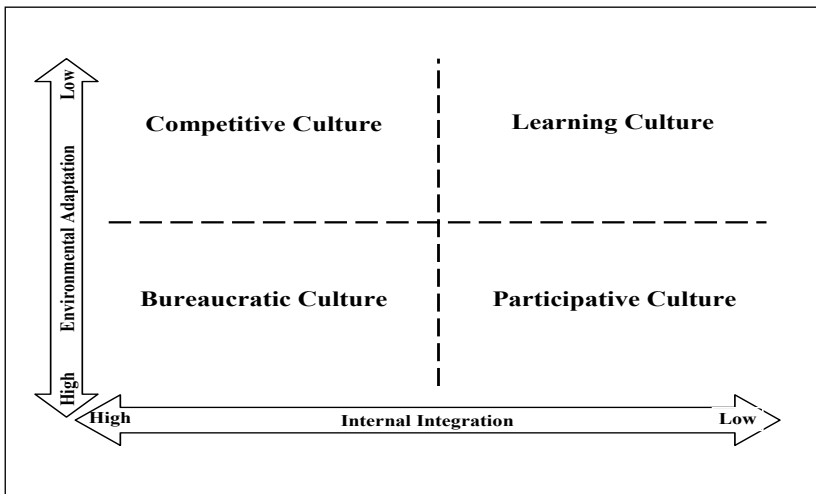
The impact of organizational culture on the innovations adaptation process in an organization is a current research field which is referred to in the discussions above. H.D. Fard, A.A.A. Rostamy and H. Taghiloo (2009), when referring to the typology of organizational cultures, developed by D. Hellringel and J. Slocum (Hellringel, Slocum 1994 after Fard, Rostamy, Taghiloo 2009, p. 52) identified the models of organizational culture in public organizations when classifying

¹ The detailed context of comparisons has been presented in the study (Wodecka-Hyjek, 2013).

the organization culture in the perspective of two variables: adaptation to conditions of the environment and internal integration (Fig. 3).

The model distinguishes four types of an organization culture: bureaucratic culture which is distinguished by a low level of adaptation both to conditions of the environment and low internal integration; competition culture in which it is possible to notice high sensitivity to conditions of the environment as well as low internal integration; participation culture characterized by a high level of internal integration but a low level of adaptation to conditions of the environment as well as the learning culture, where both the adaptation to the environmental conditions as well as internal integration are at a high level.

Figure 3. Types of organizational culture in the public sector organizations



Source: prepared by the author on the basis on: Fard, Rostamy, Taghiloo, 2009, pp. 53-54.

The primary model was supplemented with detailed distinctions of particular types of organizational culture which makes it possible to identify the particular type in a specific organization (Tab. 1).

Table 1. Attributes of types of organizational culture in the public sector organizations

Bureaucratic Culture	Competitive Culture	Participative Culture	Learning Culture
<ul style="list-style-type: none"> – Inflexibility – Rigid regulations & rules – High level of centralization – Affirmative leadership style 	<ul style="list-style-type: none"> – High flexibility – Low integration – Contract relations between employee and the organization – Low loyalty – Low cultural identity – Achieving to quantitative 	<ul style="list-style-type: none"> – Low flexibility – High integration – Loyalty – Personal Commitment – Team working – High level of society acceptance – Tendency to satiability 	<ul style="list-style-type: none"> – Trend to change – Knowledge expansion – Sensitive and responsive to external changes – Complex environment – Competitive advantage – Informed about the environment – Gathering environmental information and process – Service development – Encourage innovation, creativity and learning – Organizational commitment

Source: prepared by the author on the basis on Fard, Rostamy, Taghilo, 2009, pp. 53-54.

The most mature type of organizational culture in the public sector is the learning culture characterized by focus on changes, widening knowledge, sensitivity and response to the needs of the external environment (user-citizen), taking into account the complex needs of stakeholders, the pursuit to achieve competitive advantage which, in the case of public organizations, is also a significant parameter, the care for the transparency of functioning and informing the external environment, improvement in the package of provided services as well as searching for new possibilities to satisfy social needs as well as encouraging employees to innovation, creativity and continuous learning as well as involvement in the organization's matters. The practical implication of the features referred to above makes it possible to undertake innovative actions as well as to effectively implement innovations both in the functioning of public organizations as well as in the process of providing public services².

² Detailed deliberations on the issue of learning as a condition for adaptation in a public organization is presented in the article (Wodecka-Hyjek, 2014).

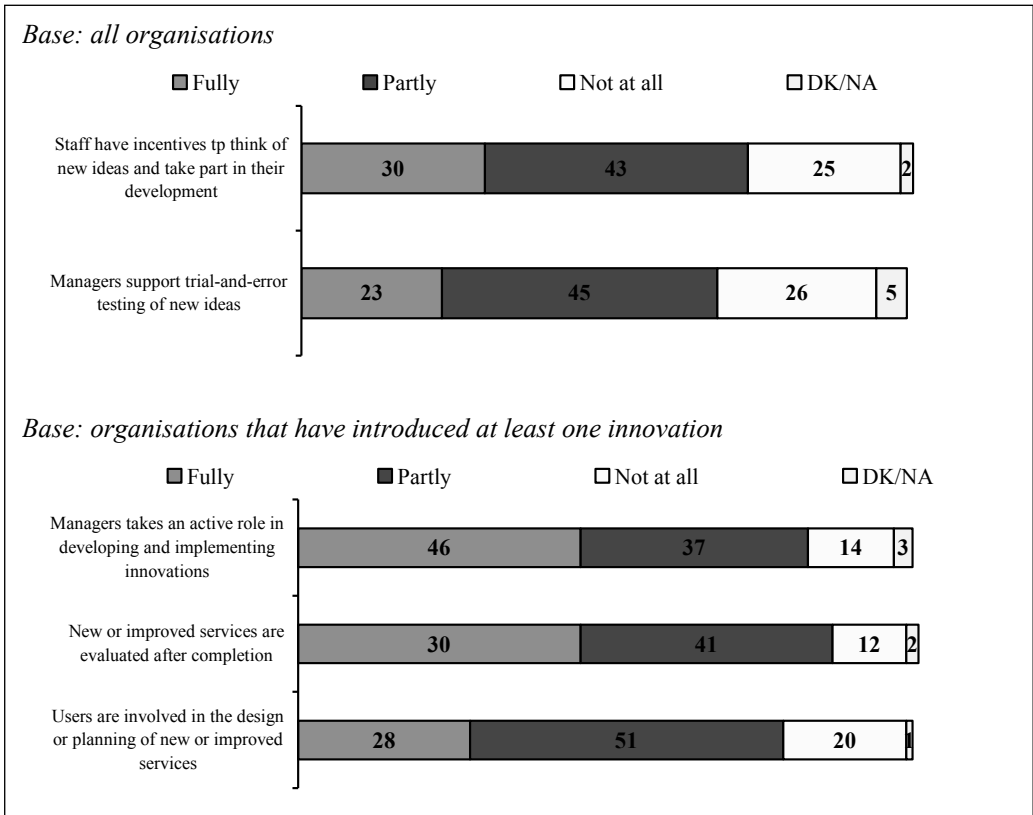
5. Conclusion

F. Damanpour and M. Schneider (2009) notice that despite institutional barriers for innovations in the public sector, individual attitudes of public managers, whose competences and individual features foster the creation of a pro-innovation culture, are significant for the development of innovations.

