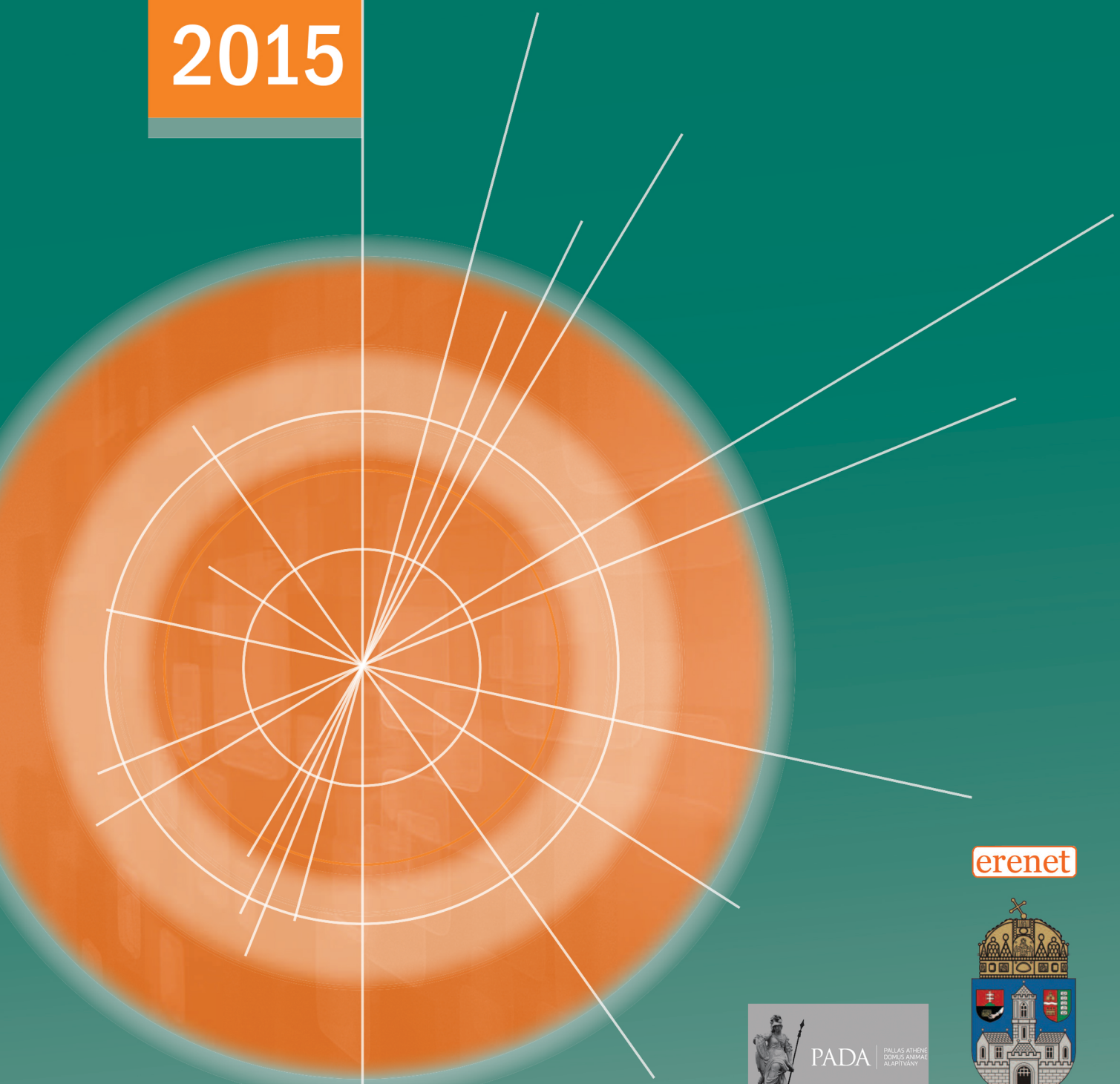




KELETI FACULTY
OF
BUSINESS AND MANAGEMENT

Management, Enterprise and Benchmarking in the 21st Century II.

2015



erenet



Óbuda University



**MANAGEMENT, ENTERPRISE
AND BENCHMARKING
IN THE 21st CENTURY**

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PREFACE

„A company that makes nothing but money is a poor kind of business.”

Henry Ford

Nowadays all the stakeholders specify many expectations and requirements towards their business partners. Completing them is sometimes an impossible mission; even recognizing the needs is a hard task. In the real business success - beyond the revenue – some other factors also appear: innovation proposals from the partners, long term strategic connections and trust in the business.

In the volume of „Management, Enterprise & Benchmarking in the 21st Century”, tutors and researchers of 15 higher educational institutions from 7 countries try to help with 30 new studies.

The studies — aligned to the research activities on Óbuda University Keleti Faculty of Business and Management – can be related to the following specialities: Small & Medium Enterprises, Innovation & Organisational Strategy, Business Economics, Human Resource Management, Applied Marketing, Knowledge Management, Macroeconomics

The volume contains mainly the edited and reviewed materials of the best presentations of Management, Enterprise & Benchmarking Conference. It's a traditional event of the Faculty, organised 13th time this year.

It also includes professional articles written specifically for this volume to enlarge researchers' mind.

The studies can be downloaded from the website of Keleti Faculty of Business and Management of Óbuda University and the RePEc database.

I hope that my researcher colleagues, the business professionals and also university students can also benefit from our volume focusing on business development.

I would like to render special thanks to Dr. András Medve CSc., Dean and Prof. Dr. János Fodor DSc., Rector, as well as to Pallas Athena Domus Animae Foundation for supporting the electronic publication of the volume.

Budapest, June 2015

Pál Michelberger
Editor

ÓBUDA UNIVERSITY



Óbuda University, providing education for around 13000 students, was formed, and started to operate under this name on January 1st 2000 in compliance with parliament legislation for the restructuring of higher education and as a result of the integration of former Bánki Donát and Kandó Kálmán Polytechnics along with the Technical College for Light Industry.

Located in the capital, in the economical and cultural center of the country, the college takes the advantages provided by the stimulating environment. The college with almost 130 years of historical traditions offers wide range of training as an internationally recognized institution of scientific research, development and education.

Óbuda university being part of the European higher education region is actively participating and with high commitment in the establishment of knowledge-based society and economy.

Within the frame of life-long learning the college is committed to providing BSc, MSc and adult education programs satisfying the demands of the human resource market and training qualified experts with up-to-date knowledge, international outlook and foreign language and informatics skills for the employers.

The institution has played an initiative role in the start and achievement of the Bologna process in Hungary. Although its main profile is preparing students for BSc diploma, it also offers MSc programs in selected areas. In addition, Óbuda University also takes part in higher-level vocational training, postgraduate training, adult training, and in the field of training teachers of the related professions.

SMEs are Facing with Recession Trends

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Abstract: In 2014, in spite of some signals of recovery in the previous year, the recession trends in SME development prevailed again. It was outcome of severe water flood, low external demand related to EU recession, low domestic demand, imposed by measures of fiscal consolidation program and general, not favorable business environment. Decreasing number of new established companies and at the same time increasing number of those closed one continued. As small and opened economy, Serbia is oriented toward foreign trade, but SMEs are still not very competitive abroad, considering their share in overall volume of export and import, lower than 1/2 of total. As positive trend one can see increase in volume of export, faster than increase in import. Several investigations of quality of business environment proved not favorable position of SMEs with important limits of development, regarding financial problem, like collecting of claims and access to financial sources, and complicated and expensive administration. Those findings are very similar to opinion collected by interviewing of entrepreneurs, which pointed limits for investments and development of business. Difficult measures of fiscal consolidation, which are introduced in order to put public debt under control, are combined with introduction of the strategy for SME support. So, one can expect that those measures would result in more friendly business environment for SMEs, but need time to be materialized in greater number of new companies and increasing competitiveness on the international market.

Keywords: SME, crisis, business climate, support policy

1 Introduction

If one can conclude that there were modest and fragile signs of recovery of Serbian SME in 2013[1], than, for 2014 this statement cannot be drawn. It means that, unfortunately, SMEE are still in recession.

Why we cope with SMEE at all? They count 99,8% of all economic subjects and create 30% of the national GDP[2].After 15 years of transition the state is taking care about large companies, pretty unsuccessfully. More than 180 large companies

were closed at the end of 2014, which could not survive and moreover, foreign creditors, IMF and WB mainly, asked for it, arguing that the Government has to cut subsidies, as a part of fiscal consolidation program.

After positive, although weak and unsecure trends in business demography, we are in 2014 witnesses of declining number of companies. Shops, at the same time, somewhat increased their number, but it cannot give overall positive remark for SMEE. The main factors of recession are related to 1) overall unfavorable business conditions, due to water flood in May of a catastrophic character and 2) fiscal adjustment program, which included cut in aggregate demand (cut in wages of public sector, pensions and dismantle subsidies to large state owned companies). The outcome was decrease of 1,5% in GDP¹.

Foreign trade is important factor of development and, at the same time, gives us relevant information whether our companies are competitive abroad or not. Although SME's share in total export is 98% [2], accounting to numbers, they contributed in 2013 with 43% of value of total export. Large companies are simply more important.

The main Serbian economic and not only economic problem is high unemployment rate, which reached 17% in 2014¹. At the beginning of the recession SME did not reacted by cutting number of jobs. However, in last few years they did it in order to accommodate to difficult conditions. Slower recovery of SME in comparison to large companies induced cut in number of employees by 17%, while in large one decrease of number of jobs was 0,5% only[2].

When asked what are limits for recovery and development Serbian entrepreneurs pointed pure access to finance (57%), claims collection (53%), low demand (42%) and low competitiveness (33%) [3].

National Alliance for Local Economic Development, NALED, has prepared the analysis of business environment, counted RIS, Regulatory index of Serbia [4]. Overall remark was slightly better than year earlier, which impose better business environment, but one can say that speeding up reforms needs time to be matured and even more time to give positive economic performances as result.

2 Business demography

Statistical data on business demography are structural indicators which can be used to assess improvement in development of SMEE, assess dynamism of creating of economic subjects and new jobs and increase in number of SME and shops. As a negative outcome of economic crisis and worsening business environment, from

¹RSO - Statistical Office of RS

2008 on number of new established companies and shops is decreasing, while at the same time number of those which close their activities is increasing.

In 2013 number of newly established companies was somewhat increased (0,2%), while number of closed companies was cut by 2/3 (Table 1). At the same time number of new shops was higher (3,1%) and closed one increased, as well (9,8%). It was encouraging to conclude that there are sign of unsecured recovery [1].

Unfortunately, those positive signals were not long lasting, as oscillations continued. Namely, in 2014 unfortunately number of newly established companies decreased in comparison to the year earlier (-4,6%), while number of closed companies decreased also, but less (-1,4%), with negative net effect. At the same time number of new and closed shops decreased (-6,6% and even -24,8%, respectively) (Table 1).

If one can look at net effect, than can be satisfied, as number of companies, although modest, is increasing from year to year, after reverse effect in 2011, and in 2014 was 3,2:1, while for shops net effect was almost zero (1,1:1).

	No of enterprises		No of shops		Net effect	
	opened	closed	opened	closed	companies	shops
2008	11.248	3.068	43.375	34.572	3,7	1,3
2010	9.461	9.325	35.036	37.086	1,0	0,9
2011	8.470	13.581	32.236	35.288	0,6	0,9
2012	8.648	7.355	30.200	32.853	1,2	0,9
2013	8.735	2.562	30.931	36.379	3,4	0,9
2014	8.266	2.592	29.102	27.137	3,2	1,1

Table 1

Serbia - The number of newly established and closed SME

Source: RSO1, processed by PPS3 - authors' research

Looking at macroeconomic circumstances on the domestic market we can conclude that in 2014 business conditions were less favorable than the year earlier. GDP was less for 1,5% in comparison to 2013¹, in spite of projection of modest increase of 1%. This drop was due to water flood in May, of catastrophic character, which hampered mining and energy production, due to modest demand and recovery in EU, as the main Serbian international trade partner, and due to suppressed domestic demand, induced by introduction of a fiscal adjustment program, which imposed

³-PPS – Public Policy Secretariat of the Republic of Serbia

cut in wages in public sector, pensions also and cut in subsidies to companies in restructuring process.

The continuation of recession (Serbia is facing zero rate of growth of GDP for six year during the crisis)¹, decreasing foreign and domestic demand, decrease in investments, increase in risks and operating costs and fear of failure, altogether negatively affected business environment. Decreasing number of newcomers in SMEE sector affected limits for new jobs and increase in productivity, which is vital factor for improvement of international competitiveness. For instance, during 2014 number of newly established companies was 3.114 per month, while during 2013 was 3.200 and even 5.000 in 2007, the last year prior to the crisis.

	Enterprises		Sole traders		Total	
	birth rate	death rate	birth rate	death rate	birth rate	death rate
2007	16,2	5,0	22,6	14,9	20,7	12,1
2009	11,3	4,1	17,4	16,1	15,7	12,7
2010	10,7	10,5	15,6	16,6	14,0	14,6
2011	9,3	15,0	14,1	15,4	12,7	15,3
2012	9,4	8,0	13,4	14,5	12,2	12,6
2013	7,9	2,3	14,5	17,1	12,3	12,0

Table 2
 Serbia - Birth and death rate of enterprises and sole traders
 Source: RSO1, processed by PPS2 - research

Better look at the business demography one can get if count so – called birth rate, which calculate number of new established companies / shops as percentage (share) in total number of active companies (shops) and death rate, which calculate number of closed companies / shops in total number of active (Table 2). The tendencies are clearly negative, as consequence of several factors, as explained earlier.

On average, in 2013, on each one thousand inhabitants in Serbia operated 44,1 SMEE (so - called density of SMEE), of which 5,5 were new established economic subjects. If look at active population, of age between 15 and 64 years old, than on each one thousands inhabitants 64,1 SMEE operated, of which 8 new established. According to density of SMEE Serbia in 2013 was on EU average with 44,1 (EU 41), where Chess Republic reached the highest coefficient (90,2) and the least Romania (26,6) [5].

The rate of survival is indicator which points how many small and medium companies and shops established during the year succeed to survive in the year n+2,

when one can suppose that certain economic subject is adjusted to economic circumstances and found its own niche on the market. Comparing the indicator in 2007 and 2013 one can conclude that 62% of new comers survived during the first two years and continued to operate and also that the rate was much higher in 2007 than in 2013. The higher rate of survival had companies (93%) than shops (55%).

3 Regulatory index

National Alliance for Local Economic Development, NALED at the end of 2012 for the first time prepared the analysis of business environment quality, called Regulatory index of Serbia, RIS. The purpose of this investigation is to calculate quantitative, overall index of transparency and quality of legal process, law implementation, competitiveness and predictability of business environment.

Final remark for 2014 of RIS is 41,8 of maximal value of 100 points, which means that quality of regulatory framework in Serbia is 41,8 % of desirable standard. Although there is evident improvement in performances of the Government and other institutions measured by increase of 10 points in comparison to the previous year (RIS in 2013 was 31%) low value of the index points that quality of legal framework and its implementation is still a bottleneck for establishment and development of business [4]. Moreover, even when business environment is improved one has to wait years to see results in increasing number of companies and shops and their development.

Investors and entrepreneurs are looking for stabile economic policy, legal security, cheaper and more efficient administration and more transparent communication with civil services. From this point of view business environment is still non – favorable. Access to information is single component of the complex index which is improving from year to year. Administrative costs are still high and there is lack of cost – benefit analysis of laws, prior to their approval in the Parliament. Public discussions are organized rarely, for 1/3 of all law proposals and even 2/3 of law passed procedure as urgent matter [4].

Component	Indicator	2013		2014	
		Mark	Total	Mark	Total
Quality and thoroughness of law preparation	Effect analysis	63,6	43,0	51,4	39,6
	Quality of effect analysis	52,4		52,4	
	Regulatory effect quantification	12,9		15,0	
Publicity of law preparation	Public discussion	36,3	30,5	72,3	49,4
	Access to law proposals	-		63,8	
	Urgent procedure	19,2		27,2	
Legal predictability	Compliance of plan	-	-	21,9	41,7
	Frequency of changings	-		61,6	
Regular problem overcoming	Gray book acceptance	20,4	184	-	-
	SRP acceptance	16,7		-	
Accuracy in law implementation	Approval of sub - law	18,2	10,3	22,0	12,6
	Late in approval	2,4		3,1	
Regular and para-fiscal duties	Administrative costs	33,3	25,4	40,0	29,7
	Para-fiscal duties/budget rev.	17,5		18,6	
Access to information	Speed of admin answer	11,1	62,6	55,5	77,7
	Access to public info	76,7		77,7	
	Web cites content	100		100	
Regulatory index of Serbia			31,7		41,8

Table 3
 Regulatory index Serbia
 Source: [4]

The first component of RIS is related to assessment⁴ of the quality of law proposals, firstly, answers whether law proposal is based on the cost - benefit analysis of effects, secondly, what is the content of the analysis prepared, and thirdly, whether the analysis were prepared with quantification or not. As can be seen, unfortunately there was decrease in mark of quality of law preparation.

The second component answers the question about the degree of public discussion of legal proposals. Generally speaking, there is common feeling that public is consulted about law proposal from time to time, and more important, there are too many laws passed through urgent procedure, which means without any consultation. It is encouraging fact that there is improvement in all aspects of publicity of law proposals.

The third component is newly introduced one. It is related to stability of legal framework, which is very important issue for investors and entrepreneurs. The first indicator is measuring what is the degree of fulfillment of plan of legal changes. As one can see from the table it is clear that the Government succeed to introduce only 1/3 of legal changes promised. The second one is measuring frequency of legal changes and according to the result 30 laws was changed even 98 times, which says that there is low level stability of legal framework.

The fourth aspect is related to accuracy of legal implementation, measuring whether laws are prepared for implementation by sub – law acts approval. One can see that this aspect is a weak point, as the share of imposed sub – laws act in total is very low and postponing of sub – laws act approval and their late implementation is often.

The fifth aspect is very important one, especially important for entrepreneurs. It is related to fiscal and other related duties. According to the investigation there is slight improvement in the tax procedure and its costs, although low level of the mark says that there is a lot of room for improvement, which means that tax duties are still too high.

The last component of RIS is related to access of information. According to the assessment there is improvement in comparison to the previous year and more important, one can see relatively high level of mark.

⁴ Office for Regulatory Reform and Regulatory Impact Assessment (now PPS)

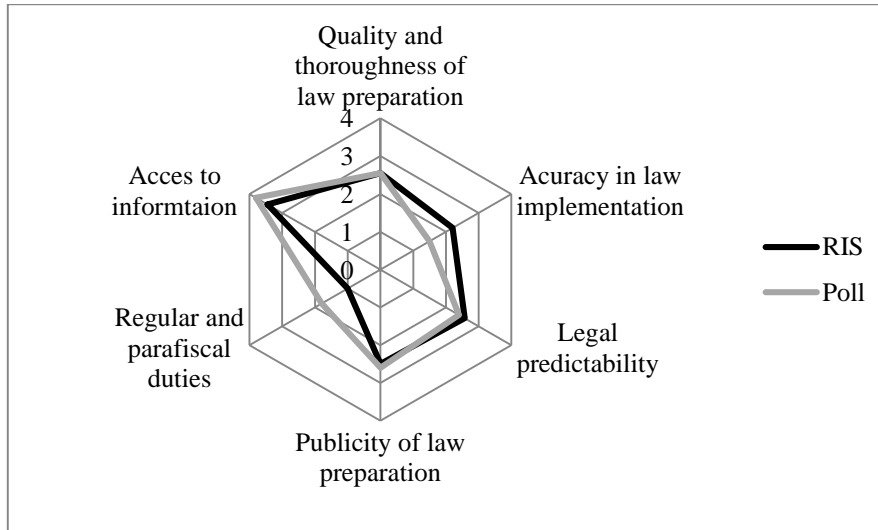


Figure 1
 Regulatory index of Serbia and Poll
 Source: [4]

In order to double check the findings, the same analysis included investigation prepared by IPSOS Strategic Marketing about entrepreneurial perception on legal framework for business (Figure 1). According to their opinion the best aspect of the legal framework in Serbia is related to access to information about legal framework on web sites of ministries and other institutions (57% positive). The worst point of legal framework for business is related to speed of reaction of the Government on entrepreneurial complaints and introduction of legal adjustments necessary (2% positive, only) [4].

When asked about bottlenecks of busies development the most entrepreneurs pointed operation of their competitors in shadow economy (67% of them), than high tax and other duties on wages (64%), thirdly, other tax and administrative duties (55%). The least problematic, from the point of view of entrepreneurs, are limits related to custom duties (20% of them pointed it as a problem), receiving license for work (27%) and different inspections (28%).

The poll investigation covered also question of administrative procedure and their time consuming as problem for business development. Procedure for getting construction license was labeled as the worst procedure (for 16% of all entrepreneurs asked). The second was procedure within tax office (10%), thirdly, court procedure (10%). The least problematic for entrepreneurs are administrative bills procedure (0,4%), traffic permit (0,4) and VAT payment procedure (0,8%).

4 Competitiveness problem still persists

For small and opened economy, like Serbian, foreign trade is important factor for development and recovery in order to overcome the economic crisis. Export and import volume and their structure point efficiency of companies, including SMEs and say whether our companies are competitive world wide or not. In order to improve competitiveness National Bank of Serbia introduced policy of flexible exchange rate of domestic currency (dinar), with intervention on the FX market, like Romania and Hungary, with idea to make Serbian export competitive in price term.

Considering the share of SMEs in total export volume one can be satisfied considering number of exporters, as SMEs in 2013 reached 98% of total number of exporters, but cannot be satisfied with more important indicator - value of export, as SMEs share was 43% only, which points simply that large companies are more important [2]. As it was noted earlier the recession effects of the crisis are the most recognizable in SME sector. Gross Value Added (GVA), employment and productivity of those were in 2013 still below level from 2007.

In 2013 SMEs succeed to export 4,6 billion € and import 8,3 billion €, with trade deficit of 3,7 billion €. There are some positive points in foreign trade. Number of exporter increased by 3,9%, while number of importer increased by 1,6%. One can recognize continuity of the trend of increasing covering value of import by value of exports for SMEs from 36,5% in 2007, 52,3% in 2011, 51,3% in 2012 and finally 55,3% in 2013[2].

The analysis of foreign trade of SMEs according to scale of companies: micro, small and medium, gives us interesting results. The medium scale companies were in 2013 the most powerful, covering 48% of total SMEs exports and 40% of total imports, while micro and small companies were on the similar level. Out of total foreign trade deficit 3,7 billion €, small scale companies were segment with highest deficit 1,7 billion €, than medium companies 1,1 billion € and micro companies 0,8 billion €.

Those not very favorable findings regarding low competitiveness are additionally proved by GEDI, Global Entrepreneurship Development Index. It is indicator of quality of entrepreneurship related to their effects and innovations, induced by individual and institutional factors. It is covering three dimensions of entrepreneurship: firstly, entrepreneur attitude, related to public opinion about entrepreneurship; secondly, entrepreneurial activities, measuring activities with potentials for speedy development and thirdly, entrepreneurial intentions, pointing entrepreneurial intentions to invest and introduce new products and technologies [6].

Overall value of GEDI for Serbia in 2013 was 0,20, with 80-81st rank. It is unfortunately the lowest value of overall GEDI indicator within the Region, beside

Bosnia and Herzegovina. Within the group of countries, which development is efficiency induced, Serbia was the last one, while the highest rank had Montenegro (0,32). All three dimensions were not favorable, which again points not favorable business environment and slow recovery of the national economy [6].

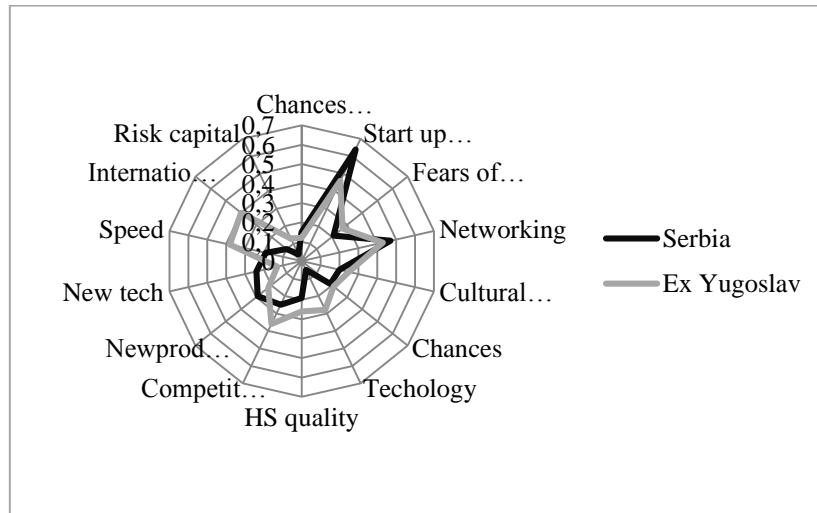


Figure 2
 GEDI – Serbia and Ex - Yugoslav countries
 Source: [6]

If compare to countries with similar level of development, countries in transition, Serbia has a comparative advantage in skills of those who start business and in introduction of new products and technologies. If talk about weaknesses one can point a few chances for start - ups, low share of those new firms with medium and high technologies, low quality of human sources, level of competition, potential for speedy development and use of risk capital and lastly, low level of internationalization of SME.

Generally speaking, level of entrepreneurship development, considering GEDI index, increased so little during the crisis, from 0,18 in 2008 to 0,2 in 2013. Those findings ask for new development model of the national economy, in which development of so - called dynamic entrepreneurship has to be recognized as especially important.

5 New Strategy for SMEs development support

At the end of 2014 the draft Strategy for support of Small and medium scale enterprises and entrepreneurship and competitiveness in the period 2015-2020(the Strategy in text followed), together with the Action plan for its implementation were prepared. The Strategy⁵ defined framework, goals, priorities and measures for development of micro, small and medium scale companies and entrepreneurship in the medium term. It is also part of strategic framework for development of competitiveness of RS and it is complement with previously enacted documents in this filed, mainly the Strategy of industrial development in the period 2011-2020. It is important to note that those principals from EU supporting policy for SME development, Europe 2020 and Small Companies Act, were implemented.

The main goals of the Strategy are as follows: improvement in business environment, improvement in access to financial sources, development of human resources, strengthening of sustainability and competitiveness of SME, access to new market and development and promotion of entrepreneurship. It is very important point that Ministry of Economy would develop the system for monitoring of its implementation, which was usual weakness of development documents in the past. Also important point is a plan to execute the first detailed ex - post analysis of implementation of the Strategy after two years period.

6 Conclusion

Serbian economy is facing zero growth rates, during the last six years of crisis. SMEs are still in recession, because they are severely hampered with lower demand from EU, lower domestic demand related to implementation of fiscal consolidation program, worsened business environment and facing low competitiveness on the Global market. Business demography continued a trend of decreasing number of new established companies and shops. Entrepreneurs are oriented to survive mainly and not to invest into development. They are faced with strong development limits related mainly to financial problems, like claims collection and difficult access to finance and less, to low demand (externally and internally) and complicated and high administrative and fiscal duties. Different investigations prepared to measure achievements in entrepreneurship, like Regulatory Index of Serbia and GEDI, pointed out similar problems. It is encouraging that Government has speed up market reform and at the same time defined the Strategy for SMEs support, as a

⁵ The draft Strategy for support of Small and medium scale enterprises and entrepreneurship and competitiveness in the period 2015-2020 (<http://www.rsjp.gov.rs/s/Mi%20A1ljenje-na-Predlog-strategije-za-podr%20A1-raz-malih-i-sred-preduz-preduz-i-konk-2015-2020/50>)

general framework for entrepreneurial support in the future. However, those difficult and important steps need time to be introduced and even more to produce results.

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Small Farms and SMEs in Agrobusiness Industry in Selected BSEC Countries

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Abstract: The paper summarizes the major characteristics of the small farms and agrarian SMEs in ten economies and new EU states in Black Sea Economic Cooperation region. Size of agricultural land, share of the agri-sector in GDP and employment, average size of land, definition of farm, major government support programmes are presented in four South-Eastern European countries – Albania, Bulgaria, Romania and Serbia -, three CIS countries – Moldova, Russia and Ukraine -, and three Caucasian countries – Armenia, Azerbaijan and Georgia. The paper present the Conclusions and Recommendations of a Workshop on SMEs and Small Farms in Agribusiness organized by the PREMIS of the Organization of BSEC, the Ankara Office of the Konrad Adenauer Foundation in cooperation with the ERENET Network.

Keywords: small farms, agrarian SMEs, small and medium sized agri-processing enterprises, agroindustry, BSEC

Introduction

The population of the world is 7.28 billion people as of January 2015. United Nations estimate, that the human population of the world is expected to reach 8 billion people in the spring of 2024. The growth in human population around the world affects all people through its impact on the economy and environment.

Rapid growth of the population and commercialisation of agriculture is increasing the demand for processed agricultural and food products. Parallel with this, as a consequence farmers are excluded from direct participation in markets. Farmers - especially small farms - faced with pressures from large agricultural enterprises to supply raw materials in required quantities and they also faced difficulties integrating into value chains. On the other hand, local agroindustries, challenged by global and regional competition, the overproduction in some advanced agrarian countries and the need to comply with international environmental and sanitary regulations, EU directives, which prescribes the shape of the banana, colour of the

tomato, force-feeding of the ducks and geese, methods of pig-killing, size of henhouses, etc.

Small and medium sized agri-processing enterprises (SMAEs) are responsible for generating a large share of products and services in the agricultural sector and play a critical role in increasing demand for raw materials. They create income and employment in rural areas where the opportunities for employment are frequently sparse.

SMAEs can play a critical role in creating rural income and employment opportunities, through the demand they create for raw material supplies from smaller and medium scale farmers. SMAEs that are appropriately managed can produce high quality products, which can increase export revenues and reduce dependency on imported products.

However, there are major constraints that must be addressed in order to realize the full developmental potential of SMAEs. First of all we should mention the recent global climate changes, especially drought and as opposite floods, which need different approaches in cultivation and clever utilization of water resources. Secondly, politically motivated quotas and unfair negotiation of large international organizations, especially TNCs, like EU sugar regime giving preference to sugar cane from Latin-American countries at the expenses of CEE countries, the danger of the GMO products and the current Russian food embargo damaging EU perishable items, extort SMEs and SMAEs from global markets. Third, significant EU subsidies to West-European agricultural sector as well as agribusinesses – over 50% of the EU budget was being allocated to EU countries as compared with 2% subsidy in Moldova - show the unfair competition of strong economies against the weak CEE and CIS ones. While the CAP direct subsidy payments for farmers from the EU Common Agrarian Programm (CAP) total amounted at EUR 720 million to CEE countries, that means EUR 600 per farms, than the old EU countries received EUR 4,000 per farms. This is a howling injustice – so much for the European solidarity!

And last but not least, fourth defencelessness and abuse of power from profit-oriented raw material buyers.

The competitiveness of agriculture and the weakness of the food industry have long been a concern, most of all to farmers and small and medium-sized enterprises (SMEs). Since the economic crisis, SMEs have faced further challenges in terms of competitiveness, especially in maintaining their market share, having fair business relations and financial viability. Limited access to finance, the uneven quality and volume of supplies from primary producers and significant arrears in payments from retailers and wholesalers have contributed to the difficulties of the agrobusiness sector.

The Turkish Representative of the Konrad Adenauer Foundation and the Permanent International Secretariat of the Organization of the Black Sea Economic

Cooperation (BSEC) in collaboration with the ERENET Network as a Think Tank organized a **Workshop on Small Farms and SMEs in Agribusiness** on 16-17 April 2015 in Chisinau (Republic of Moldova). BSEC is a full-fledged regional economic organization, a legal entity with the entry in the force of its Charter on 1 May 1999. It was created based on **signing of the Istanbul Summit Declaration and the Bosphorus Statement by the Heads of State and Government of the countries in the region, on 25 June 1992. BSEC has 12 Members States including Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Hellenic Republic, Moldova, Romania, Russia, Serbia, Turkey and Ukraine.**¹

The SMEs play an important and significant role in the economic, social and political development of the BSEC Member States. The development of the SMEs is essential for the economic growth of our countries. Consequently, through its activities, our Organization endeavors to develop effective policies and concrete measures to support the sustainable development of the SME sector in our region, which is one of the goals of the *BSEC Economic Agenda 2012*, endorsed by our Heads of State and Government.²

The Program of the Workshop was developed and selection of international speakers was made by the Author of this paper. The Program of the Workshop see in ERENET PROFILE as of February 2015.³ The key issues discussed at the Workshop on SMEs and Small Farms in Agribusiness in the BSEC Region focused on the following questions:

- How to survive in the existing economic crises;
- How to develop agribusinesses;
- How to be competitive;
- What are the business challenges;
- What kind of government supports are requested for economic growth of the SMAEs?
- What can do the international organizations - especially WTO, EU and FAO - to maintain a fair trade for agribusinesses in the BSEC countries?
- How could BSEC countries build regional and intergovernmental cooperation in the field of agribusiness sector?

¹ Organization of the Black Sea Economic Cooperation, downloaded from <http://www.bsec-organization.org/Pages/homepage.aspx> on 21. 04. 2015.

² The BSEC Economic Agenda – Towards and Enhanced BSEC Partnership, 26 June 2012, Istanbul, downloaded from http://www.mfa.gov.tr/the-bsec-economic-agenda---towards-an-enhanced-bsec-partnership_-26-june-2012_-istanbul.en.mfa on 21.04.2015.

³ BSEC-KAS Workshop on SMEs and Small Farms in Agribusiness, ERENET PROFILE, Vol X, No.1., pp. 65-67.

1 General conclusions of the workshop

Based on national presentations by 12 BSEC Member Countries as general problems of the region can be formulated as following:

1. Over twentyfive years since the transformation from the centrally planned economies to a market one BSEC countries undergone serious political and economic changes with wide spectrum of transformation in rural and especially in agricultural areas.
2. Looking back on the past two-and-half decade it can be seen that those countries made the most positive economic development, which has been chosen transformation of their socialized agroindustry into a market-oriented system based on private ownership. In the CIS countries the transformation process went a much slower pace. Some smaller countries like Armenia and Georgia reached significant result. The new Government of Georgia has strong political commitment.
3. The basic element of the reform process included the following:
 - privatization of land;
 - liberalization of prices and markets;
 - demonopolization and privatization of the food processing and trade;
 - adjustment of the institutional structure, state and local governance;
 - creation of agricultural and rural bank system
4. The development of the SME-sector in the BSEC countries contributed to the solution of a number of economic and social problems:
 - contributed to creation of necessary condition for political stability in the countries;
 - established a rational economic structure;
 - reduced unemployment, however could not contribute to alleviation of poverty;
 - increased revenues in budget.
5. In 2006, the World Bank listed Albania, Armenia, Bulgaria, Romania and Serbia to the advanced reformer group. Moldova, Russian Federation and Moldova belonged to the moderate reformer group. Azerbaijan and Georgia reserved to the slow reformer group. However, Georgia made a significant step and in 2008 it became the top reformer country. In Greece and Turkey the agrobusiness runs according to market economic rules and only structural adjustments took place.
6. The initial expectations for transformation in the majority of the region were very optimistic, while the transition in the agro-industry was more complex than it was originally envisaged.

7. Agriculture in general plays a more important role in the BSEC economies than it do in advanced market economies. The support and protection of small agrarian businesses and small farms have been priority direction in the state economic policy. Two countries – Russian Federation and Ukraine – have particularly large rural population.
8. The majority of small farmers have practical experience without special training, education or knowledge in agribusiness.
9. The density and the market share of the large supermarket chains is becoming a problem for the small farms in recent years.
10. Young people do not perceive farming as an attractive occupation. From many Moldovan villages the young generation simply disappeared and left the country to find a more decent job abroad. Rural villages became deserted and getting day by day older by the remaining old generation.
11. Small farmers are in CEE countries as well as in the CIS have 1-10 hectares (ha) with traditional crops of grain and mixed farming and their gross income is nearly half of the national average. Due to this land size they lost competitiveness with their EU competitors having 20-40 hectares and even more compared with the US farmers with 100 and more hectares of land.
12. A great part of the BSEC agricultural sector is composed of two major sub-sectors:
 - The corporate sector comprising large companies are specialized in the production of low value-added crops (cereals, oilseeds, sugar beet, etc.) and employ limited labor force due to the high level of mechanized agricultural operations.
 - The individual sector that includes peasant farms and household land in private property comprising small farms, generate a limited surplus of high value added crops (fruits, nuts, grapes, vegetables, potatoes, etc.) and value added processed foods that are mostly sold in open air agricultural markets.
13. Average incomes in agro-industry are the lowest and also unpredictable in most of the BSEC national economies. The extreme poverty directly relates to unpredictability of income in agriculture. Extreme climate changes (both drought and floods), poor harvests, the strengthening international competitiveness, strong health, environmental and phytosanitary standards, lack of irrigation, poor infrastructure in depot plants making the life of the small farms and SMAEs painful and difficult.
14. There are significant trade barriers, quotas, tariff and no-tariff characters, notably by the Common EU Agricultural Policy aiming at securing the price structure.

15. The EU accession made a tremendous impact upon the agriculture of the new member countries. The principle of asymmetric integration of the new CEE entrants did a lot of harm to East-European farmers as well as to the population, because they became not equal beneficiaries. Only Greece as a small agricultural country has benefitted from this protection.
16. The current food import ban of the Russian Federation has indirectly had a negative impact on the small farms in most of the BSEC countries except of Turkey. It is a good news that Russia is investigating the position of lifting the ban for Cyprus, Greece and Hungary.
17. As a positive contribution to the financial alternatives for the agricultural sector in the region, the Black Sea Trade and Development Bank (BSTDB), which is one of the four related bodies of BSEC, is flexible in meeting the demands of its clients, many of them being small businesses, including agribusinesses. In 2014 the BSTDB celebrated its 15th anniversary since the start of operation. So far 15 operations in agriculture and agribusiness, with signed loan agreements exceeding EUR 135 million. These operations include direct financing to companies and BSTDB credit lines to local financial intermediaries for sub-lending to micro-, small-, and medium-sized enterprises (SMEs) operating in the agribusiness sectors.⁴

2 South-eastern Europe (SEE)

Presentations were made from Albania, Bulgaria, Romania and Serbia.

2.1 Albania [1]

In Albania the agricultural land amounts at 696,000 ha with total number of farms 351,000 (86% crop and livestock; 98% field crops, 45% orcharding), the average farm size is one of the lowest reaching 1.2 ha. The agriculture employs 44.2 % of the work force and contributes 18.9 % of the GDP (in 2013). The total number of agribusiness companies is just 2236. They are active in flour, bread, oil production, meat and milk processing which account for 90%.

The SWOT chart of the Albanian agroindustry by Reed and Skreli (2013) is as following:

⁴ Boran, BSTDB, talk about Romanian Agribusiness, The DIPLOMAT Bucharest, downloaded from <http://www.thediplomat.ro/articol.php?id=5167> on 21.04.2015.

<p>STRENGTH</p> <ul style="list-style-type: none"> • Fertile land and Mediterranean climate; • High level of remittances; • Large labour force; • Shift toward producing high profitability agricultural products and products with export potential. 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Small farms holding and land fragmentization, weak land markets; • Low availability of agricultural machinery; • Lack of vertical integration; • Poor infrastructure; • Weak enforcement of quality assurance and heatl standards; • Lack of credit and market information sorces.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • EU integration process provide incentives for sector improvement; • Government focus on agrobusiness development and land consolidation; • High demand abroad for agricultural products; • High and growing domestica demand for high value, labour intensive products, such as fruit and vegetable and medical plants. • Access to high quality agriculture related technical management and skills via overseas training; • Agricultural and economic research capacity is growing. 	<p>THREAT</p> <ul style="list-style-type: none"> • Pervasive shadow economy and corruption on local and international level; • Absence of land markets, especially in rural areas; • Urbanisation and cross-border migration of farm labor; • Aging of rural workforce; • Competition from high quality import products.

Table 1
The SWOT chart of the Albanian agroindustry by Reed and Skreli (2013)

The legal frame for the support to agriculture and rural development is provided by the Law for Agriculture and Rural Development (No 9817/22.10.2007). The Law determines the programming of objectives and policy measures, the provision of public services for agriculture, research and training and the setting up of information database.

As a result of the small farm size in Albania, there are no economies of scale. Therefore the encouragement of farmer associations will be a priority as a way to regain these lost opportunities and to increase the market competitiveness of small

farmers. Until now, the Albanian experience has been of ineffective producer associations. Therefore, the Ministry of Agriculture, Food and Consumer Protection (MAFCP) is convinced that the only effective method will be the provision of assistance to establish model associations. For this purpose, MAFCP will also cooperate with some of its international partners in order to promote the establishment of such associations. Work needs to begin from the improvement of legislation. The European experience will be particularly valuable, as it shows that producer organisations, producer groups and cross-sector organisations are effective forms of cooperation for farmers in need of support. Albania is investigating three types of association, like (i) *Producer organisations*. These are voluntary associations of producers, which are established to concentrate agricultural supply, in other words to achieve joint product sales as a way of counterbalancing the concentration of demand or joint purchases.

(ii) *Producer groups*. This represents a less advanced stage compared to producer organisations. The producer entities do not meet the criteria of producer organisations (for example, they do not have the necessary infrastructure or level of gross sales, they have fewer than 5 members etc), and

(iii) *Cross-sector organisations*. These are associations of representatives of various activities (producers, traders, or agro-processors). They serve to facilitate activities of common interest such as improving market knowledge, using standard contracts, conducting scientific research etc. [2]

In the field of the SME sector the Business and Investment Development Strategy (2007 – 2013) the priorities for SME development are defined as follows (METE 2007):

- Harmonisation with sector strategies that have an impact on the SME sector,
- Ensured transparency of decisions and actions affecting the business environment,
- Ensured fair competition and support for the integration of SMEs in the international market,
- Development of information technologies and entrepreneurship culture.

The aim is to annually increase employment by 5%, the number of business by 15%, crediting to the private sector by 3 to 4 times in 4 years, the micro-crediting capacity by 3 to 4 times in 4 years, and gradually reduce the informal sector. This shall be achieved by several actions:

- Promotion of entrepreneurship and culture (management and training skills, increase of labour force),
- Development of growing business with internationalisation potential (improve business climate for SME development, increase competitiveness through innovation and technology transfer),

- Improvement of SME financing (increase crediting and establish the Albanian Credit Guarantee Fund, increase the amount of micro-credit funds building the capacity of micro-credit institutions.

2.2 Bulgaria [3]

Only Bulgarian has legal definition of small farms as following:

The following definition of small agricultural farms is used for the purposes of the policy in the period 2014-2020:

- Economic size, measured in standard output (SO) from EUR 2,000 to EUR 7,999, and
- Registration as farmers in accordance with the Agricultural Producers Assistance Act.

The selected definition aims at directing the funding to small farms with development potential. This is the rationale behind accepting a lower threshold of EUR 2,000 SO, with a majority of farms with very low degree of market orientation under it. The main part of the smallest farms have no development aspirations and plan to withdraw from the agricultural sector. The upper threshold is set to direct the funding towards farms with limited economic resources and similar structural problems. It has also been acknowledged that the upper threshold of the size of the small farms is a lower threshold for farms of young farmers, receiving funding.

Utilized agricultural land in small farms are 203,930 ha or approximately 5% of the total agricultural land.

Other gainful activities of the small farms

- Very few small farms are developing non-agricultural activities, which are directly related to the farm, something that is typical for all the farmers in Bulgaria.

Workforce in the small agricultural farms

- The small agricultural farms are family business. Nearly all of the employment (99%) is provided by members of the owner's family
- The share of owners with education in farming or relevant qualification is relatively low and the situation is similar in the other farms in the country. 0.7% of the farmers have university degree in agriculture, 3.1% have primary education, and the remaining 96.2% have no agricultural education, just practical experience.

2.3 Romania [4]

After 1990 more than 96% of agricultural land was privatized. The Romanian agriculture is **characterized by many social and economic problems** through excessive fragmentation of land including more than 40 million parcels.

Farming is not just about food. It is about rural communities where the people live and suffering from the poverty.

- young people no longer see farming as an attractive profession (young/old ratio)
- Fundamental, instinctive farming skills are not learned from the pages of a book, but are passed down from one generation to the next. It is due to long year tradition;
- farm managers have only practical experience (97.5%) – no education, training
- ineligible for different types of CAP payments.

Romania has a bipolar farm structure: large competitive farms coexist with small farms on the verge of livelihood.

According to **Law 300/2004** an Entrepreneurs can operate activities as *natural persons* or as *family owned businesses* (Family Association). Persons can be authorized to sustain an independent activity, which will be registered with the National Trade Register Office.

According to GEO (Government Emergency Ordinance) 44/2008 the denominations of independent activities mentioned above have been reorganized as follows:

- Authorized Natural Person (PFA)
- Individual enterprises/ Sole proprietorship/ (II)
- Family enterprises/ Family owned business (IF)

The SME category refers to Law of SME 346/2004 and Government Ordinance no.27/2006; Recommendation of the EC 2003/361/EC:

SME as *legal personality* are:

- micro-enterprises: 0-9 employees with an annual gross turnover or total assets of EUR 2 million equivalent in RON
- small enterprises: 10-49 employees with annual gross turnover of EUR 10 million and
- medium enterprises: 50-249 employees- with an annual gross turnover of EUR 50 million or total assets of EUR 43 million.

The agrarian business (AB) and small holder farmers are presented in the picture below:

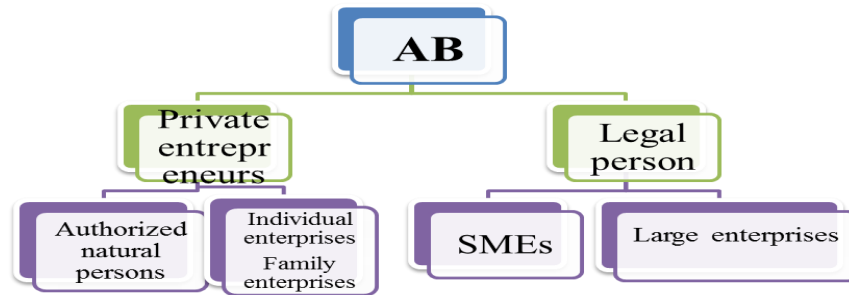


Figure1

The agrarian business (AB) and small holder farmers

Farm as individual entity is the main form of subsistence holding listed in the National Farm Register. The Land policy during transition included the following legislative acts:

- Law 31/1990;
- Law 18/1991;
- Law 36/1991 Restitution/associations/lease,
- agricultural societies; family associations –is based on verbal or written agreement The commercial agricultural companies with structure as legal personality (as a private limited liability, variable capital and unlimited , variable associates) based on Law 54/1998, legal circulation of land 312/2005; and 17/2014 acquiring the private land ownership by foreigners.

The total agricultural land is 13,306,000 ha out of them 9.947.700 is exploited with 1,040,300 farms. So, the average farms size is 9.56 ha. However, 830.200 farmers – nearly 80% of all farmers - run its operation on a land between 1-5 ha only, which has less than 20% of the total exploited land.

SMEs per 1000 inhabitant amounts at 43.7% in the urban area, this figure is very low in rural area; its is 11.4% in rural area.

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The categories of SMEs are determined by the Law of SME no. 346/2004 and Government Ordinance no.27/2006, in accordance with the EU Recommendation of the EC 2003/361/EC.

The family owned small scale production oriented small farms and SMEs characterised by the following features:

- Mentality;
- Low interest from citizens to green products;
- Social impacts associated to consumption choices;
- Lack of awareness from citizens on the environment;
- Competition with multinationals (reduced costs present major challenges for local entrepreneurs),
- General lack of entrepreneurial culture;
- Lack of contacts, to recognize opportunities, creativity; and
- Inability to sell to large market chains.