The current level of innovativeness in public administration organizations from the international perspective is presented by the Gallup Organization on the basis of research conducted in October 2010 in 27 member states of the European Union as well as in Switzerland and Norway. The research covered 4.063 public administration organizations, including 409 organizations in Poland. The research took into account: the types and the number of innovations as well as the composition of teams participating in implementing them; the profiles of employees, skills and training courses aimed at supporting innovative actions; the benefits from innovations along with possible negative effects; the strategies as part of innovations along with the analysis of specific conditions; the limitations and possibilities of implementing innovations; the demand for innovation (applied methods, identification of objectives, measurement of results) as well as the characteristics of future trends which may affect innovativeness. One of the elementary criteria of the research was the aspect of building a culture of innovations in which two groups of attributes of the organizational culture were distinguished. Attributes from the first group: the existence of stimuli supporting the search for new ideas and the participation in their implementation as well as managerial support in testing new ideas were referred to all examined organizations, while the second group of attributes which included: the active participation of managers in the development and implementation of innovations, the assessment of new or improved public services and the involvement in planning and designing users of public organizations were referred to public organizations which had recently implemented innovations (*Innobarometer 2011*, p. 38). The detailed characteristics of raised issues are presented in Figure 4. On the basis of the analysis of research results, it was stated that managers actively participated in the development and introduction of innovations in public organizations which recently implemented them, these organizations also assessed innovative solutions. It was also noticed that designing and planning new solutions in the implementation of public services is comprehensively consulted with their users only in 28% of examined organizations, while 51% of the examined ones consult with users only partially.

Only 30% among all examined organizations comprehensively identifies stimuli supporting the search for new ideas and the participation in their implementation, 23% has the support from managers in testing new solutions.

Figure 4. Aspects of innovation culture in public sector organizations



Source: *Innobarometer 2011*, p. 38.

W. Townsend (2013, p. 29) suggests that the selection and practice of cooperation strategies of public sector organizations with other entities is an equally important causative factor for the development of innovativeness in the public sector. In this respect, he identifies the following strategies of pro-innovation cooperation in a public organization (Townsend, 2013, p. 29):

1. The strategy of cultivation provides conditions and time allowing employees in the public sector to create and test innovative ideas.
2. The strategy of replication is based on using knowledge and experience of other public organizations coming from best practice.
3. The strategy of partnership uses solutions and experience as well as resources of the private sector by establishing cooperation.
4. The strategy of the network consists in creating a community of innovation by way of creating relations and dependences between entities mutually interested in cooperation.
5. The Open Source strategy is related to creating global innovations due to the input from global communities with the use of the Internet.

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Chapter 32

Challenges in Managing a Contemporary Art Museum

Jagoda Komusińska

1. Introduction

Within only the last 25 years the work of an arts museum manager has undergone a complete transformation. From the educational institution it once was, which main objective was to preserve the objects, the museum became an entertainment spot, a tourist attraction. Until 1980's the director's role was to have expert knowledge in the field of art history. Nowadays this position is much more responsible and poses lots of new challenges. First of all, what is required of a person managing an arts museum, are top managerial abilities, mainly negotiation skills. That is because a museum director needs to keep the subtle balance between maintaining good relations with business partners and supervising an uncompromising artistic level of exhibitions. The paper outlines the strategic areas of economical change that museums have undergone, and these are the changes that museum managers have to stand up to in order to develop them. Each of the aspects is derived from an influential economic theory that indirectly affects the marketing of cultural goods.

2. Transformation of a museum's mission

Museum, like other citizens' institutions such as libraries, theaters and schools, were originally being funded to civilize the immigrant population of emerging big cities. Firstly, in 18th century aristocracy initiated the museum-like organizations opening public exhibitions of their private art collections. It was an emanation of ideological changes, the spreading notion of a development-inducing role of knowledge in shaping a man's mind and society (Pietraszko, 1988, p. 7). Up until recently museums were of static nature. Their main purpose was to sustain the physical existence of heritage. Since after 1945 they were supposed to give sophisticated esthetic pleasure, but mostly, to educate those who already had some basic knowledge about culture. Nowadays the museum's function are: to endorse the city where they are built (this subject will be explained in more details further on), to attract tourists and, finally, to widen the range and the spectrum of understanding art, therefore raising the social capital (Thompson, 2010, p. 217).

3. Challenges rising from public-side financing austerity

Until 1980's museum's functioning was paid for almost entirely from public side. The last decade of 20th century saw an unprecedented hype of the number and of the space of arts museums, which meant mostly a surge of investment in public museums infrastructure (which was connected to city branding process). In longer term it led to aggravating the financial problems institutions were facing, as they are under-financed in all other aspects: the maintenance costs started to accumulate and the public side refuses cover up for them or to fund new purchases to enrich the collection (Jagodzińska, 2010, p. 216). In the beginning of 21st century museums are mainly supported by municipal budgets in which circumstances they are forced to fiercely compete for funds with institutions such as zoo, natural history museum or a sports stadium (as they are all classified as public service entertainment facilities).

The reasons for supporting culture from public funds can be of twofold nature. One is based on a conviction that the social capital itself is the final purpose of an investment, the other treats culture instrumentally. The continuous cuts in public funding of culture that have been perceived since 1980's have their roots in the change of economical paradigm of thinking about culture, which was introduced into legislation with the reforms of R. Reagan in USA and M. Thatcher in Great Britain. Until the end of 1970's the effectiveness of a museum was not taken into consideration. Since the turn, culture is looked at by economists and politicians through the lens of "creative industries", which means, public aid focuses on possibilities of using cultural/creative element and transforming it into a financially-defined value. The culture – as creative sector – is only a social means to achieving a superior economic purpose. It is an example of neoliberal subordination of social sphere to the economic reality. The public funding is being limited whilst the institutions are supposed to earn themselves or at least induce market activity in culture (Throsby, 2010, p. 64).

Public museum become more autonomous. Their decisive core is concentrated around a manager and an experts' council and employment forms become more elastic. Museums are a good example of public service where the principles of New Public Management were introduced. NPM was a public administration doctrine that started spreading in 1980's. According to a classic definition by C. Hood the aim of public administration reforms was to provide higher levels of cost-effectiveness in the same time avoiding the risks of appearance of negative aspects, such as limiting the availability of public services. The most important claims of this doctrine is to charge a public manager with greater personal responsibility and accountability, break with the standard of "a perfect employer" of public organizations (eliminate the role of trade unions), diminish bureaucracy, corruption and political liaisons of managers. The managers are also supposed to have an incentive scheme, encouraging them to engage in challenging tasks. NPM also claimed that public organizations should compete between themselves, just as market organizations do, to boost effectiveness. The public sector should only profit from introducing easier, more effective business modes of managing (Hood, 1991). Another facet of NPM which can be clearly seen in arts museums, was to place greatest importance onto a marketing approach of producing public service, stressing the importance of responding to consumer's needs and expectations.

As a result of the above transformations, the museums activity profile became more commercial. The museums adopted the corporate governance principles, taking bringing profits as their most important purpose. They no longer mimic libraries – they recall the business framework of an entertainment park (Chong, 2010, p. 124). With almost no exclusions the entrance ticket

never covers the cost of a visit. As public side refuses to pay for the remaining gap, the museums started creating profit-centers: restaurants/cafes and museum shops offering souvenirs, albums and books (thanks to which the museums take up also the role of an art-history research centers cooperating with university professionals) (Towse, 2010, p. 263). Most of all, the museums need to compete with mass-culture in the aspect of fulfilling the crave of a spectacle in society, created and expanded in 20th century by cinema. For this reason the museum's exhibitions are more and more often built up around installations – spectacular, conceptual artistic form which is composed of fragments of different media and gives the visitor an immersive, sensual experience (Stallabrass, 2006, p. 16).

In Europe the level of public financing is becoming dependent on the index of results obtained by the museum in the previous year. This system of monitoring and evaluation of performance was invented in Great Britain in 1990's by the Department of Culture Media and Sports. According to the DCMS program, which made a part of a greater plan to build british economy around creative industries, museums needed to care about the high artistic level of exhibitions, but prepare them in such a manner that they would lure persons from non-privileged status of society into visiting, the persons who had never been art consumers before. The aim of enlarging the pool of visitors is to inspire them, to wake their creative potential and to serve social cohesion. Therefore the museums are controlled, whether they prepare the exhibitions with the consideration of the needs of youth, social minorities and whether the exhibition contains an element that would make a visit translate into economic profit, direct or indirect (Oakley, 2010, pp. 64-68).

4. Challenges rising from business sponsorship

Museums serve as a final repository for the works of art whose value had been earlier verified in the market and by specialists. A purchase of a painting by a public museums ensures its author is granted the highest prestige and market position. Contemporary art museums are market-independent arbiters, the appellation instance in charge of controlling the quality of art (Chrościcki, 1997, p. 159). They hire specialists – curators – whose task is to present the public the most important artistic phenomenas, with greatest possible objectivity. A rudimentary characteristic of an art curator is that his judgment is unimpaired by a personal interest, he can have no vital economic connection with the artists' success. Curator is supposed to chose these works which they deem important, not necessarily pleasant, beautiful or useful to society's morale. The curators and museum managers are ought to keep highest prudence when accepting donations to their collections, donations very gladly made by art owners or artists: any donation is precious to the museum because it can make part of heritage for future generations, but in the same time “allocating” a piece of art in a museum's collection boosts the value of all other works by the same artist. Therefore the museum, responsible for the fate of artists and for the shape of the future art history needs to rigidly select the “gifts”.

The arbitrary status of the institution of museum was undermined in the last decades, as they become more dependent of corporate sponsorship. Prevailing business engagement causes corruptive hazard weakening the moral courage of independent experts, who are bound to serve the development of civic society. Sponsoring of culture, officially, should benefit both engaged parties. Through financing artistic endeavors the enterprises are learning creativity, they promote their brand as well as they are allotted tax allowances, while public culture managers are

introduced to good managing practices and do not have to rely on political authorities. Usually the companies consider sponsoring part of Corporate Social Responsibility actions, not advertisement (Wu, 2001). The origins of corporate sponsoring date back to M. Thatcher and R. Reagan's governing (establishing lobbying bodies Association of Business Sponsorship for the Arts in 1976 in UK and Business Committee for the Arts, active since 1967 in USA). Since the beginning of 1990's the corporations turned from occasional donations to a substantial, stable cooperation with museums, in which the brands of the partners are supposed to support each other. By 2007 70% of the exhibition costs inferred by public museums in UK was covered by corporate donations (Stallabrass, 2006, pp. 88, 92-93).

Corporations obtain obvious benefits from their liaisons with art: their brand reaches a very appealing access to the wealthiest, best-educated tier of consumers in the same time upgrading their overall image as socially-responsible. However the corporations do not care about the quality of art in the long-term and they put the museums under pressure of censorship (corporations do not wish their brands to be seen at a scandalous, disturbing exhibition) and they do not hesitate to exert the power their financial engagement in arts gives them in political lobbying. This poses a danger to cultural freedom and development of civic society (Rectanus, 2002; Stallabrass, 2006).

5. The challenges rising from making a visit an experience

The dominant phenomenon in museum performance in the last decades has been the increasing scale of temporary exhibitions organized, as opposed to permanent collection display. It is estimated that of 150,000 paintings in the possession of public museums in England only 30,000 are on display due to physical limitations of museum space. Therefore renting collections to other institutions for some limited time is gaining on popularity, which increases the geographical circulation of cultural goods. A ground-breaking case in this extent was the decision of the Louvre in 2007 to sign a 35-years long agreement with the newly established museum of Abu-Dhabi to confer the new museum the right to use the name "Louvre Abu Dhabi" and to rent series of art for a period ranging from 6 months to 5 years (Thompson, 2012, pp. 185-186; Towse, 2010, pp. 107-108). Another aspect of rising importance of temporary exhibitions is the emergence of global "blockbuster" traveling exhibitions which intrigue masses of visitors, although they are not very demanding in an intellectual way (usually these "shows" are connected with popular culture).

As from the public side financing is granted for specific projects, taking a form of a targeted subsidies, the character of museum's activity changes accordingly: non-profit organizations and regional public bodies which usually govern museums tend to organize events rather than to maintain static, permanent repertoire. The temporary exhibitions are often heavily advertised, a short period of exposure causes mental pressure onto persons who would not visit a permanent exhibition convinced that they could always do it "another time". With a temporary "event" exhibition they get the unique, time-limited chance of getting to see the objects. Thanks to the ephemeris character of these exhibitions the participation rates in museums rise.

Museum curators who arrange the exhibitions play a role which cannot be overestimated. Preparing descriptions of the works, deciding on lighting and interior design, marking paths of visits are some of their tasks. They are the key human resource in a museum. They are responsible for how intensively the visitor will be engaged in the exhibition in an emotional, intellectual and

physical sense and to what extent he will understand the exhibition, which is crucial to customer satisfaction.

With the greater space for temporary exhibitions the museums started to promote them as an “event”, an “experience to try”, perfectly fitting into the theory of experience economy. As far as the general usefulness of this concept to any business can be questioned, it is definitely true to the reality of cultural goods and services. According to this idea, as presented by J. Pine and J. Gilmore, an organization should provide the customer with unforgettable experiences he gets during contact with the organization so that the memory of the experience can become the very product of exchange (in this case the product would be the memory evoking the visit in a museum). According to the authors as services in a service-based economy become standardized like a commodity, a complex marketing environment of the core service/product will gain on importance. The product/service should be rendered to the purchaser with the accompaniment of its individualization and broadening. The social and esthetic circumstances in which purchase is being made also matter. As a result the purchase price shall be the price a consumer paid for a certain kind of a spiritual transformation he is undergoing during purchase. As a consequence of such approach to purchase process the utmost attention should be given to indirect surrounding (especially of social nature) of the purchase (Pine, Gilmore, 1991). In this case a museum can use its unrivaled position in terms of social capital it represents with all its prestige and the noble character that is usually attributed to visiting an arts museum. Again, taking the experience economy into consideration, it is clearly seen how important responding to a consumer’s needs is to modern museums. A visit has to be always a memorable and satisfactory experience which is why, given the broadening pool of visitors who not necessarily have any knowledge about art, exhibitions are always equipped with detailed explanatory descriptions so that visitors would not feel embarrassed and guided visits with museum guide are gaining popularity. A visit needs to be a complex and complete experience, bring up intensive emotions, provoke discussions and interactions, and most of all, it should always be unique.

6. The challenges rising from making a visit an experience

Many of the museum managers decide to undertake the effort of creating a recognizable brand of the institution (Stallabrass, 2006, p. 20; Chong, 2010, p. 133; Thompson, 2012, p. 218). The work of B. Frey, published in 1998 can be considered the milestone when the emergence of globally-recognizable museums functioning as tourist attractions came to the interest of economists (Frey, 1998). Architectonic form of exhibition space is no longer neutral. Indeed there are many cases in which the structure of the building was a decisive factor to establishing a museum’s rank. In the same time, very often the museums organize extra-territorial exhibitions, mostly in run-down churches or industrial areas, in order to help their revitalization.

Such actions are undertaken in the atmosphere of building up liaisons between the perceived brand and rank of the museum and the rank of the city in which they are built. Municipal authorities realized in 1990’s that building an arts museum or organizing an art biennale or art fair is one of most efficient tools to create a positive image of the city. They stimulate tourism (in the terms of so called cultural tourism), including the influx of richest members of society, therefore initiating economic upturn in different branches of local economy, they build local-pride feeling in the local community and they give opportunities to present a city from its best side to potential

investors. The prestige conferred to the city with the appearance of art events is by far greater than the one obtained from organizing modern technology fair or sport championships (Towse, 2010, p. 532; Throsby, 2010, pp. 118-119).

The theoretical stimulus underlying the phenomenon of building dozens of municipal contemporary arts museums was the well diffused idea of a “creative city” invented by R. Florida, who claimed that an arts museum is elementary to the possibility of developing a creative class in a given city. In his concept, creative class is composed of artists, scientists and all those who search for creative solutions in their work. Their number in a city determines its perspectives for economic growth, cities have to compete between themselves to lure as many members of creative class as possible, because they would set up firms and create jobs basing on their creative resources (Florida, 2010). As an art critic R. Hughes noticed: *museum overtook the place of a church as a urban centre of a city* (Thompson, 2012, p. 216). It did become a urban fetish, a symbol. Each city competing to have a recognizable brand, each city trying to attract “creative class”, had to invest in the building and furnishing of an art museum. The best known and successful example of the city which consciously created its brand as a “creative” city basing on art museum is Bilbao, Spain. The building of the famous museum (which is a link in a franchise chain of Guggenheim superstar museums) was a part of a vast program of urban modernization, which included building an airport, metro and a congress centre. The spectacular cube of the museum both ignited and completed the transformation and gave the city a unique edge (Stallabrass, 2006, p. 97; Thompson, 2012, p. 225). The pressure from local authorities who all expect their museums to repeat the success of Bilbao sets the competitive level between museum managers very high.