National Rural Development Program (PNDR) 2014 – 2020 based on Law no. 37/2015 – in order to assist in adaptation of the the EU Common Agricultural Policy (CAP) and to help farmers to apply easier to national and European funds by

- a series of innovative solutions
- promotion of an efficient and transparent administration of European funds
- simplification of the access to different grants
- application procedures aiming at simplified (on-line application, database with price references, on-line acquisition procedures) and
- shorter evaluation period and selection of winning projects

Young people can get support to start their business in agriculture, and help them to become farmers. For this purpose there are European subventions of EUR 111.2 million available and upto 100% as non-refundable contribution. To encourage young farmers below 40 years old owning surfaces below 60ha, will receive for 5 years (between 2015 – 2020) and additional payment of 25% compared to farmers above 40years old

According to OUG nr. 43/2013 – supporting and developing family owned enterprises can get support for development and farmers could access to grants by

- Loan guarantee to farmers of financial institutions and
- signed agreements with OTP Bank and CEC Bank

2.4 Serbia [5]

Within the general approach to the definition of agriculture, can be recognized two aspects:

- Primary agriculture production
- Modern agriculture or agribusiness

The concept of agribusiness is used first time in 1960, and today includes the following subjects:

- Governmental institutions
- Public agricultural enterprises that are in state ownership
- SMEs and small farms in the agribusiness

The Structure of SMEs and Small Farms can be seen in the picture below:

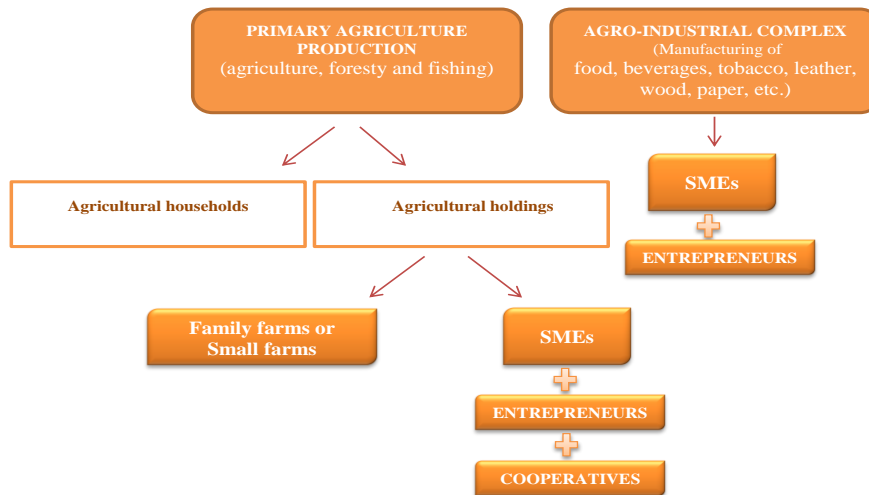


Figure 2
The Structure of SMEs and Small Farms

About 70% of Serbia's territory is agricultural land, while 30% is under forest. The total land amounts for 3,437,423 ha out of them 2,513,154 ha are arable land, 713,242 ha – meadows and pastures and 163,310 ha – fruit plantation. The share of crop production in the total value of agricultural production amounts 67.4% and that of livestock production 38.1%.

Serbia has significant water resources. More than 250 km² of country territory is under lakes. Rivers flowing to more than 4,338 km of territory and Channels flowing to more than 939 km of the territory Republic of Serbia. Despite all only 3% of total agricultural land is irrigated.

The most represented regulations of agribusiness are:

- The Law on Agriculture and Rural Development
- The Law of livestock
- The Law on Food Safety
- The Law on Agricultural Land
- The Law on Organic Production
- The Law on Incentives in Agriculture and Rural development
- Strategy for Agriculture and Rural Development of Serbia in the period from 2014 to 2024

The number of agrarian holding with 1 or 2 persons amount for 68.62%, with 3 to 4 persons – 27.06%, with 5 to 6 persons – 3.97%, and 7 and more persons – 0.35%.

The human resources are supported by the following institutions:

- 5 faculties of agriculture
- 3 high schools of agriculture
- 10 institutes of agriculture
- 15 regional chambers of commerce
- More than 30,000 graduates of agricultural engineers with different specialties
- Numerous scientific research projects.

The number of SMEES in the agrarian business includes 6,749 SMES out of them 5,525 entities are microenterprises, 917 small enterprises and 307 medium ones. In addition there are 9,490 individual entrepreneurs. Thus the total number of SMEES entities is 16,239 only.

SMALL FARMS	SMEES IN AGRIBUSINESS	
	SMEEs + Cooperatives	SMEEs
	Primary agricultural production	agro-industrial complex
Traditionally oriented Carefully borrowing Preferred land ownership in relation to the lease of land Diversification into the production Lower sensitivity to the market Keeping farm for future heirs Great loyalty and environment behaviour	Entrepreneurial oriented Tendency of borrowing capital The same relation to the ownership and lease of land Commercialization of production Greater sensitivity to market changes Not focus on keeping farm for heirs Lower loyalty and profit orientation	Industrial organized Based on management Capital incentive In effort to provide funds for growth Consumer-oriented Agriculture considered as purely business

Table 2
The Characteristics of SMEES and Small Farms in Serbia

The changes in agribusiness are primarily caused by new trends in the market that require the production of healthy food

- Changes are primarily related to:
 - The structure of the product range
 - The mode of production
- The Republic of Serbia possesses 80% of the land that is uncontaminated
- Official estimate is that in organic production operates approximately 4,000 enterprises

3 Commonwealth of independent states

3.1 Moldova [6]

The agribusiness sector in Moldova is based on extensive farming and is insufficiently adapted to market economic condition. The great part of Moldova agribusiness sector consist of two major subsector:

- corporate sector comprising from large enterprises; and
- the individual private sector including private peasant farms and household land in private property.

The utilized agricultural area is 1,941,000 ha out of this 1,416,600 ha is arable land, 199,200 ha – permanent crops, 324,300 ha – pastures and natural hayfield.

Till Small farms, especially subsistence and semi-subsistence ones, generate a limited surplus of high value-added crops (fruits, nuts, grapes, vegetables, potatoes) that are mostly sold in open air agricultural markets, then Large scale agricultural companies are specialized in the production of low value-added crops (cereals, oilseeds, sugar beet), and employ limited labor force due to the high level of mechanized agricultural operations.

Moldova has one of the best fertile soil called *chernoziom*, and everybody thout that this is an export-oriented country, in the reality it has negative balance in foreign trade as the picture shows below:



Figure 3
Foreign-trade with agri-food products
Source: INCE, 2015.

The number of SMEs in Moldova is 50,890 and amounts for 97.4% of all enterprises. SMEs employ 56.9% of the total workforce. The agroindustrial SMEs are only 3,947, 7.7% of the total SMEs. In addition there are 292 977 peasant farms. In 2012, SMEs contributed 28.7% of the GDP.

The Government Programme supporting agrarian farms and SMEs included into the National Programme for Economic Empowerment of Young People (PNAET) and oriented to young people (18-30 years), who want:

- start or expand own business in rural areas,
- to develop a business in agriculture, manufacturing or rendering services.

The Program on Attracting Remittances into the Economy (PARE 1+1) targets on migrant workers or first-degree relatives, who want to invest in launching and/or developing their own business. The program is also designed for peasant farms.

Government support programmes aimed at agroindustrial business development are the following:

- Project ‘Competitive Agriculture’ - MAC-P. Objective: Increase of the competitiveness of the agri-food sector by providing support to modernize management system in food safety, facilitation of farmers' access to sales markets. Funding source: World Bank, International Development Association (IDA), Swedish International Development Cooperation Agency (SIDA). Period: 2012-2017. Total budget: USD 28.4 million
- Program financed by the Government of Japan. Component: Project of Unprivileged Farmers’ Assistance 2KR, performing since 2000. Objective: to facilitate access of local agricultural producers with limited financial means to performant agricultural machinery. During the first half of 2014, 453 units of agricultural machines and equipment were purchased in the amount of MDL 190.9 million (In 2015, EUR 1 is equivalent to MDL 20.12).

The Ministry of Economy is in the process of development of specific policy measures to support the greening of SMEs. The project of the Action Plan on implementation of SME Sector Development Strategy for 2015-2017 provides some measures aimed at stimulating of SMEs greening. In particular:

- Reasoning and development of proposals on promoting "green" practices in SMEs.
- Accordance of grants to support SMEs in implementing energy efficiency projects.
- Encouraging of the implementation of quality management systems, including integrated in SME sector, according to European and international standards.

- Facilitating SMEs' access to information via the "Enterprise Europe Network" - assuming aware of social responsibilities, including environmental responsibilities.

3.2 Russian Federation [7]

The role and size of agribusiness sector in Russian can be summarized as following:

Agribusiness is the largest interdisciplinary complex in Russia, which includes more than 10 industries, aimed at the production and processing of agricultural raw materials. It affects the interests of almost all population and directly influences 38.7 million citizens, living in rural areas; work of more than 18 million different agricultural organizations, enterprises, farmers and private households in 155,000 of settlements.

The share of agriculture in Russian GDP is about 3.8%, together with food processing industry – about 7%.

In the agriculture and food industry in Russia are employed about 10 million. People, accounting for 15% of total employment force. Additionally, at individual/family farms are employed 23.5 million people.

Main advantages:

1. Large areas of agricultural land;
2. Possibility of production of environmentally friendly products;
3. Economic sanctions provided new opportunities for agribusinesses with the market demand for import substitution

Main problems:

1. Lack of qualified workforce in rural areas.
2. High transportation and storage costs for raw products.

The All-Russian Association of Farmers – AKKOR – characterized the small farms and agrarian SMEs as following:

- In Russia are registered about 35,000 small farms (up to 100 workers, turnover up to RUB 400 million (EUR 7.2 million), of which 24,500 are microenterprises (up to 15 workers, turnover up to RUB 60 million. (EUR 1 is equivalent to RUB 55.70).
- Sown area is about 19 million hectares, from 2007 to 2014 increased on 6 million hectares - almost a million hectares per year.
- If take into account the production from individual /family farms, then in general in 2013 Russian farmers had produced :potatoes - 90.9%, vegetables - 85.5%, milk - 55.6%, meat (beef) for slaughter - 69.1% of the Russian agricultural products in total.
- This sector keeps 62.2% of cows, 90.6% of sheep and goats in RF.

- Grain: in 2014 was reached an important milestone. The proportion of farm production in the Russian grain harvest for the first time exceeded 25.4%.; sunflower seeds - 29.5% of the total harvest.
- Production of livestock and poultry for slaughter in live weight in 2014 had increased by farmers on 10%. Since 2009 the number of cows had increased by more than 500,000 - nearly 2 times.
- Number of sheep and goats on farms also doubled since 2009 and reached 8,642,000.
- At the same time since 2007, the number of pigs on farms had reduced more than 2 times.

Competitiveness of agrarian SMEs and small farms are the following:

- Capacity-building and competitiveness of agribusinesses and small farms in a dynamic market environment are largely determined by the influence of basic factors of marketing environment;
- Competition within the industry;
- Threat of substitutive goods and services from abroad;
- The ability of processing industry to dictate their conditions;
- Lack of storage facilities;
- Threat of new competitors;
- Unused land and outdated agricultural machinery;
- Problems to reach direct buyer and/or get access to chain stores;
- For agricultural producers among the most important factors determining their competitive advantage is the production capacity, which is measured by quantitative and qualitative performance indicators. They characterize the market opportunities of the company, in terms of market share, improve product quality, maneuvering in pricing, i.e determines the potential competitiveness. The latter is then to be realized through appropriate marketing strategies.

3.3 Ukraine [8], [9]

The agricultural sector plays an important role in the Ukrainian economy. In 2013 the share of agrobusiness on GDP was 9.1% while in 2014 it increased to 10.3%. Meanwhile we could observe a slight decrease of agricultural enterprises from 56,493 units in 2010 to 55,858 in 2013. As far as the employment is concerned, the number of employees in agrobusiness sector increased from 17.2% in 2012 to 17.5% in 2013.

Private farms amount for 73.2% of the agricultural enterprises. Business partnerships are 14.8%, private enterprises – 7.4% and producer co-operatives only 1.5%.

In 2013, 81.5 % of enterprises made profit from agricultural goods production and providing of services in the area of crop and animal production.

The state support to small farms and agrarian SMEs based on the following legislative acts:

- Law of Ukraine “State support to rural economy of Ukraine” (24.06.2004 № 1877-IV)
- Law of Ukraine “On farm enterprises” (19.06.2003 № 973-IV)
- In 2014, the agricultural enterprises received almost UAH 212 million (EUR 8.7 million) as state subsidies, while UAH 390 million (EUR 16 million) in 2013.
- Strategy of agricultural and rural economy development for 2015-2020.

Ukraine received autonomous trade preference from the EU including:

- 28 % of export to European countries is export of agricultural products;
- introduced by the Regulation (EU) No 374/2014 of the European Parliament and of the Council of 16 April 2014 ;
- the period of validity of the ATP has been extended to 31 December 2015 ;
- eliminate EU import duties on 94.7% of industrial goods and 83.4% of agricultural goods and foodstuff originating in Ukraine. It also foresees the application of the duty-free tariff quotas towards a number of agricultural products.
- To benefit from the ATP one must have the certificate of origin “Eur.1” issued by one of territorial branches of the Ukrainian CCI.
- The rural area in Ukraine is declining due to following reasons:
- Lack of financial support to small agricultural producers;
- Limited financial resources of local budgets;
- Decrease in the number of social infrastructure facilities; and
- Administrative obstacles; the efforts of Ukrainian ministries and agencies are not concerted.

The concept of National Target Program for Sustainable Rural Development until 2020 include the following:

Program background:

- Existing National Target Program for Development in the Ukrainian Countryside until 2015 is expressly production oriented (85% of funding to be directed towards agricultural production).
- European choice as a basis for future development of the country.

Anticipated results:

- Increased rural employment and incomes;
- Improved physical and social infrastructure in rural areas;
- Environmental situation in rural areas improved; two-fold increase in agricultural gross output.

4 Caucasian countries

4.1 Armenia [10]

Privatization of agricultural lands started in 1991, during the last year of existence of the Soviet Union. The formation of the first Agricultural Farms. Armenia was the first among the Soviet Republics, which privatized agricultural lands.

The number of agricultural family farms amounts for 340,000. Each of them owns about 1.4 ha of agricultural lands. Agriculture in Armenia is one of the major economic sectors. Agriculture's share of gross domestic product (GDP) in the last five years, an average is 17.8%. Together with agricultural manufacturing products (raw materials) its significance in the GDP amounts for 23.9%. Approximately 39% of the population is employed in agribusiness.

There is a definition of small farms in accordance with the Law on Agricultural Collective Farms:

- Agricultural Farm is agricultural food production self-organizational independent unit, based on public ownership.
- Collective agricultural farm (cooperative) is agricultural food production independent unit, based on collective ownership.
- The main characteristics of small agricultural farms are:
- 340,000 farmers have approximately 1,200,000 small pieces agricultural lands;
- as far as these lands are separated and have a different meaning, the operational efficiency is low;
- 25-30% of the agricultural lands currently is not used;
- there are very few farms using new technologies; and
- 99.8% of the farms are family businesses.

The small farms are characterized as following:

- Low level of mechanization of farm work;
- Low competitiveness and low productivity;
- Low level of management;
- Low level of cooperation; and
- Obtain underdeveloped logistics.

However, they have the following opportunities:

- Fast growing sector with large export potential;
 - Average annual growth of output (2011-2013) is 8%;
 - Export volume doubled during 2007-2012 (USD 600 million);
- High potential for producing ecologically safe products;
- Emerging “Armenian brand” of agricultural products;
- Largely available skillful labor force;
- Competitive advantage of certain products in outside markets.

The Government support to agribusinesses and smallholder farms are:

- Agricultural loans – 5 years ago introduced state program of subsidizing agricultural loans. 14% interest rate of agricultural loans provided by private banks farmers get by 8% (government subsidies 6%). State budget funds allocated for this program increased by 300% during last 5 years.
- Agricultural production are exempt from VAT and income tax – it only Agricultural Farms and Collective agricultural farms (not companies like poultry).
- Fertilizer subsidies – Every year, before the start of agricultural activities, farmers can acquire the necessary fertilizers 25% cheaper than the market price.
- Fuel subsidies – The same principle works in this case. Farmers can acquire the necessary fuel 20% cheaper than the market price. Funds allocated for this program each year is increasing.
- Creating cooperatives (farms consolidation project) – The government encourages consolidation and enlargement of farms.

4.2 Azerbaijan [11]

The role and share of agribusiness in the overall economy can be summed as following:

- The proportion of the rural population – 47%;
- The share of the agricultural sector in employment – 37%;
- Suitable for agricultural production land, total - 4.8 million hectares;
- Suitable for agricultural production land, per capita – 0.50 hectares. In 1970 – 0.81 hectares;

The State Statistical Committee of Azerbaijan uses the following definitions:

- Agrarian enterprises and other organizations;
- Individual entrepreneurs;
- Family farms and Households.

In Azerbaijan there is no official definition for micro- and medium enterprises. According to the resolution of the Cabinet of Minister (2009) an agrarian small enterprises has in average less than 25 employees and less than AZN 250,000 (EUR 1 is equivalent to AZN 1.14 – Azerbaijani manat).

In 2013, the number of agrarian business entities amounted for 4,194, including 1,337 enterprises, 523 service providers and 2334 individual entrepreneurs.

According to the State Statistics Committee (2013), there are 439 food producing enterprises. Out of these, 362 are small businesses, 77 - medium and large. In addition 110 enterprises operate for the production of alcoholic beverages including 89 small ones. There are 8 tobacco producing enterprises out of them 6 are small ones.

Two state institutes are giving soft loans for agricultural production:

- State Agency on Agricultural Credits under the Azerbaijan Ministry of Agriculture;
- Azerbaijan National Fund for Entrepreneurship Support.

4.3 Georgia [12]

- What we do today for Agriculture and Agribusiness, right now, will have an accumulated long-term effect on all of our tomorrows and many reasons to invest in SMEs;
- Rural Entrepreneurship is key for jobs creation and growth;
- 90% of all firms generally are micro and SMEs;
- SME's Primary Source of employment - 9 out of 10 jobs are created by the private sector;
- SMEs generate up to 60 % of GDP and major source of export earnings; and
- SMEs are the key instrument of poverty reduction, job creation and Agribusiness development.

The total agricultural area in Georgia is 3.03 million ha, out of this 0.8 million ha is arable land, 0.26 million ha is considered for perennial plantation 1.97million ha serves meadows & pastures. Out of this contingent 25% of the land is privatized, while 75% remains as state-owned property.

The agrosector share in GDP is 9.3%, while the 2.1 million rural population amounts 46.8% of the total population. The share of the population in agrisector amounts for 55%. The total number of farms is 2.5 million with average size of land of 1 ha.

The main constrains in agribusiness and low level of productivity can be listed as following:

- Fragmentation of land,
- Lack of knowledge and technology transfer;
- High costs of agriculture inputs and expensive financial resources;
- Absence of modern machinery services;
- Poor connectivity to markets;
- Generally degraded rural infrastructure;
- Lack of experience in farming;
- No creativeness;
- Migration;
- Zero motivation to be Farmer;
- Lack of government definition on how is a Farmer;
- Lack of tailor-made financial products to meet specific needs of agricultural borrowers;
- Inadequate access to information on available financing schemes/products.

The new trend in agribusiness support can be highlighted as following:

- Strong political commitment by the new Government of Georgia
- Strategy and Action Plan of the Ministry of Agriculture (2015-2020)
- New priorities for agricultural programmes of Government;

- Increased budget;
- More resources and support by donors;
- Deep and Comprehensive Free Trade Area Agreement with the EU;
- Generalised Scheme of Preferences - The EU's GSP allows developing country exporters to pay less or no duties on their exports to the EU Agreement;
- Membership of WTO;
- ENPARD - European Neighbourhood Programme for Agriculture and Rural Development (see at <http://www.enpard.ge/>).

5 Recommendations for the BSEC countries

During the Workshop the participants made the following recommendations which were discussed and adopted:

1. The BSEC Member States are urged to formulate and promote integrated national agricultural strategies and programs.
2. Governments should assist in stimulating cooperation and integration of small farms into the more comprehensive supply chain.
3. Governments should adopt a definition of small farms in order to effectively implement national strategies to promote the development of agribusiness.
4. Governments should eliminate monopolistic activities in the agricultural sector.
5. Access to finance in agroindustry should be improved by creating special agricultural loan and insurance schemes.
6. Subsidizing certain agricultural activities of small farms and SMEs should remain as an integral part of the economic policies of the BSEC Member States to strengthen agro-industry.
7. The development of quality measures in agroindustry should be considered a priority for improving competitiveness.
8. Implementing a system of patent taxation should be considered for agricultural produce.
9. Governments should exempt land tax if it is used for the production of agricultural products.
10. To exchange experiences and to better identify the success factors in agribusiness, a more direct and regular dialogue should be established between policy makers and agribusiness managers.

11. Governments should extend free basic consultancy services to small farms and SMEs in agribusiness to help them make the best of their limited resources.
12. The Governments are urged to subsidize fees related to notary and property registration where a group of small farmers decide to join their plots.
13. To encourage small farms to engage in the production of more niche and competitive products such as organic ones, governments are invited to subsidize the expenses related to issuing the necessary certificates.
14. Innovative strategies and best practices in attracting young and women entrepreneurs to agribusiness should be replicated in the BSEC Member States.

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Cooperation Networks of Small and Medium Enterprises in Poland

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Abstract: The social and economic changes of the twenty first century and scientific and technological progress determine the methods, ways and forms of running a business activity. Moreover, they enable the establishment of network organizations, which constitute a new organizational form of enterprises, operating in accordance with new rules and requiring a different approach to management; they also create the foundation for the development of the global network economy. The aim of the paper is the assessment of the scale and nature of networking of small and medium enterprises in Poland. The results of the empirical studies are the pilot research and they refer to the enterprises running their business activity in the Silesia Province for more than five years.

Keywords: cooperation networks, small and medium enterprises, types of enterprise networks, network substitutes, network effects.

1 Around the enterprise cooperation network - preliminary questions

1.1 The essence of enterprise network

Enterprise network constitutes a form of organization of economic activities, which aims at providing benefits in the field of competition, and which is characterized by complex and reflexive relationships, which are more cooperational than compensatory, between legally independent companies. Network relationships are a kind of cooperation serving as a source of long-term benefits in the area of competition. It should be underlined that the occurring relationships take place between almost independent business entities, which are dependent on each other from the economic point of view [20]. The value of the relationship can be created by: sharing resources, integrating activities or aligning the position of market operators [11]. As K. Poznańska underlines, network

relationships may constitute strategic resources which can be used by enterprises to achieve success. The presented definition of *network* allows to distinguish the organizational form of *network* from othe the forms of cooperation between enterprises, such as: strategic alliances, partnership agreements, consortia or joint ventures [8,13].

The theory of network received the support of the resource-based view school and recently it has become one of the leading theories in management sciences. W. Czakon underlines that the network approach may have become a leading paradigm in management sciences [4]. J. Strużyna emphasizes the originality of the network approach, where an organization is perceived as an open being, deprived of hierarchy, dynamic and of fuzzy structure [19]. Moreover, the main feature of network is supposed to be the nature of the relationship between the participants: durability and non-hierarchical nature [4]; the forms of cooperation of enterprises not covered by contracts, which can be called network substitutes, are excluded from business networks. Network substitutes are, above all, all capital ties which, in a capital group, regulate cooperational relationships between the companies of the group; they are supported by personal ties and the tools of corporate governance. Network substitutes are also the ties of the political, mafia and family nature, influencing the cooperation of enterprises [14].

According to S. Łobejko, network company is the one which effectively uses information technologies to establish both internal and interorganizational relationships [9,5]. In network company, as oposed to a traditional one, there is used process-based thinking and operating. The strategies, technologies and processes of manufacturing, information and communication and organization and development of human resources become important in here; problems are solved on the initiative of employees in the self-regulating iterative process [10].

The synthetic approach to the economic and organizational effects of network organizations has been presented by A.Skowronek –Mielczarek (Table 1).

Economic effects	Organizational effects
Costs optimization	Time compression
Efects of scale	Flexibility of actions
Higher rate of turnover	Diversity and complexity of the offer
Optimization of size and structure of resources	Innovativeness level
Limiting risk	New business models

Figure 1
 Effects of network organizations
 Source: [16].

Network of ties amounts not only to specific, real information flows between the participants of network organization but also a common policy in the field of selection of the optimal strategy and organization of the business activity faster and more effectively [12].

1.2 Areas of management of network organization, types of enterprise networks

The processes of management of network organization constitute very complicated sets of business decisions; they refer to its individual participants and the whole organization. The main areas of management of network organization include: [15,17]

- the implemented goals and strategies,
- joint operational activities and business processes,
- joint innovation and R+D,
- sources of competitive advantage,
- areas of coordination and control.

Management of network organization at the strategic level requires from its participants to jointly decide on and specify goals, time for their achievement and essential resources. It is necessary to establish the procedures connected with planning goals, the degree of their recurrence and hierarchy. Specifying the goals and strategy provides an opportunity for identifying the main sources of achieving competitive advantage and creating the specific configuration of resources and capabilities. The process of transforming the strategy into programs and implementation tasks is widely presented by A. Kaleta [6]. The arrangements in the field of conducting market research and analyses, or joint research and development service, are also significant [17].

The activities in the framework of network organization at the operational level may, above all, include [18]:

- running joint purchase of raw materials, products and goods,
- joint distribution channels,
- joint logistics service,
- joint promotion and advertising activities,
- joint accounting and administration service,
- running IT and analytical activities jointly,
- taking joint actions in the field of employee training,
- running the selected investment and maintenance activities jointly.

The effective implementation of the activities listed above is possible by the partnership approach of all the entities involved in the functioning of network organization of a specific type.

Types of enterprise networks are identified from the point of view of two perspectives: the local (micro-) and supra-local ones (Table 1).

Perspective/ties	Dominance of business ties	Significant share of social ties
Local/Micro-perspective	A. Building the enterprise relational capital	D. Local enterprise networks
Perspective of network as value added on a supra-local scale	B. Networks creating value added for participants	C. Networks for building social capital

Table 1
 Types of enterprise networks
 Source: [3].

The dominance of business ties results in building relational capital and networks creating value added for network participants. Building local enterprise networks and networks for building social capital occurs with a significant share of social ties [1].

The main factors encouraging enterprises to cooperate in the framework of network organizations include: [15].

- partners have resources and skills which the enterprise lacks,
- similarity in terms of conducted business,
- having experience in establishing cooperation,
- faster, more effective and flexible acquiring of resources,
- proximity of partners' location, common markets of suppliers and clients,
- possibility to eliminate competition,
- possibility to reduce/spread risk among greater number of partners.

Against the background of the theoretical considerations concerning the essence of network organization, it was interesting to recognize what bonds of these activities are implemented in the Polish practice of small and medium enterprises, which are subjected to the strategical renewal on the way of networking.

2 Assessment of networking capability of SME entrepreneurs

The objective of the empirical research was an attempt to assess the scope of business relationships of SME. The research sample was 134 enterprises from the SME sector with the headquarters in the area of the Silesia Province. From among them, there were selected 83 enterprises operating in the analyzed area for more than 5 years. The time horizon of the study included the years of 2011-2014. The research was conducted using the qualitative method of the standardized surveys. The research tool was the questionnaire. The return rate of the questionnaires distributed electronically amounted to 87%. It is the sufficient result providing the representativeness of the sample. On a scale 1-4, where 1 amounts to - no establishing contacts, 2- a small number of contacts, 3- average number of contacts, 4- establishing contacts with a large number of partners, there was measured the extent of creating network in the strategy of small and medium enterprises. The respondents were: the owners, board members and authorized people.

The conducted research indicates that, the contacts with new clients constituted the highest percentage. It was declared by about 66% of the respondents; 57% of the entrepreneurs established the contact with with a big and average number of suppliers. At that time, 43% of the respondents did not establish the contacts at all or established very few contacts (Table 2).

Intensity of contacts on a scale 1-4*	1	2	3	4
With new clients	17	17	22	44
With new suppliers the services of whom I use	33	10	39	18
With other enterprises, apart from clients and suppliers we have already been doing something	37	29	24	10
With other enterprises with whom we will be doing something in the future	45	21	27	7

Table 2
Business contacts established by the surveyed entrepreneurs
Source: Author's own study based on [3].

*1- not establishing contacts, 2- a small number of contacts, 3- average number of contacts, 4- establishing contacts with a large number of partners

The obtained results indicate low willingness of the analyzed enterprises to expand their network of contacts to others, like clients and suppliers, business partners with whom the cooperation could be established in the future. In both cases, more than 60 % of the respondents declared the lack or a small number of contacts of this type in the future.

The main source of business contacts of the entrepreneurs under consideration were, most of all, clients; they came in over 80%, by recommendation of the previous clients (Table 3).

Intensity of contacts*	1	2	3	4
My clients' contacts, they recommend me	10	9	48	33
The nearest relations, main family members and acquaintances	15	31	32	22
Suppliers' contacts	40	27	18	15
Contacts of other entrepreneurs	54	17	22	7
Organizations of entrepreneurs whose members they are	70	15	8	7

Table 3

Source of business contacts of the surveyed entrepreneurs

Source: Author's own study based on [3].

*1- not establishing contacts, 2- a small number of contacts, 3- average number of contacts, 4- establishing contacts with a large number of partners

The surveyed entrepreneurs indicated high, amounting to more than 80%, individual activity; contacts from the outside of the circle of the nearest relations, or organizations of entrepreneurs were not significant. More than half of the respondents declared that they would personally arrange meetings with potential business partners; however, the respondents showed openness to the initiatives of establishing business contacts undertaken by other entrepreneurs.

A very important aspect of the research was an attempt to assess the benefits from business relationships. The main advantage was an increase in the number of clients, improvement in the quality of products and services and reduction in own costs. The perception of benefits from network contacts is focused on vertical relationships (clients, suppliers), and much less significantly on the cooperation with other business partners [Table 4].

Types of benefits	Percentage of indications (%)
An increase in the number of clients	43
Improvement in the quality of products and services	31
Reduction in own costs	17
Solving technical problems	12
Improvement in the abilities of employees	12
Receiving financial support	5
Lack of significant benefits	41

Table 4
The benefits from building network
Source: Author's own study based on [3].

While specifying their future expectations for the participation in networking, the surveyed entrepreneurs acknowledged an increase in the number of clients as the key one (70% of indications). They were also interested in reducing their costs (40%) and further improvement in the quality of their products and services (37%).

The indication of the barriers to establishing network contacts was also subjected to assessment [2]. The first position on the list of barriers is occupied by lack of time (52% of indications); another barrier is long wait for benefits from contacts (44%) and, subsequently, lack of trust in business partners (41%) (Table 5).

Type of a barrier	Percentage of indications (%)
Lack of time	52
Long wait for benefits from contacts	44
Lack of trust in business partners	41
Few opportunities to establish business relationships	39
Lack of benefits from the exchange of experiences	33
Too emotional attitude towards own company	9

Table 5
Barriers to establishing business contact by entrepreneurs
Source: Author's own study based on [5].

Summing up the empirical research in this field, it should be concluded that the key partner in the process of development of enterprises and establishing business contacts is the clients. The role of suppliers is also noticeable but it is significantly lower. Lower usefulness of suppliers has been particularly noticeable in the area of establishing new contacts. In building business relationships, the surveyed entrepreneurs mainly counted on the effects of their own activity; however, they declared openness to the activities undertaken by others. In the entrepreneurs' opinion, the main benefits resulting from possessing the network of business contacts, include an increase in the number of clients and improvement in the quality of products and services; which corresponds to the previous declaration that the key source of contacts is the clients. The respondents claim that the basic barrier to establishing business relationships is lack of time and too few opportunities for establishing business relationships.

3 Conclusions

The presented research allows for a few conclusions:

- ✓ establishing the cooperation with other enterprises, creating network organizations with them, may help them stay on the market and reduce threats resulting from dynamic changes in the environment,
- ✓ it is possible to strengthen the market position by increasing the number of clients, reducing the costs of the activity,
- ✓ joint actions run by the surveyed enterprises are promotion and advertising activities, purchase of raw materials and goods and logistics service,
- ✓ networking affects the organizational efficiency, current effectiveness of operation, mainly by reduction in specific costs of the activity.

Generally, it should be concluded that in the Polish conditions, the level of social capital, including the relational one, is low. However, there is strong awareness of the need to maintain long-lasting relationships with clients, suppliers or other business partners. In the context of the conducted research, further education is essential to use the opportunity of cooperation in networks and build competitiveness of enterprises.

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The Potential of Innovativeness and Eco-innovativeness of Small and Medium Manufacturing Companies in Poland

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Abstract: The aim of the paper is to present innovation and eco-innovation in the sector of small and medium manufacturing companies in Poland. Small and medium enterprises constitute a significant part of manufacturing companies, which is highly significant for the economy of the country. The implementation of innovative solutions aiming at the symbiosis of manufacturing companies with the environment is both really necessary and, at present, required from entrepreneurs. Undertaking activities in the field of the environmental protection helps in minimizing losses in the natural environment resulting from the operation of industrial companies.

Keywords: innovation, eco-innovativeness, SME sector

1 Introduction

Nowadays, the significance of the SME sector is essential in the market economy. Therefore, the issue of modernization of this sector is so important. The implementation of modern solutions should include the ecological aspect. Manufacturing companies, most frequently, aim at the implementation of innovation referring to the improvement of effectiveness and profits of the company. At present, the requirements concerning the activities in the field of the environmental protection force entrepreneurs to think ecologically. Eco-innovativeness of manufacturing companies allows for the minimization of their harmful impact on the natural environment.

2 The SME sector

Enterprises acting as business entities, running their activities on the market, are defined depending on many adopted criteria. On national and international markets there are identified a lot of enterprises, from small to the largest ones, which are significant for different types of sectors. The SME sector includes three types of enterprises:

- microenterprises,
- small enterprises,
- medium enterprises.

Each of the listed types of enterprises performs a different function on the market with reference to different requirements set by different groups of clients. While characterizing microenterprises, it should be noticed that these are enterprises employing not more than 9 employees and with the annual turnover not exceeding EUR 2 million. Small enterprises are characterized by the employment amounting to 10-49 workers and the net turnover and the value of assets in the range of EUR 2 - 10 million. On the other hand, medium enterprises employ 50-249 workers and their turnover and value of assets do not exceed EUR 50 million. The data in Table 1 show the criteria which need to be fulfilled by an enterprise to be qualified for the appropriate group.

Criterion	Microenterprise	Small enterprise	Medium enterprise
Average annual employment	0-9	10-49	50-249
Annual net turnover	<2 million euro	<10 million euro	< 50 million euro
Value of assets	<2 million euro	<10 million euro	< 43 million euro

Table 1

Quantitative criteria typical of micro-, small and medium enterprises

Source: Based on: The Act of 2 July 2004 on economic freedom, Journal of Laws of 2004 No. 173, item 1807, codified for 31.03.2009 r.

The criteria presented in Table 1 allow for the classification of business entities with respect to the number of employees, annual net turnover and the value of assets. The total number of the registered entities in recent years is presented in Figure 1.

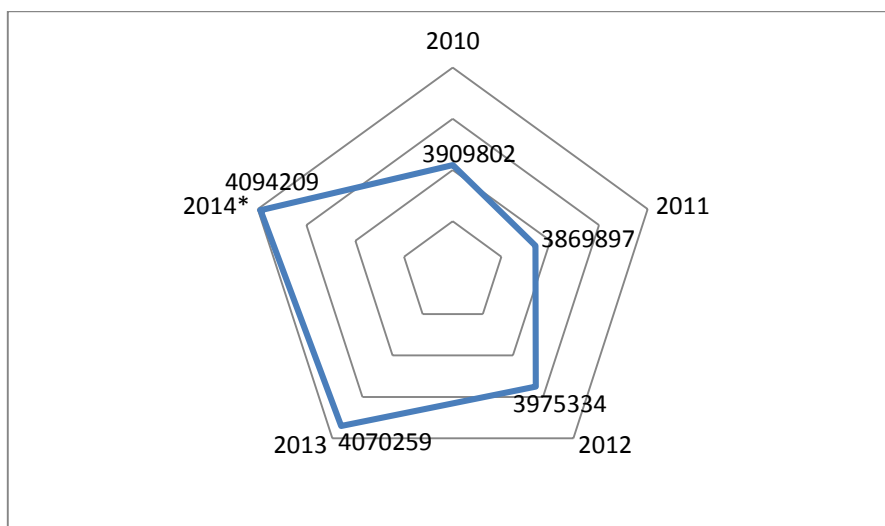


Figure 1.
 The entities registered in the REGON registration in years 2010-2014 in Poland

*the data for the first half of 2014

Source: www.stat.gov.pl

Figure 1 presents the total number of the registered enterprises. In 2010 the number of enterprises amounted to 3 909 802, a slight decrease was recorded in 2011. On the other hand, in 2012 there was a significant increase by 105 437 compared to the previous year. Since 2013 there has been recorded a slight but constant increase in the number of the registered enterprises.

In the studied years the situation of the entities registered in the REGON registration of the SME sector with reference to the number of employees is the following (Table 2)

	0-9	10-49	50-249
2010	3 713 677	161 550	29 731
2011	3 674 970	160 851	29 340
2012	3 794 489	146 489	29 787
2013	3 890 686	145 425	29 637
2014*	3 914 195	145 932	29 587

Table 2.

The entities of the SME sector registered in the REGON registration in years 2010-2014

*the data for the first half of 2014

Source: www.stat.gov.pl

The data presented in Table 2 indicate that the number of the registered enterprises, employing up to 9 employees, was steadily growing, from 3 713 677 in 2010 to 3 914 195 in the first half of 2014. The number of the registered entities employing 10 to 49 workers in years 2010 and 2011 amounted to about 161 thousand, whereas in 2012 it went down to 146 489 and in subsequent years it remained stable. No significant changes were observed among medium enterprises, employing 50-249 workers in the studied period, their number remained stable and it amounted to 29 thousand a year.

2.1 Innovativeness of the SME sector

The emergence of innovative solutions in many fields leads to the necessity to modernize enterprises in different areas of activity. Innovativeness is specified as constant readiness to introduce changes. [1] It is the condition of the existence and also the attribute of modern enterprises. The capability of an enterprise for innovativeness appears when it disposes of the resources essential for creating and implementing innovation. [2] Striving for the implementation of innovative solutions by entrepreneurs is becoming more and more common. Innovativeness is also defined as a range of activities: research and development, technological, organizational, trade and finance, based on the implementation of new products and processes. [3] Innovative solutions begin with the emergence of an idea. Nowadays, a lot of innovative solutions remain in the initial stage. This is due to the lack of necessary funds and entrepreneurs' fear of introducing changes. Innovation is a complex and multifaceted phenomenon, occurring at the level of a single enterprise and of the overall market. [4] The implementation of innovation in an enterprise is associated with risk however, not taking it, the entrepreneur cannot develop their enterprise. The owners, before taking a decision on innovation, wonder if the implementation of these changes will bring the assumed benefits and if they will be profitable for the enterprise. Unwillingness to take risk and the lack of interest in creative possibilities of employees are interorganizational barriers threatening the development of business entities. Innovativeness in services and production aims at satisfying clients' needs and going ahead of competition. [5] The introduction of improvements and innovation builds a positive image of the enterprise in the eyes of potential clients. On the whole, innovation can be defined as something new or significantly improved in a certain area.[6] Innovation is also defined as a whole of activities essential for the emergence and practical use of new technological solutions, including new or modernized products, services and processes.[7] The implementation of innovative solutions should lead to an increase in competitiveness of business entities on the market.[8] The differences between enterprises from the SME sector mainly result from the entrepreneur's attitude. In smaller business entities, the owners are afraid of introducing any changes which may pose a risk to the activity of the whole company and its market position. The primary objective of the entrepreneur in small enterprises should be stimulating employees to be creative and preparing the company to implement appropriate

solutions. Due to difficult access to capital, small and medium enterprises should concentrate on introducing the innovation based on excellent knowledge of the market and, to a lesser extent, technologically new solutions. On the other hand, large enterprises, having a possibility to conduct their own research or purchase new solutions, are often forerunners in modern technological solutions. The innovation introduced by the SME sector and large companies is presented in Figure 2.

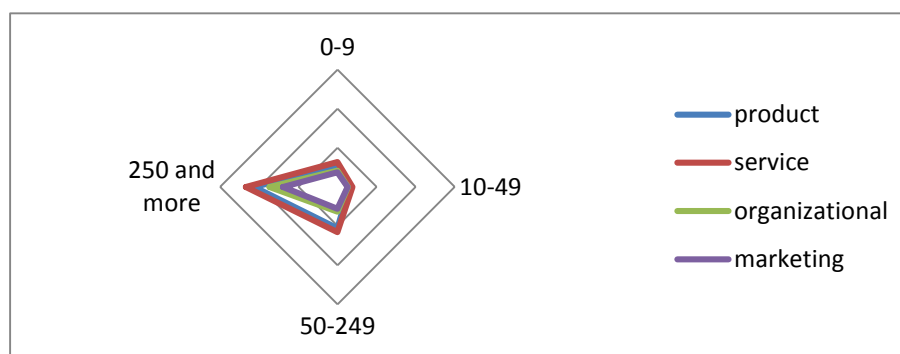


Figure 2.

The share of manufacturing companies implementing innovation in years 2011-2013 in the total number of enterprises.

Source: www.stat.gov.pl

It can be noticed in Figure 2 that, in years 2011-2013, in manufacturing companies, most frequently there was implemented service innovation. Among large enterprises, this factor amounted to 46.9 %, on the other hand, in medium enterprises, this factor amounted to 23.1%. In microenterprises, there was also introduced the most of service innovation. In small and medium enterprises, there was implemented the least of marketing innovation.

Each introduced innovation, irrespective of the kind and number of employees, is favorable for the development of the enterprise and economic development.

3 Eco-innovation in enterprises

Challenges connected with the environmental protection, which the contemporary enterprises face, may be achieved by an increase in eco-innovativeness. The SME sector is predisposed to the implementation of eco-innovative solutions on account of great flexibility of small and medium enterprises and total impact of the sector on the natural environment. It is estimated that the total impact on the natural environment with respect to pollutant emissions coming from British enterprises corresponds to SME and it amounts to 60% of the total carbon dioxide emissions. The estimates made in the Netherlands and Great Britain indicate that industrial

and commercial waste from SME, on average, amounts to 50% of all waste which indicates significant impact of the SME sector on the environment.

In literature, eco-innovation is defined in different ways. The concept of eco-innovation was introduced for the first time by Fussler and James in 1996. Eco-innovation may, therefore, be defined as the innovation used for measuring, preventing, reducing, minimizing and improving environmental damage to water, air, soil, natural resources; it refers to the problems connected with noise and ecosystems. This innovation includes reduction in greenhouse gases and so called energy innovation concerning energy efficiency and renewable energy sources.[9] Eco-innovation is the innovation which improves the effectiveness of the use of natural resources in the economy, reduces the negative impact of human activities on the environment or strengthens the resistance of the economy to environmental pressures.[10] According to L. Woźniak and B. Ziółkowski, eco-innovation also refers to such innovation which consciously aims at reducing the burden of the environment.[11] It is the combination of innovativeness (innovativeness, creativity, change) with the environmental sensitivity and ecological awareness of the organization. The significance of the last feature of eco-innovation has its numerous positive effects on account of an increase in the concern of the sector for the condition of the environment and, consequently, an increase in the extent of some active operations for the benefit of the improvement in the quality of the natural environment. [12] Eco-innovation plays an important role in the process of creating ecological awareness of entrepreneurs. In the Polish and foreign literature there are used different terms for eco-innovation, i.e. ecological innovation, environmental innovation, environmental technologies.

However, the common denominator of all the definitions of eco-innovation is the elimination and minimization of the negative impact on the environment. Implementing eco-innovative technologies, which contribute to reduction in this impact on the environment, allows enterprises to avoid or receive lesser punishment or environmental fees and reduce the cost of acquiring the shrinking natural resources and become independent (more and more significantly) of traditional sources of energy.

Some authors claim that the key element of ecological innovation is *newness* [13]. On the other hand, others state that the term of innovativeness gives up the advantage of *newness* including considerable changes from the point of view of the company. [14] However, it should be noted that innovation does not need to be created by the company itself on its own but it can be acquired from other entities in the diffusion process. The minimum criterion to let the change referring to products or the function of the company be acknowledged as innovation is the fact that it constitutes newness (or significant improvement). The previous research in the field of eco-innovativeness was based on the theoretical solutions. There is more and more evidence that eco-innovation, initially requiring incurring costs for its implementation, in time becomes the basis for competitive advantage of enterprises.

It enables the expansion into new markets and ultimately, it leads to reduction in costs. Therefore, it may constitute the source of strategic innovation. [15]

Admittedly, there was observed an upward trend in the amount of expenditure on fixed assets for the environmental protection which, in 2013, amounted to about PLN 10.9 billion and was higher by 7.1% than in the previous year (Table 3). There was also recorded an increase in the expenditure on fixed assets for water management, which reached the level of about PLN 3.1 billion and was higher by 9.7% compared to the previous year.

	2005	2010	2011	2012	2013
Total in million PLN	46285.8	37881.4	48606.7	36253.7	35183.2
Environmental protection	6570.3	5986.5	10926.2	10127.8	10851.2
Expenditure for fixed assets for the environmental protection and water management	1652.7	1715.8	3565.4	2787.9	3059.3

Table 3.

Expenditure for the environmental protection in years 2010-2013 (million PLN)

Source: Authors' own study based on GUS (Central Statistical Office), Environmental Protection 2014. [16]

Low level of eco-innovativeness of Poland results from insufficient public and private expenditure on green R+D. The situation is similar in case of patents where there is noticeable a high share of technologies connected with the environmental protection among few patent applications.[17] In turn, Polish enterprises introduce not only too little eco-innovation but also innovation in general, although the potential of eco-innovation seems to be larger than the potential of total innovation (Figure 3). The Central Statistical Office, for the first time, to a greater extent, conducted the analysis including eco-innovation, called, for the purposes of the research, the one bringing benefits for the environment, in the framework of the extended edition of the survey on innovation for 2006–2008.[18] The research indicated that in years 2006-2008 the innovation bringing benefits for the natural environment was introduced by 26.5% of industrial companies and 16.1% of the service companies. The most innovative were found to be large enterprises (employing more than 249 workers), where the share of innovation amounted to 57.5% – in industry and 35.0% – in the service sector. In enterprises employing 50-249 workers, the share of eco-innovation amounted to 34.1% in industry and 20.6%

in the sector of services, whereas in enterprises with 10-49 employees - respectively 21.7% and 14.6% (Table 4).

	Industry	Servivces
Total	26.1	16.1
Public sector	35.6	23.3
Private sector	26.1	16.0
10-49 employees	21.7	14.6
50-249 employees	34.1	20.6
More than 249 employees	57.5	35.0

Table 4.
 Enterprises implementing eco-innovation in Poland in years 2006-2008 (% of the total)
 Source: GUS 2010.