7. Conclusion

As was presented in the paper governing a public contemporary art museum is a very demanding managerial work. The competition between the museums is tense and the museum has to respond to expectations of many stakeholders presenting such contradictory forces as: the city where it is located, the local community, the national community, the art fans, the social minorities, the tourists, the sponsors and art specialists. It requires of a manager to have a unique long-lasting vision of his institution, great negotiation skills, prudence and high moral standards.

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Chapter 33

Approaches to Assessment of the Level and Effectiveness of the Banking Sector of Ukraine Financial Security Implementation

Oleksandr Baranovskyi, Roman Vovchenko

1. The economic security of the banking sector of national economy: the problem of measurement

It is very difficult to fully and fairly evaluate the level of safety of the banking sector of national economy, because such estimate can not be based on a single indicator, and is based on a set of quantitative and qualitative indicators and (not least) considerations of maintaining its characteristics and properties.

However, this approach leads to sometimes conflicting estimates because, firstly, in terms of cyclicity of banking sector of national economy indicators development, characterizing the different aspects of its operation, are varied, and, secondly, connection between resultant financial and other indicators of banking, as well as its reglamentation condition, regulation and supervision can not be always observed. It certainly makes it impossible to make definite assessment of its financial security, and therefore – the only correct administrative decisions aimed at its improvement. In addition, such assessment influences the choice among possible target options guidelines for development of banking sector – whether it's to maximize profits from banking and supplementary activities or maximization of the market value of banks.

So for a complex evaluation of the financial security of the banking sector of national economy it is necessary to have guidelines of the current condition and perspective development of the various aspects of its functioning.

Taking this into account when determining the financial security of the banking sector of national economy a following set of indicators should be differentiated: indicators that characterize the level of financial safety of the banking sector as a whole (indicators of financial condition (as generalizing the characteristics of all the activities and management level), financial stability, optimality); indicators used for the implementation of mergers and acquisitions of banking institutions; indicators of deposit, monetary, currency, inflation, investment, and debt security of the banking sector; indicators of financial security of regional banking sector.

A. Bryshtev defined the basic principles of the system of indicators that measure the extent of threats to the economic security of the banking sector. In particular, the principle of consistency – an adequate reflection of the parties and interrelations of the development process of the country; correspondence of parameters of system complexity principle (using this principle allow one to interpret the results of indicators of economic safety of the banking sector and increases the assessment of the situation promptness in its analysis); essentiality principle – performance indicators take into consideration the peculiarity of banking activities in main areas, and the system of indicators adequately reflect the structure and significance of the major threats to the economic security of the banking sector identified in the analysis of the situation (Brishtev, 2009).

The composition of indicators for the analysis of economic security of the banking sector should include indicators that characterize the organization of monetary regulation, legal regulation of banking operations, effectiveness and sufficiency of banking supervision and effective functioning of the payment system. These indicators are a system of indicators, as they are interrelated, covering the main areas of banking. The above figures may be designed for both individual bank as well as for the banking sector as a whole, according to the different levels of the hierarchy, which emphasizes their membership in a particular system.

As a result, in the opinion of this researcher, the essence of economic security of the banking sector is implemented in the system of criteria and indicators. Criteria of economic security of the banking sector – is an assessment of its condition in terms of most important processes that reflect the essence of economic security. Safety criteria assessment includes an assessment of the resource potential and possibilities of its development, the resource efficiency level, capital and labor utilization, and its compliance with similar indicators in developed countries, as well as the level at which the threat of external and internal factors are minimized; competitiveness of the banking sector. Thus the system of indicators that received quantitative expression allows to signal in advance about the threatening danger and take steps to prevent it.

Currently, the most common is the approach to criteria determining according to which the determinants of downturn in economic security of the banking sector exist on three levels: micro (individual bank balance sheet ratios), meso (characteristics of the consolidated balance sheet of the banking sector) and macro (change in macroeconomic variables), the nature of the crisis processes is determined by the common influence and dynamics of all levels.

I.M. Storozhuk provides a mechanism of economic security of the commercial banks implementation, stating, firstly, that assessment of the financial stability of a commercial bank is influenced by following criteria (2009):

Indicators of commercial banks financial sustainability: capital adequacy ratios: indicator of capital quality assessment; indicators of asset quality evaluation; cost structure indicator; structure of income indicators: assets profitability indicator; return on capital indicator; structure of income indicator.

Optimality indicators: involvement indicator: there must be at least 2 units and no more than 7 units of funds per unit of capital; structure indicator: the part of share capital and retained earnings must account for at least 50% in the capital structure; resources indicator: share of term resources must account for at least 50% of the total resources.

Secondly, financial stability, according to this approach is:

- “Good or above average” if the indicator of financial stability is less than or equal to 1.5 under the conditions of optimality indicators;
- “Average or below average” if the indicator of financial stability is of 1,6-2 under the conditions of optimality indicators;

- “Bad” if the indicator of financial stability is higher than 2;
- Financial stability cannot be classified above “average” if at least one indicator of optimality is not fulfilled during two periods.

At third, the loan portfolio is estimated as follows:

- Lending rate: up to 30 days; 31 to 90 days; from 91 to 180 days; 181 to 365 days; more than 365 days, on demand – to evaluate allocation of assets by terms of period;
- ratio of overdue loans: general, individuals and legal entities – continuous monitoring of this ratio give time for department of economic security and the credit department to focus on bad borrowers;
- coefficient of structure of loans by loan term – allows tracking certain types of repayment of loans at agreed maturity required when planning and developing optimal credit policy;
- rates of loans structure by economic sectors – good for planning and designing optimal credit policy.

At fourth, the credit portfolio ratio is determined as follows:

- “High” – provided the adherence to a positive lending coefficients trend and terms of lending structure;
- “Average” – if there is a slight planned reduction in the diversification of the loan portfolio, and related reduction of ratios: lending, loans structure by maturity, structure of loans by economic sectors, and the ratio of overdue loans is between 6% and 9%;
- “Low” – provided that there is a significant reduction in the diversification of the loan portfolio, which results in ratios decrease: lending, loans structure by maturity, structure of loans by economic sectors, if the ratio of overdue loans exceed 10%.

Based on the developed evaluation criteria of the loan portfolio and the financial stability of a commercial bank the level of economic security can be set, basic provisions and the mechanisms for evaluating the level of economic security by the department of economic security can be developed.

Hence, under following approach, the assessment of the level of commercial banks economic security is influenced by two criteria: the financial stability of a commercial bank, which is based on financial stability indicators and the indicators of optimality; level of loan portfolio of commercial banks quality.

At fifth, according to above mentioned, taking into consideration existing developments on the basis a mechanism to evaluate the level of economic security is proposed (Tab. 1).

Table 1. Determining the level of economic security of commercial bank on the basis of financial stability and the level of loan portfolio (in the absence of other significant factors taken into account in the classification of commercial banks)

Financial stability	Loan portfolio level		
	High	Average	Low
Good or above average	Standard (I level)	Non-standard (II level)	Uncertain (III level)
Average or below average	Non-standard (II level)	Uncertain (III level)	Problematic (IV level)
Bad	Uncertain (III level)	Problematic (IV level)	Non-performing (IV level)

Source: Golikova, 2002, pp. 26-31.

At sixth, based on the calculation assessment of possible losses is formed (Tab. 2) as a result of crisis situations in accordance with a certain level of economic security. In case of serious potential threats economic security department of bank shall make final decisions that are both advisory as well as regulatory by nature and loan and deposit policy should be corrected (Silov, 2007).

O.A. Kyrychenko and V.D. Kudrytskyi offer the following basic indicators of economic security of the banking system of Ukraine and their threshold values (Tab. 2).