In the analyses, there was identified the innovation bringing benefits for the environment which may emerge at the time of the manufacturing of the product or service, and also the benefits for the environment which may arise at the time of the use of the purchased product or service by the end-users. The innovation bringing benefits for the environment at the time of manufacturing a product or service was implemented by nearly every fourth industrial company and 13.4% of enterprise in the sector of services. In industrial companies employing 10-49 nearly every fifth - implemented the eco-innovation of this kind, and in entities with 50-249 employees – 31.6%. For service companies, this share amounted to 11.9% and 17.6% respectively. The innovation bringing benefits for the environment, achieved at the time of using the product or service, was introduced by 17.8% of industrial companies and 11.4% of enterprises in the sector of services. Regarding these indicators with respects to the size of the studied enterprises, in industrial companies with the number of employees amounting to 10-49 it was 14.7%, and with 50-249 employees – 22.4%, whereas in case of enterprises from the sector of services – respectively 10.4% and 13.9%.

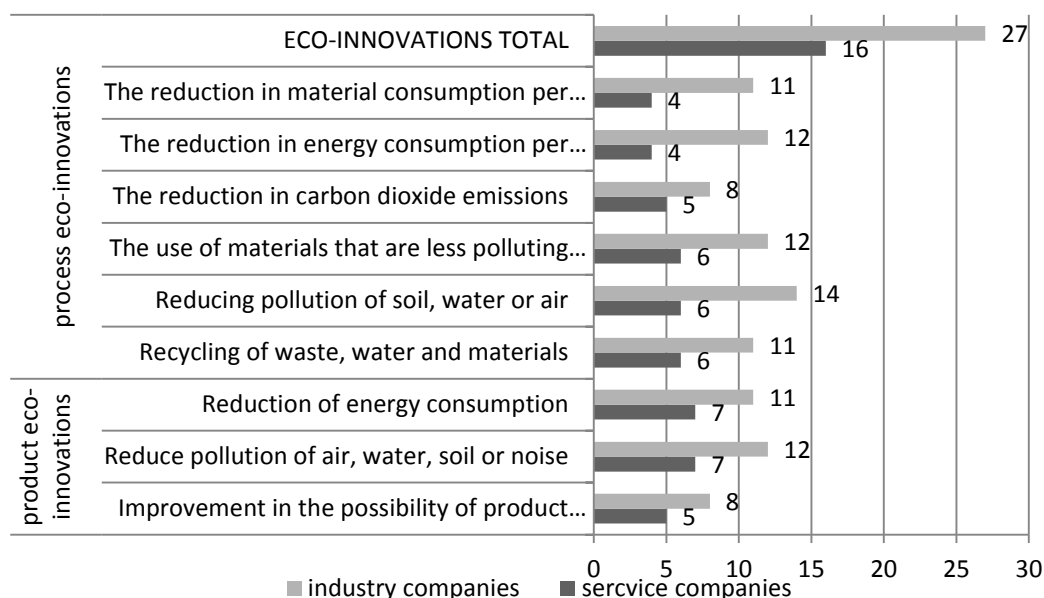


Figure 3.
Enterprises implementing eco-innovation in Poland in years 2006-2008 (% of the total)
Source: GUS 2010.

4 Conclusions

Enterprises, apart from the implementation of their basic objective, which is multiplying the capital, must consider the issues connected with the protection of the natural environment in their activities. The process tool, which may serve enterprises to fulfil the above objectives, may be ecological innovation since the paradigm of eco-innovation assumes that it must bring not only benefits for the enterprise but also for the environment by reducing or eliminating the impact on the environment. Polish enterprises in years 2006-2008 more frequently implemented new environmental-friendly solutions than other process and product innovation. However, the larger enterprises and the ones belonging to the public sector in industry were more eco-innovative.

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The Role of SMEs in the European Entrepreneurship Policy

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Abstract: According to EU's ENTREPRENEURSHIP 2020 ACTION PLAN „Reigniting the entrepreneurial spirit in Europe” since 2008 Europe has been suffering the effects of the most severe economic crisis it has seen in 50 years. For the first time in Europe there are over 25 million unemployed and in the majority of Member States small and medium-sized enterprises (SMEs) have not yet been able to bounce back to their pre-crisis levels. Based on Small Business Act for Europe the EU had to rethink and partly revise its entrepreneurship and industrial policy. The new policy is based on three pillars : developing entrepreneurial education and training; creating the right business environment; role models and reaching out to specific groups. Entrepreneurship is considered to be a powerful driver of economic growth and job creation, while there is need for opening up new markets inside and outside of the EU. While new companies, especially SMEs, should represent the most important source of new employment, in the last decade the share of people preferring self-employment to being an employee has dropped significantly in the majority of the Member States. In our paper we try to give an analysis of the current challenges SMEs in the EU have to face from day to day while trying to follow the changes in the SME policy of the European Union.

Keywords: European Union, Entrepreneurship 2020, SMEs, Small Business Act for Europe, industrial policy, competitiveness

1 Introduction

In our previous articles we have analyzed the basic European document for SMEs: “Small Business Act” for Europe”. (Borbás 2009, Borbás-Kadocsa 2010). Other authors examined different aspects of SME's position all over Europe.(Horváthová 2009, Maková 2008, Mikusová 2008, Mustafa-Michelberger 2005) In this paper we consider all relevant documents issued by the European Union concerning SMEs.

Small and medium-sized enterprises (SMEs), defined as having fewer than 250 employees(2003/361/EC), make up a large part of Europe's economy: there are some 21 million of them in the European Union, providing around 75 million jobs and accounting for 99% of all enterprises. SMEs are a key part of European industry,they contribute up to appr. 80% of employment in some industrial sectors, such as textiles, construction or furniture. SME are a major source of entrepreneurial skills, innovation and contribute to economic and social cohesion.(COM(2005) 551 final pp.1)

Based on the new Partnership for Growth and Employment, in 2005 European Commission decided to place SMEs high on political agenda and initiated a new start for SME policy on community and Member States levels. In its Communication the Commission provided a comprehensive framework for policy instruments aiming to bring „Think Small First” principle into effect across all European policies, emphasizing that SMEs are indispensable for the delivery of stronger, lasting growth and more and better jobs and for revitalising the European economy. The Commission expressed Europe's needs for more people willing to become entrepreneurs, while promoting entrepreneurial culture.

EC required SME friendly policies both at Community level and in Member States and offered to to take action to keep SMEs high on the political agenda proposing a new start for SME policy. EC's Communication provided a coherent framework for the various enterprise policy instruments and aimed at making the “Think Small First” principle effective across all EU policies.

2 Objectives and Actions

They set out a series of objectives and actions specifying how to make the measures of the Community Lisbon programme beneficial to SMEs. They said that the success of the new SMEpolicy depends primarily on action by Member States as they retain the main competence in enterprise policy, while the Community policy framework should provide support and complement their efforts (COM(2005) 551 final).

European Commission created a policy framework for SME actions and integrated the objectives of the existing enterprise policy instruments, such as the European Charter for Small Enterprises and the Entrepreneurship Action Plan. EC wanted SME policy to be transversal across a wide range of Community policies.

The new approach was based on a comprehensive view of SMEs' role in society which handles SMEs as an important factor of economic and social cohesion at local and regional level. The document emphasized the very different nature of SMEs and the need that this fact should be reflected in policy-making handling them from start-ups and highgrowth ‘gazelles’ to family businesses differently.

According to the EC SMEs suffer disproportionately from legislative and administrative burdens compared with big businesses, while they are under increased competitive pressure combined with market imperfections.

European Union offered support to SMEs through Community programmes like the Multiannual Programme for Enterprise and Entrepreneurship and the Competitiveness and Innovation framework Programme , combined with additional sources. Structural funds are used in promoting entrepreneurship and skills and improving SMEs growth potential.

For the aim of promoting entrepreneurship and skills the Commission promised efforts to increase the appreciation of entrepreneurs in society and promote greater awareness of a career as an entrepreneur putting stress on the increasingly important role of entrepreneurship education.

The Commission also promised support for activities to reduce the burden of risk linked to entrepreneurship to tackle the negative effects of business failure and examine the possibility of improving social security schemes and bankruptcy procedures.

The EC promised working closely with national authorities to address those areas where the needs of women entrepreneurs are still not being sufficiently met and in case of young people, older workers and members of ethnic minority communities to continue to encourage networking among policymakers to identify and promote good practices to assist them.

3 SMEs' access to markets

Realising the fact that SMEs do not fully benefit from the opportunities provided by the Internal Market the Commission insisted on stepping up efforts to complete the Internal Market with the contribution of the Member States. In case of public procurement contracts EC wanted to further modernise and simplify award procedures, by fostering e-procurement and by allowing for "green" public procurement. The Commission promoted SME participation in standardisation and to raise SMEs' awareness of standards. To decrease the high tax compliance costs often involved in setting up a branch or a subsidiary in another Member State, the Commission intended to propose a Communication on a pilot project on Home State Taxation to allow SMEs to compute the taxable profits of their foreign branches or subsidiaries on the basis of the rules in their home State.((COM(2005) 551 final pp.2)

The Commission expressed its will to propose new initiatives for the Euro Info Centre (EIC) network to encourage SME participation in business cooperation and matchmaking events, especially in border regions. On bilateral and multilateral

level, the Commission sought to reduce the obstacles facing European exporters and to promote greater access to international markets, and encourage SMEs to conclude joint venture agreements with enterprises in developing countries.

4 Cutting red tape

At Community level, the Commission declared itself to be determined to integrate the 'Think Small First' principle in all Community policies and to push for regulatory and administrative simplification.

Better regulation is of particular importance to SMEs, as they have limited resources and insufficient expertise to comply with often complex rules and regulations.

SMEs' participation in EU programmes should be carried out by reducing the complexity of procedures, improving information to SMEs on existing programmes and ensuring that evaluation procedures take into account the particularities of SMEs.

The Commission intended to revise and simplify the various State aid rules and to encourage risk-taking through a more flexible approach for aid directed at SMEs, among others a VAT One-Stop Shop system to simplify VAT obligations and to encourage SMEs to increase intra-EU trade.

5 Improving SMEs' growth potential

Finance was identified by the EC as a crucial input for the creation, expansion and development of SMEs. The Commission has proposed to increase the existing financial support to SMEs significantly under the Competitiveness and Innovation framework Programme (CIP). The Commission expressed its will to present a Communication on the European way to finance growth.

The EU declared its readiness for strengthening the innovation and research capacity of SMEs and increasing the volume of technology transfer to them seeking to increase participation by SMEs in the Europe INNOVA initiative and to deliver specific support to SMEs in the field of IPR, through the Community business support networks. Investment in the growth potential of SMEs was considered as one of key elements of the new cohesion policy.

Promoting the take-up of Information and Communication Technologies (ICT), e-learning and e-business was considered by the EC as key element in improving SMEs' competitiveness. The Commission wanted to support networking between

policy-makers in this field through the eBusiness Support Network for SMEs. The EC aiming to improve knowledge about and the analysis of European SMEs' performance to be able to take action to reinforce their competitiveness.

Strengthening dialogue and consultation with SME stakeholders. Surveys prove that SMEs are poorly informed about the EU and its activities and sometimes critical of their effect on business. EC insisted the European institutions to step up their capacity to listen to SMEs' concerns and promote, together with Member States, a positive image of entrepreneurship.

For the favour of reducing the information gap between the European institutions and businesses, particularly SMEs, the Commission's SME Envoy, expressed its commitment to extensive consultation of relevant stakeholders to ensure that their concerns are taken into account in the policy-making process. Furthermore the Commission planned to create a quick and easy-to-use consultation mechanism so called "SME panel" via the Euro Info Centre network to get views from SMEs in specific areas of policy making.

Promoting entrepreneurship and the image of SMEs was handled as a key priority for the future. Among other measures, a new competition, "European Enterprise Awards", was launched in 2005 to identify measures that have proved successful in promoting entrepreneurship and SMEs at regional and local levels.

The Commission was ready to foster cooperation with Member States and other stakeholders for the favour of achieving common goals .

In its Communication EC expressed its willingness for a new start for a more pragmatic, comprehensive and inclusive EU policy in favour of SMEs which highlights the key role SMEs play in the Partnership for Growth and Jobs. The overall goal of it was to pave the way towards a strategic approach to make SMEs more competitive.

6 „Think Small First” A „Small Business Act” for Europe

“Small Business Act” for Europe from 2008 is based on the EC's Communication ,the Mid-term review of the EU's Modern SME policy from 2005 to 2007(COM(2007) 592 final) and “Impact Assessment on the SBA”, SEC(2008) 2101 . SBA declared 10 principles for the European Union and for the Member States turning SME friendly policy as a mainstream. These principles are as follows:”

- I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
- II. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
- III. Design rules according to the “Think Small First” principle
- IV. Make public administrations responsive to SMEs’ needs
- V. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs
- VI. Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
- VII. Help SMEs to benefit more from the opportunities offered by the Single Market
- VIII. Promote the upgrading of skills in SMEs and all forms of innovation
- IX. Enable SMEs to turn environmental challenges into opportunities
- X. Encourage and support SMEs to benefit from the growth of markets.”
(COM(2008) 394 final pp.4)

In this paper we do not take all of them into consideration, we focus on the ones which are the most important from the viewpoint of Central European SMEs.

“In a globally changing landscape characterised by continuous structural changes and enhanced competitive pressures, the role of SMEs in our society has become even more important as providers of employment opportunities and key players for the wellbeing of local and regional communities. Vibrant SMEs will make Europe more robust to stand against the uncertainty thrown up in the globalised world of today.” (COM(2008) 394 final pp.2)

It seems an overexaggeration to expect SMEs to stand against the uncertainty in the globalised world of today. The strength of SMEs over Europe is uneven, for historical reasons the majority of Central Eastern European SMEs do not belong to this group. They can be seen as more victims of globalization than possible balance makers. To be able to become providers of wellbeing on local and regional levels, SMEs have to be protected from the pressure of multinational firms. SMEs are providers of employment opportunities, but it is jeopardized by globalization. Unfortunately in statistics it is very seldom pointed out that in most of the cases free market access destroys more jobs than it creates. In case of emerging markets the net balance can be even worse.

“The national and local environments in which SMEs operate are very different and so is the nature of SMEs themselves (including crafts, micro-enterprises, family owned or social economy enterprises). Policies addressing the needs of SMEs therefore need to fully recognise this diversity and fully respect the

principle of subsidiarity.” (COM(2008) 394 final pp.2) This statements is outstandingly important in the creation of national SME policies. Although document does not give further guide for the application of them, each country should work out a sophisticated approach concerning the differences between self-employing firms and succesful medium sized companies.

According to the document, at the heart of the European SBA is the conviction that achieving the best possible framework conditions for SMEs depends first and foremost on society’s recognition of entrepreneurs. Being SME-friendly should become mainstream policy, based on the conviction that rules must respect the majority of those who will use them: the ”Think Small First” principle.

The symbolic name of an “Act” given to this initiative underlines the political will to recognise the central role of SMEs in the EU economy and to put in place for the first time a comprehensive policy framework for the EU and its Member States through a set of 10 principles to guide the conception and implementation of policies both at EU and Member State level. (COM(2008) 394 final pp.4)

A set of new legislative proposals are given by the document which are guided by the “Think Small First” principle. Out of them the Directive on reduced VAT rates is the most important one for Central European SMEs which offer Member States the option of applying reduced VAT rates principally for locally supplied services, which are mainly provided by SMEs.

In Hungary there is continuous debate on the level of VAT rates. (Nagy,I.Z.2011a,2011b) The general rate is 27% which is the highest in Europe irrespective of the size of the companies. In the ebate the possibility of differentiating between companies by size has not even been mentioned. Average SME owners do not simply know about this initiative. Municipalities and local authorities together with the SME organizations could support this idea. From regional development point of view we could have lots of advantages by implementing this opportunity. The case is very similar in the surrounding countries. The situation is even more controversial if we take into account the required austherity measures offered by IMF, among which the raising of VAT rates can be found.

In the document a set of new policy measures are also given which implement the 10 principles according to the needs of SMEs both at Community and at Member State level.

In the fourth part of the document we can find the ways how EU Commission wants to turn the above mentioned principles into policy action.

“The EU and Member States should create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. They need to care for future entrepreneurs better, in particular by fostering

entrepreneurial interest and talent, particularly among young people and women, and by simplifying the conditions for business transfers.” (COM(2008) 394 final pp.5)

Referring to the 2007 Flash Eurobarometer on entrepreneurial mindsets which shows that 45% of Europeans would prefer to be self-employed, compared to 61% in the US, the document like People in Europe to be made more aware that self-employment is a potentially attractive career option and be provided with the necessary skills to turn their ambitions into successful ventures.

As far as our experience in Hungary and most probably in all other Central European countries are concerned, there is no need to convince people on the importance of entrepreneurship. There is an entrepreneurial spirit in many people, although the circumstances are not favourable for running a business, especially for start-ups. After the so called socialist era considerable amount of Central European citizens had to start a kind of entrepreneurship after the collapse of industries in this territory. Most of them became a sole entrepreneur. At the moment e.g. in Hungary we have 1,6 million registered enterprises, out of which approximately 75% is operating. They do not have to ideologically be convinced about the necessity of being an entrepreneur, but government has to let them work. This approach is supported by the outcomes of my empirical survey done in the middle of last decade. Basically nothing has been changed. Entrepreneurs regret very much that in the communication of the authorities enterprises are supported, but in reality they do not want to see so much enterprises, because it is complicated to control them and most of them is considered to be a potential cheater. On the other hand in our country and in all countries around us neoliberal economic policy was forced by different international organizations such as IMF, World Bank, OECD etc. in the so called transition period. This way of thinking is based on the “Free Market” dogma. Free market automatically grants equilibrium, enterprises and individuals have to take care of themselves, state is not allowed to interfere into market transactions etc. Based on the so called Washington consensus liberalization, privatization and deregulation are the key elements of this theory. This framework is absolutely against the interests of small entrepreneurs, the majority of which started their business by necessity. Our example clearly proves that it is not enough to agitate people for becoming entrepreneurs, but it is at least as much important to help them being able to keep their enterprise on the market.(Borbás 2009)

In the next chapter the Commission states that” transfer of business should be given the same support as setting up a new business. Recognition of the special role of SMEs and in particular family-based enterprises, their typically local base, socially responsible attitudes and capacity to combine tradition with innovation, underpins the importance of simplifying the transfer of businesses and the skills associated with them. “(COM(2008) 394 final pp.5)

This is the first time when the importance and role of SMEs is so clearly defined and accepted as a value in an EU document. It is also true that there is a certain contradiction between the competitiveness and innovation aspect and the family-based character of SMEs. Very few of the small firms are really innovative because they have their traditional and accepted role locally. In governments' communication innovation aspects are dominant, without making differences between firms by size and nature. A sophisticated approach is needed, traditional activities are at least as important as innovative solutions.

The document also calls the attention of entrepreneurs to the opportunity to contribute to a better business environment by stepping up their cooperation and networking, by exploiting more fully the potential of SMEs, and especially family enterprises, as important training grounds for entrepreneurship and by acting in a socially responsible way. In the former socialist countries it is difficult to argue for networking and cooperation. Because of historical reasons, in communist type cooperatives cooperation was forced by authorities and people could not keep their properties, that is why even young people are quite reluctant of cooperating and networking.

“The Member States should ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance” (COM(2008) 394 final pp.7)

According to a previous EU document bankruptcies account for some 15% of all company closures. Around 700 000 SMEs are affected annually and some 2.8 million jobs are involved throughout Europe on an annual basis. In the EU, the stigma of failure is still present and society underestimates the business potential of re-starters. 47% of Europeans would be reluctant to order from a previously failed business, while the average time to complete a bankruptcy in the EU varies between 4 months and 9 years. That is why, among others, Commission wants to ensure that re-starters are treated on an equal footing with new start-ups, including in support schemes. In the Central European states academics and policy makers very rarely take into consideration the possible support for re-starters. A kind of inherited approach still keeps itself, failed entrepreneurs are suspicious, some fraud should be in behind. This way of thinking is widely shared in societies, government officials and even academics are not exceptions.

“The EU and Member States should design rules according to the “Think Small First” principle by taking into account SMEs' characteristics when designing legislation, and simplify the existing regulatory environment.” (COM(2008) 394 final pp.7)

According to the Report from the Expert Group on “Models to Reduce the Disproportionate Regulatory burden on SMEs”, the most burdensome constraint reported by SMEs is in compliance with administrative regulations. It has been estimated that where a big company spends one euro per employee because of a regulatory duty, a small business might have to spend on average up to 10 euros.

36% of EU SMEs report that red tape has constrained their business activities over the past two years. To improve the regulatory environment in view of the “Think Small First” principle, the Commission decided to come forward with all the proposals to reduce the administrative burden on business which are necessary to achieve the EU reduction target of 25% by 2012. (COM(2008) 394 final pp.8). Beyond the fact that administrative burden is not easily measurable, after thoroughly searching outcomes of this principle, I could not find any publication or official assessment document which would tell us if Member States could successfully fulfil the above mentioned requirement.

“The EU and Member States should make public administrations responsive to SME needs, making life as simple as possible for SMEs, notably by promoting e-government and one-stop-shop solutions.” (COM(2008) 394 final pp.9)

Modern and responsive public administrations can make a major contribution to the success and growth of SMEs by saving them time and money and hence freeing resources for innovation and job creation.

In the Commission’s opinion e-government and one-stop shops, in particular, have the potential to help improve service and reduce costs. They invited Member States to reduce the level of fees requested by the Member States’ administrations for registering a business, taking inspiration from EU best performers and to continue to reduce the time required to set up a business to less than one week, where this has not yet been achieved. The Central European picture is colourful, there are considerable differences between countries. As far as Hungary is concerned, in this field Hungarian authorities did much to achieve the EU goals. Registering new businesses became much quicker, it is possible electronically within a day, and registration and publication fees were also reduced. In case of e-government there is much to do for smooth services.

“The EU and Member States should facilitate SMEs’ access to finance, in particular to risk capital, micro-credit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions.” (COM(2008) 394 final pp.11)

Small Business Act for Europe states that raising the right kind of finance can be a major difficulty for entrepreneurs and SMEs, and comes second after the administrative burden on the list of their concerns.

The material emphasizes that risk aversion often makes investors and banks shy away from financing firms in their start-up and early expansion stages. Possible market failures in SME finance provision must be identified and corrected to further develop the European risk capital markets, to improve SMEs’ access to micro-credit and mezzanine finance and to develop new products and services.

This is the field where EU Commission’s approach differs greatly from the outcomes of my survey and my private opinion. Almost none of the entrepreneurs

I asked would welcome risk capitalists. They know exactly that this solution is not for the favour of the entrepreneurs, but rather for the investors. Entrepreneurs would like to get simple loans at reasonable interest rates. It is also important that micro funds should not be created by international banks, but national or local banks.

“The EU and Member States should support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through market-specific support and business training activities.” (COM(2008) 394 final pp.17)

Small Business Act considers the fact that only 8% of European SMEs report turnover from exports while 7% of micro-enterprises reported exports, which is significantly lower than the figure for large enterprises (28%) as a problem. Only 12% of the inputs of an average SME are purchased abroad.

As in many other cases this approach handles very different enterprises homogenously, and expects the same role and same way of thinking from micro and multinational companies. As it is well known from the business literature, to be able to export requires a certain size and power. Experiments of many authors say that companies have to have around one hundred employees for stable and competitive export ability. It's no use forcing the international turnover. The only reason, sorry to say, why it is worth pushing small enterprises to sell abroad is that within a short time even the good ones may become bankrupt while it is possible for the large companies to skim the profit.

“Fast-growing markets present untapped potential for many European SMEs. In particular, recent EU enlargements have created important new business opportunities for companies from both “old” and “new” Member States. This demonstrates the importance of fully exploiting the potential of market opportunities in the EU candidate and neighbourhood countries.” (COM(2008) 394 final pp.16)

From the “new” Member States side this picture is not so clear. The “old” member countries have a well established, long and uninterrupted tradition of market economy and most of them have much higher GDP/capita than the new ones. Their companies have the experience how to penetrate into foreign markets. In this situation the opportunities and the possible strategy of the firms coming from the old and new Member States are quite different. For example in the equity of the Hungarian SMEs the proportion of foreign capital is gradually growing from the date of our accession to the EU. It is also very easy to follow the basic tendencies as far as the division of labour between the companies of old and new Member States are concerned. Research and Development are done in the old Member States, capital and know-how are exported to the new members and assembling activities are done in these countries by making use of the low wages. This recipe is general and fits well into the direction of global movement of capital. It is important to state that not only large enterprises bring capital to the territory of new members, but SMEs are present on these markets with capital and

with goods, too. From the Central European SMEs point of view, it seems to be crucial to show for the EU officials the above mentioned facts and be able to express their interests in coalition with the SME organizations and authorities of the new Member States. As it turned out from our analysis EU's policy for SMEs became more sophisticated in the last few years, but there are certain points where even more differential way of thinking and action is needed.

7 Commission's Review of "Small Business Act" for Europe

The EU Commission's Review of "Small Business Act" for Europe (COM(2011) 78 final) was published in February 2011 which is the official viewpoint of the EU concerning the progress made in the implementation of SBA on European and national levels.

7.1 Commission's position

Commission stated that the "Small Business Act" for Europe (SBA), provides a comprehensive SME policy framework, promotes entrepreneurship and anchors the "Think Small First" principle in law and policy making to strengthen SMEs' competitiveness (COM(2011) 78 final pp.2).

In its review EU Commission presents an overview of progress made in the first two years of the SBA, and sets out new actions to respond to challenges resulting from the economic crisis.

In the Commission's view the implementation of Small Business Act is progressing steadily, but more needs to be done. EU's main focus was, and remains, structured around three areas: ensuring access to finance, taking full advantage of the Single Market and smart regulation. Based on the first report on the Commission's and Member States' measures to implement the SBA which was published in December 2009, in which EU Commission assessed the results and determined how and to what extent the EU and Member States have implemented the SBA.

In its assessment in which Progress made by the European Commission was focused the Commission declared that businesses with a turnover of less than €2 million may benefit from an optional cash accounting scheme which makes it possible for them to delay accounting for VAT until they receive payment from their customers. Although Hungarian government was against this particular solution for mere budgetary reasons, they changed their policy and introduced

cash accounting from 2013 easing the financial position of many of the SMEs in Hungary, mostly the most sensitive micro enterprises.

“The Directive to combat late payment adopted by the Council in January 2011 requires public authorities to pay within 30 days and sets an upper limit of 60 days for business to business payments, unless businesses expressly agree otherwise and if it is not grossly unfair to the creditor. Member States are invited to implement the Directive without delay. In addition, the Commission has begun to use an SME test” (COM(2011) 78 final pp.3). The implementation of these rules would solve at least partly the problem of so called “chain owing”. The vicious circle originated basically from the non-payment of government bodies. If they paid within 30 days, the situation could turn to much better. As far as non payment for business to business is concerned, government should make serious efforts and effective measures to force big multinational companies to refrain from forcing smaller ones to accept 90 or sometimes 180 days period for payments. Basically the situation has not been changed in Hungary similarly to other Central European countries.

As far as the SMEs access to finance is concerned the EU Commission states that “To improve SMEs’ access to finance, financial instruments within the Competitiveness and Innovation Framework Programme (CIP) continue to facilitate venture capital investments and provide guarantees for lending to SMEs. Microenterprises represent 90% of the over 100 000 SMEs that have benefited so far from the CIP financial instruments. A further 200 000 SMEs are expected to benefit by 2013. On average, each SME that is granted a guaranteed loan in the EU creates 1.2 jobs” (COM(2011) 78 final pp.3) Based on our survey , asking SMEs about the obstacles because of which they are not able to grow in an acceptable speed, we have to state that the kind of financial instruments Commission proposes, most of the Hungarian enterprises said definite “no”. Mostly micro entrepreneurs does not consider venture capital as a solution for their growth problems. Among others, that is why differential approach is needed from both EU and national sides to be able to find appropriate solutions. It is a positive sign that in this document EU Commission emphasizes several times the need for differential assessment of the companies by sizes.

According to the review entrepreneurship takes its place in the new innovation policy. In this area much has to be done, it is also true that Hungary made considerable efforts. E.g. the "European SME Week" which was continued and provided a pan-European platform with more than 1,500 events and 3 million participants was a success story in Hungary, too. We do not have enough experience concerning 'Erasmus for Young Entrepreneurs' programme, launched in 2009. but some progress can be recognized in fostering cross-border networking and business cooperation with experienced entrepreneurs in Central European countries. It is also a kind of success that out of the 250 successful female entrepreneurs who form the European Network of Female Entrepreneurship Ambassadors, Hungarian group is very active.

‘The Commission has put entrepreneurs and SMEs at the heart of its innovation and research policy. Its aim is to remove the remaining barriers to "bringing ideas to market" and promoting entrepreneurial mindsets among students and researchers.’ In this area very few progress can be recognized among Hungarian stakeholders. The diverse interests should be taken in fewer hands. In lack of cooperation any efforts from the Commission side which intends to support internationally competitive clusters, bringing together large companies and SMEs, universities, research centres and communities of scientists and practitioners to exchange knowledge and ideas would remain mere dreams. (COM(2011) 78 final pp.5)

As it is well known, but refused by some of influential decision makers and researchers, Hungary’s key competitive advantage is the outstanding quality of its soil and traditions of agriculture. Cohesion Policy programmes and the European Agricultural Fund for Rural Development(EAFRD) are both key means of turning the priorities of the SBA into practical action on the ground while ensuring complementarity between EU, national and regional support.

Further investment should encourage regions, to find specific niches in the innovation landscape, based on ‘smart specialisation strategies’. The new, recently launched for public discussion, Hungarian Plan for the Improvement of the Countryside fits into these programmes and entirely adopts EU requirements.

EU Commission separately assess the developments in the Member States in the area of SBA implementation.

Progress in improving the business environment is considered to be slow, although all Member States have acknowledged the importance of a rapid implementation of the SBA, but the approach taken and the results achieved vary considerably between Member States.

While, among others, Hungary adopted national targets for reducing administrative burdens, we could not effectively reduce them. In case of SME Test we also failed, it did not become integral part of our national decision making approach.

In EU Commission’s view, access to finance has improved but the challenge remains in the hands of the Member States. Hungary is listed among the ones who have created a "credit ombudsman". and new support programmes for SMEs and have started to promote the European Code of Best Practices in order to facilitate SMEs’ access to public procurement. Although not listed by names, we are also among the Member States who made good progress in making it cheaper and faster to start up a company.

7.2 Need for further action

EU Commission stated that “Much has been achieved since the adoption of the SBA. The Commission has been faithful to commitments and implemented most of the measures promised. Member States, on the other hand, present a patchier record. For the SBA to achieve its objective of an SME friendly economic policy, it is important to ensure that the actions to which the EU and Member States committed themselves at the time of its adoption are fully implemented. On this basis, the SBA Review proposes a set of new actions aiming to respond to the challenges resulting from the economic crisis, and further developing existing actions in line

with the Europe 2020 strategy, in the following areas:

- making smart regulation a reality for European SMEs,
- paying specific attention to SMEs’ financing needs,
- taking a broad-based approach to enhancing market access for SMEs,
- helping SMEs to contribute to a resource-efficient economy, and
- promoting entrepreneurship, job creation and inclusive growth.”
(COM(2011) 78 final pp.6)

8 Steps needed forward in Central Europe

From the point of view of the Central European Small- and Medium Sized Enterprises which are the most important actions ? What government actions should be made and should be avoided ?

- Only a few of the Central European SMEs are able to compete on the EU markets and abroad. Differences, in accordance with EU proposal, between micro-, small and medium-sized enterprises need to be recognised and be taken into account. Enforcing competition is not our interest without any further consideration.
- Meeting the plans of the EU, specific measures such as reduced fees or simplified reporting obligations should be envisaged, because the option to implement these types of measures is left to the Member States.
- Avoidance of ‘gold plating’, i.e. exceeding the requirements of EU legislation when transposing Directives into national law is also essential, we have lots of best practices in this field.

- Simplification is considered to be a major objective. We should join to this effort. by simplifying the transparency reporting and audit requirements for smaller companies.
- Use of e-government solutions should also be supported.
- We should join to new regulatory provisions for financial institutions introduced either at EU level or by the Member States .
- Central European states should join the Progress Microfinance Facility launched by the Commission
- Governments have to combat against unfair commercial practices and contractual clauses
- Anti-competitive practices, cartels and abuse of dominant position are against not only of the interests of SMEs, but all of us. Strict measures should be implemented
- Best practices of other Member States should be thoroughly examined and adopted where they are appropriate.
- Promoting entrepreneurship and job creation are the most important initiatives to which Hungary should join.

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Family Businesses and the Strategic Opportunities

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Abstract: The family business isn't just an ordinary business. The family and business life are intertwined. Accordingly, it is important to establish the strategy of both simultaneously, side by side. I am seeking answers to the question of how corporate and family goals can be connected, examining the situation of family businesses in Hungary. My research method was to review the Hungarian and international literature.

Keywords: family business, strategy, planning, generational change, succession, parallel planning

1 Definition of family business

There are different approaches to determine what a family business is. In essence, it is regarded as an organization in which the family directly affects the development and functioning of the enterprise (Wimmer et al, 2004).

The family businesses are usually micro or small enterprises, but in many cases, dynamically evolving and can become a large company. However, the family values are usually maintained, for instance in such companies as Wal-Mart, Amway, Ford Motor or Levi Strauss (Vecsenyi, 2009). and Hungarian example the Zwack, Béres or Szamos.

A research team commissioned by the European Union (2009) 2007-2009, involving 33 countries developed a recommendation, which is generally recommended to implement in the member countries. The family business is defined as follows: The decision-making power is concentrated in the hands of the company founders and their relatives

- Direct or indirect ways to exercise their decision-making power.
- A family member or relative is involved in a formal management of the firm
- A company registered in the stock market can only be regarded as family business if 25% of the stocks are owned by the founder or his family member(s) as well as exercises executive power in same proportion

At least two persons of the same family - either owner and / or management member and / or operations staff should play an important role (Kadocsa, 2012). Furthermore, it is essential that the family has the majority ownership of the firm. Often the entire family is company employee (Nagy, Roóz 2005), in which case the family life is conducted in full cooperation with the company. International literature defines family business based on four main criterias: family-owned businesses, family decision-making power, the cooperation of different generations, and the family holding company. It should be simplified in Hungary, based on the Hungarian economic relations the most family business are "husband-wife" type of company. These companies usually have no successor. (Csákné, 2012a) International research in the European Union shows that the 70-80% of the companies are family businesses. These companies provide 40-50% of the jobs. Typically, most of them small enterprise. (Csákné basis Mandl, 2012b). Overall, it can be stated that the family businesses have dominant economic power.

2 The importance of strategic approach

The development of corporate strategy is required for all businesses. The most effective long-term objectives are written down. Micro and small enterprises often plan only in the head. In companies of the SME sector, strategies randomly happen, rather than being developed consciously. (Salamonné,2000.) The leader's personality affects the development of corporate strategy. An overall strategic approach is essential, because the leader observes the corporate and market events through it. Every leader and family has a vision of the company. This vision must be clear and well expressed in order to clarify the goal. The vision is based on the leader's conscious thinking and experience. The corporate mission is based on the demands of both the family and the firm. The mission is to determine the identity, and identify the profile of the company, its markets, its customers, its market position and core values. The mission of the company is entitled to show how to achieve the vision. (Vecsenyi, 2009)

3 Strategic opportunities for family businesses

The preparation of the strategy is always preceded by a situation assessment. As the best known and most popular method is SWOT analysis. Alternatively, the STEPP-analysis. The analysis should carefully examine the internal features and external business environment. The company's strategic potential is determined on this basis. Then strategic alternatives can be developed that are available to the decision maker. This process is shown in Figure 1

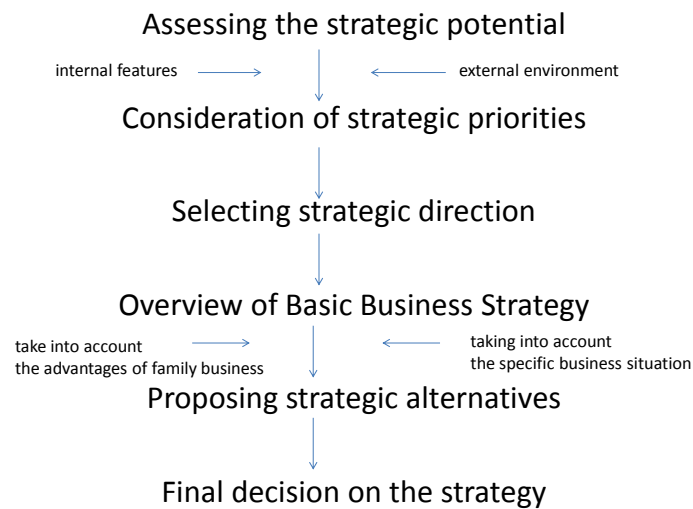


Figure 1
Strategy selection process
source: Carlock, Ward, 2006, 208. o.

The strategic priority is the broader interpretation of the strategy which can be of three types:

1. Keeping: strong companies with a strong market competition.
2. Development: mid-strong companies with a mid-strong market competition.
3. Restarting: weak companies with a weak market competition.

After that, the strategic priority is determine according to the appropriate strategic direction. The strategic directions group the business strategies, as shown in Figure 2.

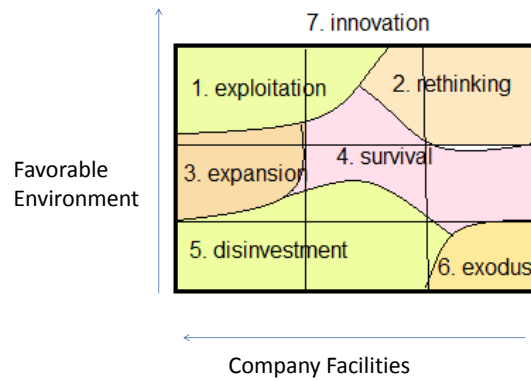


Figure 2
The strategic potential and the strategic direction
Source: Carlock, Ward, 2006, p 211.

The management choose from the remaining alternatives. The owners eventually decide. This process in a family businesses is often informal, and being discussed during family "cap councils," or family meals.

4 The necessity of synchronization of family and business strategies

The family and the business are fundamentally different organizations. The key differences are summarized in Chart 1.

Family	Standpoint	Enterprise
consumer	unit	production
just free	dinner	no free
love	main value	profit
based on birth	hierarchy	organizational
morality	culture	organizational
partner-focused	role	consumerism
privilege based on birth	succession	professionalism and contract based
trust	relationship	contractual
among family members relations	focus	task

Table 1.

The family and the firm's core values contradictions.

Source: Tóth-Bodásné based on Szirmai-Mihalkov-Szakács, 2014

These conflicts should be aligned in a family enterprise. In order for the company to function well and for the family not see this damage, it is necessary to consider both areas collectively. The leader has to pay attention on both's needs, values, and purposes. A possible solution for above might be the implementation of parallel planning process. (Ward; 2011)

5 Parallel planning process (PPP)

The PPP define the family plans and business plans together. The development of a corporate strategy is carried out in accordance with the vision of the family. The mutual plans are based on family values. These standards shall be incorporated into the company's business philosophy. It is important to develop the strategic thinking of the family and the leadership. The determination of short-term and long-term goals are important in both areas. As seen in Figure 3.

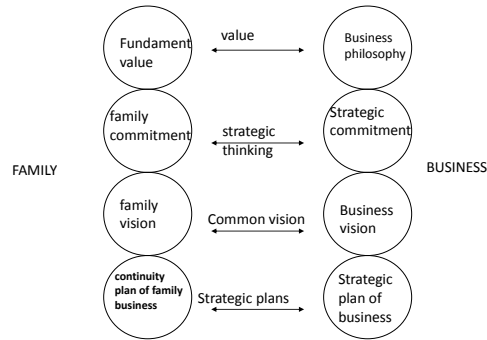


Figure 3

Family and business plan

Source: Carlock, Ward, 2006, 33. p.

Lindow (2010) asked 171 German family businesses in his empirical research. He found that strategic planning is influenced by the family. The planning process must be carried out from both points of view; the family and the business.

5.1 Planning from the point of view of the family

Strategic planning of family business has key components regarding the family such as (Carlock, Ward; 2006) commitment of the family members, family values, business philosophy, and family vision.

The commitment of family members show what how attitude of the members is related to the business.

Commitment stands of the following components:

- Faith and identification with the company's goals
- Active support of the company,
- Desired relationship with the company

The competitive advantage of family business is that the participants are committed to their mutual venture. Their work is carried out perfectly, because they work for themselves and their family. If the commitment is strong, then the goals can be easily achieved.

The phrasing of the family values helps to strengthen the commitment. The development of family values is essentially the responsibility of parents. The kids take over and carry on with the standards. The values related to family business may be: mutual help, support, cooperation, social intercourse, career, prestige, material well-being, taking responsibility. All this should be extended to the firm. If necessary, specific standards may be set dealing with corporate matters.

There are three family philosophies, which are as follows:

1. Business comes first
2. Family comes first
3. Balance of Family and Business

Setting up a family vision gives meaning to a commitment to the family business, and helps the family to work together as a team.. Members are aware of the goals built on family values and the members can explore how can they contribute to the success of the others. The family's vision shows the family see themselves within 5 - 10 years from now, what kind of role the company will play in their lives. Family planning is also important. It is necessary to point out that having children in the family should happen when the time is right and is in tone with the business.

Interaction of the above components shown in Figure 4.

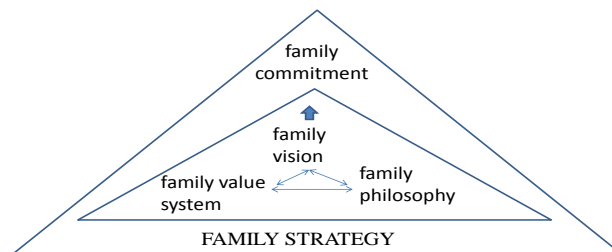


Figure 4

Family Strategy

Source: own editing based on Carlock, Ward, 2006

5.1.1 Succession planning

The issue of generational change is a key problem in many family businesses. The change of political system provided a great opportunity to launch an enterprise in Hungary. Family businesses founded in these years reach the age of 20-30 years, when the time is appropriate for the change in leadership. (Laczkó, 1997)

The succession of business requires thoughtful planning. The successor shall be included in the company's life as soon as possible. The main venue of socialization is the family, where children learn the attitude towards the world. If they see that the family has an integral part in the business, then it will be perfectly natural part of their environment.

The smooth change of generations is the interest of both the family and the business. 53,2% of surveyed family entrepreneurs had succession plan in according to the research of Csákné (2012.a). Foresight is very important here, because one of the competitive advantages of a family businesses is the attitude with towards keeping it in the family's hands. This attitude creates an intimate, familiar ambient, and helps to build trust with the customers (Nagy, Roóz, 2005)

5.2 Enterprise planning

The following elements should be considered during the strategic planning of an enterprise (Carlock, Ward; 2006): management's strategic commitment, management philosophy, vision, goals and opportunities.

Leaders should be committed towards both the company and the family. The leader must be fully devoted to the business. The strategic commitment is influenced by many things including the organization's life cycle, the organization itself, and family development.

First and foremost, the leader's job is to form the management philosophy. Fundamental questions must be answered on the level of risk management, what is the amount of sacrifice the management is willing to make for the company, and on what way will it be connected to the family. The latter issue is pivotal because if it is not inconsistent with the family's expectations, the common future becomes questionable. The vision should calculate on the involvement of family members in the business.

The business vision should clarify the construction of short and long-term plans. It is worth considering the prospects for growth, industry development trends, market expansion opportunities. All of these shall be in accordance with the family vision.

The "goals and options" mean to realise the business vision. The long-term goals give us a picture of the future operation of the organization. They help to develop family commitment, facilitate the assessment of the management.

Effects on the mentioned components have on each other, shown in Figure 5:



Figure 5.
Company Strategy
Source: own editing based on Carlock, Ward, 2006

6 Conclusion

I would like to present the PPP of family business with a simple diagram (Figure 6).

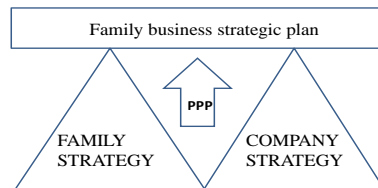


Figure 6

PPP of family business

Source: own editing

The coordinated planning of both the family and the company is very important to the majority of family businesses. The risk is higher in a family firm, as they don't only invest material goods in the company, but family relationships as well, which may lead to high conflict situations, and enormous emotional impacts. The PPP is essential because of the additional risk of jeopardizing family relationships. The extra yield comes with additional risks. This is typical for a family firm. If you manage to establish the right balance between the company and the family, the result will be an efficient organization where everyone is fully committed. Typically, external employees become symbolic family members in a well-established family businesses, ensuring his full commitment. (Vecsenyi, 2009)

One should pay special attention on succession planning, which can ensure the continuity of the business. Among the SME family business, IT support planning and the development of a controlling approach are very important, which can help the company to prosper and grow.

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"Unconscious" CSR as a Strategic Tool to Enhance the Enterprise's Competitiveness

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Abstract: It seems that the knowledge of the Corporate Social Responsibility concept is, mainly, a domain of large corporations and companies. Small, medium and micro enterprises rarely introduce CSR strategy, or use the so-called. 'Unconscious CSR' while performing its activities. Activities in the field of Corporate Social Responsibility are therefore conducted with less attention or even neglected. Meanwhile, the Corporate Social Responsibility concept can also be an important strategic tool to improve the competitiveness of the companies from SME sector. It helps to build a competitive advantage in the market, strengthen relationships with internal and external stakeholders, and above all be a stimulus to boost innovation companies. It simply worth to invest in CSR. This article present, the short characteristics of CSR concept, and also describes the activities, in accordance with CSR concept, and thus contributing to increase the level of innovation and also, having impact on competitiveness level increase.

Keywords: Corporate Social Responsibility, Small and Medium sized enterprises, innovation, competitiveness

1 Introduction

For many years, the Corporate Social Responsibility concept (CSR) has been quite a controversial issue, being a subject of many debates. One of the opponents of the CSR, was "The Economist", the newspaper, which from the beginning, underlines CSR in a negative light. In the 90s, the newspaper stated that CSR was just a temporary whim of companies, and CSR practices caused only cosmetic changes in the nature¹. However, for many years, CSR have had

¹Guthey E, Lange R., "Corporate Social Responsibility is a Management Fashion – So What?", Djof Publishers 2006

more supporters than critics, and discussion on CSR, has moved from a purely academic considerations to a practical considerations, for example: How to introduce CSR? Today, CSR is understood as a central function in the enterprise's business strategy, what cause, that large companies, undertaking actions related to the idea of CSR, consume a large amounts of energy. An example of this may be large, mostly international, corporations' spendings on CSR: General Motors spent 51.2 bln dollars and Merck - 921 bln dollars².

Theoretical approach to the concept of CSR is based on the question: what the company is responsible for? And how they are motivated to accept this responsibility. According to the theory of Milton Friedman, the only responsibility of business is to maximize profit (increasing shareholders value), but today, the opinion that companies have also social responsibility is getting more popular³.

Corporate Social Responsibility is a concept, which can be defined in many, different ways, as each author, having publications in the field of CSR, presents his own definition. One of the most popular definition of CSR is the definition given by Vogel, who understands CSR as: *"Policies and programs of private firms, that go beyond legal requirements as a response to public pressures and societal expectations"*⁴. Another definition, is a term created by Business for Social Responsibility, which understands CSR as: *„achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment"*⁵. However, the definition, which summarizes all key aspects of CSR, is the definition, given by European Commission in 2011, contained in Green Paper: *„social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders"*⁶. While, Kotler, Drucker, Porter i Freeman – „guru" in the field of management, stated that the importance of CSR in maintaining long-term competitive advantage, is significantly important. Their opinion is consistent with the European Commission, which lists the CSR as one

² Polonsky M., Jevons C., *"Understanding issue complexity when building a socially responsible brand"*, European Business Review 2006

³ Porter M.E., Kramer M.R., *"The Competitive Advantage of Corporate Philanthropy"*, Harvard Business Review on CSR, Harvard Business School Publishing Corporation 2003

⁴ Baron D., *„Corporate Social Responsibility and Social Entrepreneurship"*, Journal of Economics and Management Strategy 2006

⁵ Bhattacharya C.B., Sen S., Korschun D., *"The Role of Corporate Social Responsibility in Strengthening Multiple Stakeholder Relationships: A Field Experiment"*, Journal of the Academy of Marketing Science 2004.,

⁶ *„Promoting a European framework for Corporate Social Responsibility"*, Green Paper, Commission of the European Communities 2001. http://eur-ex.europa.eu/LexUriServ/site/en/com/2001/com2001_0366en01.pdf

of the most important factors, affecting the level of competitiveness of the European economy.

2 CSR and Innovation

With regard to the last point above, we can identify a relationship, which makes, that very often CSR is presented and discussed in terms of innovation. Company implementing the principles of CSR, may for example, become the author of eco-innovation, which will bring benefits in terms of lower resource's consumption⁷. In this way, not only due to implemented, environmentally friendly solutions, the principles of CSR will materialize, but also could reduce the cost of conducting business. Introduction of a certain practice into the company, which aim is to, for example, environment protection, may result in a new service, which will be offered to clients. In this case, there is a "win-win" situation, there are some positive effects in terms of environmental protection, and also, the company, being inspired by CSR activities, can use the new solution for some commercial purpose. It is believed that some phenomenas, like: recycling, reuse, sustainable building, green transportation, bio-based products, protective clothing and renewable energies were inspired by CSR concept⁸. It was also observed, that in companies, operating in a social responsibility way, there is a greater level of innovation. We can assume that employee, conducting his activities in a friendly workplace, shows a much greater involvement in his performed tasks and thus, can manifests so called rush to become more innovative.

Larger companies, conducting CSR activities, very often coordinate these activities with the actions, carried out by the research and development, however, it should be bear in mind, that CSR initiatives should be implementing, with taking account the strategic needs of the company, simultaneously with social and company's image benefits.⁹

Thanks to the CSR, new innovations, that respond to important social issues and environmental issues, have been created, and at the same time, they meet the needs of consumers, which cause, that innovation become a source of extra profit for the company. Nowadays, environmental awareness of customers is fairly high, which causes the so-called. ethical products and services are becoming more and more popular and interest. However, among to senior managers, more often it is believed, that the main advantage of using CSR is the

⁷ Płoszajski P., *Spoleczna odpowiedzialność biznesu w nowej gospodarce*, SGH, Warszawa 2012.

⁸ Anam L., Szul-Skjoeldkrona, Zamościńska E., *Jak zyskać na odpowiedzialności? CSR w strategiach spółek giełdowych*, CSRinfo, Warszawa 2012

⁹ MacGregor S., Fontrodona J., *Exploring the fit between CSR and innovation*, IESE Business School, University of Navarra, pp. 1-18

products and services innovation, in addition to the , in fact, social or environmental positive effects or a better perception of the company.

3 The Practical Aspects of Corporate Social Responsibility

Corporate Social Responsibility also means, that the company, conducting its business, voluntarily take into account the public interest, together with environmental issues, and in the relations that exist between the organization and its closest environment.

However, the most often, enterprises from SME sector are active in one of more in indicated CSR dimensions¹⁰.

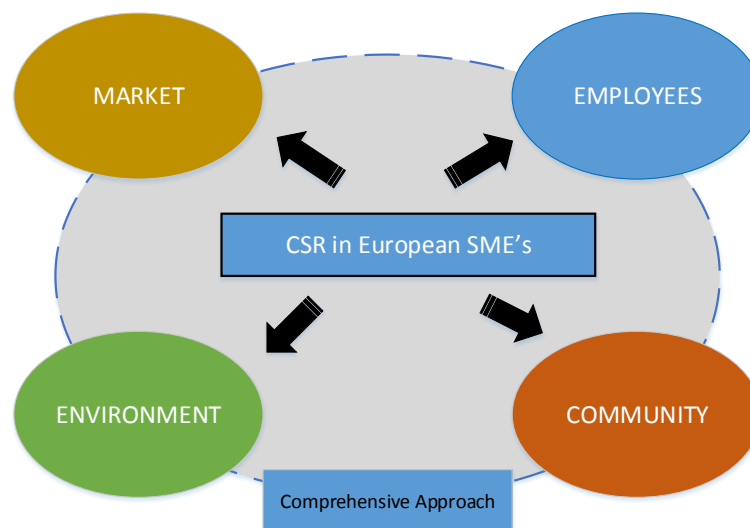


Figure 1
CSR in European SME's – dimensions and approach

In general, CSR concept can be characterized by¹¹:

- responsible entrepreneurship,
- voluntary undertaken activities, which go far beyond the requirements of the company,

¹⁰ *CSR and Competitiveness European SME's Good Practice*, Instytut Badań nad Przedsiębiorczością i Rozwojem Ekonomicznym EEDRI, 2012, pp. 1-9.

¹¹ Proszkowska A., *Spoleczna odpowiedzialność biznesu jako element polityki firmy*, *Ekonomia Menedżerska*, vol. 1/2011

- all kinds of activities, which receivers are company's employees, social groups from the immediate surroundings, the environment and the market (table 1)
- these activities are characterized by a positive impact on chosen group, while minimizing the negative results, which may arise for other groups,
- there are activities, characterized by systematic nature, very rarely, they are activities undertaken only once,

The following table¹² shows the types of activities undertaken by the company, according to the audience, to which these activities are addressed:

Employees	Communities
<ul style="list-style-type: none"> - improvement of working conditions and the introduction of facilities, causing greater job satisfaction - striving to maintain the balance between work and home, - every employee has the same development opportunities - trainings organization in order to strengthen employees' development, - communicating with employees, involving them in decision-making process, - responsible and fair salaries, offering financial support to employees, who are in need, special benefit for retired ones and low interest loans. 	<ul style="list-style-type: none"> - conducting actions leading to greater integration into the labor market at the level of a social group, - conducting actions leading to improve the local infrastructure, - providing financial support or material for local institutions, organizations or social centers, - Supporting society in the wider dimension.
Environment	Market
<ul style="list-style-type: none"> - design and production of environmentally friendly products and goods, - going towards more efficient use of resources, - reducing the amount of waste and pollution, - carrying out "environmental assessment" of suppliers, - informing customers, suppliers and business partners on the issues of environmental protection 	<ul style="list-style-type: none"> - undertaking action to improve the quality and safety of produced goods, - starting volunteering, addressed to clients, - conducting a fair pricing policy, - ethical advertising activities, - timely payment of obligations to contractors and suppliers, - establishing a cooperation with local partners, - Promoting ethical standards through the supply chain, - Support the development of local business agreements

¹² *CSR and Competitiveness European SME's Good Practice*, Instytut Badań nad Przedsiębiorczością i Rozwojem Ekonomicznym EEDRI, 2012, pp. 1-9.

4 "Unconscious" CSR in SME Enterprises

There is still a widespread belief, that the concept of CSR in practice, is used mainly by large companies, this is caused by the fact, that large companies, every year present reports on their activities in this area. In contrast, micro, small and medium-sized enterprises, apply CSR, mostly in "unconscious" way. This idea is supported by the research results, which were carried out in 2011¹³. From which, it appears, that polish companies from SME sector, often act in accordance with the principles of CSR, but almost two-thirds of these companies do not even know the meaning of the CSR term (Figure 2)

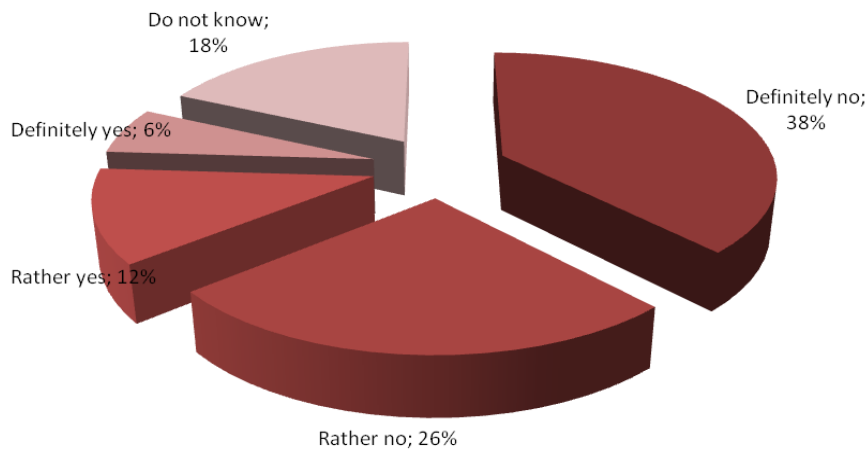


Figure 2
The level of identification CSR in SME's

Here might be the problem, that the ignorance of the term, may result in the inability to recognize the benefits of CSR, together with concrete actions taken by the company. In this case, there are a lack of this "connection", that makes that CSR may cause an increase in company's level of innovation.

¹³ *Innowacje i CSR w MSP*, raport Agencji Rozwoju Innowacji, Warszawa 2012, pp. 21-48

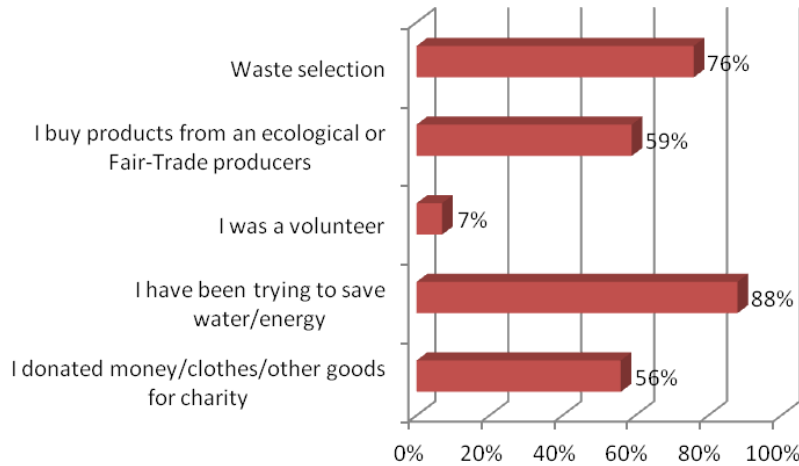


Figure 3
 The main CSR activities conducted by SMEs

During the analysis of the obtained results, it was noted, that the conduct of the employees themselves and the companies differ from each other. Employees, acting on their own behalf, usually at home, perform actions, which fit into the CSR framework - saving water, energy, waste selection or buying organic products. However, in the case of companies - CSR activities rely mostly on providing financial support, most often these are actions, using financial resources rather than human.

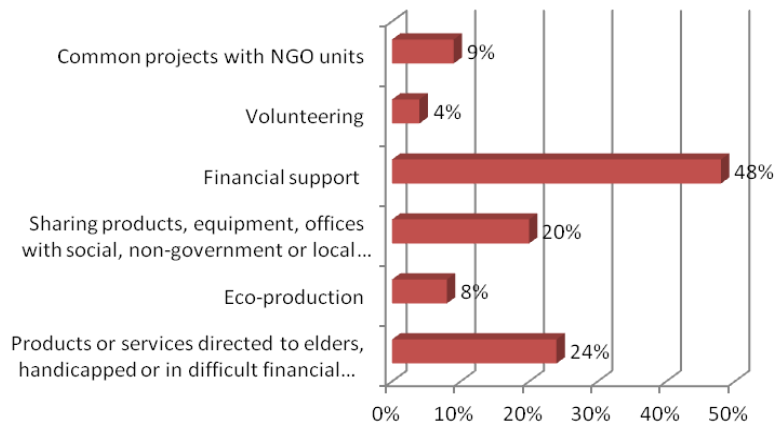


Figure 4
 The CSR actions undertaken in the year 2011

The most common form of action is to transfer money or gifts, for the purpose of social goals. Such a high popularity of this activity, is primarily due to the fact, that it is the easiest and simplest actions to carry out. It is worth noting, that very often companies, during performing this kind of action, do not manifest around with it. Quite a large proportion of companies, take actions to provide a service or producing goods for older people or persons, who are in a difficult financial situation - in the case of services, usually it is so called. voluntary work, during which, employees devoting their time, provide services to others free of charge. Quite popular are activities involving the provision of company's equipment, mahines or accessories, to third parties, for example free rental of medical equipment.

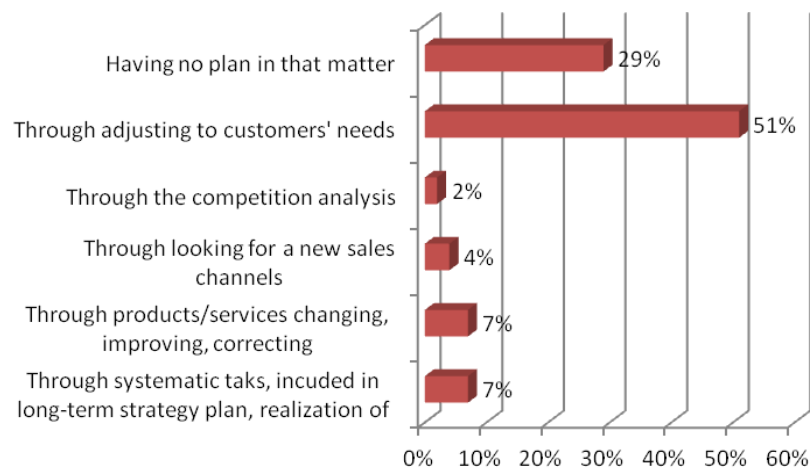


Figure 5

Further activities is order to SME's developing

The largest percentage of companies, plan their development by taking into account its customers' needs and requirements, unfortunately, quite a large percentage of companies do not have any, specific development plan. They usually do their business from day to day. Quite small percentage of companies, base its development on the recommendations included in the long-term strategy plan. Only 7% of companies plan its development by improving and inventing new products, which we can sedcribe as "development through innovation". This can be also seen, as an expression of the "unconscious" use of CSR by the company.

5 Conclusions

Still CSR is treated primarily as the domain of large companies, this is due to the fact, that small and medium-sized companies rarely chose to develop an appropriate strategy, and as is clear from the above presented research, their actions in this area, are mostly spontaneous actions, undertaken without any prior plan. Also they do not have employees, especially responsible for CSR issues. Furthermore, they do not parade of such activities. This is mainly due to the lack of knowledge about this phenomenon, which causes, that often, companies conduct "unconscious" CSR. However, the effects of these activities, can have positive effects on many company's levels: the development of innovative products and services, increasing the level of achieved profits and strengthen its position in the market together with a better perception of the company by its customers. Bearing in mind, that the SME sector is characterized by a high potential for creating innovation implied by CSR, and the above-described benefits, they should cause, that to the next challenges, for companies in the SME sector, should stand one more challenge - a better understanding and thus use, the Corporate Social Responsibility.

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Organisational Safety in Health-Care Setting – Literature Review

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Abstract: In the United Kingdom, safety culture, and organisational safety is not only important in theory, but is at the forefront of regulatory intent as well. Since organisational safety is the product of individual and group values, attitudes, competencies and patterns of behaviour that determine the commitment to, and the style and proficiency of an organisation's safety programmes, it is of utmost relevance to take a closer look at the human factor of organisational safety. Present paper endeavours to give an overview of the literature on organisational safety in healthcare institutions and identify the major points, where the overloaded staff would/could have more role in building awareness and attending to organisational hazards.

Keywords: organisational safety, healthcare, human factor

1 Introduction

Organisational safety is the product of individual and group values, attitudes, competencies and patterns of behaviour that determine the commitment to, and the style and proficiency of an organisation's safety programmes (UK Health and Safety Commission, 1993). In the past decades the theorists of organisational safety have radically changed their focus from assessing and responding to incidents of damage to considering the occurrence of circumstances that create safety issues. Hence the time-orientation of organisational safety has also changed from counting past harms after safety events, to looking at possible future hazards that might give rise to error.

What is more, in some western countries, safety culture, and organisational safety is not only important in theory, but is at the forefront of regulatory intent as well. In 1999, the HSE (the UK industrial safety regulator) has recommended that organisations operating in high risk industries should regularly assess their organisational safety (HSE, 1999). Accordingly, organisational safety surveys - assessing workforce perceptions of procedures and expected behaviours and the

relative importance of safety to other organisational goals - are well-known and widely applied in the industry (Cox, Cox, 1991; Clarke, 1998; Lee, 1998; Mearns, Whitaker, Flin, 2003).

2 Organisational safety in healthcare setting

After Sir Liam Donaldson's report (2000) on the actual state of safety in healthcare general safety measures have fast been adapted to healthcare setting (Nieva, Sorra, 2003; Sorra, Nieva, 2004; Modak et al., 2007). Even a definition specific of health care has been created describing organisational safety as the evasion, prevention and amelioration of adverse outcomes or injuries stemming from the process of healthcare (Vincent, 2010). Hence safety in healthcare setting refers to the need for quick (medical) intervention to handle the crisis at hand. However, safety does not only mean avoiding or minimising damage but aims at reducing errors of all kind. Safety in this sense includes the well-being and processes of those working for healthcare institutions. Health and safety are often treated together with environmental management or environment protection (Tóth 2001-2007).

Yet, health care is a special industry¹, where to avoid potential harm to patients is more important than compliance with systems and protocols.² In line with this saving one's life is superior to SOPs (Standard Operating Protocols), if the courses of actions to be followed are different. In industries that have a higher degree of standardisation, safety is generally maintained by the meticulous, disciplined adherence to rules. However, in health care there are only three such areas (that require a protocol approach); namely hand washing, medication and intravenous drug administration. Every other process is up to, or at least to a certain extent involves human deliberation and resolution.

What is more, many of the assessments made for safety purposes are made in response to external demands from different organisations (HSE, HHS, NPSA, ...) and therefore tend to be viewed as unnecessary obligations rather than important parts of vital safety procedures. With the lack of understanding the whys and hows

¹ The economic crisis had a deep impact on healthcare systems as well. In 2008 and 2009 people reduced their health-spending, which caused further difficulties (Csiszárík-Kocsir – Medve, 2012a, 2012b).

² Indeed, health care is a special industry which requires a special approach from any intervening parts. It is worth starting the intervention at the causes of the changes in the investment approach to which the current researches - dealing with changes in investment customs, the analysis of the investment risks detected and determined and the process as a whole - will make a good starting point (Csiszárík-Kocsir, Á., Szilágyi T. P. 2011, Szilágyi et al., 2013).

of such procedures individuals might fail to comply and hence increase the safety hazards. Even the definition of hazard can be confusing, and might be interpreted by some as deviation from a standard process or rule, while others regard it as intentional variations, responses to local context that may, in fact, increase safety.

Hence, it is difficult to know whether patients are safe in any health care organisation. While there are a range of factors, such as mortality rate or the perceived quality of healthcare services, measuring preventable harm is pretty challenging. Measuring organisational hazards, in order to be able to identify the most prevalent risk factors or provide a common ground for comparing institutions on the basis of their organisational safety is a heavily argued territory. Measuring hard to capture harms such as infections is almost impossible, since the feasible level of such safety measures is strongly correlated with the technical and social setting of a given institution. However, there is an immense and ever growing demand on improving the safety of healthcare.

At present, owing to tragic cases of healthcare failure and the increasing awareness of and expectations on QoL and along with it the niveau of accessible healthcare services, there is an extensive alertness of medical safety issues. This awareness however is not generated by a better organisational safety system but by knowledge of how untrustworthy these systems in the past have been. Researches dedicated to investigating the safety climate of health care institutions have been initiated examining the following six types of harm:

- “Treatment-specific harms, such as adverse drug reactions or complications of treatment.
- Harm due to overtreatment, such as falls resulting from excessive use of sedatives.
- General harm from healthcare, such as hospital acquired infection.
- Harm due to failure to provide appropriate treatment, such as failure to provide prophylactic antibiotics before surgery.
- Harm resulting from delayed or inadequate diagnosis, such as a slow diagnosis or misdiagnosis of cancer symptoms.
- Psychological harm and feeling unsafe, such as clinical depression following mastectomy.” (Vincent, Burnett, Carthey, 2013)

On the basis of such survey (NPSA: 2006-2011; NHS: 2012-2014) researchers discovered a much greater frequency of error and harm than they previously have supposed.

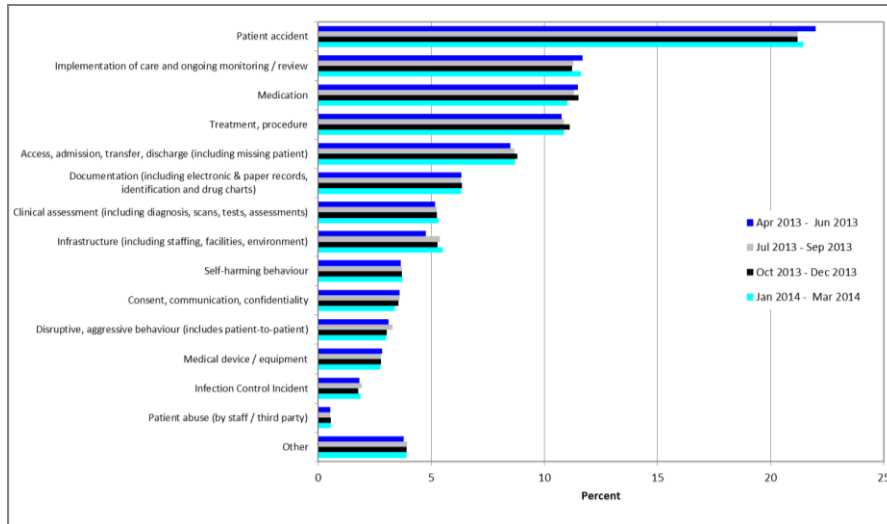


Figure 1

Proportion of incidents by incident type and quarter (04.2013-03.2014)

Source: NHS (2014): NRLS Quarterly Data Workbook up to June 2014

Over the past 10 years there has been a huge volume of data collected on medical errors and harms to patients in the UK (Vincent, C., Burnett, S., Carthey, J., 2013). According to their findings the number of safety issues has not been decreasing over the past decade. The main group of hazards the patients are facing in healthcare organisations are: patient accidents, poor implementation and failed revision of care and monitoring, deficient medication.

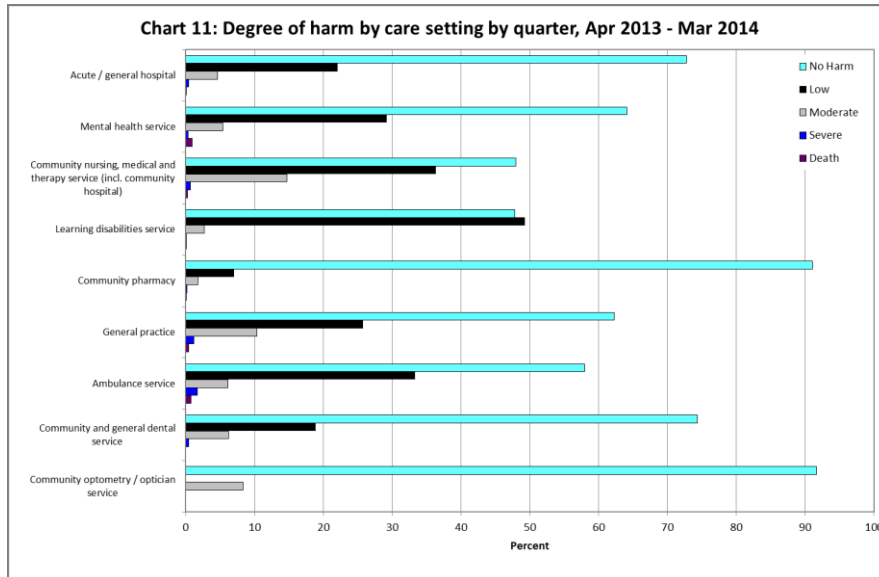


Figure 2

Degree of harm by care setting by quarter (04.2013 – 032014)

Source: NHS (2014): NRLS Quarterly Data Workbook up to June 2014

With the help of data in Figure 2 it is easily observable that safety issues are present in every kind of healthcare institutions. While death or severe damage is only in a small proportion of the cases the result of such failure, if we regard the total population of 1.549.587 reported cases, the number of those with serious consequences adds to almost 1% (10.631 incidents). This means that every 130th patient in healthcare treatment ended up far worse, as a consequence of the care, than he/she had been beforehand.

3 Factors influencing organisational safety in healthcare

On the basis of the data presented in the previous part, it is important to investigate the factors affecting the safety and quality of care delivered to patients. Teamwork, individual routine, niveau and use of technology, working conditions, and organisational ethos and culture may all be relevant. Relevant international literature enumerates the following factors:

- physical structures such as buildings and equipment (Donabedian, 2003),
- basic institutional characteristics such as number and qualifications of staff (Aiken, Sloane, Sochalski, 1998),
- staffing levels and the organisation of care (Pronovost, et al., 1999; Main et al. 2007),
- staff morale and working environment (West et al. 2002, Winter 1997),
- motivation, attitudes and behaviour of staff (Lilford et al. 2004),
- employees' attitude towards safety (Hofmann, Stezer, 1996; Barling, Loughlin, Kelloway, 2002).

As it is visible from the list above, the majority of factors influencing organisational safety are connected to healthcare personnel. However, according to a comprehensive survey of health care workers' workload the amount of work – both in mental-intellectual and physical terms - is so high that healthcare workers are often unable to perform even their primary caregiving tasks faultlessly (Bán, 1989). “Logistic mentality could be also used in case of extending the 7R definition of logistics to human capital and formulating a definition regarding for human capital, placing the human in the centre. Placing that in the centre we could claim that the right employee, with the right competences, in the right condition, at the right place, at the right time, at the right cost, being in service at the right employer, could mean competitiveness for the company.” (Pató, 2014) When it comes to the statutory regulation of worktime-to-rest time ratios, the medical profession is usually an exception to the rule (Weinger and Ebden, 2002). In health care, physicians and nurses spend time at work well in excess of respective statutory requirements (especially due to the hospital night duty system). Practitioners of most medical trades shall do their share at weekends, during bank holidays, in the afternoons, and at nights as well. The multiple-shift rule of work and (night) duty system affect health care workers' physical and emotional loads considerably. Efforts made to cope with variations in the rhythm of work consume extra energy. These findings are extremely alarming as physical overload may lead to inattention, forgetfulness, low spirits, and inadequate attendance on patients and/or safety legislations, and, ultimately, fatigue. Fatigue, is more than a feeling of weariness or drowsiness. It is an acute ongoing state of mental and/or physical exhaustion that prevents people from functioning within normal boundaries. This obvious has implications for workplace and public safety (WorkSafe Victoria, 2008).

What is more, the lengthening of worktime and chronological reorganisation of work performance may induce various physical and psychic disorders. Close correlation of cardiovascular diseases and mortality with low control over the work schedule has already been demonstrated by early medical-sociological studies (Karasek et al., 1981). Based on literary data, physicians accomplishing a lot of night and weekend duties are particularly at risk of burnout (Firth and Cozens, 1987). Higher level of fluctuation resulting from the lower level of stamina and wellbeing also invites safety hazards stemming from lack of adequate

level of field relevant or organisationally prescribed knowledge (Nahrgang, Morgenson, Hofmann, 2011).

The level of stress at work health care workers are exposed to is significantly higher than workers in other professions are (Wall et al., 1997). Unfortunately it also affects the safety of the health care organisations adversely. International studies show a significant incidence of psychic disorders, dependency on alcohol and drugs among physicians, all of which are (capable of) altering the perception of safety hazards and the functioning of the cognitive system (Tyssen et al., 2001; Lambert, Lambert, Ito, 2004; Zammuner and Galli, 2005). However, it is a thumb rule of organisational safety that if we want to be safe we have to maintain alertness and safety awareness. Where staff is too tired to think about organisational safety issues, they do not report or challenge problems.

4 Summary and recommendations

As it has been demonstrated in this paper, the organisational safety of healthcare organisations is far from optimal. What is more, healthcare is an industry, where the classical approach of standardisation cannot really be applied, since in healthcare to avoid potential harm to patients is more important than compliance with systems and protocols. Hence most processes involve human deliberation and resolution. A safe organisation is therefore established on the attitudes and values of the members of the organisation.

Employees in healthcare institutions, however, are overloaded. The excessive workload, and working in shifts, in addition to the constant responsibility for others' life may induce various physical and psychic disorders, burnout and fatigue³. Hence staff is often tired to think about organisational safety issues. Consequently, in order to create a safer organisation, employees and their circumstances have to be addressed.

While the change in physical structures and basic institutional characteristics, such as number and qualifications of or the organisation of care is most often a question of money, motivation, attitudes and behaviour of staff and the employees' attitude towards safety might be altered by a switch of organisational culture to that of safety culture.

³ In addition they tend to earn less money than the workers with the same level of qualification and responsibility in manufacturing (furthermore the type of responsibility cannot be compared). In Hungary there is a trend that while more and more jobs are created in sectors with better paid industrial working positions (Bereczk, 2014), the rate of real wages in public service remains relatively constant over time.

Organisations with a positive safety culture are able to develop a sensitivity to operational hazards; to identify problems early, so that actions can be taken before they threaten safety. Such organisations are characterised by shared perceptions of the importance of safety and by confidence in the efficacy of preventive measures.

In a safety culture, the role of the management is of high importance in implying that safety needs to be taken seriously at every level of the organisation. Managers need to prove that they are dedicated in creating and operating an organisation that gives the safety of patients and staff a priority. Clarity of purpose is also needed when developing safety measures and procedures.

Every organisation will, if they look, discover numerous incidents and deviations from practices deemed to be safe. Hence safety monitoring is critical and should also be regarded as such. Although healthcare organisations use a wide variety of formal and informal methods to understand how individuals and processes are connected to safety hazards or the prevention thereof. However, it is important to keep in mind that staff needs time, freedom and authority to not only just monitor but intervene when necessary.

Improved working conditions, health and safety measures taken have significantly contributed to the growth and life expectancy of population for many centuries (Szigeti-Tóth 2013, 2014; Borzán 2004, 2014). Nevertheless, safe organisations do not only try to stick to the best practices of the industry, but actively seek out safety incidents, and respond by attempting to harness the learning to influence their future functioning (Vincent, 2010). Hence, anticipation - thinking ahead and envisioning possible problems and hazards - is a key element of organisational safety. In line with this, safety culture is a system, where questioning is encouraged and those willing and eager to be involved in making plans preparing for safety incidents are empowered.

To sum it up, healthcare organisations are in a tricky situation, when it comes to organisational safety, since the awareness and willingness of the already overloaded staff would be a key element of safety culture. Managers, by creating clear measures and procedures and by setting personal example are able to foster an increased awareness, however structural changes are inevitable for addressing the issue of organisational safety in its entirety.

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Conceptual Frameworks for Safety Culture and its Manifestation in Organisations

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Abstract: Safety and organisational safety culture play an ever-increasing role for social and business organisations. While the use of the different safety management systems is more and more inevitable and becoming an integral part of organisational processes, researching the human factor is of key importance in the different interpretations of safety culture. Recent research on culture has identified a number of factors that affect organisational behaviour, however, little is known about personal values, competences, attitudes and other implicit factors that make people capable of effectively managing safety processes in an organisation. Creating safety at the workplace, raising awareness of prevention, perception of risk factors, minimisation of risks, non-stop “alertness” and appropriate communication, in other words safety awareness and the ability to cope with crisis situations may be defining elements of organisational safety culture.

Keywords: safety culture, organisational behaviours, culture dimensions, Hungary

1 Introduction

Safety represents a fundamental issue in organisational culture which is embedded in societal culture. As a result of cultural changes generated by technological advancement, analogous processes appear at societal, organisational and individual levels. The new risk factors are global, unpredictable, can be forecast only to a limited extent and change quickly and constantly (Szilágyi et. al., 2013). The above statements are fully supported by the financial crisis of 2008 and its implications (Csiszárík-Kocsir, 2012). It is presumed that fundamental changes have taken place in economy in the recent past, which some authors regard as significant in scale as the development of agriculture or the industrial revolution (Szigeti – Tóth, 2013; Tóth – Szigeti, 2014).

A stable organisation is a safe system which is in a normal state of operation and can maintain its operability on a continuous basis (Kornai, 2005). Global changes resulting from innovative technological solutions made it necessary to reconsider the notion of safety culture. Documents from international organisations and

legislation emphasise the role of three fundamental factors in this new conceptual framework: systematic approach, safety awareness and cooperation (Nagy, 2008).

Apart from such factors identified in international guidelines and documents (OECD, 2003), the functional scope of organisational safety and security culture has also expanded in practice. Safety processes on the different levels of corporate hierarchy are performed with different roles and responsibilities and according to different rules, but in terms of the underlying content the highest priority is to implement safety awareness on a wider scale and based on cooperation. Another important shift of focus has also taken place recently: instead of risk avoidance, proactive risk management (Timár – Borzán, 2013) has come to the forefront.

The purpose of this article is to present the conceptual framework and the different approaches to organisational safety and security culture based on academic literature, stressing the high importance of human factors that affect safety culture, and to give insight into some of the relevant characteristics of the Hungarian culture in which it is embedded.

2 Approaches to organisational safety

The concept of safety culture does not have a consistent definition and the term may refer to completely different theoretical approaches. When reviewing academic literature pertinent to the conceptualisation of safety - particularly from British and American authors – one may have the impression that the different theories may rarely be used directly to improve organisational safety (Amalberti, 2013). The most popular topics for technical journals include safety culture and safety climate, more specifically issues related to industrial risks (such as public utilities, traffic and health care). As for the diagnostic tools for organisational safety culture, two parallel frameworks have developed: work and workplace safety as well as product safety (Guldenmund, 2007).

Followers (Schein, 2010) of classical culture theories (Hofstede, 1983) researched safety culture from a theoretical perspective of social psychology. Focusing on small groups, management roles and top managers, they looked at how front line managers saw their own working environment. Many questionnaires were created on this ground aiming to assess cultures and safety climates and widely used tools were developed to diagnose safety culture and human/organisational factors.

Based on the findings of these studies, creating a good safety culture requires the following elements:

- a democratic leadership style
- respect for the roles of others within the hierarchy
- respect of processes,
- absence of a culture of failures/blame,

- ability to report about failures/events/accidents/technical incidents without having to be afraid to punishment (culture of openness),
- confidence that people higher up in the hierarchy listen to you,
- a high level of group solidarity and mutual help,
- a low number of industrial incidents, etc.

Other authors (Westrum, 2004) define good safety culture by focusing on how middle and top managers deal with business process incidents/accidents. They stress the need for an in-depth analysis and insist that sanctions should be connected to the adverse events. They maintain that there is a need for a sustainable system which helps avoid legal consequences, as long as there is evidence that the human error/omission was unintentional (just culture). Other authors see the context of safety and sustainability on a global level and encourage an economic theory that is more appropriate to that perspective (Tóth 2009, 2012, 2013).

According to Reason (2001), a safety culture is one where four types of organisational culture are manifested at the same time:

- a) a reporting culture: safety concerns are reported
- b) a just culture: unsafe acts are investigated and sanctions are imposed
- c) a flexible culture: capability of adapting to quick changes
- d) a learning culture: ability to learn from incidents

HRO theorists adopt a risk-based approach (Marais – Dulac – Leveson, 2004; La Porte, 1996) and maintain that a good safety culture meets the following criteria:

- the group is capable of adapting to non-standardized situations,
- leadership has a key role,
- technical expertise is crucial and people should respect the scope of their own roles and responsibilities,
- resilience and the ability to improvise in unexpected situations.

Finally, some theories treat safety culture and quality culture as equal (e.g. Lean management) (Womack, 2003). This approach is different from the previous ones in that it maintains that managers running the processes play a key role in creating a safety culture. Their role is to minimise the failures that may hamper production and manage quality work on the production line, but they fail to place sufficient focus on measures that can help prevent safety incidents.

3 Manifestation and elements of safety culture in an organisation

The key elements of an IT/information-driven culture include ethical behaviour, values, life style, health, personal life and safety (Targovski – Rienzo, 2004). Safety culture is always part of the different organisational culture models that are created in culture studies.

Organisational safety represents the undisturbed and appropriate implementation of (business) processes. Safe operation requires the minimisation of threats and risk factors in order to protect the company's assets, including the confidentiality, integrity and availability of resources (Michelberger – Lábodi, 2012). It should be noted that the availability of IT support to manage risks provides a wide range of opportunities for users, however, there are great differences in the ways such risks are represented in documents and in the tools used to assess them (Szabó, 2014). (Pató, 2013, 2014, 2015) argues that the above goal may only be achieved by having job descriptions that focus on people and corporate goals, and the alignment of the two.

For all employees that are part of a consistent and integrated safety and security culture created within the organisation (Lazányi, 2014), the concept of safety contains the same elements, norms, core values, behaviours and controls, and they know their rights and obligations related to them and enforce them.

Consequently, a key element of safety culture is how employees relate to safety (their attitudes, experiences, behaviours and conduct etc.). No safety culture can be built in an organisation without safety awareness, and the continuous improvement of such awareness will considerably influence and even determine this culture. Safety awareness is a soft area of the safety culture in which it is embedded. It follows that safety culture is considered to be a subculture which is based on functional grounds but also supports the unique culture of a particular organisation (Vasvári – Lengyel – Valádi, 2006).

According to NRC's definition, safety culture is determined by the factors that influence the employees' behaviours and actions. The most important considerations for shared norms, values and rules are as follows:

- safety is an overriding priority
- employees assume personal responsibility for maintaining safety
- they are proud of their organisation/company
- they demonstrate ownership

In addition to the above considerations, an advanced safety culture is also homogenous. Employees at all levels of the organisational hierarchy work non-

stop to identify and minimise risks and raise awareness of them. In other words, safety is a high priority in operations, even if the decisions that need to be taken may run against current business interests (Izsó, 1997). Management in most cases needs to make a mindshift, as safety will not directly increase the company's profits. Therefore, more focus needs to be placed on the psychological background of safety awareness, for example by implementing a Safety Awareness Program (Vasvári – Lengyel – Valádi, 2006).

Another key element of advanced safety culture and safety awareness is commitment, not only by management but all employees. Commitment needs to be the fundamental attitude in all employees' organisational behaviour. Safety culture can be improved at the level of main and subsystems, it can be trained, it helps personal development, it can be integrated and transferred from one generation to the other, just like any other elements of inclusive cultures.

McKinsey's 7S model (Peters – Waterman, 1982) divides the elements of organisational culture into two groups: hard elements are related to an organisation's/company's regulatory framework and include things like strategy, organisational structure, management tools, production systems etc. Soft elements, on the other hand, are more difficult to describe and cannot be quantified, however, they are as important as the hard ones in shaping organisational culture. Soft elements include the employees' and managers' competences, explicit and implicit knowledge, their training and qualification, the values and norms of the organisation, level of confidence etc. that determine organisational behaviour (Tóth-Bordásné Marosi – Bencsik, 2012).

Elements of safety culture can be divided along the same lines:

- Hard elements: regulatory framework, laws, guidelines, legislation, standards, control strategies, safety management, methods, managements, strategy, IT systems etc.
- Soft elements: factors influencing organisational behaviour, safety awareness interventions, methods, training, education, sensitisation, core values etc.

A general statement that often occurs in safety literature is that while safety climate is easy to change, safety culture is not. The former refers to the objectified aspect of culture (Schein, 2010), whereas the latter refers to subjective values. In other words, elements of the safety climate may be changed through organisational management processes within a certain period of time, but the values, beliefs and other implicit contents that represent organisational culture are hard to change, as it may take several generations of cultural change for one culture dimension to develop. Neither standard risk matrices, nor action plans cover such a long period of time.

Another truism in academic literature is that there is no ideal safety culture, but there are cultures that may be appropriate in any situation. In an age when the different corporate cultures are becoming more and more difficult to classify, any

approach that is exclusively normative will be counterproductive. To apply different safety models can only make sense if one can strike the right balance among flexibility, competitive advantage and performance. This should be based on the management/application of the different safety cultures.

4 A fit between cultures vs. safety

As part of the fitting between societal and corporate cultures, organisational cultures embedded in national cultures are heavily affected by the macro-cultures that surround them. This is mainly due to the fact that the history, tradition, sociography, training and education system of a country has a deep impact on the values, norms, attitudes and behaviours of the communities living there.

Therefore, the purpose of comprehensive research on national organisational culture is to explore the specificities of the surrounding cultural context. For example, if the executive director of a company is able to recognize that national culture has a predominant impact on his company's corporate culture and can raise awareness in his employees, it may trigger powerful resources (Jarjabka, 2010).

It follows that cultural embeddedness is a defining factor for organisational safety culture, as safety behaviours are inseparable from the different cultural dimensions. Therefore, the interaction between national and organisational cultures along with deeply rooted values and cultural dimensions may be decisive factors in shaping organisational safety and security in the future.

However, it should be also noted that "universal" values that are independent of cultural embeddedness are presumably as influential as national cultural dimensions.

4.1 Cultural dimensions and Hungary

Based on academic research on societal and organisational culture and the organisational models created by national culture researchers, we can conclude that organisational culture in Hungary can be classified either as a "well-oiled machine", using Hofstede's model (2001), or as an "Eiffel tower", using the Trompenaars and Hampden-Turner model (2000). A „well-oiled machine" is one where power distance is small and uncertainty avoidance is strong. Other key characteristics include a high priority for a stable environment, a process-driven approach and a focus on result and goal-oriented operations. The role of managers is to lead and support measureable results. "Eiffel tower" type of corporate cultures have a strong hierarchy and a task-driven approach where logic and reason as well as accurate job descriptions are highly valued. The role of managers in such companies is to coordinate operations and make long-term plans. What

these two models have in common is that both have a strong focus on safety which can have an influence on safety and security culture in Hungarian organisations.

One of the most comprehensive empirical studies on national and organisational culture was the Project GLOBE (Global Leadership and Organizational Behavior Effectiveness) that studied cross-cultural dimensions in 61 countries along nine competencies. In terms of Hungary, the findings of the research are the following (Bakacsi, 2008). This article highlights only the competencies that are relevant to safety culture:

Uncertainty avoidance is low so employees are capable of following changes. Although people refuse large power distances, they may be rather common in organisations, consequently there is a low degree of proactivity in decision-making situations and personal ownership.

In terms of future orientation, Hungarians prefer short-term goals, immediate decisions and ad hoc solutions. The international study STRATOS (Strategic Orientation of Small and Medium Sized Enterprises) has come to the same conclusion (Jarjabka, 2010), which shows that managers of small and medium-size enterprises in Hungary do not make detailed long-term plans for the future but they are committed to change (Barakonyi, 1995).

Human orientation in Hungarian society is low (similarly to Germany and France). This culture dimension shows the degree to which individuals in organisations or societies encourage and reward individuals for being caring, empathetic, altruistic or tolerant to others. Hungarians have been found to be competitive, unbiased and lacking confidence in each other (Bakacsi, 2008).

The above findings make us presume that short-term thinking, a low level of personal responsibility and the lack of confidence in others do not support the future development of safety culture.

The explanation for this is the low level of social capital in Hungary. Varga has supported this statement with several international studies, concluding that Hungary is considerably lagging behind other countries in terms of social capital, as revealed by the Social Cohesion ranking published by the Swiss IMD, looking at 60 economies (where Hungary ranked last). This is not beneficial for the Hungarian economy as low social capital implies a low level of trust. And without trust, it is very difficult to think long-term and establish economic partnerships (Varga, 2012).

4.2 A snapshot of Hungary and its safety culture

Not much academic research has been conducted on the safety and security culture of Hungarian organisations. Fearing a loss of reputation, managers are usually reluctant to disclose information about that so one needs to rely on statistical data to assess Hungarian companies' safety maturity. For this reason, some of the facts

and information stated in this article are based solely on opinions by authentic experts.

It is rather common in Hungarian organisations that the main obstacle to the effective implementation of corporate safety policy is the company's corporate culture itself (norms, values and beliefs etc.). Mindset and mentality in the everyday practice includes the following elements:

- shortage of personnel required for the operation of key processes,
- overburdened employees, and sometimes unjustified cost cuts,
- unreasonable streamlining of costs/human resources,
- fire-fighting in problem-solving,
- prevention and planned crisis management is not a priority for managers,
- short-term thinking, ignoring “what if” scenarios
- huge stress, day-to-day work drains all energy.

Research conducted in Hungary reveals that the most common weaknesses of safety culture in Hungarian companies are the following (Vasvári – Lengyel – Valádi, 2006):

- no systematic approach to safety management
- staff is not informed about safety incidents within the company or only to a limited extent,
- no opportunity is provided to learn from safety incidents and identify safety measures,
- safety and security mechanisms are weak or based on insufficient evidence because systematic risk assessment is not part of business practice (not part of the culture)
- organisations tend to invest in production processes, rather than in effective safety controls.
- they are reluctant to spend money on something that has never happened because ROI on safety investments cannot be calculated exactly.
- lack of safety culture attributes that are required for the successful implementation and use of a safety management system, such as openness, spirit of experimentation, innovative thinking, the appropriate cost-benefit thinking etc.
- although managers must follow procedures, the profit motif supercedes safety (eg. banks)
- some companies prefer to pay fine rather than consider the implementation of a proactive prevention system.

Interviews with Hungarian company managers reveal that professional safety is a priority for those large companies that must follow international standards, guidelines and laws. But their primary goal is to avoid sanctions, rather than create a consistent and advanced safety culture and integrate it to the organisational culture.

Overall, the above stated phenomena suggest that the level of organisational safety culture in Hungary is less than optimal and safety awareness is rather immature. In order to create a safety and security culture that is based on awareness and intentions (Lazányi, 2014), all stakeholders of the company should accept that safety is a requirement. As a result, a complex system would emerge which is based on rules and human factors and where all individuals work towards creating and maintaining a safe organisation from an inner motive and conviction (Sharpanskykh, 2012).

5 Conclusion

The design, development and effective implementation of organisational safety must be aligned with the organisation's safety culture which is impacted by the organisational and national culture in which it is embedded.

Robust organisational safety requires, on one hand, a high quality regulatory environment which helps the designing process (Michelberger, 2013) (e.g. standards, definition of roles and responsibilities, appropriate communication). On the other hand it requires tools to raise/improve safety awareness and practices to be used in managing crisis situations. Such tools include training, testing, follow-up guidelines, identification of a crisis management team and their availability (e.g. list of individuals and authorities to contact in emergency)

Continuous improvement of safety culture does not only need professional expertise, knowledge, experience and certain personality traits (capability to learn, openness to new ideas, emotional stability etc.), but also some deeply rooted societal and organisational cultural factors that determine organisational behaviour: one can probably learn corporate all safety rules and applications, but there is no ready-made guideline for every unexpected event.

In the future, regulatory models may be less consistent so the written and unwritten rules of organisational culture will need to be treated/developed in a flexible way. Therefore, companies will need employees that have convertible knowledge and personality traits that are in line with the company's innovative processes and safety strategy.

As a general conclusion, we can establish that development of the personal competencies that support safe corporate operation by gaining a deeper understanding of a company's cultural characteristics will be a key focus for cultural management in improving organisational safety culture. The tests, tools and complex methods that may be necessary for that will need to be validated by national and foreign studies.

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The Place of the Business Models as a Part of the Innovation Process

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Abstract: Business models have been studied on a large scale throughout academia and industry - partly for their indisputable importance for the adoption of technological innovation, but also for their intangible nature. But there still is room for speculation on the place business models occupy in the innovation process. On the one hand projects need to be discussed with a perspective on Return on Investment (ROI), on the other hand, a business model perspective might hinder innovations that first seem unlikely to return profits in the nearby future, but become highly successful over time (e.g. Facebook). This paper is dedicated to the question when is the right moment to define the business model. We give a brief overview of theoretical pillars of innovation and then suggest a comprehensive process comprising business modelling as a part of the idea acceptance phase in the innovation process.