Table 2. The size of potential losses of bank capital, depending on the level of economic security

Levels of economic security	Size of loss of bank capital, %
I	0-5
II	6-20
III	21-50
IV	51-99
V	100

Source: Kirichenko, 2010, p. 162.

2. Assessing the level of banking sector financial security

Indicators of banking sector financial security include: the ratio of its assets to GDP; share of inactive banks assets in the total commercial banks assets; share of foreign capital in its total capital; condition of bank deposits sector; total size of risk insurance fund and its formation conditions; amount of profit received by commercial banks; scale and quality characteristics of bank mergers; share of the population credit debt in total loan debt; the size of the loan interest; interest coverage ratio; rate of authorized capital of commercial banks return and net assets; share of funds of individuals in the total amount of funds.

Table 3. Key indicators of economic safety of the banking system of Ukraine and its thresholds

Indicator	Threshold
Money supply, % of GDP	50
Cash amount, % of GDP	4
The volume of real sector lending by banks,% of GDP	Not less than 30
The maximum interest rate on the loan	10
The minimum return on annual average equity,%	15
The minimum return on annual average assets,%	3
The level of bad debts in the loan portfolio,%	Not more than 10
Capital adequacy, %	Not less than 15
The maximum share of foreign liabilities denominated in the same currency, %	50

Source: Baranovskyi, 2006, pp. 22-23.

Efficiency and financial safety of banking sector at large extent are measured by the level of concentration of bank capital, and when assessing it, is advisable to use the coefficients, such as Herfindahl-Hirschman Index (HHI).

As consolidation processes recently deployed in the banking sector, determination of indicators of financial security of the banking sector in the area of mergers and acquisitions of banks is of the great importance. A.N. Zaripov offers system of thresholds of economic (but rather financial because of their specificity) security for mergers and acquisitions of banks, including following indicators (<http://www.jouclub.ru/13/891/>):

1. The average value of the registered share capital – \$5 million.
2. The volume of loans granted to non-financial corporations and individuals (% of GDP) – 30%.
3. The volume of equity of banks merged and absorbed to the total volume of equity of banks in the country – 45%.
4. Volume of assets of banks merged and absorbed to the total volume of assets of banks in the country – 50%.
5. Volume of liabilities of banks merged and absorbed to the total volume of liabilities of banks in the country – 45%.
6. Ratio of capital of merged and absorbed foreign banks to the total volume of capital of banks in the country – 50%.
7. Ratio of liabilities of merged and absorbed foreign banks to the total volume of liabilities of banks in the country – 50%.
8. Ratio of loans granted by merged and absorbed banks to the total volume of loans provided by banks in the country – 70%.
9. Separation of the Board for a hostile takeover of the bank attempt into three equal parts, when each part can be elected by the general meeting of shareholders for one year and so on for next three years – at 33.3% of the total number of board members.
10. Decision on a merger or acquisition level – 75% of the votes of shareholders required to make a decision on the merger or acquisition.
11. Price for blocking stake – at least 25% of the shares at equal price per share.

Control of given thresholds for economic security in the area of mergers and acquisitions of banks must be implemented by the central bank, which, in the case of non-compliance, should: require banks to bring their activities into compliance with the established thresholds indicators; introduce penalties; revoke banking license.

Indicators of financial security of the banking sector of the national economy can be represented as follows (Tab. 4).

Indicators of financial security of the regional banking sector are also offered by researchers (Tab. 5).

Financial Soundness Indicators (FSI), unified by the IMF is a good starting point for the analysis of banking risks, however they are not enough to identify systemic problems. For example, an increase in lending to the real estate market can be profitable for individual bank in the short term period, and its FSI will be satisfactory. However, if there is similar behavior in lending at the same time in other banks, the sharp rise of the position of banking sector in real estate, that occurs as a consequence, can cause system instability.

Table 4. Indicators of financial security of the banking sector of the national economy

Indicator name	Threshold
Inflation rate, %	3
The share of equity in the banks' liabilities, %	10-20
The share of equity in total assets, %	8
Protection level of depositors (individuals and businesses)	7,5
Return on equity, %	15
Annual growth rate of equity, % to previous year	70
Multiplicative effect of capital	3.00
Regulatory capital adequacy	15.0
The level of net assets, %	100
%The level of reserves for active operations, %	Not more than 5
Level of assets profitability, %	Not less than 1.5
The efficiency of funds allocation, %	Not more than 10
Coefficient of protection against risks, %	Not less than 5
Indicator of credit risk, %	70
Bad loans level, %	Not more than 3
Cost of liabilities, %	Not more than 5
The annual liabilities growth rate, %	70
capacity of the banking sector level	Not less than 0.70
The level of profitability, %	Not less than 5
Utilization of obligations coefficient, %	75

Source: Pylypenko, 2009, p. 149.

In such cases, the risks are considered exogenous to any single bank and endogenous to banking sector as a whole. In addition, the use of FSI has some limitations: Firstly, it is impossible to predict the fluctuations of the financial market using only these indicators; Secondly, FSI does not include interbank relationships that have appeared. Therefore, the analysis of systemic risk calculated FSI should be complemented with other tools and methods To determine the sources of credit risk ECB Scorecard includes indicators of balance sheet exposure to credit growth, terms of financing and country risks, industry risks and risks by economy sectors. Useful indicators for assessing the degree of competition in the banking sector include the price of credit risk, indicators of credit growth and lending volumes, deposit and total margin. They also help by monitoring prevent possible danger of risk premium to be understated to capture market share, which can cause serious system instability, when due to inadequate risk assessment income is insufficient to cover future losses. Another tool to identify sources of risk is a number of indicators of financial condition of the sector borrowers (Olsena, 2005, p. 125).

Table 5. Indicators of financial security of regional banking sector

Indicators	The optimal coefficient values
Liabilities	
Equity/assets	0.08-0.15
On-call and term liabilities/assets	0.5-0.7
Term liabilities/assets	0.2-0.35
Term debt/total liabilities	0.1-0.3
Other liabilities/total liabilities	→ min
Assets	
Earning assets/total assets	0.75-0.85
Earning assets/paid liabilities	≥ 1.0
Loans/liabilities	> 0.7 (aggressive policy) < 0.6 (cautious policy)
Liquidity	
Cash assets/on-call liabilities	0.2-0.5
Cash assets/on-call and term liabilities	0.05-0.3
Securities/liabilities	0.15-0.40

According to the calculations of a number of international organizations, the maximum influence on the value of aggregate performance indicator have: amount deposits attracted (0.14), loans granted (0.59), the ratio of deposits to the amount of capital (0.49), ratio of loans granted to capital (0.76). The figures in parentheses mean dependence of change of efficiency from increase of indicator. For example, with an increase in deposits attracted by 1% efficiency of banking sector will increase by 0.14% (Yanova, 2009, p. 94).

The scope and character of use of payment cards reasonably considered as one of the most important indicators of the level of retail banking business. Operations with a payment card show the degree of integration between banking sector and society. It's enough to say that number of cashless payments for goods and services in the industrialized world in the structure of all monetary transactions is up to 90% (Panfilov, 2009, p. 288).

A number of technical indicators are used for quantitative parameters of the efficiency of banking sector calculation:

1. Indicators of performance: the ratio of expenses to the income for the relevant period; the ratio of expenses to the average value of assets; year-to-year dynamics of expenses volume; ratio of commission income to the average annual value of assets; the ratio of interest income to the average annual value of assets;
2. Indicators of profitability: net income return; return on equity; return on assets; overall profitability.

The efficiency of banking sector is also characterized by the level of cost recovery by the income ("cost/efficiency"). Most CEE countries have this figure at a sufficiently low level, indicating a low level of expenditures, which maintain a certain level of income and, as a result, high profitability (Yanova, 2009, pp. 94-95).

D. Karlov considers the following basic formal rules or institutions as a safety net (Miller, Van Hoose, 2000; Karlov, 2005, pp. 23-29): 1) admission of participants to financial intermediation; 2) deposit insurance; 3) lender of last instance; 4) supervision of the financial system; 5) exit from the financial system (bankruptcy law).