Keywords: business models, innovation management, business development, business design, business model frameworks, business model patterns, software engineering

1 Introduction

One of the characteristics of innovation is its successful adoption at the market (Burgelman u. a. 2008). Even though successful adoption is not necessarily accompanied by commercial income, innovation mostly needs a business model to facilitate its growth. An example for this is the successful growth of Aravind Eye Hospital (Sharma & Kakoti 2012), an eye surgery service provider which operates sustainably at lowest prizes in a growing number of rural areas in India. This growth was enabled though the organizations business model. This is just one example which illustrates the importance of the business model in the innovation process.

1.1 The business model nature

The business model has gained importance after the bubble burst in 2001. With Internet access, and the complex environment of the globalization the term business model evolved to an individual science sector. The most popular definition of a

business model refers to it as “a construct that describes how a company creates and captures value” (Henry Chesbrough 2007).

There are however contradictive opinions about its nature. Whereas some almost exclusively define it from a financial perspective (Dubosson-Torbay u. a. 2002)(Rappa 2001), i.e. How does one business make money , others accentuate on its competitiveness (Magretta 2002)(Negelmann 2001), i.e. What is the value proposition. Some researchers see business models as conceptual (Tapscott 2001)(Timmers 1998) rather than financial models. Researchers are also divided on the question if the business model is part of the strategic framework ((Hamel 2002; Osterwalder u. a. 2005)) or are to be handled as an individual discipline, i.e. “the business model as the product” (Maurya 2012). An important aspect of the business model definition is if this includes the technology characteristics ((Chesbrough & Rosenbloom 2002)) and/or sales channel (strategy vs. operations), e.g. in (Osterwalder & Pigneur 2010) or if the business model can be developed on parallel (Skarzynski & Gibson 2008).

1.2 The classic innovation process



Figure 1

The three phase of the classic innovation process: (1) idea generation, (2) idea acceptance, (3) idea realization (Nielsen 2001)

Every innovation process comprises three stages: (1) idea generation, (2) idea acceptance, and (3) idea realization (Nielsen 2001). An economic assessment of the ideas in the beginning of the process requires the identification and formulation of a business case, i.e. the idea „value“ or the business model. In a world of short resources we assume that only ideas which offer a return on investment ($ROI > 0$) should and can be realized. This means that before the beginning of the third stage, (3) idea realization, a ROI should be quantified. This is the goal of the second stage, (2) idea acceptance. Narrowing the scope in the first stage, (1) idea generation, is not recommendable for two reasons: (i) ideas in the first stage are on a high level yet, so that their ROI can't easily be quantified, and (ii) focussing on ROI too early would destruct creative potential, e.g. by neglecting insights from research and development (R&D) that might be critical. In an enterprise environment business modelling is usually part of the last stage of the process, usually after a considerable development effort. One of the reasons for this is that depending on the product concept the product might become part of different departments which operate under different business models, e.g. in online advertising one team might be operating with performance marketing, and another subscription services. If a new

ad distribution technology appears it might land in the idea generation process through the R&D department. Subsequently different teams would develop different product concepts on the basis of this technology. However, only after the second phase they would decide to test the idea or withdraw it. This is due to a partial business modelling subprocess in this phase (i.e. business case), but a business model is only created after the product touches the market.

Startups however, do not have many departments and their obligations to a department business model policy. So, when is the right time for them to model the business?

2 The place of the business model in the innovation process

2.1 Business modelling as a triggering point of the innovation process



Figure 2

Business models as a triggering point of the innovation process

It is widely accepted that the business model is the connecting piece between the entrepreneurship and innovation processes, i.e. as a starting point towards an innovation process (see Figure 2). This perspective becomes increasingly interesting with the growing speed of technological change since new technology might reveal new business model opportunities, i.e. new technology might facilitate new business models¹. E.g. if a company sees an opportunity in its API as a strategic tool, it might generate only ideas based on this particular business model.

2.2 Business modelling as an output of the innovation process

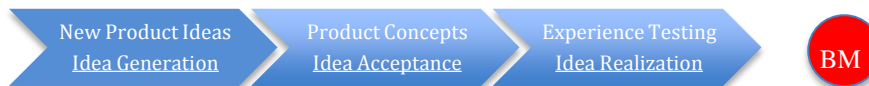


Figure 3

Business models as a product of the innovation process

¹ E.g. growing importance of api as a strategic tool (Amazon, eBay, Apple AppStore etc.)

An extreme perspective in this direction might even see the business model as a „competitive advantage“ (Christensen 1997) or even as the output, the product, of the innovation process (Maurya 2012) (see Figure). E.g. a group of students that created an online application for event management without might end up as a market leader in business event management and ticketing. This is the case of the German company Amiando which was acquired by XING.

2.3 Business modelling as a core element in the acceptance phase of the innovation process

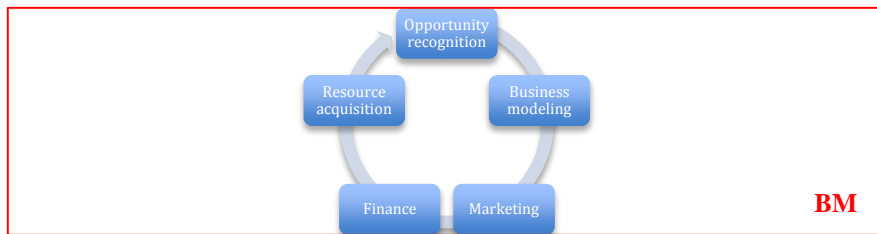


Figure 4

Business modelling as a passive construct containing the entire innovation process

For some researchers business modelling is an integrate part of the entrepreneurship process (Sahlman & Stevenson 1989). Those describe the business model as an hierarchical construct which contains all elements of the innovation process – from opportunity recognition, towards marketing and finance elements, and the process of resource acquisition (see Figure). As such the theoretical term business model is trimmed to a passive condition, a description construct which illustrates the mechanism, but does not actively influence it. I.e. the business model is an abstract construct containing the entire innovation process and its outcomes.

Others allocate business modelling a trading, almost algorithmical, function, following the innovation process and turning technology into business (Amit & Zott 2001; Osterwalder & Pigneur 2010). Therefore, the outcome of the commercialization of one technology depends on the business model it is based on ((Teece 2010). In other words value is created not only by the technology itself, but also through the business model.

We consider the business model an integral process, comprising three main elements: opportunity recognition, solution architecture, and a commercialization plan. We work with those three stages of business development to investigate different business model patterns in the area of software.

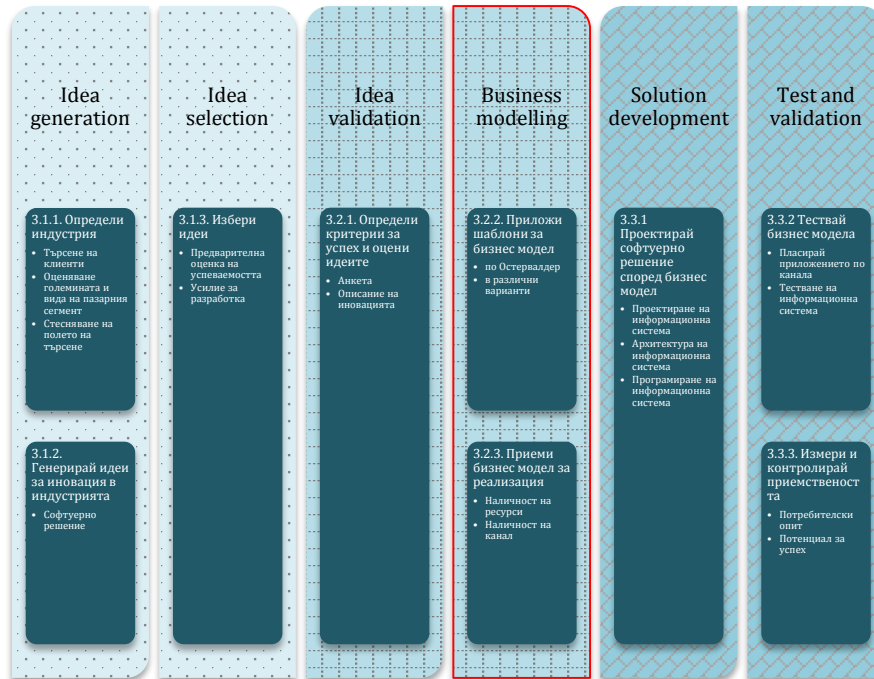


Figure 5

Business modelling as a core part of the Idea Acceptance phase of a comprehensive innovation process

3 Discussion and conclusion

The comprehensive process can be used in the entrepreneurship process as well as for scientific research. It is detailed and contains all stages of the innovation process and clearly defines when a company should pursue with the business modelling. This theory contradicts to the descriptive purpose of business models in which those usually serve the communication target. Moreover it offers business models a central place in the innovation process, without necessarily seeing them as a product of innovation.

The framework has been approved by a test set of 8 companies in the area of software. In further research this framework has to be applied on the innovation process of young companies to validate it. In this version it has only had the focus of young software companies. Later on, it can be tested on a number of industries to investigate its operability in other domains.

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Controlling in Germany from the View of Practitioners and Students – An Empirical Study

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Abstract: This study examines the characteristics of controlling in German small and medium-sized enterprises (SMEs), also known as “German Mittelstand”. By the use of a concise explication of differences but also similarities between the characteristics in SMEs and large companies, a framework concerning different spheres of the job needs depending on the company size can be created.

The study started questioning controllers in German enterprises in 2003 and is still ongoing, after a study redesign in 2008 without changing the core questions. Furthermore students were also asked in the context of the study. Considerable overlaps concerning the organisational structure of the controlling divisions between the estimations of the students and the controllers can be found. But an extensive unity of both interviewed groups exists with the personality traits of the controller. They assess the relevance of the personality traits in a similar way. There are some differences between the images of the controller, which are experienced by the controller and are expected by the students. The estimation to the controller’s task fields of the controllers differs from that of the students. For some more reasons the study proves that the controlling in SMEs differs in some fields significantly from that in large-scale enterprises. Possible implications like for university teachings are discussed and some new ideas for further even deeper research are given.

Keywords: Controlling, controller, Controllership, German Mittelstand, small and medium-sized enterprises, job description, image, task fields, personality traits, organisational structure

¹ At this point we would like to thank Ms. Janine Kuhn, B.A., for her cooperation during the creation of this article.

1 Introduction

The demands in controlling have changed quickly because of the globalisation and modernisation. Globalised markets aren't only a chance for large business companies but also for small and medium-sized enterprises (SMEs). Great interest in controlling systems has been raised by the economic crisis in 2008. This crisis showed that there is the necessity for further development and greater applying of the controlling systems in companies to overcome further crisis in a much better and faster way. The controlling has endured a lot of different development processes in the uncertain market situation in the last years. The task safeguarding of rationality in management is besides the basic tasks of high relevance, which operates in a way of a balance to decision made by intuition and instinctive feeling. Furthermore the social responsibilities (soft skills) of the controller are estimated as relevant as the professional skills. The soft skills are also important as the other skills, because of the required cooperation with other departments and divisions in the company. The controlling in SMEs respectively the controller and the controllership has been a little bit unattained, although there is a huge knowledge about the different controlling topics. That's the reason why specific topics like the job description of a controller are not in the focus of empirical studies. The study focuses on the characterisation of the job description of controllers in German SMEs. For this study the images, task fields and personality of the controller as well as the organisational form of the controlling will be observed.

Selected results of this study were presented and published on the MEB conferences in 2008 and 2013 in Budapest. The data from 2003 to 2006 were analyzed for the conference in 2008 and the data from 2007 to 2012 for the conference in 2013. The results, which were presented on the MEB conferences, are the data of the surveyed practitioners (enterprises). Furthermore surveys have been occurred at the students since 2003 and the data have been analyzed since this date. The study delivers an approximate description of the essential characteristics of such a controller type. The expectations were and still are the gathering of new empirical data, its statistical analysis and finally the delivery of new statistically proved input to the research and teaching community as well as to the companies.

2 Methodology: Sample and Data Analysis

The methodology of the study is differentiated in the sample and data analysis of the practitioners (enterprises) and the students. The procedure of the study is explained primarily at the practitioners and then at the students.

The aspects, which influence the job profile of the controller, are the size of an enterprise, the controlling/company philosophy, embedding the controlling division

into the company (organisation), the tasks and activities, the image of a controller and his personality traits.

These aspects are examined in a questionnaire by using specific questions. The participants of the RKW Baden-Wuerttemberg Controlling Workshops from 2003 to 2012 are the one group of respondents of the study. 150 questionnaires were filled out for this study and represent the controller department of their enterprises. The controllers were asked to fill in the questionnaire immediately and to give it back to the moderator. The participants were ensured that the results were handled in a confidential way and the participation was voluntary.

By using the electronic database in Microsoft Excel and various statistical software, e.g. SPSS, the response were processed. In 2008 the questionnaire was resigned. Some questions were added and some were removed, especially some of the open questions. The core questions haven't been modified.

The questionnaire is divided into two different parts. In the first part of the questionnaire general data of the enterprises like turnover or number of the employees is collected. The data is useful to classify the companies on basis of the German code of commerce in small, medium and large enterprises. In addition to this the companies should also self-evaluate their size. The owner structure could be one reason for this fact. Many companies, which are family owned, don't differentiate between SMEs and "German Mittelstand". The second part of the questionnaire surveys the aspects mentioned in the previous passage.

The survey of the students takes place at the University of Applied Sciences Kaiserslautern, Campus Zweibruecken, and the University of Applied Sciences Mittelhessen, Campus Friedberg. In this case bachelor and master students from the courses of studies of the subject areas business administration and engineering are considered, who are enrolled in presence and correspondence courses of studies as well as in full time and extra occupational. The questionnaire of the students differs from that of the practitioners in content and structure.

3 Results and Discussion

The results of the study are selected and divided into the study subjects organisation of the Controlling, image, task fields and personality traits of the controller. In each study subject are shown primarily the results of the interviewed practitioners (enterprises) and then those of the students.

3.1 Organisation of the Controlling

The participants of the study should estimate how the Controlling sector is organised. They could judge the organisation of the Controlling on the basis of the

criteria central organisation, decentralised organisation and a hybrid form of central and decentralised organisation.

The practitioners categorise the Controlling sector predominantly as centrally organised (approx. 70%; fFigure 1). This result is more or less as expected, because the interviewed companies are predominantly SMEs and the large enterprises are mostly family-owned enterprises. A distinct decentralised structure is in the practice generally a characteristic of large enterprises with a concern-structure.

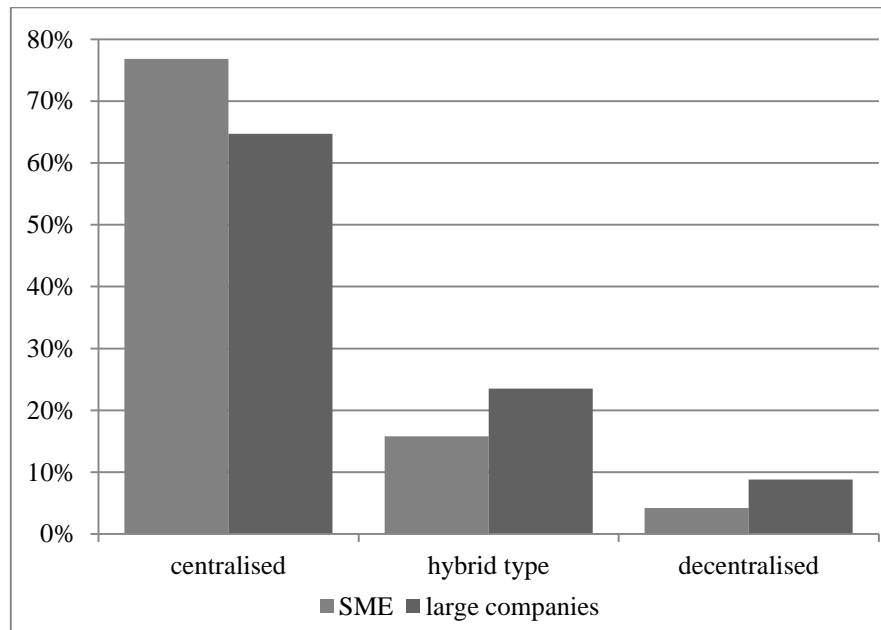


Figure 1

Organisation of the controlling from the point of view of the practitioners

The estimations of the students regarding the organisation of the Controlling possess large overlaps to the observed forms in the practice. The students should bring the three criteria in the order of its most likely appearance in a company. They assume that the central organisational form is most frequently a characteristic of enterprises, but the hybrid form is often supposed. The decentralised organisational form was categorised on the third rank by the majority of the interviewed students (see fFigure 2).

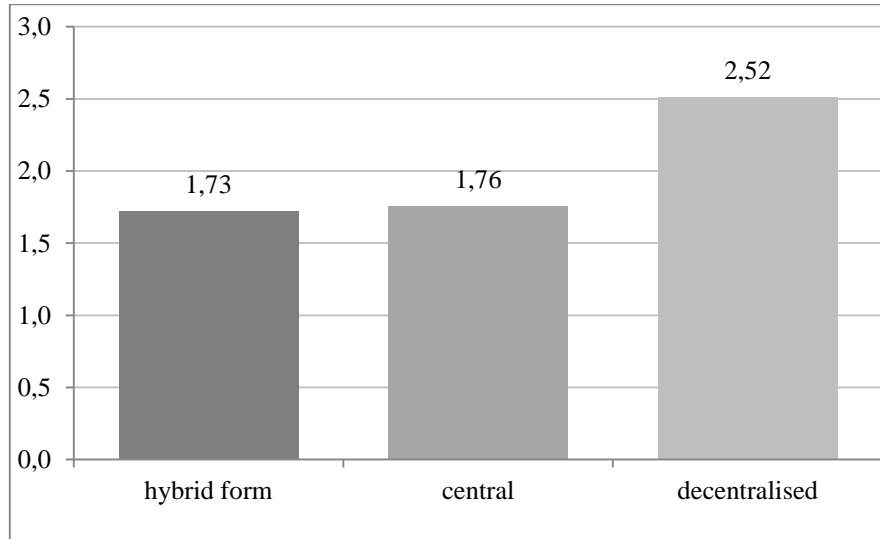


Figure 2

Organisation of the Controlling from the point of view of the students

3.2 Image of the Controller

The image of the Controller is from particular importance, because knowledge can be gathered to the acceptance of the functional area Controlling in the enterprise. The acceptance contributes in a high degree to the success of the Controlling, which was confronted with negative attitudes of the colleagues from other functional areas.

The participants assess the controller with the help of the images and the role models, which are described by Weber/Schäffer. The interviewed practitioners should assess their image at the colleagues and the superior with the parameters very strong distinct, less distinct, not applicable (figure 3). It can be asserted that the images pilot and helmsman, which have a positive connotation, are considered as applicable or partly applicable by a big majority, but also the negative categorized images trackhound and kontrolleur are often appropriate. The other images are merely partly relevant.

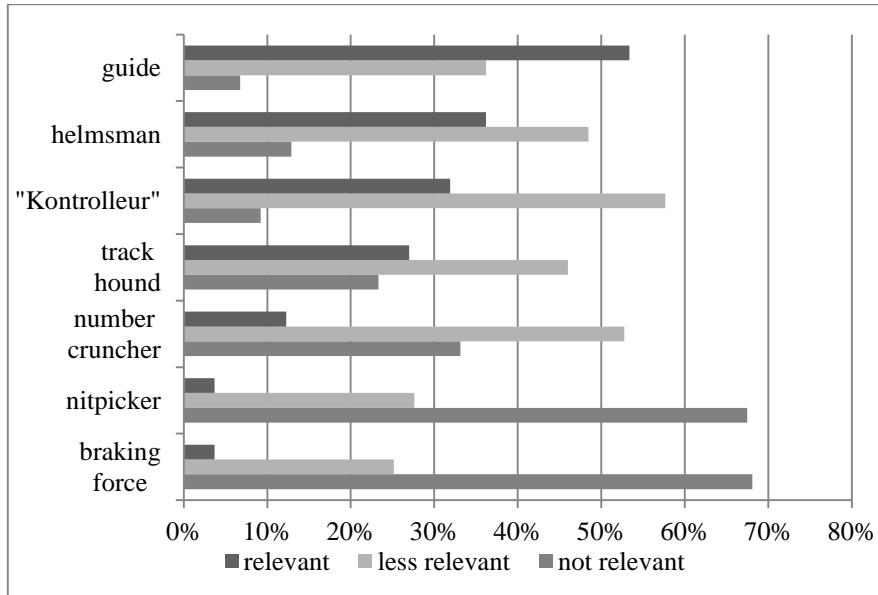


Figure 3

Controller images from the point of view of the practitioners

In fFigure 3 all questioned enterprises are registered, independent of their size. All images exist in SMEs in a similar form except for low discrepancies. In the comparison is apparent that pilot and helmsman were mentioned here more seldom as appropriate image. The image with the highest relevance is the kontrollleur in large enterprises.

The image is also predominant in the group of the students. In contrast to the practitioners the students should bring the images in an order from relevant (1) to non-relevant (7). Also the images number cruncher, nitpicker and braking force place here the rear places with a big distance (Figure 4). The other images differ in the comparison to the practitioners in the importance.

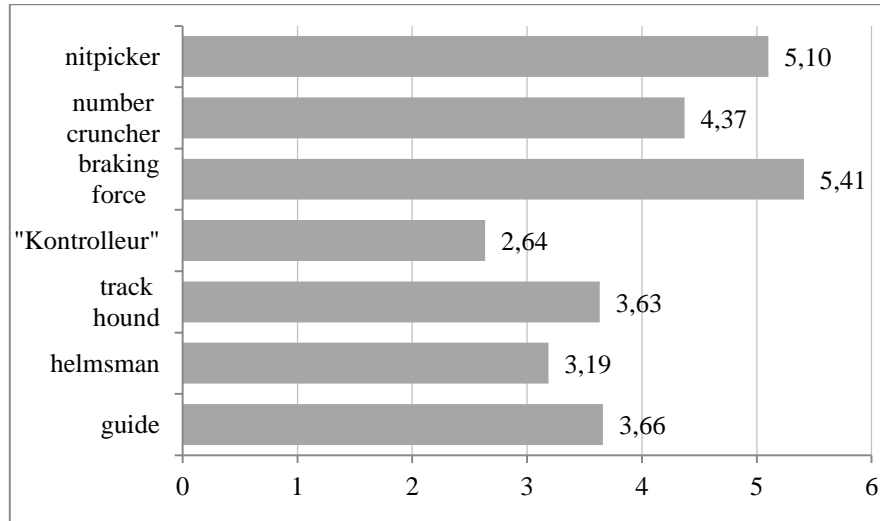


Figure 4

Controller images from the point of view of the students

The image of the pilot is to be found more seldom from the point of view of the students, the image of the kontrolleur dominates as already mentioned. Differentiated into the two subject groups of the interviewed students only low differences arise in the average values, the order is congruent. At the results there are some differences between the images of the controller, which are experienced by the practitioners in the business day life and are expected by the students. In the practice the controllers are noticed predominantly as positive factor, the students see the image of the kontrolleur as prior. Whether this happens on the basis of the equalisation of the terms controller and kontrolleur, this cannot be proved, the supposition is certainly obvious. Furthermore it would be of interest, if the students see control rather negative with the meaning of observation or rather positive with the meaning of planning.

3.3 Task fields of the controller

The tasks fields and the image of the controller are connected in a close way. The specific tasks have a big influence on the fact, whether the controller is noticed rather in a negative way or rather in a positive way. The survey to the task fields occurred with both participant groups on the same scheme, as it was already demonstrated at the images.

The tasks reporting, analysis of variation and operative planning dominate at the practitioners, independent of the enterprise size (figure 6). Differences result in the relevance of the other tasks. In SMEs the task fields are essentially broader than in large enterprises. At this point the economic and investment appraisals, financial

project and other tasks from the management accounting are mentioned as examples, which are not filled out by the Controlling sector in large enterprises. Also other unspecified tasks are essentially more often deputed to the controller in SMEs.

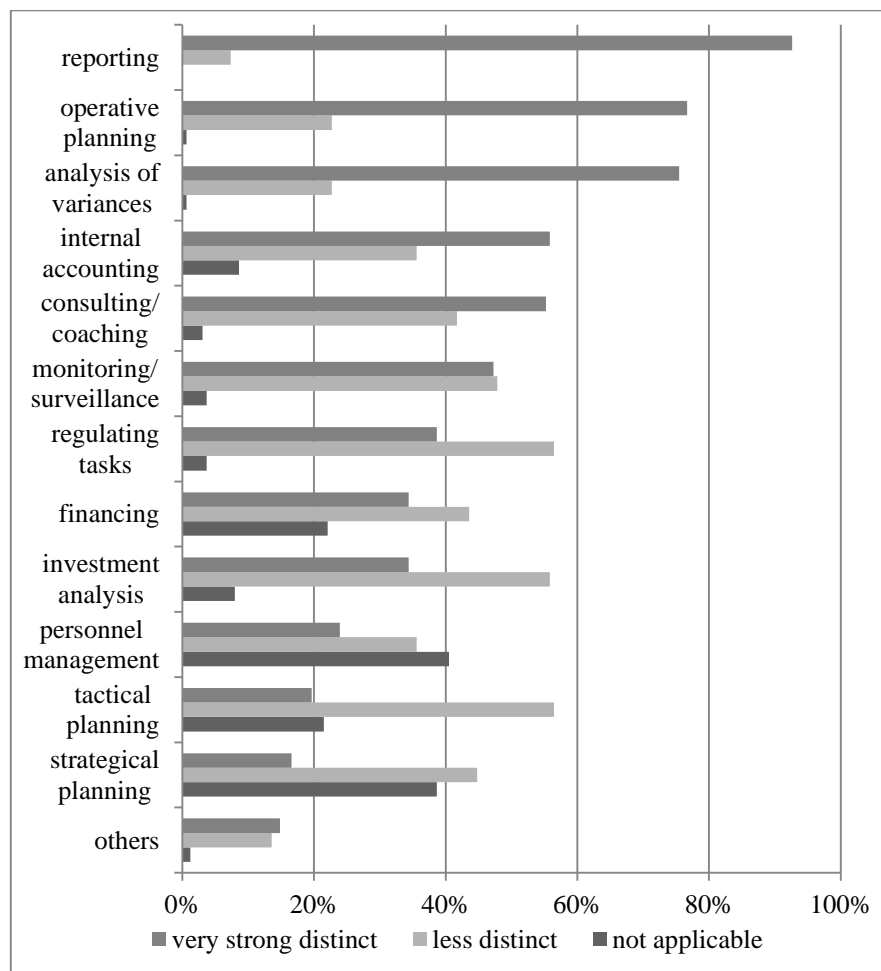


Figure 5
 Controller tasks from the point of view of the practitioners

The image of the “kontrolleur”, which has top priority at the students, appears also at their estimation of the tasks of the controller. Indeed the tasks, which are most frequently classified as very relevant by the practitioners, are on the following places, but with a big distance to control/observation (Figure 6).

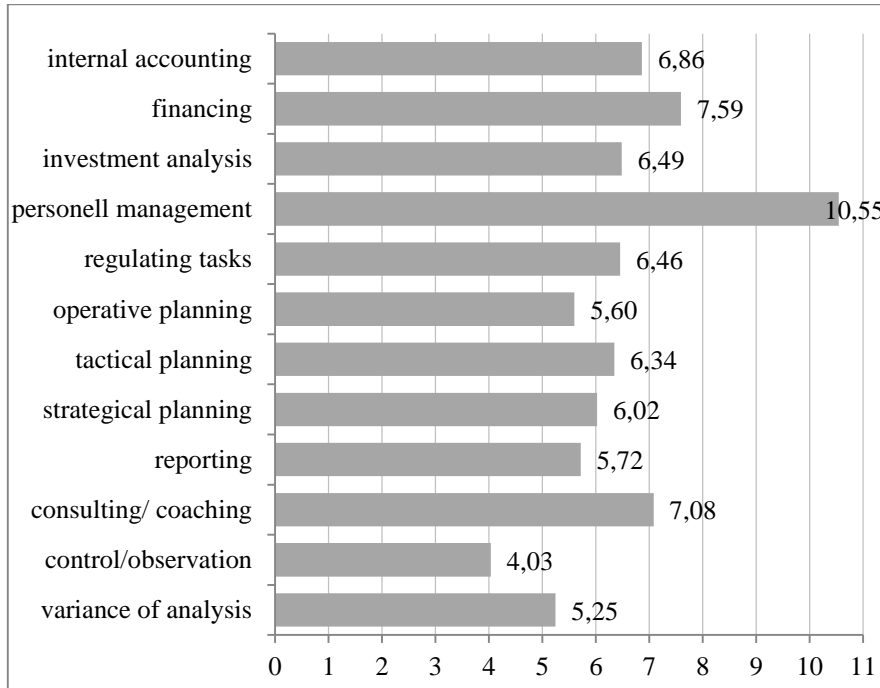


Figure 6

Controller tasks from the point of view of the students

3.4 Personality traits of the controller

For accomplishing of his variegated task fields the controller has to bring different skills in order to meet the high requirements. For assessment, which personality traits should be available, 11 examples were mentioned in the questionnaire, as they are also found in many job advertisements (see fFigure 7).

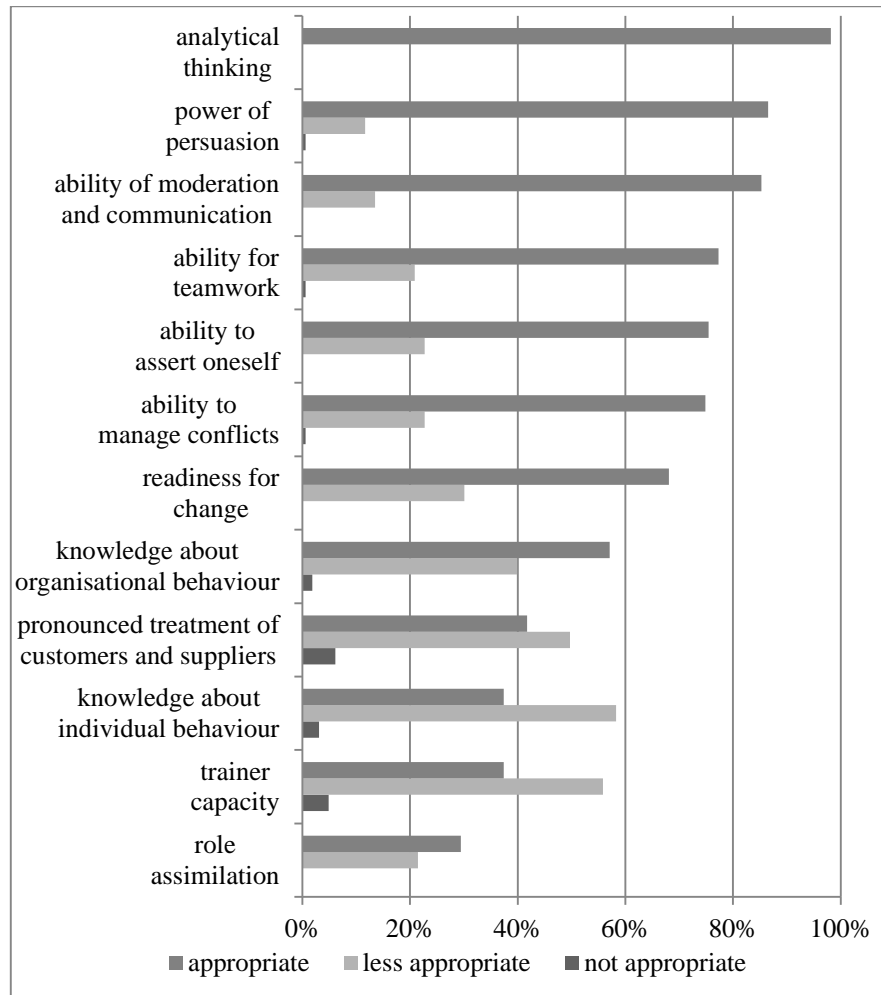


Figure 7
 Personality traits from the point of view of the practitioners

The analytical thinking is from the point of view of the practitioners the most important trait for any controller. With an approval of nearly 100% is this personality trait in the vanguard of large enterprises and SMEs. Considered as a whole exists not only in this trait an extensive unity between both size classes, there are only huge discrepancies in the thinking of the customers and supplier and the knowledge of individual thinking. It should be retained that the eleven to be assessed traits are essential for the successful work of the controller in all enterprises independent of its size. Only a few traits are mentioned as not relevant, this applied to four at large enterprises likewise at SMEs.

The students see the analytical thinking as well as the practitioners as the most important personality trait (see Figure 8, the students had to bring the characteristics in an order, 1 is the most important characteristic, 11 is the least important one). Extensive unity dominates also with the remaining traits. The greatest difference is in the ability to work in a team. This trait is asked in both size classes of the enterprises by the controllers, for approximately 75% is this trait very relevant.

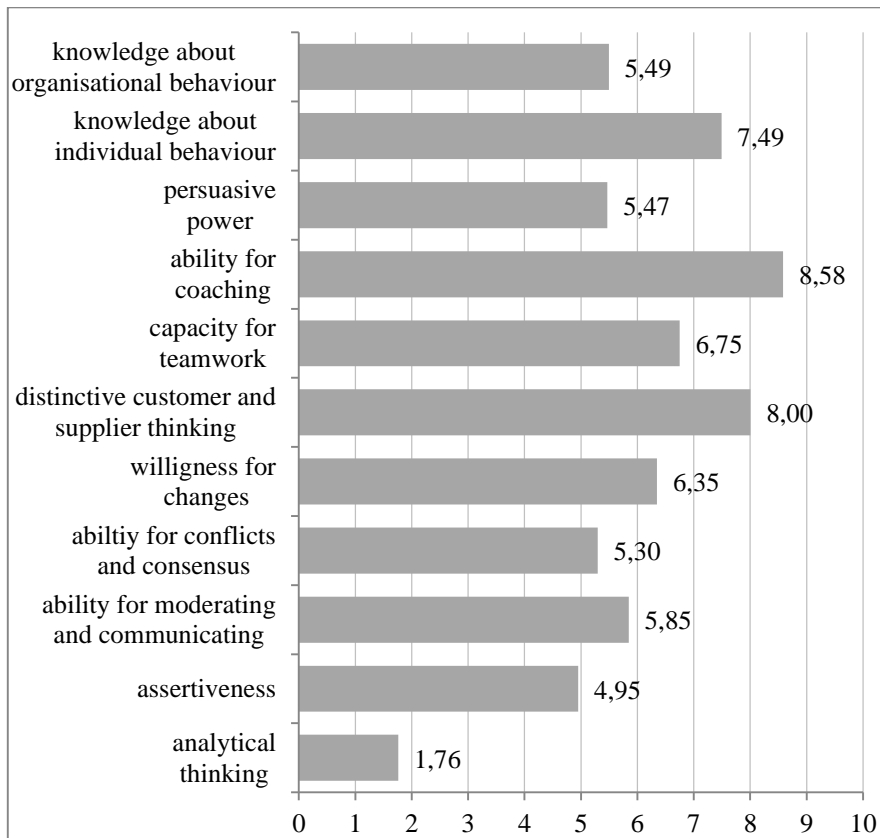


Figure 8

Personality traits from the point of view of the students

Practitioners and students expect similar personality traits, which the controller should bring. In both surveys exists a big consensus. The results of large enterprises and SMEs and the students of the undergraduate and work accompanying courses of studies hardly deviate from each other.

4 Conclusions and Recommendation

The aim of the study was to gain empirical data to define a job profile of controllers, who work in SMEs. Differences and similarities of the analytical results found in SMEs and large enterprises were pointed out.

- The images of controllership like braking force, number cruncher or nitpucker could be come across rarely in SMEs and large enterprises from the point of view of the practitioners. These images are on the rear ranks from the point of view of the students. The other images guide and helmsman are dominating in both company sizes. The image of the pilot is to be found more seldom from the point of view of the students and the image of the “kontrolleur” dominates.
- The role of the “kontrolleur” has lost of his former spreading in the last years but is still relevant. The images “service provider” and “consultant coach” are often mentioned in SMEs and large scale companies.
- The tasks, which have to be done in every enterprise independent of its size, are the reporting, variance analysis and operative planning. There are some task fields that are expected to be higher specialisation in larger companies less important than in SMEs. The controllers in SMEs have more tasks fields than the controllers in large enterprises. Different departments in large scale companies do tasks like financing and investment analysis. The tasks in SMEs have a less clear separation and the tasks and activities of the controller in SMEs have a less deep scope in comparison to large enterprises. The controller in SMEs is a “generalist” and in large companies a “specialist”. These findings are in concordance with the appropriate theoretical SMEs business literature. The task of the controller, which has a top priority at the students, is the control/observation. This is a big discrepancy in the estimation of the practitioners regarding the relevance of the task fields.
- The most relevant personality traits of the controllers in SMEs and large enterprises from the point of view of the practitioners are the analytical thinking, power of persuasion, the ability to assert oneself and the ability of moderation and communication. The analytical thinking is also the most important trait from the point of view of the students. There can be found some differences regarding the personality traits power of persuasion, knowledge about individual behaviour and knowledge about pronounced treatment of customers and suppliers.
- Controlling is mainly central organised in divisions in SMEs. This is not discussed in this paper but statistically proven by data of this study. The empirical result accords with theoretical expectations. But the interviewed students assume that the central organisational form is most frequently a characteristic of enterprises. The hybrid form is often supposed.
- The results of the students and practitioners differ partially from each other.

The results of the study demonstrate that the job profile of the controllership in German SMEs is quite alike to one in the US-American controllership, if the results of the study are compared with the business literature. The controller's job description differs in several points from the profile in large enterprises, especially the range of tasks. The job profile of controllers in German SMEs shows that the works of the controllers are challenging and interesting, which needs a specific foundation on university level. That the reason why universities and other educational institutions should continue specialising their curriculae and teachings. Further improvements can be reached through cooperation with SMEs and large enterprises. Important is that the differences of the organisation of the Controlling become apparent in the single size classes and this leads to a qualification of the students, which meets the needs of the enterprises in a narrower way.

The study has some limitations, which should not be neglected. The first limitation of the methodology is the size of the sample. The sample should be increased for further purposes. Regarding the relevance of the results should be mentioned, data about the controller image has been gained out of the controllers own perspective and not by questioning other employees. This would be very challenging, but there's also a big chance to gain much more meaningful data about the controller. These limitations of the present study will be regarded by forthcoming researches. Furthermore it is possible to extend the questionnaire without changing it in a complete way to get constant data. For the continuation and the continuing evaluation of the study speaks the possibility of more in-depth analysis of the results, in particular relating to the development over a specific period of time or the comparison of the results of the students who study in full time and extra-occupational

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Innovative Activities in Enterprises from the Standpoint of Cluster Initiative

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Abstract: The principal aim of this study is to present the findings of investigations with theoretical and empirical context concerning the concept of cluster initiative oriented at innovative activities. Increasing complexity of innovations often forces business entities to compete in this area. Entities which are not substantially involved in relationships with business surroundings have poorer opportunities for using necessary competencies and resources necessary for running innovative activities. Building competitive advantage often necessitates supplementation of competencies with knowledge, skills or complementary resources that other market participants have. One of the opportunities for maintaining competitiveness is to implement activities of cluster initiative that allow for development of interactions between business and research initiatives. Consequently, the activities are focused on the common goal: faster and more effective creation and implementation of innovations. The empirical part of the study presents the results of the investigations concerning cooperation of enterprises in terms of innovative activities carried out within a cluster initiative.

Keywords: clusters, innovations, networks, cooperation in clusters

Introduction

Tendencies to improve competitiveness are a characteristic feature of not only business entities but also the whole regions and areas. One of methods to build competitive position and competitive advantage in the regional context is creation of business clusters. They represent a manifestation of a variety and potential of a specific region. The essence of this concept relates to the activities of cooperative character i.e. those that connect competitive relations that occur between entities with relations concerning cooperation and collaboration. Cluster initiative might lead to constant and sustainable development that combines economic, social and environmental goals.

One should emphasize the increasing role of innovative activities in building competitiveness of organizations. The increasing importance of innovative enterprises in activities of contemporary business entities is being observed today.

The literature in this field points to integration of the effectiveness of enterprise activities with their modernity and innovativeness. The ability of an organization to learn and use scientific solutions represents one of the basic factors in establishing competitive advantage. It has been emphasized in the literature that the freedom of enterprise's activity in the area of creation and implementation of novelty might significantly determine its competitive position in the market. [1] Hamel and Prahalad stressed that achievement of economic performance is possible not only through adjustment to changes in enterprise's surroundings but it also results from the active attitude of the organization that manifests itself in taking concrete actions to form the environment. [2]

Market conditions the enterprises have to operate in cause that technological advances have become one of priority factors that form the economic activity and one of the most important challenges the contemporary enterprises must face. With innovative activities, both the organization and its closer and further surroundings are constantly transformed. Maintaining the competitiveness often forces enterprises to show flexibility of the operations and adapt to changes that occur (also technological). The opportunities of the organization concerning initiation of innovative activities are also essential. High complexity of innovations causes that individual entities do not always have sufficient opportunities and resources in order to create innovative solutions. Maintaining competitiveness forces enterprises to supplement skills and knowledge with competencies and complementary principles which other entities (competitors or suppliers) have.

It should be emphasized that building competitiveness often requires that the entities have to supplement and improve their competencies and resources, often as a result of cooperation with other market participants. One of the methods to build competitiveness is to combine entities within activities concerning cluster initiatives. Building clusters of entities in the particular area that show varied character of activities and includes enterprises, universities or self-government entities contributed to transfer of knowledge and information and helps promote innovative activities. Therefore, it should be emphasized that common activities of enterprises, organizations, research teams, various institutions and business entities concentrated in the form of clusters represents a response to the need for building competitiveness not only in the unit area but also in the regional context. Common activities of many organizations, focused on the uniform goal, offer opportunities for quick and effective creation of innovations and application of these innovations in the economic circle, which might be connected with creating of potential in the value chain.

1 Aspects of cooperation of enterprises in innovative activities

In the context of innovative activities, contemporary enterprises are substantially dependent on the flow and abilities to use information from market environment.

This is noticeable during acquisition, development and improving beneficial relationships with other entities that operate in the same surroundings. One example of these activities is regional innovation systems. They are regarded as essential concepts concerning integration of activities in the area of the economy and science and showing such factors as: branch specificity of entities that operate in the specific area, level of business development in this area, resources of knowledge and information and entrepreneurial activity demonstrated by local societies [3].

Creation of such systems is possible through activities of enterprises, universities, research and development institutions, organizations that deal with knowledge and innovations, institutions that support innovative initiatives and local government entities [4]. These entities can cooperate at various levels. One of them are innovative activities, both in the context of creation and implementation. This helps develop various networks of relationships that are based, on the one hand, on cooperation of parties and their consolidation e.g. the method to transfer of knowledge and information and on their competitive activities. Consequently, opportunities open up in the area for promotion and development of innovation of organizational, personal, financial, market-related or political character.

Cooperation in complex innovative projects with regional character requires active cooperation and relationship with other entities and institutions within the network. These mutual interactions between entities that operate in a specific area are presented in the literature by means of *triple helix* model that describes and organizes the relationships and feedbacks between the main representatives in innovation activities. [5] Main parties in this model include institutions in the science sector, enterprises (industrial and service providers) and different institutions that represent the state. The direct effect on specific innovation activities is from such entities as banks, scientific and professional associations, consulting agencies, marketing agencies, stock exchanges, fairs etc. A diversity of the mutual interrelations that occur among the entities should also be emphasized. It is also emphasized that the potential of cooperation is determined by the relationships between the three main entities, and lack of these relationships substantially obstructs the flow of knowledge [6]. Therefore, the views of Carayannis, Barth and Campbell that point to connecting the concept of *triple helix* with the concept of knowledge-based economy should be adopted. [7]

In the *triple helix* model, the relationships that occur in the process of creation and exchange of information about innovative activities are considered between the main entities [8]. Three forms of this model should be presented for this model: internal transformation in specific entities, two-sided effect of entities and development of new network systems that result from mutual effect between all the nodes. Therefore, three levels of mutual effects between the main entities used in this model are observed.

The first level stresses the importance of internal effects that occur in individual entities. The activities carried out within internal reconstruction, are aimed at development of constructive strategies, resources or stimuli to support innovative processes. This helps change and modifies the roles and tasks for individual entities

e.g. alliances are formed to ensure transfer and circulation of information and knowledge and orientation of universities at increasing their openness towards cooperation with the economy.

Bilateral interactions between individual entities, i.e. between the government and science, science and industry or between industry and the government create a triangle of relationships that are formed from various assumptions adjusted to individual entities. It should be emphasized that this affects industrial policy and science and that the activities are oriented at actions of enterprises that affect flow of knowledge, technology or information. Relationships occurring between organizations that represent the state and scientific centres or research and development centres concern in particular formation of priorities for scientific and innovative policy. Mutual interactions observed in relations between the government and industry consist in development of industrial policies and setting right objectives for economic growth in the country or region. Furthermore, the effect of science and industry should extend the area of activities that contribute transfer of technological advances from theory towards practice.

Cooperation of the three main entities in the triple helix model is important in implementation of sustainable policies of innovativeness in the state or a specific region. The scope of commitment and degree of relations between these entities depends on the organizational level at which the cooperation occurs. At the regional level, it might adopt a form of clusters that are aimed at creation and implementation of new solutions that contribute to facilitation and modernization of the economy. Therefore, it can be indicated that sustainable development of regions can be achieved through creation of specific business conditions and through involvement of scientific entities that facilitate deepening and extending knowledge.

It is emphasized that development of clusters is a multi-stage activity. Etzkowitz (2002) distinguished between three basic stages in development of the interorganizational area that transforms into relations with network character. [8] The first stage of development is creation of the area of knowledge, which is aimed at supporting regional innovative environments, comprehensive cooperation towards improvement of local conditions for development of innovative activities and promotion of research activities. Another stage relates to creation of a specific space for building the strategy for regional development during cooperation of the governmental sector, scientific sector and industrial zone and improvement in quality of social capital. Furthermore, the final stage in development of the network is to create innovative space. With this understanding of the reality, the tasks from the previous stages are performed, similar to creation of the capital for common (public and private) initiatives.

2 Clusters as subjects of innovative activities

Focus on clusters viewed as entities that have an effect on innovative activities points to adoption of a regional viewpoint for investigations. Nowadays, the importance of cooperation within bigger regional initiatives that have innovative character is increasing. The justification for this standpoint is conscious creation, acquisition and implementation of innovations accepted by a wide range of entities that operate in the specific geographical area.

Clusters area characterized by a form of organization with network character, but not every network of enterprises can be considered as cluster. The business network is essentially a wider concept, which involves such forms as strategic alliances, virtual organizations, joint venture, integrated supply chains, holdings or clusters. Organization of the network must be based on mutual relationships of the parties that form a specific structure, whereas the essence of these relationships is interdependence.

In general terms, the Thorelli's interpretation can be adopted. This interpretation defined the concept of the network as a system of two or more organizations which are willing to participate in a long-term cooperation. [9] Similar characterization was presented by the group of members connected with a set of relations that have a nature of friendship, counselling, inclination and business cooperation. [10] It is also emphasized in the literature that a network means a group of entities or enterprises with a relatively stabilized character. The essence of relationships that occur between these entities is mutual cooperation which occurs based on market principles. [11]

Therefore, cooperation between entities is one of the basic identifiers that characterize relationships within an interorganizational network. However, there is a property that distinguishes cluster from other network relationships. Two types of relations are observed in organizations that operate based on cluster initiatives: cooperation and competition. This form of operation is defined as cooptation i.e. competition in certain areas with consolidation in other areas of market activities. [12]

However, the form of relationships in multi-entity structures is only one of the distinguishing features of these networks and clusters. With these views, the complexity of the concept of clusters should be emphasized. With the definition proposed by Porter (1998), one can conclude that clusters are viewed as a group of entities which are mutually interrelated and act in a specific geographical area. [13] These entities include: enterprises that operate using similar technological principles and resources, suppliers of services, infrastructural components and equipment as well as governmental and non-governmental institutions (universities, scientific and research centres, organizations, commercial associations etc.) which not only cooperate in specific sectors but they can also compete with each other.

Similarly, the local character of this problem has been stressed by Rosenfeld, who regarded clusters as geographical group of entities that operate in similar areas connected with each other or providing complementary services as well as

cooperating with suppliers that operate in the same market. [14] Furthermore, the literature finds principal characteristics emphasized in definitional approaches to cluster initiatives, such as geographical and sectorial concentration, co-competition, specialization, complementarity of activities, synergy, common trajectory of development, partnership between business and sectors of science and research and development and institutions from business surroundings. [15] Therefore, it can be indicated that clusters are not a common agglomeration or concentration of independent business entities, but they are networks of the cooperating entities that are interrelated with each other to different degree and in different form that function at sector level.

Analysis of the rationale for creation of clusters should be referred to what is termed a modern theory of agglomerations that points to internal economies of scale as impulses for creation of agglomerations of entities in specific location. [16] It is emphasized that a key reason for geographical concentration of innovative activity is the effects connected with locally conditioned processes of spreading knowledge, transfer of technology, flow of information or development of qualified labour. [17] An environment which is conducive to these processes is clusters, which represent an effective form of co-competition that allows for effective interactions and relationships between various entities. [18]

Similarly, Gorynia emphasized external economies of scale, with its characteristic feature being that they are a sector-specific capital, created during location of activities in the same region by the entities from the same sector. Furthermore, McCann stressed other external effects, including improved effectiveness of a specific region and attracting new business entities to a specific region. [20] It should also be noted that the entities operating within the cluster concept might show reduced transactional costs through strong relationships that occur between entities.

With relationships and interdependence of the entities grouped in a particular area might cause a reduction of costs which relate not only to reduction in costs of transport and transfer of labour, but also to reduction of costs of acquisition of information and knowledge. This is particularly important for performing the role of entities and tools for innovative activity in a specific region by clusters. It is observed in the literature that substantial expenditures connected with creation of original resources and solutions with innovative character might be reduced by creation of common innovative strategies that are based on using suitable resources and solutions from the environment. [21] Therefore, the substantial part of costs of creation of resources which are necessary for innovative activities can be eliminated through building the common base of resources that adopts e.g. the form of clusters. It should be emphasized that, through searching for various forms of competitive advantages, the combined utilization of resources from various entities can be observed. Consequently, the significance of cluster structures for innovativeness of enterprises results from their effect on development of interactions and collaboration between business entities and scientific centres.

However, it is emphasized that creation of innovativeness requires not only the network structure but the factors that describe the effectiveness of the network structure (i.e. the quality of cooperation in the network). [22] These problems are connected with the predominant method of coordination that determines the methods used by the entities that operate within network structure by organizing and controlling the cooperation. It is adopted that cluster structures are characterized by low level of formalization of agreement between the entities, with social capital and cultural conditions being essential for operation of this form of network. This is affected by the principal characteristics of the cluster i.e. loose relationships, reciprocity of services or freedom of relationships.

3 Characterization of clusters that operate in Poland

Empirical examinations were carried out based on the data that characterize operation of clusters in Poland. The analysis evaluated the relationships between cooperation of entities within cluster initiative and cooperation within innovative activities. Furthermore, the analysis of correlations between selected parameters of cluster initiative and innovativeness of enterprises was carried out. The population studied was divided using regional classification based on location of cluster coordinator. The entity that coordinates cluster activity should be considered as an entity that organizes and animates development of interactions, relationships and cooperation in the cluster. Diagram 1 presents data concerning the share of enterprises that cooperate within cluster initiative in % of enterprises that cooperate within innovative activities

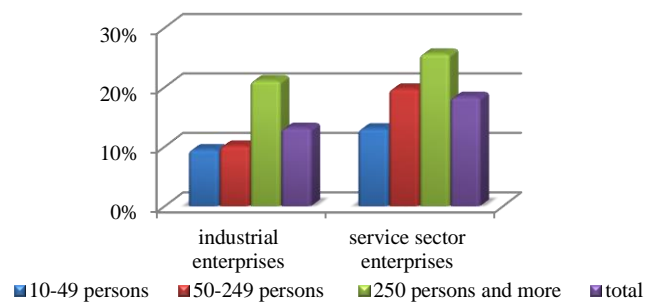


Diagram 1

Enterprises which cooperated within cluster initiative in percentage of enterprises which cooperated within innovative activities in 2010-2012

Source: author's own elaboration based on: Działalność innowacyjna przedsiębiorstw w latach 2010-2012 (in Polish: Innovation activity of enterprises in 2010-2012), Główny Urząd Statystyczny (the Central Statistical Office of Poland), Opracowania i informacje statystyczne (Statistical surveys and information), Warsaw 2013

Analysis of the size of the entities that cooperate within cluster initiatives lead to the conclusion that big entities that employ at least 250 employees are the entities which mainly cooperate in the area of innovative activity. Further, smaller entities were more willing to cooperate within cluster initiative despite the cooperation they declared in terms of innovations. This tendency was observed in both industrial entities and those from the sector of services. However, it was also found that service-providing enterprises showed greater tendency for association in clusters. It should be noted that, in general terms, the enterprises that declared cooperation in implementation of innovations were not substantially engaged in cluster initiative. The study showed that 18% of service providers and 13% of industrial enterprises were willing to connect these two aspects.

Further examination evaluated, based on correlations, the relationship between selected parameters of cluster initiative and enterprise innovativeness. Statistical variable was number of clusters that operated in individual regions (voivodeships). This characteristic was compared with such variables as: GDP in a particular voivodeship (A), % of industrial enterprises innovatively active in a particular voivodeship (B), % of service providers innovatively active in a particular voivodeship (C), % of industrial enterprises innovatively active in a particular voivodeship (D), % of innovative service providers in a particular voivodeship (E), % of industrial enterprises that implemented organizational innovations in a particular voivodeship (F), % of service providers that implemented organizational innovations in a particular voivodeship (G), % of industrial enterprises that implemented marketing innovations in a particular voivodeship (H), % of service providers that implemented marketing innovations in a particular voivodeship (I), share of incomes on sales of new products or significantly improved products in incomes on sales in total according to voivodeships /industrial sector/ (J), share of incomes on sales of new products or significantly improved products in incomes on sales in total according to voivodeships /sector of services/ (K). The results of the analysis are presented in Table 1.

	Pearson linear correlation coefficient	Coefficient of determination	Statistics of the test of significance
A	0.4120	0.1698	$t=1.6922 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>
B	-0.2114	0.0446	$t=-0.8092 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>
C	0.5210	0.2714	$t=2.2840 > t_{0.05;14}=2.145$ <i>Statistically significant correlation between the variables studied</i>
D	-0.3076	0.0946	$t=-1.2096 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>
E	0.6313	0.3985	$t=3.0458 > t_{0.05;14}=2.145$ <i>Statistically significant correlation between the variables studied</i>
F	-0.3188	0.1016	$t=-1.2587 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>
G	0.2266	0.0513	$t=0.8705 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>
H	-0.0905	0.0081	$t=-0.3400 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>
I	0.5616	0.3154	$t=2.5399 > t_{0.05;14}=2.145$ <i>Statistically significant correlation between the variables studied</i>
J	0.0264	0.4179	$t=0.0989 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>
K	0.0006	0.1746	$t=1.7212 < t_{0.05;14}=2.145$ <i>No statistically significant correlation between the variables studied</i>

Table 1
 Analysis of correlations between selected parameters of cluster initiative and innovativeness of enterprises

Source: author's own elaboration based on: Działalność innowacyjna przedsiębiorstw w latach 2010-2012 (in Polish: Innovation activity of enterprises in 2010-2012), Główny Urząd Statystyczny (the Central Statistical Office of Poland), Opracowania i informacje statystyczne (Statistical surveys and information), Warsaw 2013

The above analysis showed no statistically significant correlations between the variables studied for the most of the relationships studied. Statistically significant correlations between the variables studied were obtained only for three cases that concerned the number of clusters vs. selected parameters of innovativeness in service providers. These relationships concerned: the number of clusters that operate in the specific area and: (in the first case) % of service-providing enterprises that are innovatively active, (in the second case) % of service-providing enterprises and (in the third case) % of service-providing enterprises which implemented marketing innovations. Linear correlation coefficient in the above cases exceeded 0.5, which points to the relationship of medium character. Therefore, the coefficient of determination ranged around 30%. Verification using the test of significance was carried out based on T-student statistics confirmed a statistically significant correlation for the variables discussed. Therefore, it can be indicated that the statistical verification is consistent with previous results of examinations that point to a closer relationship of cluster initiative with innovative activity of enterprises from the sector of services.

4 Conclusions

The principle base for technological progress is enterprises, universities and scientific and research institutions. These entities represent the basis for economic growth of not only regions they operate in and the areas with a more comprehensive macroeconomic aspect. Meeting the demands of competition is possible through knowledge, technologies and innovative products. It should be noted that quick transfer of technology and products at various stages of the value chain represents an essential factor in gaining the competitive advantage in a market. The environment of cooperation formed within clusters can be stimulating.

It can be also found from the empirical studies that industrial enterprises that cooperate in terms of innovative activities are not involved in the most of cases in cooperation within cluster initiative. Large entities and entities from the service sector are more willing to integrate these two areas. Therefore, it is essential to investigate the causes of low activity of cluster initiatives among the enterprises which cooperate within innovative activities. However, given more and more substantial pressure on searching for new competitive advantages in enterprises and activities aimed at orientation of public assistance towards innovative activity, it can be concluded that this area of activities in cluster initiative will become more and more important.

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Fairness Dominating Human Behavior in Ultimatum Bargaining Game

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Abstract: In 2013, we conducted an international field experiment on human behavior in South Africa and Germany. For this ultimatum bargaining game, an inheritance of 12,000 ZAR (1,000 EUR) had to be split up. Three randomly selected participants slipped into the roles of the beneficiaries: Andy had the right to propose the distribution of the inheritance. Berta could either accept or reject the proposal. Carlos had no rights at all. As proposer, a large majority opted for an equal split. This was followed by the two power coalitions with 19% of the votes. Less than 4% opted for the proposal of homo oeconomicus (10,000-1,000-1,000 ZAR). Statistically significant differences in behavior exist between Germans and South Africans. In general, inequality aversion is much stronger among South Africans. While two thirds of South Africans propose an equal split, less than half of the Germans do. Gender as well as economic education also help to explain the international differences in behavior.

Keywords: Ultimatum Bargaining Game, International Field Experiment, Fairness, Rational Behavior

Introduction

In December 2013, we conducted an international research project on human behavior and decision making. We invited all students and employees of Stellenbosch University (South Africa) and the University of Applied Sciences Kaiserslautern (Germany) through the internet as well as the general public via social networks and two regional newspapers to participate in a so-called Ultimatum Bargaining Game.¹ For a better reflection of the diversity of the South

¹ In addition to students & employees of Stellenbosch University (30.000) and the University of Applied Sciences Kaiserslautern (6.000), individual classes at the University of Western Cape, University of Cape Town and the University of the Incarnate

African population, we also conducted field experiments in the township of Kayamandi as well as in the Coloured neighborhood of Idasvallei - both belong to the municipality of Stellenbosch.²

The inheritance of aunt Luise in the amount of 12,000 ZAR – approximately 1,000 EUR - had to be split up. Three randomly selected participants slipped into the roles of the beneficiaries – Andy, Berta and Carlos. Due to the will of aunt Luise, the inheritance was to be divided up according to the following rules: Andy had the right to propose the distribution of the 12,000 ZAR. Berta could either accept or reject this proposal. She therefore had the right to veto Andy's proposal. If Berta accepted Andy's proposal, the total amount would be partitioned according to the proposed distribution. If Berta rejected Andy's proposal, none of the three would receive any funds. The whole amount would all go to charity. In our experiment, three other beneficiaries were to be selected. Carlos could neither influence the proposal nor its acceptance or rejection. Andy's role as proposer was auctioned off, as all participants had been asked to place a bid for their right of proposing.

We extended this basic version of the experiment by including a variation, in which the role of the proposer was to be selected randomly – but only after the proposer had decided on his proposal. The division of the actual funds was based on the basic version of our three-person ultimatum bargaining game.

We were hoping that this research project would provide answers to the following questions:

- (1.) What role does fairness and rationality play, when people have to make a decision on splitting up a considerable amount of funds?
- (2.) How do participants evaluate different kind of proposals – again taking fairness and rationality into account?
- (3.) Are there significant differences in human behavior between South Africans and Europeans?

What does economic theory tell us? Basic microeconomic theory in decision making usually assumes that economic agents behave rationally – no matter if they are employees, managers or politicians. The concept of a rational decision maker is called Homo Oeconomicus. The decision maker aims to maximize his financial wealth or personal utility. Though, past economic experiments – in the

Word (Texas) had been invited. The regional newspapers were Rheinpfalz and Pfälzischer Merkur with circulations of app. 5,000 each.

² Two field workers were trained to conduct the survey in their neighborhood. For Kayamandi, the questionnaire had been translated into Xhosa. Funding for the project was provided by University of Applied Sciences Kaiserslautern (ZAR - South African Rand, EUR - Euro). The project had been approved by the ethic committees of Stellenbosch University.

field and in the laboratory – have shown, that many participants behave in a reciprocal way (Homo Reciprocans). They honor friendly behavior and punish non-cooperative behavior. Sometimes, they are even willing to accept financial losses when punishing non-cooperative behavior. In our experiment, they would lose their proposed share of inheritance. The weight of the financial loss depends on the individual economic situation of each participant.

1 Characteristics of participants

A total of 1,139 individuals participated in our ultimatum bargaining game. This is the highest rate of participation for our internet experiments so far. The majority of participants (69 %) are South Africans - most of them members of Stellenbosch University, more than a quarter are Germans (*Figure 1*). The remaining five percent are mainly from Austria, Switzerland and the United States. On average, the participants are 29 years of age – the youngest being 8, the oldest 73. Due to the fact that roughly 60 percent of our participants are still studying at a university, average age level is relative low. One third of all participants has a background in business or economics. Compared with previous studies, the share of female participants is relatively high (40 %).

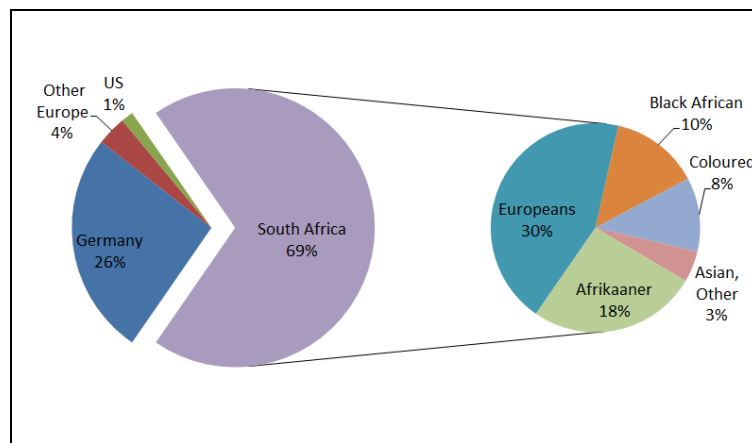


Figure 1

Nationality of 1,138 participants as well as population groups for South Africans

There are several differences in characteristics of participants from Germany (Europe) and South Africa: lower rate of women in Germany (33% vs. 46%), higher share of students in South Africa (70% vs. 50%) as well as more business majors/economists in Germany (47% vs. 34%). In addition to our experiment, everyone participated in a simple test of intelligence. Also, they were asked to

describe their personal risk preference as well as their religious affiliation. Average South Africans are more religious, while underperforming in the cognitive reflection test.³ Internationally, there are no obvious differences in risk proneness or aversion.

More than two thirds of the South African participants classified themselves as White, whereas Coloureds and Black Africans (Xhosa, Zulu) were almost evenly represented. The distribution in population groups closely resembles the current membership structure of Stellenbosch University (students & employees). Due to persistent differences in educational attainment and the household's unequal income distribution, studying at Stellenbosch University with annual tuition fees of on average 36,000 ZAR (2,800 EUR) is often inaccessible for the large majority of South African High School graduates. As Afrikaans is still the major mode of lecturing in most of the Bachelor programs, the language proficiency provides another stepping stone into Stellenbosch University. Based on the population characteristics of our South African participants their self-reporting on income levels is strongly skewed towards the highest quintile (see *Appendix*).

2 List of proposals and decision making by all participants

Andy and Berta had to choose from eighteen different proposals. First, each participant had to select one proposal in his or her role as Andy. Afterwards, they slipped into the role of Berta. Here, they had to decide to either accept or reject each of the individual eighteen proposals. We made use of the acceptance rate for each proposal to calculate the expected payoff for Andy. Four proposals - e.g. 2,000-4,000-6,000 ZAR - did not find a single proposer.

Andy - the proposer (all participants)

By far, most of our participants - more than 60 % - proposed a fair and equal split of 4,000 ZAR for each of the beneficiaries. The second most important proposals were the so-called power coalition(s) with 11 % and 9 % of the votes: Andy and Berta both profit from agreeing bilaterally on a reduced inheritance for Carlos, as the latter neither has a right to propose nor a right to veto a proposal. Only 3.6 % of our participants proposed a split up that allocates the highest possible payoff (10,000 ZAR) towards Andy, while Berta and Carlos receive only 1,000 ZAR. This is the proposal that reflects a profit maximizing homo oeconomicus the

³ Shane (2005). All participants should describe their risk proneness on a scale of 1 (risk averse) to 5 (risk prone) as well as for their religious affiliation (from 1 = atheist to 5 = active member of a denomination). On average, South Africans were statistically significant more religious than Germans (3.7 vs. 2.4).

closest.⁴ Based on their different roles, it is not very surprising that the average financial sum proposed for Andy is higher than for Carlos - though this time by only 16 % as the majority of the participants voted for an equal split.

All Participants n = 1,138	Andy's choice	Andy's proposals for split up			Berta's reaction		expected payoff for Andy (ZAR)
		Andy	Berta	Carlos	accept	reject	
	0,26%	0	6000	6000	63%	37%	0
	0,00%	2000	4000	6000	50%	50%	1,000
	0,53%	2000	5000	5000	67%	33%	1,340
	0,18%	2000	6000	4000	66%	34%	1,320
	0,00%	4000	2000	6000	23%	77%	920
	0,09%	4000	3000	5000	34%	66%	1,360
Equal Split	61,25%	4000	4000	4000	96%	4%	3,840
	5,01%	4000	5000	3000	72%	28%	2,880
	2,55%	4000	6000	2000	64%	36%	2,560
	0,00%	6000	1000	5000	16%	84%	960
	0,26%	6000	2000	4000	19%	81%	1,140
	3,51%	6000	3000	3000	34%	66%	2,040
	8,52%	6000	4000	2000	48%	52%	2,880
Power Coalition	10,90%	6000	5000	1000	50%	50%	3,000
	0,00%	8000	1000	3000	14%	86%	1,120
	0,35%	8000	2000	2000	19%	81%	1,520
	2,99%	8000	3000	1000	23%	77%	1,840
Homo Oeconomicus	3,60%	10000	1000	1000	14%	86%	1,400

average inheritance per person in ZAR 4,278 4,037 3,685

Table 1
 Choice of proposals and acceptance ratios

Berta – with veto power (all participants)

As Berta, almost all participants accepted an equal split. For the power coalition the rate of acceptance dropped to 50 %, while the proposal linked to the concept of homo oeconomicus is rejected by 86 % of our participants. This is quite irrational, as Berta relinquishes an inheritance worth 1,000 ZAR – for the sake of rebuffing

⁴ Previous ultimatum bargaining games usually resulted in higher shares for homo oeconomicus: e.g. 9 % in a newspaper experiment by a German national weekly Die Zeit with more than 5,000 participants (Güth et al. 2007), 14 % of 381 participants in Piazzolo (2007) and 9 % of 509 participants in Piazzolo (2010). All of these participants were predominantly German. In our sample, 6 % of the European participants opted for the most rational approach.

Andy's extremely unfair proposal. All of the proposals for which Berta receives only 3,000 ZAR or less, are rejected by more than two thirds of all participants. Equal split carries the highest expected payoff (3,840 ZAR). Even though its' acceptance rate is low, the expected payoff for Andy is still the second highest in the case of the power coalition (3,000 ZAR).

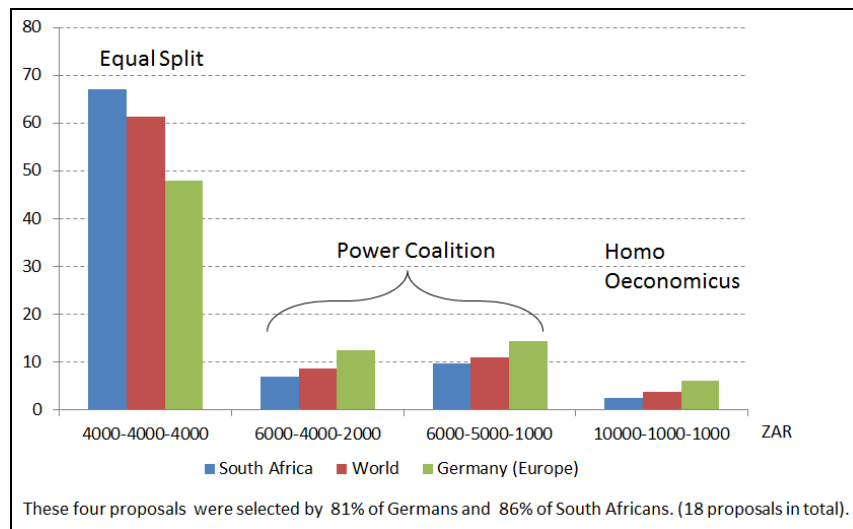


Figure 2

Andy's proposals for splitting up an inheritance of 12,000 ZAR (beneficiaries: Andy - Berta - Carlos)

3 Different international perceptions - South Africans versus Germans

In their role as proposers, the South Africans selected the equal split at a significantly higher rate than their German or European counterparts (67 % vs. 48 % in *Figure 2*). Females also prefer the equal split – and more South Africans are women, but this cannot explain the large discrepancy fully. Every fourth German participant proposed one of the two power coalition(s), while 6 % of them suggested the wealth maximizing version of homo oeconomicus. For South Africans, this rate is a mere 2.5 %.

Andy's proposals for the three beneficiaries vary significantly between South African and German participants. South Africans are much more equality minded than their German counterparts. But are they more fairness-oriented or just more realistic concerning the vetoing power Berta?

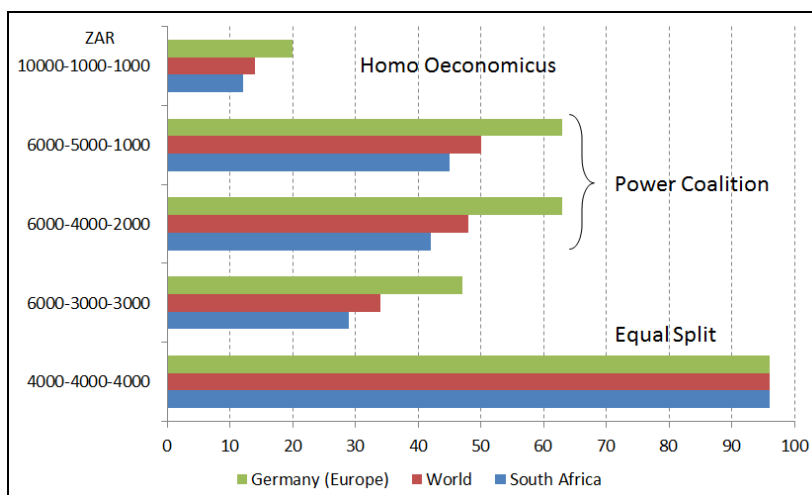


Figure 3
 International comparison of Berta's acceptance ratios (proposals for Andy-Berta-Carlos in %)

High inequality aversion of South Africans

In their role as accepting or rejecting Berta, only 160 of all participants (14 %) did accept all of the eighteen proposals. This would have given them at least 1,000 ZAR - instead of relinquishing these funds and receiving nothing at all. For participants that suggested the homo oeconomicus right from the beginning this acceptance rate is more than 90 %.

One fifth of the German participants took rational decisions by accepting all of the proposals, while South Africans showed a high aversion against a very unequal distribution of the inheritance. Only 12 % of them would accept the 10,000-1,000-1,000 ZAR proposal. Even the two power coalitions did not find a majority among South Africans (*Figure 3*). Due to these low South African acceptance rates, the expected payoff for the equal split (3,840 ZAR for Andy) is substantially above the ones for the power coalitions (2,700 ZAR).

Homo oeconomicus is accepted by 20 % of the Germans. Its expected payoff for Andy (2,000 ZAR) is still way below the amounts for some of the other options: Due to the acceptance rate of 63 % for the power coalitions their expected payoffs are within reach compared to the one for equal split (3,780 ZAR vs. 3,840 ZAR). In our previous internet & newspaper experiments (Piaolo 2007, 2010), expected payoffs for the power coalitions had always exceed the one for equal split.⁵

⁵ With additional econometric research we plan to analyze the influence of the possible "racial" component of the within South African behavior.

4 Random Selection of the proposer - International gap is levelling out

In the second version of our experiment, the participants were asked to make the same decisions. Though, none of the three beneficiaries would know in advance, which role they play, when the inheritance is to be split up. So, the proposer – Andy – does not know in advance, if he will benefit from his proposal. He might end up as Berta or even as Carlos. Due to this change in conduct, we expect the rate of proposal for an equal split to increase substantially. The empirical data in *Table 2* underlines our expectations. Now, 85 % of all participants propose the equal split - a rise of 24 percentage points!

ALL (n = 1138) South African (n = 788) German (n = 336)	Inheritance of 12,000 ZAR			World		South Africans		Germans (Europeans)	
	Andy	Berta	Carlos	Proposer Andy	Berta accept	Proposer Andy	Berta accept	Proposer Andy	Berta accept
Equal Split	4000	4000	4000	84,9%	97%	88,0%	97%	76,6%	96%
	4000	5000	3000	1,9%	62%	1,5%	57%	3,0%	74%
	6000	3000	3000	3,0%	44%	2,2%	37%	5,0%	59%
	6000	4000	2000	2,6%	37%	1,9%	32%	3,8%	49%
Power Coalition	6000	5000	1000	2,5%	29%	1,8%	24%	3,8%	41%
Homo Oeconomicus	10000	1000	1000	1,4%	15%	1,0%	12%	2,1%	22%

World - average inheritance per person in ZAR

	4.258	3.943	3.799
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Table 2

Choice of proposals and international acceptance ratios (randomly selected proposer)

At same instance, the intercontinental differences in proposal rates for equal split decline substantially from 19 to 11 percentage points. The reason is the marked difference in decision making by the German (European) participants: previously 48 % of the Germans opted for equal split, when randomly selected 77 % of them do. Therefore, the average inheritance per person is equalized further more: the difference between Andy and Carlos drops from 593 ZAR to 459 ZAR (last row of *Table 1 & 2*).

The acceptance rates for Berta do not change significantly. Germans still accept an unequal distribution of inheritance more often than their South African counterparts. For both subsets of participants the highest expected payoff for Andy remains with equal split. Though, for Germans, the second highest expected payoff is 3,540 ZAR for the 6,000-3,000-3,000 ZAR proposal. Compared to our

first version, now Germans seem to punish an unfair treatment of (powerless) Carlos – compared to the power coalition(s).

In spring 2014, we randomly selected three representative participants as potential beneficiaries for the 12,000 ZAR. Due to the international make-up, one German (European & rest of the world) and two South Africans were chosen. The role of proposer was based on the individual bids for Andy. The second highest bidder slipped into the role of the vetoing Berta. If Berta rejected the proposal of Andy, three new participants were randomly selected.

In contrast to our previous experiments, our Berta's vetoed the chosen proposal of Andy in three successive rounds. Therefore, nine participants did not receive any cash payment due to the vetoing power of Berta. Exotically, for the first three selected participants a South African Berta rejected even an equal split! The split up of the inheritance was finally successful, in the fourth round only.

With his bid of 2,000 ZAR, Kevin O. (GER) became the proposing party. He suggested an equal split. Mao W.-R. (SA) accepted his proposal, while Lauren d.T. (SA) equally participated. As the inheritance was reduced by 50 % of the bid, 3,000 ZAR remained in Germany and 4,000 ZAR were transferred to South Africa each.

5 Conclusions

We registered more than 1,140 participants. This is more than twice as many than in our previous internet & newspaper experiments (Piaolo 2007, 2010). The ultimatum bargaining game was offered during a sabbatical at Stellenbosch University, South Africa. For a better representation of the various South African population groups, we conducted a limited field survey in the township of Kayamandi as well as in Idasvallei (Stellenbosch). Thereby, we included households without access to the internet. In contrast to the German participants, the chance of receiving up to 10,000 ZAR should have been a relative strong incentive to participate for South Africans.

In their role of proposer (Andy) a large majority of 61 % of all participants opted for an equal split (4,000 ZAR each). This was followed by the two power coalitions (6,000 - 5,000-1,000 ZAR & 6,000-4,000-2,000 ZAR) with 19 % of the votes. Less than 4 % of all participants opted for the wealth maximizing proposal of homo oeconomicus (10,000-1,000-1,000 ZAR). In general, the participants were willing to relinquish part of their inheritance by an average bid of 1,870 ZAR for the position of the proposer Andy.

When having to accept or reject each of the eighteen different proposals (Berta), the notions of fairness and inequality aversion dominated decision making. Every

pro-posal, which result in 3,000 ZAR or less for Berta, was rejected by 66 % to 76 % of the participants. These individuals relinquish transfer payments, rather than accepting an unequal distribution of inheritance. Only every seventh participant behaved fully rational by accepting each of the eighteen proposals.

Statistically significant differences in behavior do exist between Germans and South Africans. While two thirds of South Africans propose an equal split, slightly less than half of the Germans do. More than 25 % of the Europeans opted for one of the two power coalitions. Their average bid for the role of proposer was also substantially higher: 2,300 ZAR versus 1,700 ZAR by South Africans.

Our analysis so far has shown that aversion against inequality in splitting up the inheritance of 12,000 ZAR is much stronger among South Africans than Germans. Though, additional characteristics influencing the behavior of participants need to be looked into by a more detailed analysis in the future. Age, gender, household income, religiousness, risk aversion, education attainment are among those characteristics of interest.

In many cases economic theory assumes rational economic agents. In our three-person ultimatum bargaining game this is the homo oeconomicus distribution for the proposer. Though, considering the inequality aversion of South African participants in their role as vetoing power (Berta), South African might be “super-rational” by suggesting equal split as proposers, since the expected payoff is the highest for the fair (even) distribution of funds.⁶

The moment the role of the proposer is randomly allocated to one of the three beneficiaries, the international gap between Germans and South Africans is almost closed. In this second version of the experiment, equal split is proposed by an average of 85 % of all participants. More than three quarters of Europeans vote for this distribution.

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Appendix

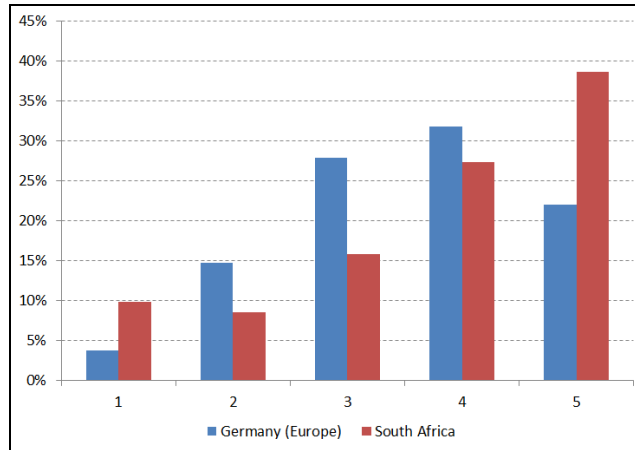


Figure 4
 Self-Reporting on Participants Household Income (Quintiles)

Lowest Income Quintile	21 % - 40 %	41 % - 60 %	61 % - 80 %	Highest Income Quintile
1	2	3	4	5

monthly (GER):

up to €1,299 €1,300 - €1,999 €2,000 - €2,899 €2,900 - €4,199 €4,200 and above

annual (SA):

up to R21,399 R21,000 - R35,750 R35,751-R61,624 R61,625-R142,083 R142,084 and above

[R13 app. €1]

Evaluating Investment Profitability and Business Controlling Methods

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Abstract: If we ask economists or controlling managers, then they will define the business controlling developments on quite different ways, but it is easily observable that each of the business controlling projects have goals which are mainly improving the effectiveness of the business by reducing negative outcomes and retaining the benefits.

So the business controlling development is essential in companies' life. It is a very important management task to focus on business controlling developments and invest in such kind of projects. This field has more and more come into prominence during the economic crisis started in 2008, because several companies were able to survive only with the help of new and innovative controlling functions.

The research tries to prove that the performance of the company is strongly influenced by the controlling developments and by the profitability planning from which the organization can gain benefit within a short term. This hypothesis was strengthened by surveys too conducted among managers in multinational firms.

Keywords: business controlling, profitability

Journal of Economic Literature (JEL) code: M16, M21

1 Introduction

The objective of this research is to examine important evaluation processes regarding business performance and investment profitability. The aim of the study is not to examine all of the performance evaluation methods but to focus on the most frequently used ones and to show their utilization in the daily business life. The research tries to show the advantages and disadvantages of this methods and impel small and medium enterprises to use them improving their business planning and controlling functions, while decreasing the risk of bankruptcy.

It is generally known that technical progress and the human capital plays a very important role in the long term growth and the wealth of the industries. The

business controlling and its development have a major impact in the life of the companies. Therefore many economists researched the effectiveness of the business performance indicators and the effects of the controlling innovation processes. There are a lot of empirical and theoretical studies available in this topic.

The controlling innovation field has more and more come into prominence during the economic crisis started in 2008, because a lot of companies were able to survive only with the help of new and innovative controlling functions. Innovations - including controlling developments - can lead companies to achieve sustainable advantages (Vermeulen, 2004) and also represent a key factor of economic growth (Cheng and Tao, 1999).

2 Theory

Nowadays the business controlling systems are critical elements in the decision-making process. A well structured and innovative controlling information system is a sustainable competitive advantage (Barney, 1991).

But it has been recognized in the previous centuries as well that the innovation and the continuous development are the critical sources of economic growth and of improvements in social welfare.

One of the key thinker of capitalism Joseph Schumpeter (Austrian economist, 1883-1950) said a great fact about the innovation, as he called about the “creative destruction”. “The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumer goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates. ... “ (Schumpeter, 1942).

If a company performs incremental developments and innovations, then it will help in differentiating it from its competitors. This offers a constant round of useful improvements to the consumers, to existing products and to processes and services.

Recognizing the way in which innovation supports economic growth, all around the world many governments encourage investments in research and development projects by allowing companies to claim tax credits for the amount spent on it. It is particularly for technology-driven innovations and developments due to they have felt that the technology innovations are the engine of the economic growth (World Economic Forum, 2012).

Furthermore the organizational culture has also an important effect on management control systems (Henri, 2006). It can help companies to achieve the planned goals. In case of innovative policies, when leaders change the internal

rules of the company, they can modify the attitude and the behavior of the employees. If managers perform it in the right way, then it will definitely lead to an improvement of the firm performance (Rosenthal and Masarech, 2003).

The management decisions should be made on unbiased information. The cost accounting, the financial planning and the return on investment checking should be common tools in decision-making processes. Although, management accounting-, or management reporting systems are not broadly used in small and medium enterprises (Choe, 1996). The lack of these tools increases the risk of bankruptcy, especially in case of startup companies with inexperienced managers.

3 Findings concerning business controlling development and investment profitability analysis

As each of the business development projects have goals which are mainly improving the quality, or increasing the effectiveness, raising the productivity, or reducing the response time, etc.

The main goal of the business controlling development and the investment planning analysis is also to improve the effectiveness of the business by reducing negative outcomes and retaining the benefits.

Based on the economists' opinion, we can state that the overall function of controlling innovation is to reduce the imperfections of the financial market (Piazza, 2010).

So the business controlling development helps us filling the gaps in the products or services available to consumers (U.S. Department of the Treasury, 2009). For example when we are launching a new secure web based payment method, then we are performing a financial and controlling development due to we are simplifying the payment method by reducing the necessary time of the procedure while we are keeping the safety requirements.

In my research I also try to strengthen the following hypotheses with the help of a conducted survey among 38 middle managers and 5 top managers. Based on the received explanation I try answer their reasons as well.

- Hypothesis 1:

The business controlling development and controlling innovation really worth. Their efforts will return on the business performance and it will decrease the chance of bankruptcy.

- Hypothesis 2:

One of the most widely used profitability analysis is the return on investment analysis.

- Hypothesis 3:

Most of the managers prefer to utilize a wider group of simple and easy to interpret performance indicators instead of using one or two complex measures.

But before evaluating the hypotheses let me show an overview about several widely used business controlling methods.

4 Methodology of business performance and investment profitability measurement

Before making a complex development project it is always proposed to perform several evaluations about the expected profitability of the planned project. It is a very important to avoid such development projects which produce loss for the company.

There are several quite useful economic evaluations of investments and company performance measures which can help us in the decision making.

This publication does not intend to present all of the important scientific methods, it just tries to grab and show some of the important indicators.

4.1. Net Present Value (NPV)

The Net Present Value evaluation is an effective method of economic evaluation of investments. This measure shows the difference of the benefits and the costs while considering the discounted values of them.

4.1.1. Calculation of NPV

Net Present Value = Present value of all cash benefits - Present value of all the cash outlays

$$NPV = B - C$$

Where "B" and "C" are discounted summaries of benefits and costs.

$$B = \sum_t \frac{b_t}{(1+r)^t} \quad C = \sum_t \frac{c_t}{(1+r)^t}$$

b_t = all benefits in t period

r = discount rate

c_t = costs in t period (including operation costs)

4.1.2. Evaluation of NPV

The evaluation of the Net Present Value is quite simple. If the NPV is greater than zero then the project is acceptable from profitability point of view. The higher NPV values represent the better investment projects.

4.1.3. Criticism of NPV

It is difficult to interpret the results of NPV. The decision makers will not be able to predict the profitability. From a positive NPV value of a certain investment project we are not able to estimate the planned profitability. Will it cause low, average, or high profitability? We only know that in case of comparing projects the higher NPV value will lead to higher profitability, but there is no clear answer to this question (Flanagan et al., 1989). To see a percentage gain relative to the investments, another measures are used (e.g. Profitability Index) as a complement to NPV.

4.2. Profitability Index (PI) (Benefit Cost Ratio)

For instance, considering 1 million EUR initial investment with 1.2 profitability index the project will reach 1.2 million EUR future cash flows on present value. So the project is worth, and the profitability index tells us clearly how much value we receive per EUR invested. In this example, each EUR invested yields 1.2 EUR.

So profitability index tries to make the Net Present Value more meaningful for the management. It is more popular than the Net Present Value because the Profitability Index is easier to understand.

In general, if NPV is positive, the profitability index will be greater than 1. If NPV is negative, the profitability index will be below 1. The calculation of PI and NPV would both lead to the same decision regarding whether to proceed with, or abandon an investment project. Nevertheless the PI will show us how much we can earn or lose on this project.

4.2.1. Calculation of Profitability Index

The profitability index is none other than the ratio of present value of cash inflows (so the benefits) and outflows (so the costs).

$$R = \frac{B}{C}$$

Where “B” and “C” are discounted summaries of benefits and costs.

$$B = \sum_t \frac{b_t}{(1+r)^t} \quad C = \sum_t \frac{c_t}{(1+r)^t}$$

b_t = all benefits in t period

r = discount rate

c_t = costs in t period (including operation costs)

4.2.2. Evaluation of Profitability Index

If the Profitability index is greater than one then the project is acceptable from profitability point of view. The higher values represent the better investment projects.

The great advantage of profitability index is that it provides an objective framework around which discussion, correction and amendment can take place. Its greatest risk is that hard numbers will tend to drive out soft. Care must be taken that roughly quantified or unquantified effects be given their proper weight. Benefit Cost Ratio is a great aid to discussion and decision, but not as the decision itself (Zerbe and Bellas, 2006).

4.3. Internal Rate of Return (IRR)

The net present value (NPV) and the internal rate of return (IRR) are rival methods. IRR often used in capital budgeting making the net present value of all cash flows from a particular project equal to zero.

Internal rate of return (IRR) for an investment is the percentage rate earned on each EUR invested for each investment period. IRR gives an investor the indicator to compare alternative investment projects based on their yield.

So it is commonly used to evaluate the desirability of investment projects. The project with higher IRR, the more desirable.

4.3.1. Calculation of Internal Rate of Return

The IRR can be calculated by setting the Net Present Value (NPV) equation equal to zero and solving this equation for the rate of return (IRR).

$$0 = \sum_{t=0}^n \frac{CF_n}{(1 + IRR)^n} = NPV$$

CF_n = Cash flow in period n

NPV = Net Present Value

4.3.2. Evaluation of Internal Rate of Return

Assuming that all prospective projects require the same amount of investments, the project with the highest IRR would be considered the most favourable and undertaken first.

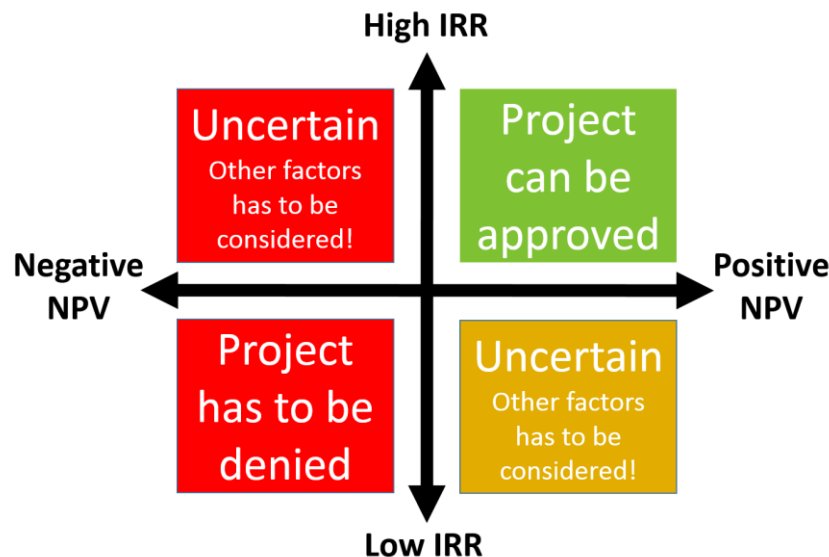


Figure 1
Considering NPV and IRR together
Source: Erményi, 2015

It is very important that only using the IRR in decision making is not enough. We have to consider important key performance indicators together. The simplified figure above shows how IRR can be considered together with NPV when we are evaluating different investment projects. So in case of high IRR and positive NPV values the project can be accepted. The project which is mostly in the top right corner seems to be the best choice.

But it is recommended to evaluate other indicators as well. The higher number of considered key performance indicators gives the better prediction.

4.3.3. Disadvantages of Internal Rate of Return

IRR method should not be used to rate mutually exclusive projects, but only to decide whether a single project is worth investing in. In such cases (assuming no capital constraints) where one project has a higher initial investment than the second mutually exclusive project, the first one may have a lower expected rate of return (IRR), but a higher increase in shareholder's wealth (NPV).

IRR should not be used for comparison of projects with different durations. It can happen that net present value greater in a project with longer duration and lower IRR, than in a similar size project (in terms of total cash flows) but with shorter duration and higher IRR.

IRR overstates the annual equivalent rate of return of an investment projects, which interim cash flows are reinvested at a rate lower than the calculated IRR.

IRR does not consider the cost of capital and may have multiple values in the case of positive cash flows followed by negative ones. In such cases the Modified Internal Rate of Return (MIRR) is recommended, which considers the cost of capital and provides a better indication of project effectiveness.

4.4. Return On Investment (ROI) checking

The possibility of different perceptions of success and failure highlights the importance of ROI for stakeholders and for the management of the corporation (Coombs and Holladay, 2011). Return On Investment is an effective resource yielding concept which gives us a quite helpful performance measure for the evaluation. The ROI does matter to managers and often used as one of the most important key performance indicators.

ROI tries to answer the following questions: Is it really worth? Does it cause any income improvement? Is the innovation concept well balanced?

With the help of the ROI we can evaluate the efficiency of an investment, or we compare the efficiency of a number of different investments. In purely economic terms the ROI is a way of considering profits in relation to capital invested.

4.4.1. Calculation of ROI

$$\text{ROI} = (\text{gain from investment} - \text{cost of investment}) / \text{cost of investment}$$

4.4.2. Evaluation of ROI

ROI provides a snapshot of profitability and it is often compared to expected rates of return on money invested. Normally the ROI is not net present value-adjusted, therefore it is mostly used maximum in two three years period.

Most of the managers (77%) find ROI very useful, which was strengthened by a conducted survey among nearly 200 senior managers (Farris et al., 2010).

The visualization of ROI is very informative, especially when we put it together with the investment related costs and incomes. The interpretation of such kind of graphs are very easy and fast. The manager see at first sight when the investment will show a return. It is the point where ROI curve intersects the X axis.

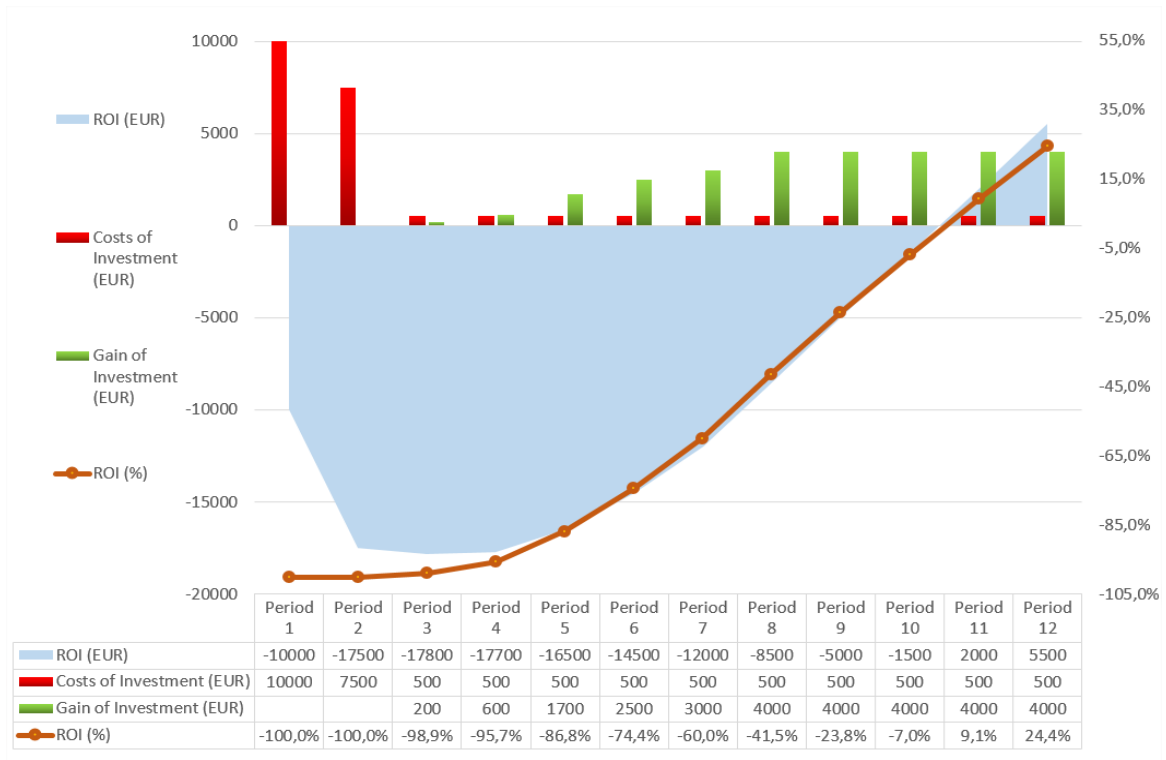


Figure 2
ROI trend analysis
Source: Erményi, 2015

4.4.3. Disadvantages of ROI

ROI - as most of the other indicators - uses expected cash flows. So there are expected costs in the calculation, and the likelihood factor in the returns is not taken into consideration. Therefore in general practice different scenarios are provided, such as best scenario, worst scenario, etc.