He notes that theoretical ideas and practical implementation of network security institutions are constantly evolving. Today the basic principles of their creation strengthened, however it is hard enough to name countries that have identical protective mechanisms, which are equally effective. The researcher suggests five key aspects that require special attention when organizing a security network (Folkerts-Landau, Lindgren, 1998, p. 13): 1) inadequate risk management policy of the bank in the cut with the interests of depositors and creditors; 2) lack of adequate information about the financial stability of individual banks; 3) existence of explicit or implicit guarantee of the public sector obligations of banks; 4) inefficiency of the organization and supervision; 5) concentration of owners and related financing.

In our opinion, the financial indicators of the banking sector of national economy safety as well are: proportion of its assets, capital, deposits, loans in total amount of similar indicators of global banking community; gap between savings of domestic economic sectors and received bank loans in percents to GDP; the level of banking sector losses due to shadowing of banking industry; survival rates of banks in specific socio-economic conditions as the number of operating banks to the maximum number ever recorded; rate of banking sector conformity to socio-economic needs (availability of banking institutions to the population, businesses); dynamics of bank fraud, counterfeiting.

Condition of banking sector deposit security is characterized by such indicators as: volume of deposits; volume of deposits to GDP; volume of deposits to total loans; real interest rates on deposits; the ratio of deposits in national and foreign currencies; the ratio of foreign currency deposits to broad measure of money supply; bank's market share of deposit services; share of long-term deposits in total deposits; the ratio of deposits of individuals and legal entities; amount of population deposits insurance fund; amount of insurance compensation on population deposits; minimum and maximum size of the fund of bank deposits protection to the total volume of all bank deposits.

The level of banking sector credit security is evidenced by such indicators (Sidorenko, 2010, pp. 177-178): difference between rates on loans and deposits (as evidenced by the practice of Ukrainian commercial banks, this difference should be at least 3-4%); gap between rates on short-term borrowings and "overnight" loans in the interbank credit market; volume of the cash flows of the bank; the Bank's share in the market of credit services; degree of reassessment of requirements and ratings; share of unsecured loans in the bank; the ratio of the average monthly income of the borrower and the average payment on the loan; number of insurance claims for loans; the ratio of off-balance sheet transactions (issuing of bank guarantees and letters of credit) to the total assets of the bank; concentration ratios as indicators of measuring the level of concentrations risk (industry concentration as share of industry portfolio in total aggregate of earning assets; mortgage concentration limit as a measure that quantitatively determines the amount within which the bank can take a particular type of collateral based on risk concentration; concentration on a group of related borrowers as a measure that quantitatively determines the maximum permissible value of loan funds, within which the bank can carry out active operations with this group of related borrowers, based on the concentration risk).

Indicators of monetary security of banking sector of the national economy are: volume of foreign currency deposits, currency purchased in the interbank market and received from foreign borrowers, the volume of Eurobonds issued by commercial banks.

As an indicator of inflation security of banking sector of the national economy one should use: real interest rates on deposits and loans, real profitability.

Investment security of banking sector of the national economy should be measured by the ratio of bank investment to GDP, of regional banking sector – to RDP; share of registered banks with foreign capital in the total number of commercial banks operating in the country.

In terms of significant volumes of foreign and domestic banking sector liabilities great importance is gained by determination and constant monitoring of indicators such as debt, an important component of financial security. Thus, to assess the latter the following indicators can be used:

The ratio of external liabilities of banks to their assets (as precedents show if national currency gets three times weaker and ratio of external liabilities to assets gets over 30%, they become insolvent, and the probability of bankruptcy is very high);

The ratio of short-term and long-term external liabilities of banks (long-term and short-term liabilities should correlate as 70:30);

The ratio of internal and external liabilities (internal and external debt of banks should correlate as 50:50 to balance the risks in the sphere of internal and external liabilities in sustainable and risk-balanced conditions);

The ratio of the internal debt of banks to their assets in a stable macroeconomic environment does not have to exceed 30%.

Drawing up these threshold values of internal and external liabilities to GDP, we obtain a normal debt load – about 83-85%, threshold – 95% (Mal'tseva, 2009, pp. 131-159).

Indicators of the banking sector of national economy debt security are size and share of its internal and external liabilities in total external and domestic liabilities of economic agents in general in the country; the ratio of banking sector liabilities to GDP; correlation of external and internal liabilities of the banking sector; terms and price of loans; share of short-term debt in total liabilities.

3. Effectiveness of financial security of banking sector provision evaluation

To build a complete system of financial security of the banking sector implementation one should clearly and efficiently evaluate the effectiveness of the process. This will make it possible not only to determine the probability of existing and potential threats to the financial security of banking sector, but also to evaluate the effectiveness and efficiency of the measures used to implement it.

As it is very difficult to clearly assess possible losses from certain threats, and on some of them – not possible at all, it is advisable to use not only direct but also indirect estimates. It is recommended to look at following criteria for this purpose (Alaverdov, 2004, p. 15): total quantity of threats found, with threats differentiation, totally prevented, partially prevented, negatively implemented in full (in dynamics in comparison to previous periods); direct financial losses, caused to banking sector as a result of fully and partially implemented threats; potential losses caused to banking sector as a result of fully and partially prevented threats; results of planned pre-

ventive measures implementation; absence of reasonable claims from legal authorities, separate departments and employees to commercial bank's security departments.

Evaluation of the effectiveness of measures of threats protection should be carried out by correlation of value of saved resources with the value of taken measures.

In addition, the effectiveness of protection means applied should be measured taking into account reduction of time intervals used to implement such protection on the basis of cost factors.

It means that the system of financial security of banking sector should include a set of security measures that are optimal by response to threats time and have reasonable price.

Reduction of time intervals duration and the costs of protection against threats to the financial security of banking sector, as well as minimizing the amount of lost opportunities, in our view, should be reached by:

- Examinations of legal acts that regulate the formation of financial security of the banking sector of national economy provision or influence it.
- Creation of registry of objects and subjects of financial security of the banking sector of Ukraine.
- Advance classification of existing and potential threats and challenges to the financial security of the domestic banking sector and determination of their scope and probability of appearance, assessment of the nature and degree of impact on various aspects of banking sector.
- The speed of response of financial security of the banking sector of Ukraine subjects to hazards (Threats) must exceed the speed of their formation and maturation. This response should be aimed primarily at eliminating these hazards (Threats).
- Identification of reserves to ensure safe financial operation of the banking sector of Ukraine.
- Creation of list of indicators that define the boundaries of negative processes and send signals about possible areas of distress, for reasonable estimation of the financial security of the banking sector of national economy, the definition of thresholds and gathering, grouping and processing output indicators of its operation.
- Permanent monitoring (indicative analysis based on aggregate indicators of financial security) of condition of the most vulnerable areas of the banking sector of Ukraine functioning, which will help to judge the evolution of existing dangers and threats in this area and their modeling.
- Calculation of current values of indicators of financial security of the banking sector of national economy and their comparison to the thresholds for different areas of functioning of the banking sector of national economy assessment.
- Recognition of pre-crisis situations, early diagnostics (problem formulation and analysis) of the crisis symptoms (deposits outflow, credit "boom"); appearance of full funding problems for banks; sharp exchange rates fluctuations; revenue and profitability decrease, unprofitability of commercial banks; problems with the reserves formation, lack of funds for restructuring, low liquidity, insolvency; growth of inflation and devaluation expectations of customers; reduction of the quality of banking products, services and operations; the use of banks to service the informal economy and money "laundering"; development of intermediation reduction and other destructive processes (criminalization increase *etc.*); appearance of various kinds of structural and functional deformations in the banking sector of national economy and their scope evaluation.
- Prediction of crisis and possible consequences of the decisions taken in the economy and banking sector in particular for the banking sector of national economy, and as well the behavior of individual commercial banks and the banking sector of the national economy as a whole.

- Development of possible scenarios for counteracting the reduction of financial security of the banking sector of Ukrainian economy, creation of participants list and their interaction character.
- Urgency (the faster anti crisis mechanisms are implemented the bigger is the chance for banking sector to renovate) and adequacy (level of costs and losses must be appropriate to the level of threat) of response to the crisis in the banking sector of Ukraine.
- Complete implementation of internal capabilities of certain domestic commercial banks to overcome the crisis.