4.5. Return On Equity (ROE)

The Return On Equity indicator shows the amount of net income returned as a percentage of shareholders equity. It measures the profitability of a company by revealing how much profit it generates with the money shareholders have invested.

So if the firm takes on too much debt, the cost of debt rises as creditors demand a higher risk premium, and ROE decreases (Randall and Gary, 2006).

4.5.1. Calculation of ROE

$ROE(\%) = \text{Net Income} / \text{Shareholder's Equity}$

4.5.2. Evaluation of ROE

The return on equity ratio is a quite important KPI (Key Performance Indicator) for the shareholders. It does not only provides a measure of the profitability, but also the efficiency of a company. A high, or improving ROE demonstrates that the company uses its investments to grow its business.

Buybacks (when the company repurchases the outstanding shares) will decrease the shareholders equity balance sheet line item, which can throw off the ROE calculation so much, that it can be essentially useless if not misleading when analyzing a company and stock. In that cases there are better metrics including Price per Earnings ratio (P/E), Price to Sales, cash flows and growth rates to use when determining if one should buy a stock (Jones, 2014).

4.6. Debt to Equity Ratio

The Debt to Equity Ratio measures how the organization funds its growth and how effectively it uses the shareholder investments. This financial ratio indicates the relative proportion of shareholders' equity and debt used to finance the assets of the company (Peterson and Fabozzi, 1999).

4.6.1. Calculation of Debt to Equity Ratio

$\text{Debt to Equity Ratio (\%)} = \text{Total liabilities} / \text{Shareholder's equity}$

4.6.2. Evaluation of Debt to Equity Ratio

A high debt to equity ratio shows that the organization achieves growth by accumulating debt.



Figure 3
Debt to Equity trend analysis
Source: Erményi, 2015

Outside investment can greatly increase the ability to generate profits and accelerates business growth, but it can backfire and lead the company to bankrupt. The continuously growing Debt to Equity Ratio can be an alert of that.

4.7. Accounts Receivable Turnover

The Accounts Receivable Turnover indicator shows the rate at which the company collects on outstanding accounts. In case of maintaining a large bill for a customer is something like offering them an interest-free loan. Monitoring this indicator is essential to ensure that accounts receivable is collecting on bills in a timely manner (Albrecht and Stice, 2010).

4.7.1. Calculation of Account Receivable Turnover

Accounts receivable turnover ratio (%) = Net credit sales / Average accounts receivable

4.7.2. Evaluation of Account Receivable Turnover

This indicator can help in understanding the organization's cash flow process.

A high turnover ratio indicates an aggressive collections department, and large proportion of high-quality customers.

Low receivable turnover may represent an inadequate collections function, so a loose, or non existing credit policy. It can also indicate a large proportion of customers having financial difficulties.

Management often interested in the account receivable turnover in days as well, because they want to check the effectiveness of the account receivable collection in days. From such report they can estimate the incoming cash flow delay after sending the invoices to the partners. The collection department is effective in case of low values in days.

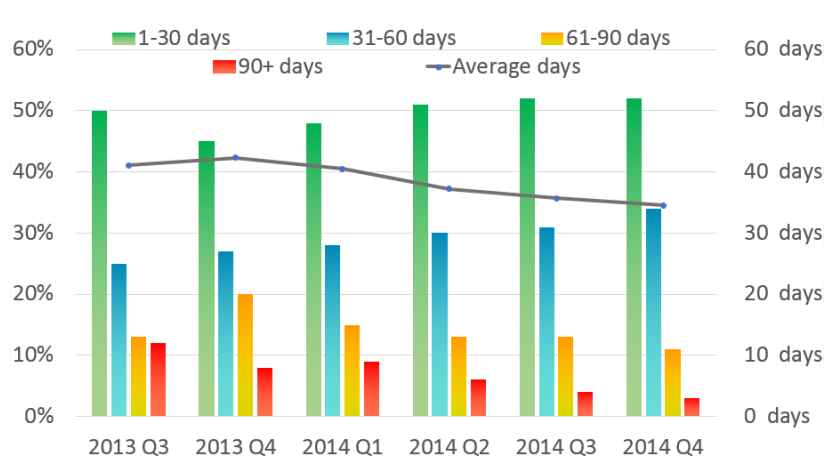


Figure 4

Management report about account receivable turnover in days with trend line

Source: Erményi, 2015

5 Evaluation of hypotheses

The evaluation of the hypotheses will be performed with the help of the conducted survey among 43 managers (5 top managers and 38 persons from middle management). All of them has reported that they are in managerial position for more than 5 years, so we can consider them as experienced managers.

- Hypothesis 1:

At the beginning of this article I hypothesized that the business controlling development and controlling innovation really worth and their efforts would return on the business performance and it would decrease the chance of bankruptcy.

Based on the conducted survey we can strengthen that the efforts of the well implemented business controlling developments - in terms of costs - will return

minimum one and half times in a short term, but maximum in middle term. 81,3% of the responders have stated that they normally expect one and half return of the controlling development cost within two years. 74,4% of the answers have stated that the profitability based investment planning halves the chance of bankruptcy.

This hypothesis is also strengthened by many empirical and theoretical studies as well.

- Hypothesis 2:

Hypothesis 2 has stated that one of the most widely used profitability analysis is the return on investment analysis.

We can strengthen this hypothesis based on the responses, because 69,8 % of the responders answered that the most frequently used profitability measurement method is the Return On Investment. 65,1% has also mentioned that they even prepare company level profit and loss analysis plan for the next business year, in which they consider the ROI estimations. 62,8 % of the ROI measure users even prepare ROI fact reports beyond the ROI planning to confirm their correct planning, or to learn from the incorrect estimation. So we can strengthen that ROI is one of the most widely used key performance indicators.

- Hypothesis 3:

3rd hypothesis has stated that most of the managers prefer to utilize a wider group of simple and easy to interpret performance indicators instead of using one or two complex measures.

The responses of the conducted survey strengthen this assumption, due to 83,7 % of the asked managers prefer to utilize a wider group of simple and easy to interpret performance indicators instead of using one or two complex measures. Most of them (72,1%) have emphasized that they need to check these simple and easy to interpret indicators grouped together e.g. on dashboard reports.

6 Conclusions

This paper considers some of the most important business and investment evaluation methods focusing mainly on operative management level.

Based on many empirical and theoretical studies we can state that the well structured business controlling development and controlling innovation really worth. This was strengthened by the conducted survey among 43 managers as

well, showing the importance of the business controlling and investment profitability planning methods.

So it is fundamental to have an effective controlling. Without strict controlling innovations and developments there is no possibility to survive in the intensified competition. Successful controlling services provide an indispensably required support to managers, especially in times of change (Weber, and Nevries, 2011).

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Risk Management in the Hungarian Grain Trading Sector – the Risk Diagrams

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Abstract: In Hungary, annually tens of millions of tonnes of grain products are sold in commerce domestically and several million tonnes leave the country towards the export markets. The commercial chains dealing with the distribution are organised on the basis of the joint and complex effect of several special risk factors. The commercial chains have to manage the uncertainties of the expectable grain yields, as well as the development of the local demand-offer relations. In addition to this, the development of the local prices is also influenced significantly by the world market price levels and processes. The agrarian policy of the country, as regards the grain sector, defines the fundamentals of the international competitive situation as well as the basis of the development of foreign trade. The individual commercial players are not able to identify the economic risks that originate from this activity and then they are not able to manage these risks appropriately in each case. This study presents a solution for the management of the identified risks and for appropriately supporting the specific commercial decisions by introducing the relationships of these risks.

Keywords: grain trading, risk management, sustainability, risk diagrams

1 Introduction

A significant part of the Hungarian GDP is based on agricultural activities. Thanks to the geographical and climatic conditions of the country, it is a perfect site for agricultural activities and a significant part of its territories are suitable for cultivation. An extensive commercial network, processing industry and logistical chains have been built on the basis of the products of the agrarian sector. The specific crops may be used also as the input materials of several industries. For example from maize it is possible to make food raw materials for human consumption, animal fodder products, but even bioethanol fuels. The raising and processing of grains are often directly connected to each other, through vertically integrated companies, company groups. One group of the companies deals with

farming, another group deals with processing, yet another one with the selling of the processed products. In addition to the integrated companies characteristically there are also companies that are specialised only on certain activities, as e.g. fodder mixers, animal feed producers, food product manufacturers and fuel producing companies. In both cases the commercial process has to manage the uncertainties of the expectable crop yield, as well as the development of the local demand-offer relations. Due to the uncertainties and the unique characteristics of raw material trade special risk factors of several different types may appear in the life of the enterprises of the sector.

2 Performance of the grain sector

When analysing the role of agriculture within the macro economy it can be established that the “agriculture-fishery-forestry” industry produces a significant part of the gross domestic product. The grain sector is an outstanding sector within this industry due to its production volume. The following table summarises the results of this industry achieved in the previous years.

Year	2009	2010	2011	2012	2013
Value, at current price (million HUF)	782,864	809,176	1,106,256	1,088,116	1,098,836
Share (%)	3.5	3.6	4.7	4.5	4.4

Table 1

The gross added value and proportion of the agriculture- forestry-fishery sector within the Hungarian national economy.

Source of the data: http://www.ksh.hu/nemzeti_szamlak_gdp (Date of downloading: 11-03-2015) [5]

The development of the GDP share – especially in the case of the products of the agrarian sector, and within it in the case of grain products – mostly depends from two factors, namely, the volume sold and the unit price of selling.

The output of grain production appears each year on the market unevenly, seasonally, after the period of harvest. The exact timing of the period of harvest is defined in an unpredictable way by precipitation and the weather, thus practically the intervention of mankind has no impact on this. In addition to its unpredictable seasonal character, the quantity of grain products harvested domestically also fluctuates significantly year by year. There is a huge difference between the 10.3 million tonnes of 2012 and the 16.5 million tonnes of 2014. 2012 was the year of least yield, and in the subsequent years a growth may be observed as regards the volumes.

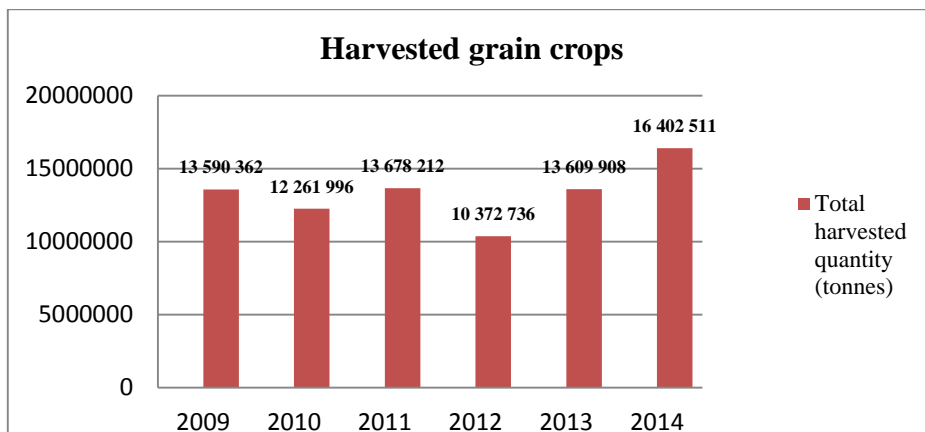


Diagram 1

Quantities of grain crops harvested in Hungary, 2009-2014.

Source: http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_omn011b.html

(Date of downloading: 10-03-2015) [6]

On the basis of the historic data of the Budapest Commodity Exchange the price of maize quoted on the commodity exchange was 61995 HUF per tonne in March 2013, and then the value of the same crop was only 35 918 HUF per tonne in November 2014. A reversed relationship may be observed between the development of the commodity exchange prices and the crop volumes as regards these two years. It can be also well seen that until the harvesting of the crops of year 2013 the weaker yield of year 2012 induced higher contractual prices even during the first half year of 2013.

2013						
corn	March	May	July	September	November	December
	61995	59685	56732	49405	42104	44948
feed wheat	March	May	August	September	December	
	67510	66348	44044	43744	47916	
2014						
corn	March	May	July	September	November	December
	48345	51902	49020	-	35918	38669
feed wheat	March	May	August	September	December	
	53720	52200	43251	41814	45000	

Diagram 2

Historic price quotes of fodder corn and feed wheat on the Budapest Commodity Exchange in Hungarian Forints (HUF)

Source: http://bet.hu/topmenu/kereskedesi_adatok/stat_hist_letolt/gabona_atlagarak/gabona_atlagarak_hist.html?pagenum=3 (Date of downloading: 12-03-2015) [1]

The high level professional specialisation, the seasonal production of the cereals, the time shift between demand and offer led to the development of a rather specialised trade. All the risks of balancing production and processing is often undertaken by a trading company.

Trade is primarily based on feeding, foraging and energy industrial utilisation, but demand also includes a share of unlawfully conducted trade. Significant quantities had been moved and invoiced in a fictitious manner by VAT¹ crooks and business oriented criminal organisations. In Hungary the non-payment of VAT and the hiding of income tax are primary tax evasion methods as regards their volume. The population usually learns of the misuses explored as regards the grain trading sector from news that are widely covered by the press. [9 pp. 103-116]

Naturally the export demands also compete with the local demands. This competition is characteristically generated by the procurement demands of countries that are poor in grain (e.g. the countries of the Near East, some countries of Africa), therefore they may also have a significant impact on the trend of the domestic grain prices. This special economic and market environment and the unique features of the grain sector represent unique risks. It is expedient to explore these risks one-by-one and to summarise the most important aspects and to provide a solution for appropriately managing the related risks.

¹ VAT – Value Added Tax

3 Market pricing

60 % of the world's agricultural crop quantities is represented by maize and wheat. The development of the production of these crops is vital from the aspect of feeding mankind. The prices of these crops are reflected by the quotes of several commodity exchanges. These quotes also serve as reference prices for most of the commercial deals. [13]

The development of the world market prices nowadays already does not refer to a seller and buyer trying to agree in the price of a sack of wheat at a given marketplace. The commodity exchange prices are influenced by several complex factors, which have both physical and speculative aspects. The traditional group of participants of the physical demand-offer relation – for example the farmers, traders, end users – therefore have to face price influencing factors like the commodity exchange positions of different directions and extents taken by pension insurance companies and/or venture capital funds. These participants submit a significant part of the commodity exchange quotes based on different forecasts and management decisions.



Diagram 3

Changes of the wheat prices quoted at the Commodity Exchange of Chicago

Source: <http://www.nasdaq.com/markets/wheat.aspx?timeframe=6y> (Date of downloading: 29-03-2015) [11]

The changes of prices of wheat quoted at the Chicago Commodity Exchange – the commodity exchange that may be considered the reference commodity exchange of North Africa - may be said to have been dramatic during the past five years. From the level of 500 USD per unit it gradually increased to 800-900 USD per unit and then, by today, it has dropped back again to the 500 USD level. This dramatic price movement made farming unpredictable, but the same way the options available to the processing industry also became unpredictable.

Let us put two imaginary straight horizontal lines across the above diagram, the production cost level of two farmers: one at the 500 and the other one at the 800 value. In our example the market occasionally paid even the price of the farmer, whose production cost was higher, but the market price generally moved under the high production cost price during the years.

Therefore the evolution of the commodity exchange quotes influences significantly the pricing options of the grain sector in each given moment. This means that it has a significant impact also on the revenues and expenses of the specific players, independently of their operation costs or operation revenues. This risk may be identified as the market **pricing risk**. This way among the deals taking place between the farmer and its buyer there may be even such transactions in the case of which the buyer gets certain crops at a cheaper price than the production cost of the farmer, because the world market price is lower than the farmer's production cost. In case the farmer at such a moment in time is under the force of selling, it may easily occur that it will realise a certain loss over the complete harvested quantity. However, this is true the other way around as well: if the world market price is the double of the production cost, the farmer will get a significant extra profit without having to take any methodological steps in practice in the interest of increasing its profitability. On the side of the buyer (trader, processor) the given higher price level also means that the financial plans have to be rewritten, the economic activity has to be transformed or even terminated. Market pricing is in close relationship with local demand-offer and the possibilities of substituting the specific products from another market.

There is a kind of foreign exchange risk inherent in market pricing. The prices of the different grain types on the world market are prices that are given in different currencies, while the local grain prices follow the price changes of the crops in the Hungarian currency, in HUF. Therefore the risk of HUF/foreign currency exchange rate is also a part of the risk of pricing. However for hedging this, appropriate foreign exchange market deals may be concluded, therefore the foreign exchange risk may be practically fully reduced – to a level close to zero – with the transaction cost of a foreign exchange coverage option.

4 Liquidity of the market

The agricultural crops get from the lands to the consumers, to the users through a complex value chain, in some cases after several transformations or different logistical operations that are significant even as regards geographical distances. The value chain built on the crops of the country is an integrated part of the world market. On the other hand several dimensions of the local value chain are defined by the current global demand-offer relations, meanwhile the world market trends are also decisively influenced by the local impacts. Such local impacts may be the climatic conditions of the given year, as a result of which the crop yields may change, or the level of development of the local processing industry, or the own market influencing means of the specific countries, which may appear in respect of a given crop e.g. in the form of an export prohibition. These local impacts define essentially or influence the level of the risk carried by the differences of the demand-offer sides, that is, the **liquidity risk** of the given commercial activity projected to the given country or region.

It is generally characteristic of raw materials – therefore it is characteristic of cereals as well – that they are available in large quantities in several points of the world and they may be classified into classes on the basis of certain quality parameters, and within one class the items may be replaced, substituted with one another and purchased.

Liquidity is a property that is characteristic of a given moment and a given geographical area or market. In the course of managing the liquidity risk it is necessary to assess and examine the liquidity of the target market. In connection with the liquidity of the market it has to be examined whether it is possible to trade with the given goods, assets at the currently effective market price, and if it is possible then in what quantities and how fast and with how low transaction costs this may be done. [14 p. 3]

5 Regulatory environment

Hungary joined the European Union (hereinafter referred to as EU) in 2004, and simultaneously with this it also joined the Common Agricultural System. The free flow of goods – including the cereals – transformed the former commercial structures and market relations. With the changing of the commercial environment we also entered the intervention system of the EU that had been created by the agricultural subsidy policy of the European Union. Within the intervention system it was possible to offer certain cereals in significant quantities for intervention purposes that is it was possible to sell the products to the EU – in Hungary as well – at crop prices fixed in advance. This regulatory environment provided a very

favourable situation for the domestic farmers and traders, since in addition to the commodity exchange price for the same product there was another, state guaranteed price as well. This situation completely changed the structures of the specific commercial chains year by year. In the year in which the market price of cereals was higher than the intervention price, the products were sold on the market. When the market price was lower than the intervention price, practically each farmer offered its stocks for the EU intervention.

981 offering parties registered goods for intervention purposes in Hungary in the business years of 2004-2005. If sorted by quantity the first four offering parties represented 21 %, the next 155 represented 55 % and the remaining 822 represented 24 % of the interventions. In this period the number of farmers was approximately 200 000. Based on these ratios it may be said that mostly not the small farmers applied actively for this option, but probably the trading companies were the large offering parties. [3 pp. 51-71]

The items that had been submitted for intervention purposes within the framework of the EU program in the case of Hungarian crops had been stored by the Ministry of Agriculture and Rural Development until the central distribution system of the EU did not decide the fate of the stocks. The stocks had to be stored and the state did not have own storing capacities sufficient for the order of magnitude required as regards quantity. It was characteristic of the stored items that often they had to be stored for longer periods. Therefore from time to time the Ministry rented different agrarian logistical facilities and warehouses for storing the intervention goods. Around 2005, due to the above impacts, privately financed significant crop storing real estate investment were implemented in Hungary, since in addition to normal commercial activity really significant storing demands appeared due to the intervention cereal purchases. This regulatory environment induced a significant number of cereal industrial and logistical investments.

By 2010 due to the problems and contradictions of the intervention system the EU completely terminated this institution system in the case of cereal crops. The regulatory environment changed within a very short time, the significant investments – driven by the intervention – became unfounded, and many of the players of the cereal trade chain ended their activities and were terminated.

The cereal trading regulatory environment changed significantly after this with the introduction of Act CL of year 2010. The law offered exemption for domestic farmers upon certain conditions from meeting their farmer contracts, without any subsequent legal consequence. This law practically eliminated futures trading within Hungary between the market players, because the market players did not undertake the risk that if someone purchased a significant quantity of cereals in advance, their contract may become null and void without any consequence. The domestic cereal trade practically had been transformed into an instant trading

system, in which the farmers could not sell their goods that were still existing on the lands for a later time, however, when all the goods had been grown, similarly to melon, a dumping pricing spiral evolved because of the offer of huge amount of crops appearing at a given time.

The **risk of the regulatory environment** encouraged many market players to review and reorganise their operation model, which in turn transformed the entire market structure. The specific national agrarian policies are able to change the international relations and the conditions of market competition up to an extent that requires that even the analyses of the economic indices of the given area should be done carefully. The identified risk increases proportionally with the speed of the changing of the regulatory environment and the extent of the changes. [4]

6 The volume of a commercial position

During the operation of a company that carries on classical trading activity there may be periods when the company purchases crops in advance or when it sells in advance or when it implements its purchases and sales at the same time. In the first two cases we are talking about taking a commercial position. Taking a position thus has a certain risk, because the crops purchased in advance will be sold only at a later time, and between the two different times – as it could be already seen on Diagram 4 – there may be significant price differences. The multiplication product of the price difference and the volume of goods is the value of the given position. The **volume of the uncovered commercial position** clearly represents a speculative risk. Closing a position or opening a position - depending on the volume - may even become impossible, if the market liquidity of the goods is terminated. In this case the bargaining positions, pricing possibilities become restricted on the market and characteristically the given commercial positions may be closed only with significant losses.

As regards the volumes of commercial positions it is practical to establish internal rules and/or measures along principles defined already in advance, since with these steps the risks of speculative risk exposure may be also mitigated.

8 Partner risk

On the individual contractual deal level of trade characteristically a relation is established between two economic operators. In the course of establishing the relation those cases have to be taken into consideration, when the performance or partial performance of the given commercial partner may be questionable or there is a possibility of faulty performance or signing the deal with the given partner may have other harmful impacts for the company. The risks of this type are jointly called the **partner risk**.

During the assessment of the partner risk the primary task is to examine the given partner from taxation aspects. Partners that are not immaculate from taxation aspect carry not only the risk of the faulty performance of the contract. In the course of the investigation procedures of the tax authority in the case of the issue of a criminal act any economic organisation that is or has been in contact with companies of doubtful backgrounds may expect that they will have to meet significant data service obligations during the execution of the investigation procedure. If at the partner company the suspicion of the criminal act is verified, a company that assessed its partner wrongly - and practically participated in the line of activities of the organisation or organisation chain that implemented manipulations for the purpose of tax evasion - may easily be involved in trouble. The due diligence examination and selecting the partners from this aspect is in the elementary interest of each honestly operating economic operator. In addition to representing a company risk, the risks of this kind do also have an impact on the entire national economy, since these tax evading activities are often committed with involving an especially high amount of money, which by causing a lack of central budget revenues have a multi-layer and negative impact on the structure of the budget. [8 pp. 185-201]

In the interest of reducing the performance risks associated with the partner it is practical to sign the contract within regulated legal frameworks that provide guarantee for the financial compensation of a possible non-performance. In this regard the best regulated trading option, which practically provides complete security from this aspect, is trading at a commodity exchange. On the basis of the rules of the specific commodity exchanges the consequence of the impact of a faulty performance may be defined in advance. In this case legal liability, the process of indemnification and the accounting of performance if partial performance is done or performance is done at another parity are exactly defined.

If the trading partner does not trade within the frameworks of a commodity exchange, because the business requires other frameworks, certain guarantees may be provided by the legal background and the content of the contracts concluded by the trading partners. In the course of signing an international contract the parties may sign as the legal mandatory rule as the legal background the provisions of the

so-called GAFTA² collection of legal provisions, provided the contracting parties are members of the GAFTA organisation. This special legal institution optimised for cereals trade has even its own court body, which in the case of a dispute after a legal procedure that corresponds to the Anglo-Saxon law – on the basis of examining the documents, establishing guiltiness, providing the detailed reasoning of the decision based on the specific GAFTA articles – issues an award that is binding for the contracting parties. Therefore it is worthwhile to reconsider the legal background of the contract that is to be signed from the aspect of managing the partner risk.

If the legal frameworks do not allow the application of other institutionalised frameworks – for example a Hungarian trader signs a contract with one from Egypt – the incorporation of delivery and payment collaterals remains the only method that is available for avoiding the big surprises, which occur when the partner does not pay for some goods due to a complaint that is created subsequently. For these cases with the involvement of independent bank contributors, different credit letter document forms are used, the so called Letters of Credit. In the case of a Letter of Credit, prior to seller delivering, the buyer has to deposit the purchase price at a bank. The bank has to hand over this letter of credit to the seller, which letter guarantees that after the presentation of the delivery documents and certain quality documents the purchase price will be disbursed by the bank to the seller. [2 p. 25]

In the most risky case the buyer transfers cash in advance or the seller delivers the goods without coverage. In these cases there is no coverage at all for inappropriate performance, the risk depends on decision of the courts made on the basis of the contract according to the decision making practice of the courts of the given legal environment.

7 Financial planning

„Is it possible to drive a car on a motorway with the driver glancing on the road ahead only in each two minutes, while the driver navigates himself with the aid of the rear-view mirror? At many companies even today they consider this method of driving to be natural.” [10 p. 7]

It is essential for the company to elaborate a strategic financial plan, which on one hand defines the major development directions of the company and on the other hand which provides the frameworks for short term planning as well

² GAFTA acronym represents: Grain and Feed Trade Association, www.gafta.com

In the course of the operation of the companies of the cereal trade sector it is very important to have adequate financial planning and to identify the imminent risks of the plan. Due to the value and quantity of cereals characteristically the trading process may be sustained only with a significant capital demand or resource involvement, the financial planning or faulty planning of which basically defines the operation uncertainties, financing capabilities, growth possibilities of the specific participating parties. **The risks of financial planning** include the development of the relevant cash-flow situation, the possibilities of involving and using resources, the management of receivables, and ensuring the liquidity of the companies. In cereal trade there are special solutions also available for ensuring the liquidity of the company. These solutions may be letters of credits, public warehouse warrants given under the coverage of the crops, with the aid of which the enterprise possessing the crops or trading with the crops, may obtain outside funding even in the case of a possible lack of liquidity without involving or mortgaging any other assets. [7]

9 Risk diagrams

In the decision making process of the trading activity even the strategic decisions are made within a short term. Depending on the size and structure of the specific companies the management of their strategy may change, however it is absolutely essential to examine and to take into consideration the market signs and signals for elaborating a successful strategy [12 pp. 76-79]

During the development of the strategy questions similar to the following ones have to be answered: In what period should we trade? In which market should we trade? What trading positions should we sustain in the specific markets and countries? In the course of the decision making process exploring the above named risks, integrating them into a system and their visual presentation are helpful means. The risk diagrams provide solutions for the overall risk analysis of the different market segments, and with taking into consideration the aspect systems it is possible to select the markets that meet the risk undertaking policy of the company, where trading deals may be signed.

The **risk diagrams** contribute to trading enterprises doing their business activities in a sustainable manner. The areas of the circles correspond to the magnitude of the identified risks. The aggregated risks will be the risks of sustainable trade defined for the given market. In the following the risk diagrams of two different market segments are presented as illustrative examples. If the evaluation of the individual risks is prepared, then viewing the aggregating circle it is possible to read the risk of the given segment at the given time. With the aid of this tool in the course of decision making it is practical to focus bigger sources on the market, where the risk

of sustainable operation is smaller, or smaller with an order of magnitude than on another target market.

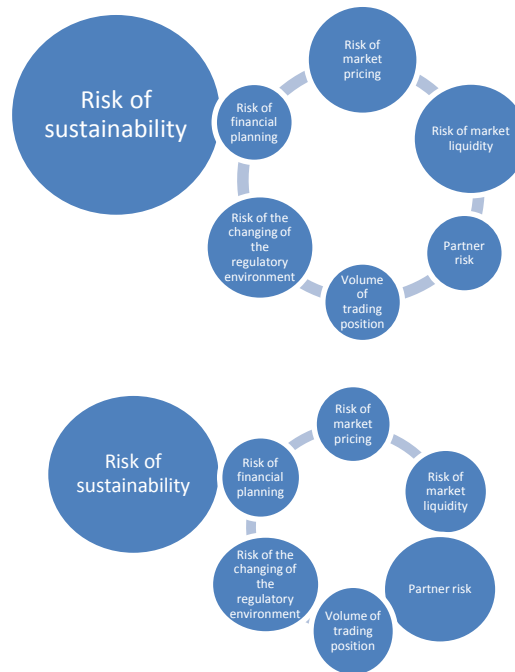


Diagram 4

Risks identified for two sample markets of grain trade. Diagrams made by the author.

Naturally the diagrams are suitable for mapping a given period of time. It is possible that the risk factors will change even within a short period, and due to this after evaluating the market signals and information in case there is a signal that indicates a change, it is practical to modify the risk values, because together with this the sustainable value of the trade of the given market will be also modified.

10 Summary

Within the grain sector several companies of ten billions of HUF turnovers and with long tradition disappeared, became bankrupt practically at a glance after Hungary joined the EU. The changing, reshuffling of the market relations is going on even today.

The main reason of reshuffling is the fact that the companies disregard the risks inherent in the trading mechanisms of cereals, as raw materials. Disregarding the trading risks or using inappropriate management methods for eliminating them makes the operation of the given company impossible, and in the worst case it causes significant losses and leads to the termination of the company through bankruptcy.

The grain trading sector in Hungary as a player of a complex market structure has been able and is able to produce significant results, provided in the course of the trading activity the individual companies define as the top priority target of their strategy the implementation of sustainable operation. Sustainability requires permanent market monitoring, adaptive strategy making processes, fast reaction and appropriate preparation from the participating parties.

The risk management system recommended provides a simple, but nevertheless effective means for the decision makers in order to be able to implement their activity with an appropriate and accepted risk level. In addition to this it may serve as a starting out point for further, diagram based risk research that is based on quantitative methods. By examining the risk judgement and decision making of the different sized and structured companies it will be possible to define the risk levels that are characteristic of the individual groups of the domestic grain trading sector.

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Employee Benefits a Slovak-Hungarian Comparison

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Abstract: The aim of this study is to compare Hungary and the Slovak Republic in terms of employee benefits in practice. The study provides a brief introduction to both the fixed and flexible forms of employee benefit systems as well as to their legal environment. Our empirical conclusions are based on the results of a survey conducted among 420 Hungarian and 126 Slovakian employers in the year 2013. In the course of our investigation we studied the practice of fixed and flexible benefits in compared countries, as well as the organisational specifics of cafeteria system usage. Topical issue of the study is the way of operating a cafeteria system at today's rapidly changing environment and that's impact to the financial framework of cafeteria systems. Above all we've investigated the probable future of benefit systems by seeking the willingness of employers with no experience to launch cafeteria. The findings of the study suggest that the different tax regimes are responsible for the major employer-related differences in the ways in which the two countries provide benefits in kind – that is, non-financial benefits to their employees.

Keywords: Employee benefits, Cafeteria plan, Taxation, Comparison, Hungary and Slovakia

1 Introduction

Company leaders planning for the long term recognised long ago (in the era of classic capitalism, in fact) that Human Resources are the only resources which offer sustainable competitive advantage [5]. In today's relatively unstable world, we can detect a strengthening of the opinion that companies can best be judged in terms of their behaviour towards their employees [1], and an old business maxim also says that only employees who themselves are well treated will treat the customers well. It is, of course, important to acknowledge that this aim can most

easily be achieved by creating a motivating working environment and a pleasant and flexible organisational structure, all of which enables employees to produce their best [1]. It is not always easy, of course to meet this requirement and especially in times of economic recession. Many professionals believe that the simplest solution to such a situation is to cut employee benefit packages by at least 10-15%, although this is probably not a productive way of solving financial difficulties [2]. Several research projects have shown that, due to the economic crisis, the motivation of people has significantly changed. Many of the 'winners' in the pre-crisis era suddenly became 'losers'. The ground fell from under their feet. However, a good number of employers also think that, in a time of recession, reasonable benefits play an important role [9].

Recognising the value represented by employee benefits is, in fact, of increased importance in complicated situations such as those recently experienced. The value of benefits received is often underrated by employees, but this perception needs to change and the effectiveness of benefits to be clearly shown [3].

The category of 'employee benefits' comprises the whole range of non-wage 'reward tools', including those quite unrelated to performance, and there is, in fact, no company which does not provide some benefits to its employees. The three most important types are, firstly, mandatory or compulsory benefits, whilst a second group - also serving the employer's interests - improve the living or working conditions of employees [19]. The third are distributed on the basis of the social needs of employees. One strategic issue of the reward system is the decision making process involved in providing employee benefits. The possibilities are:

- a fixed system – in which the benefits are identical for all employees,
- a flexible system – which permits some from several forms of benefit.

Traditional reward systems have a fixed character, in that they offer similar benefits to everyone, even if, perhaps, subject to a value- or quantity determining formula. Administration is relatively simple, but the system itself is quite inflexible.

The 'cafeteria' model is one of the newer solutions in the field of reward management; it originated in the USA, although by now it is used worldwide. The system was launched in 1400 organisations at the end of the '90s [8]. The greatest success in Europe was achieved in the UK, but, due to taxation rules in Germany and Austria, the model is relatively little used in these countries [12].

Suitable for everybody' is the essence of the cafeteria model, 'a self-service system' in the words of [19]. There is a 'menu' detailing what benefits are offered by the employer and at what price, together with the total amount of money available. This gives the employee the opportunity to decide for himself what he would choose as a benefit. Within the framework of Cranet (the international HR

research network) we had - among other things - been studying the use of flexible benefits in respect of 6258 organisations in 30 Central East European participating countries. [4] The results of the survey reveal that flexible forms of a reward system are found in all the countries examined. An analysis of some employee segments shows that flexible benefits are most commonly found in relation to heads of companies (36.6%), followed by professionals (31.8%), administrative staff (28.0%) and manual workers (20.1%) - although these proportions are no longer so clear [16; 4; 6].

2 The Cafeteria system in the countries studied

2.1 Employee benefits in Hungary

The Cafeteria system evolved in Hungary in the 1990s as one of the visible features of globalisation, but based mainly on French and American experience. The regulations then in force provided a very favourable environment for both employers and employees for almost 15 years. Due to these supportive conditions, reward systems based on flexible choice were introduced in many foreign- and domestically owned companies, as also in the whole of the public sector, even though flexible systems are not as popular in SMEs [14]. On the basis of our earlier experience at the end of the first decade of the new millennium, the popularity of the cafeteria system in domestically owned firms was virtually identical to that in US owned entities [8]. The system is much more popular in Hungary than in its largest FDI provider, Germany [11].

A characteristic feature of what we term the 'Expansion' phase is the rising number of tax-free benefits as well as the growth in the value of benefits. Changes in tax regulations in 2006, however, set a limit to this favourable situation. The Ft 400.000 (3.300 Euro) limit to the total amount was introduced in that year and remained in force until 2008. A further feature of the expansion period is the tightening of rules relating to benefit administration.

The number of tax-free benefits was dramatically cut in 2010. Previously popular benefit items were first taxed and then subject to a Health Insurance contribution. Benefit-related deductions amounted to 25% in 2011, to 30.94% in the following year and then to 35.7% in 2013 [6].

2.2 The situation in Slovakia

Although the levels of tax and other deductions are far lower in Slovakia than in Hungary, the contributions paid by the employee are classified as Health and Social Security Insurance. Compared to his counterpart in Slovakia, the Hungarian employee sees the state take a significant part of his gross income, with medical and social insurance for the good of the employee representing merely a small part of the amount. Nevertheless high tax rates encourage employers to pay some part of all wages and salaries in the form of tax-free or preferentially taxed benefits.

Certainly the Slovakian employer also provides benefits to employees, but these differ from those used in Hungarian practice. The great majority of employers in Slovakia provide fixed benefits, mainly forms of benefit which are linked to the company profile or to the position of the employee. The most popular benefit items in Hungary are various types of voucher, whilst in Slovakia the benefits most often provided are mobile 'phones for private use, educational courses (mainly language courses), discounts for company products or services and supplementary medical, life and pension insurance.

With the arrival of the recession, issues related to the reward system became matters of dispute. According to the press release publicized by SODEXO, the food management company, in 2009, food vouchers are the most frequently provided benefit items in Slovakia [20; 17].

3 Benefits – flexible benefits Hungary vs. Slovak Republic 2013-2014

The following part of the study reflects the research which we carried out in Hungary and Slovakia during 2013-2014.

3.1 Hypotheses

In the course of our investigation we searched for confirmation of the following hypotheses:

- H1: Flexible solutions are more typical in large firms. This was determined by reviewing the literature which says that reward systems used by employers vary according to the size of a company. Using professional employee motivation tools is more common in larger than in smaller enterprises [21].

- H2: Foreign owned firms offer both more and more varied benefits than locally owned firms. This is based on the concept which supposes that the form of ownership and the entity of the owner have considerable influence on the HRM practice of the company [10;15].
- H3: The design features of a cafeteria system are very similar at different employers, regardless of company size and form of ownership. Other research has concluded that HRM practices used to alleviate the effects of the recession in firms in Central-East European countries are very similar [7].

3.2 Research sample

Our research was carried out with the participation of 420 Hungarian and 126 Slovakian employers. The main features of the two samples are as follows:

- Form of ownership: In these terms there are no significant differences between the two countries. The majority of participating organisations are domestically owned: specifically, 70% of the Hungarian and 68% of the Slovakian respondent organisations are locally owned.
- Size: SMEs (Small and Medium Enterprises) dominate in both samples. 48% of Hungarian and 57% of Slovakian respondents belong to the SME category, with almost one-third of the Hungarian and 15% of the Slovakian sample being large enterprises.
- Sector [field of operation]: The overwhelming majority of organisations participating in the research operate in industry, trade or services. In terms of the sector in which participant organisations operate, there are no major differences, although the proportion of companies in trading, agriculture or the public sector is a little higher in the Slovakian sample and higher in the Hungarian sample in the financial sector.

3.3 Survey results

85% of the responding organisations in the Hungarian sample used employee benefits in their reward policy in 2013, and only 5% noted that benefits were not given to all employees. The available amount of benefits is uniform in the case of all employees in 55% of participating organisations in Hungary. Due to legal requirements, all employers provide benefits to their employees in Slovakia, but these vary over several groups of employees.

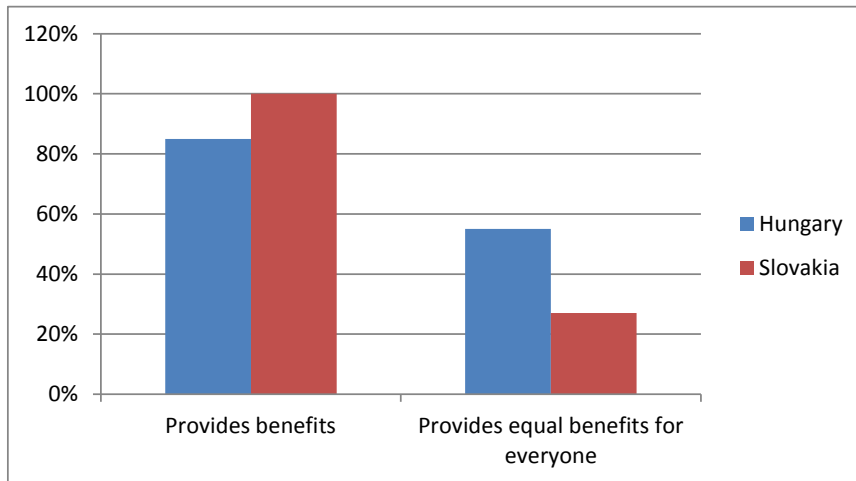


Figure 1
Proportion of organisations giving benefits/giving equal benefits to all
Source: Authors' own research

Flexible benefits are very popular in Hungary, where 74% of employers have used the cafeteria system as a reward tool. 49% use both flexible and fixed benefits and 51% use the cafeteria system only. Flexible solutions are not popular in Slovakia where only 19% of respondents have used it.

The proportion of organisations providing optional benefits is in direct proportion to the size of organisation. The breakdown of participating companies in the Hungarian sample using the cafeteria system shows 34% of microenterprises, 63% of SMEs and 79% of large enterprises. This has its parallel in Slovakia, where 35% of SMEs and 43% of large enterprises offer a flexible choice of benefits, with 100% of responding micro-enterprises providing only fixed benefits.

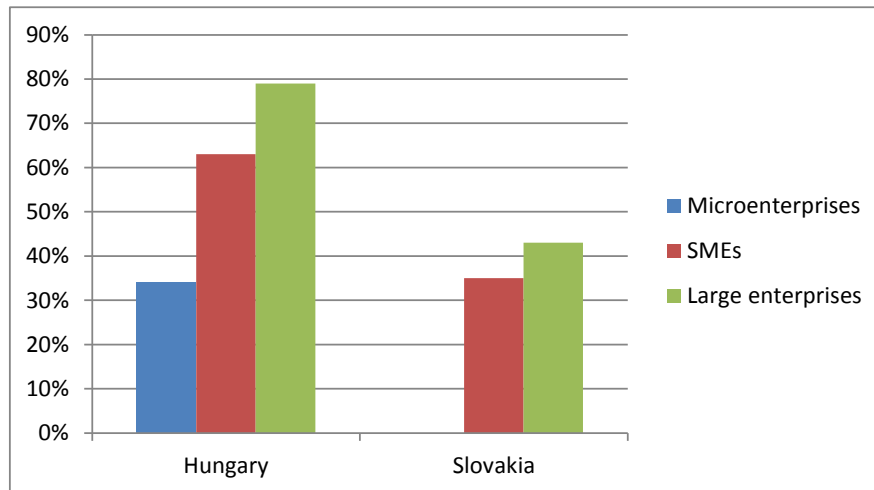


Figure 2
Organisations using a cafeteria system by company size
Source: Authors' own research

The majority of respondents in Hungary offer 5-10 benefits, 11% offer 4 or fewer, whilst 32% offer 11 or more. The average number of optional benefits in Slovakia is 4, whilst in relation to fixed benefits the average is 8. The average number of optional benefits in partly or wholly foreign-owned organisations is higher in both samples than in domestically owned entities. The features which companies take into account in their reward packages have various levels of importance, and employers naturally find some more important than others. Respondents from the Hungarian sample noted the strengthening of employee loyalty and the optimization of wage costs as the most important factors when devising their cafeteria system. Slovakian respondents think that the most important are enhanced employee satisfaction and employee motivation.

The Chi squared test shows no significant relation between the design features of a cafeteria system, the form of ownership and the size of the organisation. The value of Cramer's V coefficient verifying the intensity of the relation is between 0.13 and 0.18 in respect of the form of ownership and between 0.14 and 0.21 in respect of an organisation's size - which indicate a weak relation in terms of both factors.

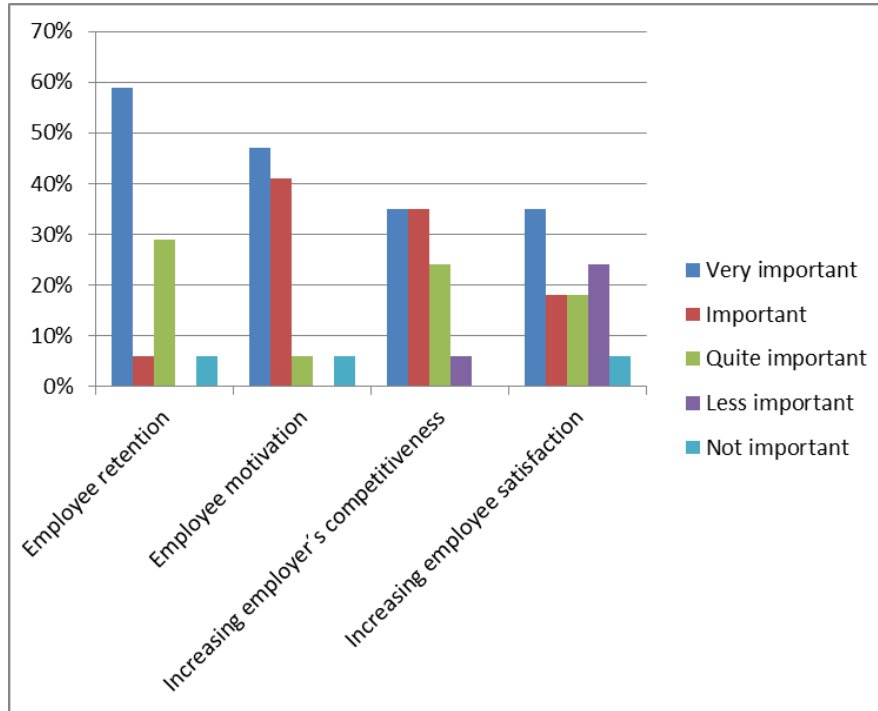


Figure 3

Most important design features of the cafeteria system - Slovakia

Source: Authors' own research

The opinions of Slovakian respondents relating to the design features of cafeteria systems is related to neither ownership form nor company size, and Cramer's V coefficient values are close to zero for both. Since the number of organisations providing flexible benefits is too low in the sample, the figures in this case were based on the answers of all respondents actually providing benefits.

4 Conclusions

Our examination of established reward practice in Hungary and Slovakia revealed both differences and similarities. The reason for the differences could lie in the differences in labour law in the two countries, whilst the similarities are produced by the identical interests of the employers. Some of the benefits in Slovakia are prescribed by the Labour Code, as well as the creation of the so-called Social Fund, which serves as the 'financial watchdog' for benefits. According to the Personal Income Tax Act, all income is taxed at the same rate, regardless of its

character or regularity. The taxpayer is the one who receives the income. (The Income Tax Act, however, provides multiple tax exemptions).

Although the Hungarian employer is not bound to provide benefits to employees, a great number of employers do so. According to the Hungarian Income Tax Act, income tax is paid by the employer also, but tax rates are more favourable in respect of benefits than in the case of income paid in cash. The greatest influence on employers in decisions regarding their own reward policy is the pressure to meet legal requirement, and so the main factor determining reward practice in the country is the legal environment.