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Chapter 34

Managing Business Processes in Banking Operations

Paweł Telejko

1. Introduction

Process-oriented approach is one of the fastest developing concepts in theory of management. Process orientation is relevant and strongly accented both in literature and business practice. Managing business processes is a crucial instrument of managing today's companies. Organizations perceive Business Process Management as an instrument allowing to achieve increase in efficiency, and therefore reduction of costs and at the same time increase in customer satisfaction. Customers expect positive experience and disappointed easily turns back from product or service provider.

Effective business processes require constant improvement initiatives. Temporary actions are not sufficient due to turbulent changes in the environment. External factors generate pressure for adoption of business processes to changes or even anticipation and generation of them.

Business processes are more and more often considered competitive advantages of companies. This is particularly apparent in service providers industry, in particular banks, as customer expect low time-to-yes (*e.g.* fast credit decision), innovative financial products in competitive price and professional, competent and fast service.

This paper outlines importance of managing business processes in financial institutions with particular focus on banks. First part of publication (section 2,3 and 4) concerns theory of business processes and business process management. In second part (section 5 and 6) emphasis was placed on process management in financial institutions/banks – section 6 consists of business cases of successful implementation of improvement initiatives in financial institutions. Several hypothesis has been formulated: successfully implemented process improvement initiatives brought measurable benefits to financial institutions; financial institutions are extremely interested in process improvement initiatives. The research methodology used in the paper is case study.

2. Definition and essence of the process

The word “process” is commonly used both in informal and business situations. Not only does the usage commonality determine the universality of this word, but also its large number of possible interpretations. It appears that process can be defined as a certain set of actions, which are connected with one another to form a whole. Literary works provide a broad terminology regarding processes (please refer to Table 1 below).

Table 1. Selected definitions of business processes

Author	Process definition
Stabryła A.	Series of actions (functions) placed in a certain order, which indicate a cause-effect relationship of phenomena affecting an object
Davenport T.	Organised and measurable set of actions performed to create the output for the client/market
Hammer M, Champy J.	“...collection of activities that takes one or more kinds of input and creates an output that is of value to the customer”
Rummler G.A., Brache A.P.	Series of steps designed to provide a product/service
Brilman J.	A whole formed from activities performed sequentially to achieve goals planned in advance
ABPMP	Work done from the beginning till the end (all of the work activities exceeding functions) which provides the client with the value
BPTrends	Set of actions initiated by an event, which converts information, materials and/or business obligations and creates output

Source: Czekaj, 2009, pp. 13-15; Senkus, 2013, pp. 146-151; Hammer, Champy, 1993, p. 17; Rummler, Brache, 2000, p. 75.

The essence of the process is determined by its key components. These are as follows (Bitkowska, 2009, p. 26):

- parties involved whose needs are fulfilled by the execution of the process,
- the flow of the process – its structure (what do we do?) and the process map (how do we do it?)
- process owner – the party that coordinates the process and is responsible for its outcome;
- IT tools – used to facilitate the flow of the processes
- Key Performance Indicators (KPIs) – used to measure progress level of the processes.

Literary works provide numerous classifications of processes. Selected classifications are listed in the Table 2 below.

Table 2. Selected classifications of processes

Process classification criteria	Processes
Process maturity	accidental repetitive, undocumented repetitive, defined, documented and unmeasured defined, measured, unmanaged measured and managed
Nature of the process	strategic operational/tactical supporting
Process complexity	principal processes sub-processes, procedures instructions
Value creation and organisational level	primary supplementary managerial
Importance	critical important unimportant

Source: own work based on: Procesowcy.pl, 2013, p. 10; Ossowski, 2012, pp. 300-303; Bitkowska, 2009, pp. 57-65.

3. Process-oriented approach

Every organisation can be presented as a certain set of processes. This statement reflects a key meaning of process-oriented approach, which defines the overall perception of organisation understood as series of connected with one another processes. The idea of process-oriented approach is to provide the customer with values they expect to receive, to decrease costs and operational time spent on task completion, to increase the quality, and to convert strategic objectives into operational goals (Bitkowska, 2009, p. 25). Nowadays, process orientation is a key element in various modern methods and managerial concepts focused on processes, such as Business Process Reengineering, Total Quality Management, Six Sigma, Lean Management, Kaizen, Balanced Scorecard and others (Grajewski, 2012, p. 22; Morris, Field, 2008, p. 1).

Process-oriented approach was derived from classical approach, which began during the Industrial Age period. One of the assumptions of the classical school of economics was that relations between employees should be simplified, which resulted in grouping tasks in functions based on similarity and specialisation. Owing to the aforementioned approach, costs could be reduced and additionally, the transparency in the area of employees' responsibilities was fostered. Today's business requires flexibility which may be provided by organization designing based on viewing it through the prism of process (Grajewski, 2012, p. 21). Too excessive concentration on particular functions and insufficient cooperation between departments cannot be maintained. Since there is shortage of actions coordinating the flow of processes between functions and neutralising bottlenecks, deficiency or even lack of awareness in processes of producing goods or

providing services may occur (Rummler, Brache, 2000, p. 32). Participants' awareness of process may be limited to their familiarity with tasks accomplished within particular units or departments. Consequently, such vertical perception of organizations leads to "silo effect", which is associated with difficulties in using inter-functional dependencies to solve arising problems and challenges resulting from the necessity of quick reaction to opportunities appearing for the company (Tartanus, 2009). Nevertheless, it has to be mentioned that functional and process orientations do not have to be antagonistic to each other (Lichtarski, 2004, p. 42). In practice, the companies are very often organised according to their functions. The idea of process orientation means looking at the organisation from the process perspective. Therefore, even those organisations, which have function structures, may efficiently and effectively complete their processes, providing organisations are focused on processes.

Process approach origins date back to classic school of economics. F. Taylor is considered a precursor of process orientation, as he published *Zasady naukowego zarządzania* in 1911 and was named the father of theory of organization. Taylor postulated division of work into separate tasks and grouping it into functions and at the same time minimization of redundant activities. Furthermore, he developed concept of functional organizational structure.

The second milestone in evolution of process orientation in theory of management was development of Business Process Reengineering (BPR). M. Hammer and J. Champy, the authors of *Reengineering the Corporation: A Mefisto for Business Revolution* were the first who set processes in the spotlight. They postulated re-thinking and radical re-designing of company processes in order to improve company performance. The concept provides a revolutionary change and migration from functional to process organizational structure.

Subsequently attention was aimed on concept of Business Process Management (BPM), which focused on process as well but moved from radical to evolutionary changes. Economists and practitioners, e.g. G. Rummler, A. Brache and R. Burlton suggested an approach which consists in constant analysis and process improvement.

Along with the development of IT solutions the importance of IT systems in process management gained new meaning. Nowadays, the role of BPM tools is priceless as they give managers a broad view into business and provides more direct control over it, and therefore help to manage efficiency, flexibility, innovation, compliance with regulations *etc.* (Smith, 2005, p. 1).

4. Business Process Management as a structured framework for managing processes

Every organization must provide value to its customers to survive. However, there are numerous organizations on the global market fighting for appreciation of customers. In order to become a winner in the global competition and provide products in quality, timeframe, price desired by a customer, while operating in turbulent environment, organizations need to be well organized. Nowadays business processes management became foundation for organizations to build competitive advantage and the ability to improve them became critical to compete on market. This is confirmed by market researches, e.g. according to BPTrends the major business drivers causing organizations to focus on business process change are: cost reduction & production improvement (54%), customer satisfaction improvement (37%), management coordination improvement (35%) and improvement or creation of new products (34%) (BPTrends, 2014, p. 13). It became

very clear, that companies find in managing business processes an opportunity to achieve success on the market.

Business processes require managing in order to meet requirements of stakeholders, what in turn has extorted developing a structured approach – Business Process Management. BPM is a cross-business discipline theory focusing on continuous process improvement. Its objective is to maximize efficiency of business processes and to align them with both customers’ needs and organization strategy. Organizations strive to continuously improve their processes, thereby wish to make BPM a permanent part of their approach and culture. Selected definitions of BPM were presented in Table 3.

Table 3. Selected definitions of Business Process Management

Author	Definition
Rummler A.G, Brache A.P.	Consists of the following elements: <ul style="list-style-type: none"> – Goals management (setting up goals for activities crucial to the process) – Performance management (analysing opinions re processes, comparing results with z adopted criteria, handling information about results, identification and correction of errors, updating goals) – Resources management (ensuring resources required to perform processes) – Management at the contact point between departments (managing “white space” between activities with emphasis on inter-department cooperation)
Grajewski P.	The act of optimizing the structure of parts of organization in terms of their impact on generation of value
ABPMP	“A disciplined approach to identify, design, execute, document, measure, monitor, and control both automated and non-automated business processes to achieve consistent, targeted results aligned with an organization’s strategic goals”
BPTrends	“A broad approach to managing the process work at an organization. It often refers to an effort to coordinate a number of different process approaches (...), and various types of process automation”.

Source: own work based on Grajewski, 2007, pp. 54-55; Rummler, Brache, 2000, pp. 54-55; www.abpmp.org/?page=BPM_Profession; www.bptrends.com/resources/glossary/business-process-management-bpm.

BPM relies on creativity and insights of practitioners to provide improvements. This is a strength and weakness as well. Successful and lasting improvements require more experience and understanding how to design a change than having industry knowledge. BPM delivers flexibility to try multiple simulated improvement scenarios and supports creativity and drives innovation (Morris, Field, 2008, p. 6).

5. Managing business processes in banking

Banks offer their clients financial products (*e.g.* current accounts, deposits, loans *etc.*), and sales and handling of banks' products, *i.e.* providing financial services require from banks having adequate processes. According to the above, financial services have distinctly process character and banking operations may be easily observed through processes. Due to bank's specifics, provision of financial services is spread in many parts of financial institution. Part of activities related to direct contact with customers is performed in Front Office which is also the most visible fragment of a bank for a customer. The remaining processes are performed in bank's Back Office.

Due to process-related specifics of financial services, banking is one of branches extremely interested in BPM. What is more, researches confirm that financial institutions are leaders in adoption of BPM approach and software. Based on a research performed by Capgemini 65% of financial services decision-makers state that their companies had launched BPM initiatives and 52% of them expect greater interest in BPM in the upcoming year (Capgemini, 2012, p. 33). Capgemini's report further reveals that BPM is particularly important in banking and insurance, private equity due to increases in regulations, *e.g.* MiFID or Basel III. Compliance is identified as a key driver for their business.

Banks strive to reduce complexity of their processes and therefore reduce costs. According to research performer by Gartner in 2009 improving business processes was one of the top priorities for financial services companies (Gartner, 2009, p. 5).

Customer experience and satisfaction is highly dependent from quality of processes. Research of The Economist Intelligence Unit and PricewaterhouseCoopers reveals that customer service, methods of sales and marketing and quality of products and services are considered main competitive advantages by managers of financial institutions (PricewaterhouseCoopers, The Economist Intelligence Unit, 2004, p. 6) and all require having effective processes. These finding are still or even more relevant (King, 2013, pp. 38-40)

Bitkowska A. lists examples of banks which have implemented BPM: Bank of Nova Scotia, Barclays Bank, JP Morgan & Chase, Lloyds TSB, Merrill Lynch and others (Bitkowska, 2009, p. 81). Consulting firms, IT solutions providers and banks very often boast about successes in implementation of BPM and effects of their improvement programmes. However, due to the fact that processes are one of the most significant know-how of financial institutions, comprehensive information is not presented to the public. Furthermore, in literature there is not too many place dedicated to BPM in banking. Example publications treat about optimization initiatives and BPR (*e.g.* Ringim, Osman, Hasnan, Razalli, 2013, pp. 243-353; Shin, Jemella, 2002, pp. 351-363) several describe the role of Business Process Management Systems (BPMS) in banking (*e.g.* Becker, Burkhard, Winkelman, 2009).

6. Case studies – managing business processes and process improvement initiatives in financial institutions

Numerous cases of process improvement initiatives or cases describing a.pproach of financial institutions to manage business processes are available online. Due to limits of this publication 2 most interesting cases were presented.

Lincoln Trust Company – business process improvement and IT systems implementation
(www-03.ibm.com/press/us/en/pressrelease/34238.wss)

Lincoln Trust Company, one of the leading US provider of trust and custodial services, improved customer satisfaction, and finally reduced costs through successful managing its process. Successful process optimization and development of supporting IT solution has enabled Lincoln Trust's to process approximately 100 ths/monthly documents related to retirement account services and transactions. The company has establishing a single system with e-documents which replaced paper-based process. The following benefits resulted from the improvement: 120% return on investment in very first year, 75% reduction of processing time and 25% increase in productivity and finally 90% decrease in complaints, thus significant improve of customer experience.

Another improvements have been achieved when the company's Corporate Retirement Services unit faced a new business opportunity and was required to establish a new customer on-boarding system. Using IBM technology the company has designed and implemented an automated and seamless process for customer's on-boarding. Approach applied by Lincoln Trust Company has ensured that all stakeholders were involved in designing a new process. Company has arranged a series of workshops with representatives of all process participants, *i.e.* sales, processors, RMs, management, IT and consulted solutions using business process mapping tools. Later on the output was presented to executive management for review and after corrections and approvals – to all process participants. Helen Z. Cousins, VP and CIO of Lincoln Trust Company said: "through automation and process simplification, we've leapfrogged larger competitors in terms of our superior ability to on-board and service customers".

BMO Harris Bank (M&I Bank) – customer-facing process improvement

(www.openspan.com/resources/case_studies/cs_mibank_frontline_and_contact_center_bankers_get_back_office_power.php)

BMO Harris Bank (previously known as Marshall & Ilsley Corporation or M&I Bank) is a U.S. based bank serving retail, private and corporate customers. Due to dynamic growth current processes and resources become inadequate to company needs. In particular customer-facing process was far too complex, inefficient and very often manual. Furthermore, bank had no access to source codes of its IT systems and was unable to flexibly modify them.

The company decided to launch improvement programme which consisted of the following goals:

- Improving service, increasing productivity and efficiency;
- Enhancing employee motivation;
- Reducing costs by limiting paperwork;
- Streamlining processes.

The bank using support of OpenSpan specialists has designed and deployed a servicing platform which connected branch with central contact centre which has satisfied compliance requirements and ensures quality of data. The implemented solutions was aimed at streamlining and enhancing processes. About two dozen servicing activities were reengineered in order to eliminate manual processing. Reduction of three minutes per activity was achieved. Furthermore, customer on-boarding process was improved, as account opening and credit validation process could be performed simultaneously.

BMO Harris Bank gained the following benefits:

- Increase in productivity;

- Cost savings;
- Reduce in cycle times;
- Enhancing customer satisfaction.

7. Conclusion

Process-oriented approach in managing organizations and therefore provision of framework for constant business process improvement is a focus of banker's attention. The reason of such situation is firstly – specifics of banks' services, which are sensitive to efficient processes, secondly – scale of banking operations and number of processes performed, and finally – pressure of environment (competition, customers' expectations, regulations and others). Bank is not only required to provide services in compliance with existing regulations but due to increased competitions in the sector, to ensure customer satisfaction. The crucial factor to achieve it is among other things effective business processes.

Banks very often took actions to improve their processes and to establish a system enabling monitoring and constant improvement of them (processes). The cases of successful implementations described in chapter 6 show that business process management is not only highly appreciated but necessary to develop. Banks perceive effective processes as a crucial factors of their competitive advantage, which may enable them to reduce costs and increase customer satisfaction. Positive customer experience is required to minimize client churn, as the segment of churning customer is a major target for competitors for acquisitions (due to relatively small number and unattractiveness of unbanked).

To conclude, hypothesis formulated in the introduction, *i.e.*: successfully implemented process improvement initiatives brought measurable benefits to financial institutions and financial institutions are extremely interested in process improvement initiatives were positively verified.

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