85% of Hungarian respondents provide benefits to their employees, and more than half of these treat all employees equally. Slovakian employers, on the other hand, mainly provide benefits to different groups of employees, and only 27% do so on an equal basis. In terms of use and frequency of use, we can also find significant differences between the two countries. Many of the organisations providing benefits in Hungary offer a free choice among benefits, and 74% of Hungarian respondents operate a cafeteria system.

Most of the benefits provided in Hungary comprise vouchers and electronic cards which are recharged monthly with specific sums of money. The cafeteria system is not as popular in Slovakia, and the majority of employers provide only fixed benefits. These generally vary for different employee groups, but the most common in Slovakia are food vouchers, travel allowances and protective clothing, all of which are mandatory, and prescribed by the Labour Law.

The hypotheses proposed earlier in this paper require us to compare features of employee benefits found in the two countries.

- In the first hypothesis we contended that flexible solutions are more typical of large firms, and the results of our survey confirm that the use of a flexible system is directly proportionate to the size of a company. This applies to both countries.
- The second hypothesis suggested that foreign owned firms generally provide more benefits than those domestically owned. Our survey showed that the average number of optional benefits in Hungary provided by domestic companies is 7, whilst foreign owned companies provide 10. This difference, however, is much weaker in Slovakia, where the average number of benefits offered is 4 at local and 5 at foreign owned firms. In respect of fixed benefits the figures are 8 at domestically owned and 11 at foreign owned firms.
- Our third hypothesis held that the design features of cafeteria systems are very similar when used by different employers, regardless of the size or form of ownership of the company. The Chi

square test has proved this, the value of Cramer's V coefficient showing a weak relation with the two factors examined that is, with the size and form of ownership in both countries.

Hypotheses	Accepted	Partially accepted	Not accepted
H1	√		
H2		√	
H3	√		

Table 1
 Hypothesis validation
 Source: Authors' own research

The Cafeteria has become the prevailing tool of employee motivation in countries where, due to taxation rules, employers are able to realise savings whilst at the same time providing benefits. In this case benefits are not limited to one group of employees, but every employee has a certain part of his wage or salary in the form of a non-financial benefit. Since Slovakian employers are unable to reduce their tax bill by providing employee benefits, they provide benefits solely only to motivate employees.

5 Limitations and future plans

Although we would not claim that either the global sample or its individual components are truly representative in every way of Hungarian and Slovakian enterprises, among the respondent organisations we have met companies whom we might describe as resolute and purposeful, and, based on their responses, whose changes and practice in the field of reward management would be well worth studying. We also consider it worthwhile to continue our study, especially in relation to the cafeteria system. We plan, therefore, to carry out further research during the course of next year - hopefully with the participation of more organisations. We shall focus on:

- fixed benefits,
- flexible benefits,
- organisational specifics of cafeteria system usage,
- the financial framework of cafeteria systems,
- operating a cafeteria system in a changing tax environment,

- the willingness of employers with no experience to launch a cafeteria system,
- the future of benefit systems.

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Cultivating Applied Competences Through Mission-Based Learning

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Abstract: The aim of this paper is to explore the implementation of a business-oriented and experience-based learning environment and its effects on cultivating responsibility among students in the field of economics. The main proposition states that by providing students the opportunity to experience different professional skills as data collectors, researchers and decision-makers could establish a solid background for raising their responsibility. Our intention is to offer a coherent framework that is student-oriented and makes use of active-based learning with implementation of research methods to support academics in encouraging student active participation. To meet these goals, a longitudinal study was conducted. The results were used to identify the layers and the structure of the Reference Framework for Applied Competences (REFRAC). The background layer which correspondes to carrer-sustaining curriculum planning level was tested using different learning methodologies.

Keywords: higher education, responsibility, applied competences, REFRAC

1 Competences, responsibility and learning: is it possible to integrate them in a coherent framework?

This paper begins by outlining the importance of development education through experience-based learning environment within Higher Education (HE). The author's primary goal is to develop a methodological business-oriented and evidence-based learning environment which will provide students the opportunity to experience different professional skills as data collectors, researchers and decision-makers. The overall intention is to offer a coherent framework that is student-oriented and makes use of active-based learning with research methods implementation to support academics in encouraging student active participation. To meet these goals, a longitudinal study was conducted. The results were used to identify the layers and the structure of the Reference Framework for Applied

Competences (REFRAC). The background layer which correspondes to carrer-sustaining curriculum planning level was tested using different learning methodologies.

1.1 Defining competence and competency

There are many definitions of competence and competency depending on how the concepts are used and the context where they are used. Indeed, early on in the defining of competence, it was believed that clearly defined competences would systematically insure effective performance [1]. In fact, many different definitions have been proposed resulting in a wide range of frameworks and definitions in the literature of various fields. For instance, Mirabile [2: 74] defined competency as “a knowledge, skill, ability, or characteristic associated with high performance on a job, such as problem solving, analytical thinking, or leadership”. Some definitions of competency include motives, beliefs, and values. Competencies that reflect motives, beliefs, and values can turn into a list made up of personality traits and deeply held values, and imply a selection strategy, not an education strategy [3]. Parry [4] expanded on this by stating that identifying certain traits and characteristics might be helpful to recruiters and interviewers, but it is not the trainer’s job to assess or develop them. The debate around competence vs competency continues but it is out of the scope of present paper. As a result of a previous research work [5] the author defines “applied competences” as a synergetic combinations of 1/ socially responsible market behaviour of the managers 2/ based on the implementation of professional knowledge, skills and experience which are 3/ affected by social relationships, values and attitudes.

1.2 Experience-based learning

In terms of education, there is increasing consensus [6, 7, 8] that beyond knowledge and skills training, learning process should emphasise on the following: (1) developing a mindset which is global; (2) working through a model of cross-cultural reconciliation; and (3) emphasizing “relational” skills. This involves, in the filed of economics education: (1) providing knowledge about other cultures and the value assumptions which underlie their business practices; (2) concentrating on the context of business today, which is the pressures, constraints, and opportunities of doing business in global markets; (3) at the individual level, assessing the extent to which the individual is sufficiently flexible, adaptable, and open to “other ways of doing things” besides those of his own culture. Under these conditions teaching is not merely a way of “covering the curriculum” or transferring the knowledge directly from the ‘expert’ to the learner but a way of encouraging innovative thinking, creativity and responsibility for the decisions which are taken.

During the years several learning methodologies have been developed to support more student centered way of teaching. They have different names but in fact are based on a similar approaches such as participative learning methodology (PLM), peer teaching, active learning, group work, co-operative and collaborative learning to mention a few [9]. Active involvement of the student in almost every activity of the education process could be outlined as their common feature. These methodologies share core values and approaches such as equalitative and inclusive learning, student centered methods, development of critical thinking and interpersonal skills, linking of concepts and ideas with 'real life' situations and independent and life-long learning. However, students are not keen to be actively involved into the learning process as participants. Many of them prefer to be viewers. Cutts et. al [10] report that students often share the 'Didactic Mindset' with their teachers expecting that "in-lecture material simply needs to be covered by the teacher and their role is one of transcription". This situation reflects the traditional teaching model which has positioned students as passive receptors into which teachers deposit concepts and information.

Research suggests that students must do more than just listen: They must read, write, discuss or be engaged in solving problems [11]. Further, students must be engaged in such higher-order thinking tasks as analysis, synthesis, and evaluation, to be actively involved. Thus strategies promoting activities that involve students in doing things and thinking about what they are doing may be called active learning. Performing these activities especially in a team environment forces students to take a responsibility for their decisions.

The distinguishing feature of experience-based learning (or experiential learning) is that the experience of the learner occupies central place in all considerations of teaching and learning. This experience may comprise earlier events in the life of the learner, current life events, or those arising from the learner's participation in activities implemented by teachers and facilitators. A key element of experience-based learning (EBL) is that learners analyse their experience by reflecting, evaluating and reconstructing it (sometimes individually, sometimes collectively, sometimes both) in order to draw meaning from it in the light of prior experience [12]. This review of their experience may lead to further action. Boud, Cohen and Walker [13] identified the following set of assumptions which are fundamental for EBL: 1/ Experience is the foundation of, and the stimulus for, learning; 2/ Learners actively construct their own experience; 3/ Learning is a holistic process; 4/ Learning is socially and culturally constructed; 5/ Learning is influenced by the socio-emotional context in which it occurs. EBL appears to demand that the following three factors must be operating at some level. First, the involvement of the whole person, incl. his/her intellect, feelings and senses. Second, recognition and active use of all the learner's relevant life experiences and learning experiences. Third, continued reflection upon earlier experiences in order to add to and transform them into deeper understanding.

1.3 The concept of Reference Framework of Applied Competences (REFRAC)

The author started to develop REFRAC (Reference Framework of Applied Competences) based on the following concepts and models: learning through relationships, experience-based learning, education as a transformational system and the paradigm for educational quality as a professional-creative process. The concept of REFRAC was built on the assumption of education as a transformative process with its three particular outputs (knowledge, skills and values) which, when linked together, lead to sustainable competence in any professional setting. None is independent of the others, and it is the interaction among these that leads to sustainability of learning within the profession and competence development. Each domain is, of course, a major field of professional enquiry and action, and its details and form vary from profession to profession.

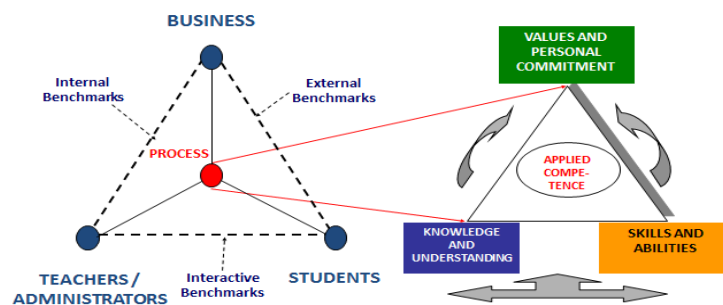


Figure 1
REFRAC conceptual model: static view

As a whole system the three different perspectives on the learning process (teachers and administrators, students, and audience such as policymakers, parents, communities) have their own benefits and standings and also interact with one other continuously. The three major components of this transformative process (presented by the red spot in the middle of the pyramid on Figure 1) are (i) inputs to the system, (ii) the system itself, and (iii) the outputs to the system.

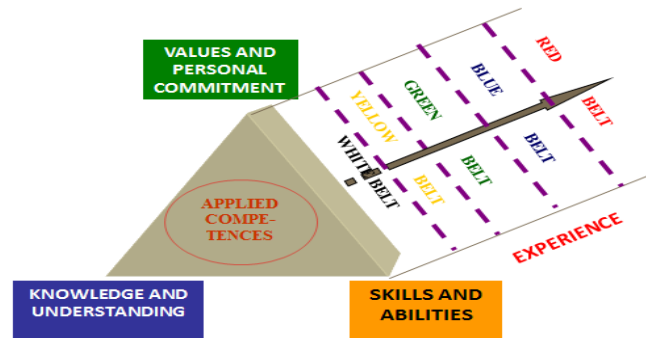


Figure 2
REFRAC conceptual model: dynamic view

The inputs to the system are the students, faculty and staff, funding, facilities and the goals of the university. These could be grouped further as human, physical, and financial resources. The system itself is created and controlled entirely by the elements that compose the system, regardless of the inputs, with some measurable points within; namely, training of personnel, teaching methods, learning, advising, counseling, tutoring, evaluations, infrastructure, etc. The system outputs refer to the product that is generated within the system which include tangible outcomes, intangible outcomes and values.

2 Research methodology

The research is longitudinal by its nature. It is conducted every academic year starting from 2009 using similar research tools but in a broader scope. Both qualitative and quantitative methods were employed. The field work for present study was done for the North-Eastern Planning Region in Bulgaria both for companies and for the HEIs during the academic year 2013-14.

2.1 Qualitative stage

The qualitative analysis is based on the law of requisite holism [6] and the Senge's concept for learning organisation [14]. Dialectical systems theory was applied to REFRAC in order to find out the interrelations between different actors and stakeholders in education process in the field of economics as well as to identify their contribution to the learning process. TQM tools such as 6 sigma approach and 5S method were applied during the process of REFRAC development and validation.

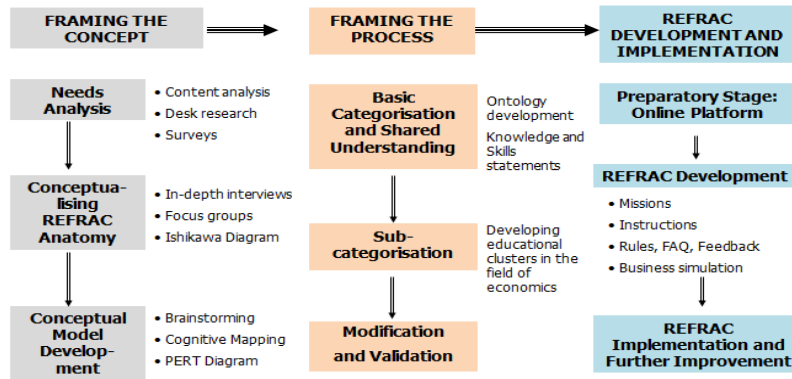


Figure 3
Research methodology

The qualitative study involved in-depth interviews with experts, marketing managers and CEOs, focus group discussions with students, and content analysis to identify the key areas for professional capacity building. Ten in-depth interviews were conducted with experts from the National Network for Competencies Evaluation. Five in-depth interviews with marketing managers and CEOs were conducted followed by two sessions of brainstorming. Four focus groups were undertaken with students. Two groups were used for students participating in the Marketing Bachelor programme at the University of Economics-Varna, and the other two groups were facilitated with Master students at the same university. Content analysis was performed for job announcements in specialised press and online job market. As a result a draft conceptual model in a form of Ishikawa diagram was constructed. The model has been “fine-tuned” during a series of workshops with academic teachers, students, business representatives from different industries and experts (Labour Associations, Industry Associations, etc.). During the workshops it became clear that one of the major obstacles to the integration of experience-based and business-oriented education into the higher education curricula was the issue of passive reflection-based teaching approach.

2.2 Quantitative stage

Presented research is a part of a longitudinal study conducted during the period 2006 – 2014. The longitudinal study was planned as a 3-staged research process with a goal to develop a completed QMS framework for the University of Economics-Varna. The accomplishment of the first two stages gave as a result a draft of the university QMS. The research goal of the stage next to the last was to provide a framework which permits to embed research and business activities

within learning outcomes as well as to test it for the students studying marketing speciality. Two types of questionnaires were developed. The goal of the pre-measurement stage was to evaluate students' expectations and attitudes toward learning process. The aim of post-measurement stage was two-fold depending of the year of study. For the 2nd and 3rd year students the objective was to evaluate their perception and satisfaction from the teaching tools and assessment methods as well. The research goal for the graduates was to determine the perceived importance of achieved marketing competences and the level of acquired marketing knowledge and skills [15]. The last stage included two surveys conducted in the North-Eastern Planning Region in Bulgaria both for companies and for the higher education institutions (HEIs). A quota sampling method was used. The 'business' sample size included 107 companies. The 'HEIs' sample size included 511 students. The study was administered as an online survey.

3 Results and discussion

3.1 Perceived importance and perceived possession of knowledge, skills and personal traits

The qualification of the personnel is considered to be a key factor for business development by 84.8% of the respondents (answers from 7 to 10, the scale range is from 0=unimportant to 10=extremely important). When hiring their personnel managers require certain skills, followed by knowledge, and evidences for educational level (Table 1).

Requirements for job specifications	%	Rank
Specific skills	89.4	1
Specific knowledge	86.4	2
Particular educational level	80.3	3
Specific certificates	47.0	4

Table 1
Hiring requirements

Criteria sought in graduating students by business and students' perceptions about their possession are slightly different. The criteria which were assessed during the study were divided into three groups: knowledge, skills and personal traits and values (Table 2).

Knowledge / Skills	Managers			Students		
	Mode	%	Rank	Mode	%	Rank
KNOWLEDGE						
Basic knowledge in economics	5; 6	23.6	15	7	24.5	12
Knowledge in specific area of economics	7	25.8	14	8	23.7	10
Knowledge about specific industry / industry sector	8	22.5	12	8	21.1	11
Knowledge about Bulgarian market	6	19.1	16	7	20.5	14
Knowledge about international markets	3	14.6	18	5	19.1	15
Specific knowledge (metrics, formulas, etc.)	5	19.1	17	5	16.4	16
SKILLS						
Communication skills	10	29.2	7	10	37.4	3
Analytical skills	9	27.0	11	7	22.7	13
Organisational skills	9; 10	28.1	9	10	21.3	8
Leadership	7	27.0	13	8	21.7	11
Skills for problem identification and solving	10	25.8	9	8	23.1	10
Technology skills	10	40.4	2	10	28.6	6
Written and spoken English language proficiency	10	36.0	5	10	27.2	7
PERSONAL TRAITS AND VALUES						
Self-esteem	7	27.0	13	8	26.2	9
Ability for realistic self-assessment	10	31.5	6	10	36.6	4
Willingness for continuous self-development	10	42.7	1	10	33.1	5
Creativity	9	31.5	8	7	22.5	13
Discipline	10	42.7	1	10	39.7	2
Ethics	10	39.3	3	10	51.1	1
Capability for adaptation	10	38.2	4	10	37.2	3

Table 2

Perceived importance of knowledge, skills and personal traits vs their perceived possession

Note: COMPANIES: The scale range is from 0=unimportant to 10=extremely important. Sample size = 89 respondents. STUDENTS: The scale range is from 0=low level to 10=high level. Sample size = 511 respondents.

The importance given by business to discipline, self-development, ethics, communication skills, analytical thinking, the capacity to make decisions and to solve problems raises questions as to how well equipped graduates are to fulfil these expectations. Need for graduates who are fluent in English could be explained with specifics of Bulgarian market which, on one hand, is quite small and companies are mainly export-oriented. On the other hand, many Western companies target Bulgaria as an outsourcing opportunity because of the cheap labour. The vast majority of Bulgarian companies are micro- and small enterprises. They need managers who are multiskilled and capable of taking greater responsibility and initiative. Additionally, graduate students are expected to enter the workplace equipped not only with the necessary functional knowledge and skills but, also, with adequate communication, interpersonal and team capabilities. Similar conclusions and recommendations can be found in related work of Walker et al.[16].

3.2 The anatomy of REFRAC

When developing the anatomy of REFRAC, the author applied established design elements known to influence high-quality learning, such as active-based learning, cross-debate, research activities, perceptual mapping, field work. REFRAC is designed as a multilayered process-based system. The structure of each level is similar and it is divided into several missions (from five to seven) depending on

the content of the course. Mission is defined as an assignment which requires a practical completion of a task or a sequence of tasks based on a certain knowledge. Missions must be accompanied by clear instructions and a feedback form. The feedback form is used for validation and it serves as an assessment tool thus providing transparency and creating a competitive environment among students. Depending on the level of formalisation missions could be divided into CAM (computer-assisted missions) and HAM (human-assisted missions). Missions are logically incorporated to fit to the course content. The proposed design is scheduled for a semester of 15 weeks. Our final goal was to create a coherent and consistent combination of traditional teaching methods and evidence-based research interventions performed by students in business environment. As many authors suggest, success in learning relates as much to the design of individual components as it does to the consistency and fit of those components within the course as a whole [17, 18].

Two layers of REFRAC has been already developed and tested. The first layer (Figure 4) emphasizes on data collection and research methods. To respond to the need for student to feel independent to make his/her own decisions, research tasks were developed to be flexible for modifications. All activities provide some level of choice thus stimulating students to assess alternatives, to take risk and to be responsible for his/her decisions. The focus of second layer (yellow belt) of REFRAC is placed on innovative and creative thinking development. It is implemented through the so called academic accelerator “Brand Idea”. Students are stimulated to plan and to implement a communication or social campaign targeted at different audiences. The assignments are provided by different companies, organisations or institutions. The education process is split into separate missions as described above. Students participate as virtual agencies and compete between each other since one assignment is given to three or up to five teams. The final assessment consists of two parts. The first part is the result of independent survey among university students which measures the awareness level and attitude toward virtual agencies and their projects. The second part is a presentation which is evaluated by a jury (mainly business representatives). Brand Idea competition was launched in 2011 as a part of the education of the students who study Marketing. Now it is open for everyone (www.brand-idea.net). For the next year “Brand Idea” is planned to be transformed into a start-up accelerator.

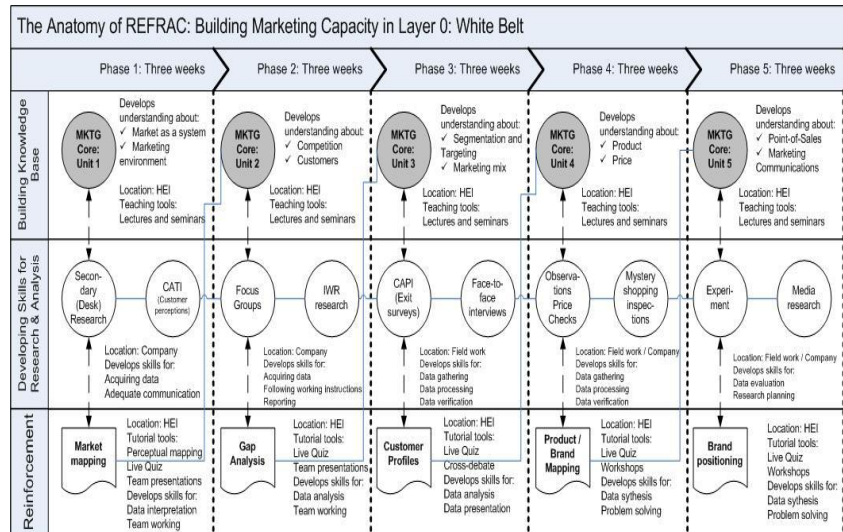


Figure 4
The anatomy of REFRAC: white belt layer

The internship programme forms the REFRAC prerequisite level which main goal is to develop employability and job-survival skills and concepts, including discipline, work ethics, personal appearance, and general business behavior.

4 Conclusions

The proposed framework of applied competences in the field of economics (REFRAC) provide an opportunity for the HEIs to transform the education process into experience-based learning which stimulates active participation of students. Its main objectives include: 1/ stimulating creative and innovative (out-of-the-box) thinking, 2/ developing business-related skills at different levels (the basic level comprises business survival skills), 3/ stimulating entrepreneurial attitudes and activities of students by small projects implementation, incl. social innovations. REFRAC could be used as a tool to re-engineer the process of higher education using as a background the concept of business models. When applying REFRAC in a constant and systematic manner in higher education process students can gain personal experience through engaging in various business and research activities related to the theoretical background of the disciplines and academic curricula. These experiences were designed to provide students with additional tools stimulating them to learn and reflect on their study. The main barriers during the process of REFRAC development could be summarised as follows: 1/ Administrative barriers due to the restrictive internal rules of the HEI;

2/ Misunderstanding of the concept both from the management body of the HEI and lecturers (teachers). Such kind of activities require different type of management and high level of engagement of the teaching staff. 3/ Bureaucratic procedures embedded within the educational system which prolong the process of changes and modifications of teaching materials and the process of learning. 4/ Extremely low level of administrative flexibility. The author will continue to develop the next layers of REFRAC in order to accomplish it as a business simulator, incl. to be applied for distance learning.

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User Preference and Channels Use in the Employment Seeking Process

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Abstract: Trust is a major issue for social capital theory and the word- of mouth concept. This paper compares social network sites with other media under consideration of trust and support. The research evaluates the difference between sources regarding trust and support to explain the situation of social network sites under consideration of the employment seeking process. The aim of this paper is the evaluation of the use of social network sites and private social networks by comparing these with job boards, company information, newspaper and official employment agency web pages. It is to identify the possible differences between information channels and the reasons for the use of different sources for the employment seeking process. It also investigate if organisations media offer the highest value to transfer information about employment opportunities to individuals.

Keywords: trust, social capital, social network sites, word of mouth

1 Introduction

This paper has addressed the first steps of evaluating and explaining the use of social network sites content for the employment seeking process. The research on this topic need more data and more variables to give a deeper insight into this topic. It would be further of interest to get more information about the reason on either to use or not to use social network sites comment for the employment seeking process. This paper is a pre-test for the future research to evaluate the social capital theory for social network sites.

The word-of-mouth concept describes the power of information e.g. in social networks. The shared-information, might not be official. As the source of information has comes from diversified individuals. Afterall, it is still up to the decision of individual reader. rivate individuals exchange information about issues of interest. The content of the information concerns the evaluation or description of products or services is for example. This information provides orientation for consumers for example and influences the buying behaviour of individuals. This can describe the power of social networks and explain the advantages of being a member of different networks. The value of the information can be described by the quality. The quality of the information is the reliability and validity. One value of social networks is the access to information and resources [1] [2]. This mechanism is described with the social capital theory [3]. The benefit of the information can be described with the usefulness and reliability [4] for individuals. The research field marketing has deeply explored the word of mouth concept and this paper describes the word of mouth concept for the employment seeking process. Trust is important for the operation of social network sites. Individuals would not exchange information or resources if they did not trust each other [5]. The phenomena on trust as part of social capital theory is described in many articles [6][7][8]. This explains the influence of trust on social networks and gives an indication that trust is an important variable in explaining the behaviour and thoughts of social network members to exchange information and resources.

The paper explores the kind of media that is used for the employment seeking process. The use of social network sites for the employment seeking process is a first indication in explaining the behaviour of individuals. The paper gives an indication what kind of media is trustworthy for the employment seeking individuals and which media can be used to transfer information to interested individuals [9]. The communication with individuals is an important issue for organisations to attract potential candidates to apply. The reason for candidates to use social network sites is the access to information and resources which provide an advantage. That is a theoretical explainable reason to use social network sites with the social capital theory [10][11][12]. The requirement for such use would be the benefit for the employment seeking individual and whether they can trust the information [13][9] [14]. The trust in the information and resulting benefits have a symbiosis and depend on each other.

Society is changing and social network sites provide new kinds of networks with many advantages and disadvantages for employment seeking individuals [15] [16]. The technological changes provide new opportunities. This situation makes it important to explore this new form of exchange and to explore the use of social network sites to explain the causal mechanism.

This paper is the empirical test of the results of the structured interviews regarding social capital on social network sites. The empirical research is needed to confirm the results of the structured interviews on a stable basis [17] and to give an answer to the question if social capital theory can explain causal mechanism on social network sites under the consideration of trust. Trust is an important dimension of social capital theory [8]. Trust can explain the behaviour of individuals and describes the social mechanism in the society.

2 Methodology

The paper uses data from a project at the University of Ludwigshafen. The data has been collected through a research project with a paper based survey in October 2014. The original purpose of the research project has to explain the behaviour of individuals under consideration of the employment seeking process. The project evaluated different issues and situations for employment seeking individuals and collected data about the reaction and behaviour of individuals. This data can support organizations to improve their recruiting process and to understand the behaviour of employment seeking individuals. This empirical method provides further information about social network sites and the use of social capital theory to explain the mechanism on social network sites. The questionnaire has different parts. All parts are under consideration of the employment seeking process and separated from the other questions batteries. The research project collected 440 surveys and the participants have an average age of 27,62 years, the median is 25 years and the standard deviation is 10,297 years. This means the participants are young people. The participants are mainly members of the generation Y which is growing and educated with new technologies like social network sites. The age is an indication that the participants are at the beginning of their careers or will be starting their professional career soon.

The social status of the participants is employed (40,45% participants), apprenticeship (4,23% participants), student (48,64% participants), unemployed (4,55% participants) and 2,05% participants did not answer this question. The question for their educational level is divided into university degree (37% participants), apprenticeship (30,9% participants), school degree (29,8% participants), no degree (0,2% participants) and two per cent participants did not answer the question. The social status can be an indicator for the use of social network sites for the employment seeking process and can be a reason for the

behaviour of individuals. The participants are mainly students and young professionals who are at the beginning of their careers.

The activities to identify an employment can be an important issue to explain the behaviour for the employment seeking process. The participants reported that 10,9% are actively looking for a new position, 23,9% participants are passively looking and not searching for a new position are 62,5 % participants. Two point seven per cent did not answer this question.

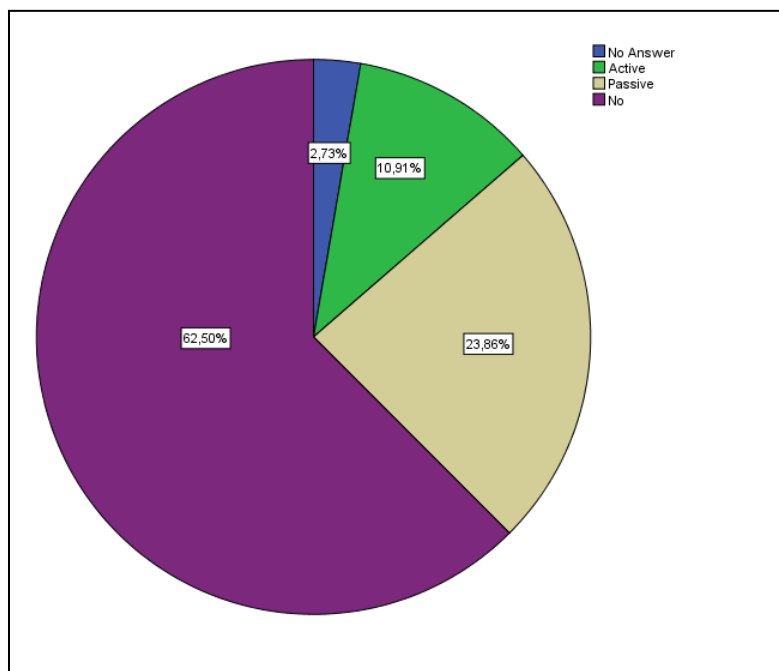


Figure 1

„Are you searching for employment actively, passively or not at all?“ Data from survey conducted by Tom Sander in October 2014 (n=440)

The data has been analysed with the software package SPSS. The statistical tests of the data has been correlation by Spearman and cross table. The data is presented with the frequency to answer the research question. If it is useful, mean and median are mentioned.

3 Analysis of the data

The transfer of information for the employment seeking process is possible on different channels. The session concentrates on social network sites and compares them with newspaper, job boards, job fairs and webpages of the German employment agency. This means the first question is about the use of one of these channels for the employment seeking process. This is a first indication of whether the channel is useful and if people trust this channel.

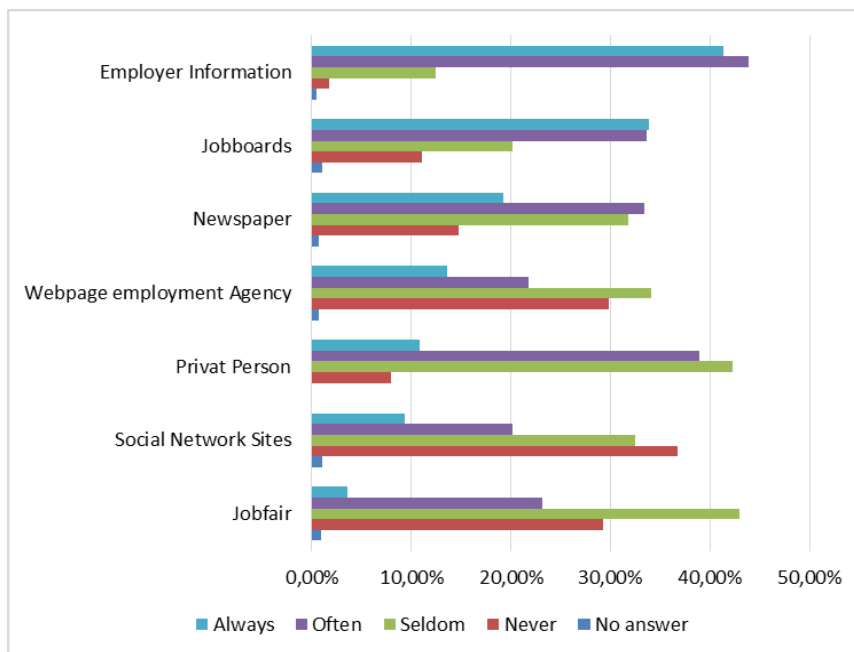


Figure 1
 Distribution of responses on question “Which Source do you use for the employment seeking process?” Data from survey conducted by Tom Sander in October 2014 (n=440)

The result explores that the most frequently used information for the employment seeking process is employer information, for example web pages from companies. Social network sites are the weakest source for the employment seeking process and the tendency is clearly that individuals do not use this platforms for the employment seeking process. This provides the indication that social network sites are not useful for individuals to identify an employment opportunity. The social network sites have the highest number of participants who answer that with “never”. The job boards are very strong and following the employer information. This means that job boards are very important for individuals to find a new position and organisations should use job boards to identify new employees [18].

The results for newspaper and private individuals does not explain any tendency, they have the main answers in the middle of the scale. Job fairs and Webpages of the employment agency have low results. This means the frequency of job fairs and webpages of employment agency is low.

The next step concerned the question about support and trust of the media to evaluate the value of the information on these platforms. The value depends on the reliability, validity and benefit for the social network sites member. The tendency to trust recruiting channel is negative for Job boards and social network sites. People trust social network sites always or often with 33,1%. if we compare the cumulated results of the surveys for “always” and often. Job boards have cumulated 75,4% Employment seeking individuals trust mainly information from the employer with the cumulated result of 97,1% for “always” and often. This information is from the source which is responsible for the content on the other platforms. Newspapers have 72,9% with always or often, job fairs have the cumulated result 64,1% and private individuals with 70,5% for always and often. These different channels are more or less similar. The webpage of the employment agency has a tendency to the middle of the scale and always or often answered 59,8%.

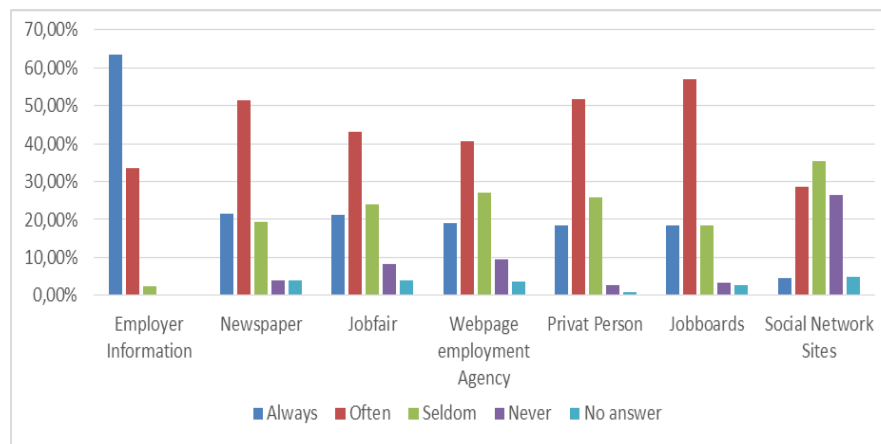


Figure 2

"Do you trust this sources for the employment seeking process?" Data from survey conducted by Tom Sander in October 2014 (n=440)

The test of correlations does not support any relationship between demographic variables and other variables. This means the result of statistic tests for a correlation cannot explain the behaviour of individuals on social network sites and does not give an indication that information channels to identify employment have a correlation with “educational level” or “Use of social network sites per week in minutes”.

The main interest for research are social network sites. The result of the diagram explore clearly that comments on social network sites influence only a small group of individuals. The importance of social networks sites for society is of special interest. The question of interest is if people are influenced by the comments of social network sites to find a decision for employment opportunity.

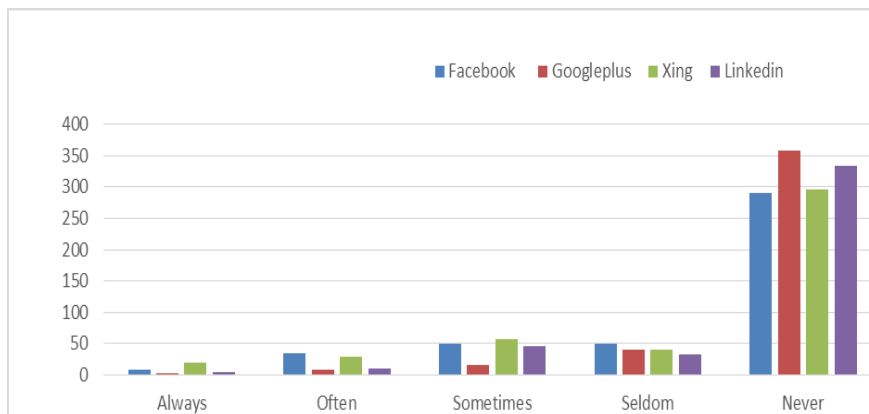


Figure 3

“How often have a comment on social network sites influenced the employment seeking process?”
Data from survey conducted by Tom Sander in October 2014 (n=440)

It appears that trust has an influence on the use of the information channel. Individuals use trustful channels more often and they expect to have a higher benefit with the trustworthy information sources. That gives an indication that the use of media and trust is relative. This support explanations about the importance of trust for the information channel.

4 Analysis of the data

The data explores the use of social network sites compared with other channels. The result is that individuals are not using social network sites or private person who are members of their real networks for the employment seeking process. This provides the indication that social networks neither online and offline are used frequently for the employment seeking process. Their trust towards social network sites content is low. The trust to private persons is below job boards, employer information and newspapers. This is a clear signal that private and online social networks are less trustworthy than other information channels for the employment seeking. The frequency with which they are using social network sites for employment seeking is an indicator for the reason for low trust. The marketing research has other results and the influence of word of mouth for marketing

research is very popular [19][20]. Content of social network sites or other social media platforms can damage companies and destroy value. This is not describable for the employment seeking process of individuals. The influence of social network sites on employment seeking individuals is low. The trust in social network sites for the employment seeking process compared with other channels gives a clear answer. People trust social network sites less than any other channel for the employment seeking process. The use of social network sites describes clearly that people prefer other ways to find new employment. The power of social network sites comments and content for the employment seeking process is at a low level.

Trust is a dimension of social capital [8]. Social network sites provide content and people trust this content at a low level. The level is lower compared with other opportunities to identify employment opportunities. This can be explained with the lower use of social network sites for the employment seeking process and the lesser importance of social network sites content for employment seeking individuals. The future of social network sites is vague. The statistical results for the use of social network sites compared with the other channels is weak.

5 Conclusion

The results provide data that gives the indication that the use of social network sites for the employment seeking process is at the moment not under consideration by individuals. There are some signals that some individuals use these networks but it has to be under observation whether social network sites may be of interest for the employment seeking process and able to provide beneficial support to employment seeking individuals in the future. Individuals are not aware of the potential of social network sites and the power of comments and content on social network sites does not have the influence for the employment seeking process as for marketing issues. The data explores that trust, use and influence of social network sites compared to other channels for the employment seeking process is low. The involvement of social network sites and the information which is provided on social network sites is not used for the employment seeking process. This means the dimension trust and information of social capital for the employment seeking process does not have any profound influence. Organisations who use social network sites for the employment seeking process have to be aware of this issue to find the best solution or make the best decision.

The correlation between demographic variables and the use of channels to collect information about employment is not confirmed. This means the statistical tests do not give an indication that there exists a relation between demographic data and the use of information channels. This means it is not explainable with the demographic data why individuals use which channel for the employment seeking

process. This research gap and statistical weakness needs further research to explain the behaviour of populations.

The future of social network sites for the employment seeking process and the opportunity to use social network sites for the employment seeking process needs more research. The research will evaluate the positive and negative effects of social network sites for the employment seeking process. The explanation of social network sites mechanism with social capital theory needs further efforts to give an answer to open research questions.

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The Effects of Corporate Coaching Process

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Abstract: The choice of topic was generated by my personal interest in coaching processes as well as experiences at the workplace. This interest led me to look at the problems to be solved armed with a new perspective, analyzing the experienced problematic situations afterwards. I will examine the effects the application of coaching, team coaching processes the company's life. I would like to provide insight into the issues of the current coaching situation in Hungary.

I examine the innovative attitudes of employers towards employee training. The use of these tools, coaching or training?

Coaching is nothing more than occasional feedback and advice on the different aspects of the performance of subordinates. Usually the direct superiors or close colleagues make provided it.

In contrast, the training, when they tell the participants what to do, in the coaching they show people how to use existing knowledge. The coach sets challenging tasks, clearly outlining the expectations and following the process, gives advice, often carries out an evaluation, and encourages subordinates to prepare to step up the career ladder and include them in their own replacements. Coaching is especially useful during the brainstorming session, and then when you involve people in the process of change management.

Recognizing the importance of corporate application of the coaching process in time stopping negative corporate trends.

In addition to the leaders the subordinates are is also entitled to coaching, they can have a problem, which cause is difficult at work, especially if they have learned regarding the use of the local community work or training. These solutions offer the coaching team that specific work tasks through points to the secretary of the co-operation. The coaching team coaching differs from a multi-stakeholder equation puts the existing problem not only cares about the problems of leadership, but team unity and the coordination of trying to control the path to a solution. The coaching team rather than the individual team members' strengths, weaknesses deepen the collective subconscious, it just seemed similar to the team-building trainings, because there is more willingness to increase cooperation. The external or internal coaches selected the company and the employees' perspective. My assumption is that a clear relationship between the detected according to the HR point of view, motivated employees and corporate results.

The research proves the hypothesis, which states that the organization's innovative development techniques, has direct impact on short-term economic and financial performance of the companies.

Keywords: coaching, team coaching, human resources

1 Introduction and objectives

Today, more and more people are engaged in coaching, yet I find that for some companies even the concept itself is totally unknown, they are far from the application. However, where applied, excellent results are achieved with a number of areas it is. Great help for the company problems underlying the treatment of work-related stress. The goal of the research is to prove the hypothesis established that coaching in between the helper methods impact on the company's history, through the economics.

2 Setting the theme

The choice of a personal interest in the topic of coaching processes and experienced work experience generated. This interest led to problematic situations experienced afterwards Analysing, assessing new kind of approach, consider the armed solve problems. It is exposed to the following people at the workplace, regardless of whether it is the owner or employee or subordinate leader: work-related stress, restructuring, work-family conflict, career development, resilience, competency assessment and evaluation.

3 Methods

3.1 Primary data collection:

The primary data collection was in the form of questionnaire surveys, personal interviews with company managers and employees. The survey was carried out online. I made interviews with companies from whom I did not get back a completed questionnaire or I have an outstanding relationship capital.

3.2 Secondary data collection

I worked in the secondary data collection, and evaluated the results of national and international research. I studied the emergence of Internet companies during their secondary data collection, plus other public appearances were also collected and evaluated.

4 Discussion of the topic

4.1 Clarification of Concepts

I would like to provide insight into human resources development processes in this section, especially the coaching.

The word coaching comes from the English language, in an abstract sense it means training and it encompasses the work done together with the trainer. This concept was introduced in the terminology of the business world from sport psychology. The coach-in the development process-has a role similar to that of a trainer, who helps his competitor to realize and reach his own goals. It is the achievement of the psychotherapists, who realized that it is not only the people who are in crisis who need advice, but those also who would like to be more successful, more satisfied, and would like to get more out of themselves, in any field of life.

Tim Gallwey was the first who wrote about the essence of coaching, in the field of tennis and golf instruction. His concept appeared in several materials. In his opinion, the opponent in our heads is much more frightening than the one on the other side of the net. He claims that the coach can help the player to clear away the obstacles that hinder achievement. If we succeed, our natural abilities will come to the surface, and there will be no more need for the coach's technical instructions. And Gallwey found that he was giving more talks to businessmen than to athletes. Although coaching can be regarded as part of management counselling, in some respect, coaching is not giving advice. The coach does not solve the managers' problems, he only transfers his knowledge and helps in activating inner strengths. He asks and listens, guides the attention of the partner and gets the partner to say the solutions. He points out certain activities, possibilities, solution types, from among which the individual will choose the one most suitable for him. In actual fact, coaching is a development process between two people. All the way it is a personal, interactive and intensively focussed process.

It helps the individual and the corporation in achieving greater results in a shorter time. It involves setting goals, defining expectations, performance evaluation, motivation. With the help of coaching, the client will set higher standard goals, become more active, make more informed decisions, and realize and increase his inner strengths, natural abilities. The possibility to obtain new experiences and new knowledge is important. Coaching is suitable for preparing the expert before assuming a new position, as well as solving problems related to positions, both on a professional and personal level.

In order to better use our own abilities:

- Less unnecessary stress to undertake,
- Easier to endure attacks, failures, criticisms, if we learn from them,
- Process the experience of loss,
- Display support and confident behavior in social situations
- Eliminate internal inhibitions
- To resolve the contradictions,
- Develop and use creative thinking and action strategies
- To recognize other people's attempts at manipulation.¹

Those leaders who turn to a coach, often only need to be reassured. It happens many times that they have to make major decisions and it is hard to undertake guarantee. Coaching, regular training gives a sense of success, and gives a fantastic feeling that the participant is able to solve his own problems, to act, make good decisions and take responsibility for all this. To create plus value to achieve the goals, and thus become successful.

The other reason why managers turn to coaching is that they need new information. An external advisor often sees corporate processes more objectively and can judge better for example how the company should be managed and how communication should be with the colleagues.²

Today the need for good company leaders is greater than ever. The technical revolution, global competition, the newer and newer business models, and at the same time the ever narrowing workforce markets, greater and greater competition for the decreasing number of leading positions.- All support increasing demands of the leaders - who is Diffenderffer.³

¹ http://www.nlphungaria.hu/hu/?page_id=63

² Horváth Tünde, Helyzetkép a Magyarországi coachingról Megjelent a Pszichoterápia című lap 2004, augusztusi számában

³ Diffenderffer, B Samurai Leader, Sourcebooks, Naperville, Illionis, (2005)

Coaching gives significant help for the leader:

- Detect the credibility of the partner During negotiations,
- Present ourselves with the subject matter in a convincing and attractive way,
- Get to know the thinking strategies of You and your partner
- To take the initiative at the negotiations,
- Give apt and flexible Answers to complaints and, argue effectively
- Lead staff optimally
- Optimize the management of all-time for ourselves and for our environment,
- Develop creative working atmosphere.

4.2 The place of Coaching in helping methods:

Coaching is nothing else but giving feedback and advice occasionally about different aspects of the subordinates' performance. In contrast, in the case of training, the participant is told what to do. In the case of mentoring, a senior colleague takes responsibility for the development of a chosen individual. Team coaching is different from coaching in that the problem is placed in a multi-player situation, it does not only deals with the problem of the leader but strives to lead to the road to solution by creating a team unity. When the colleagues are aware of each other's limits, they can pay attention to it when organizing work and will not get involved in conflicts arising solely from different personality types. In team coaching it is mainly the strength of the individual members that is burned into the collective subconscious. It is only seemingly similar to team building trainings, since there it is mainly cooperative willingness that is developed.⁴

4.3 External or internal use of a coach:

The tendency in more and more companies is to train a few inside people to do the job, rather than having an outside coach to conduct leadership training.

An inside coach definitely knows more about the power lines inside the company, the links, the conflicts between people, since he is a member of the organization

The lack of such information, on the other hand, makes it possible for an outside coach to look at the situation from a different perspective, in a non-judgemental manner.

⁴ Erős, I., Bents, R. Személyes vezetői tanácsadás (coaching), a korszerű vezetői támogatás, in A kft. vezető kézikönyve, Raabe kiadó, (2002)

There are several coaches on the Hungarian market who work on their own, and only sometimes, for individual projects, and for meeting the needs of major clients, will they sign a contract and work together. For economic reasons, it is possibly more advantageous to employ inside coaches than to employ outside coaches for an hourly wage. The main advantage of an inside coach is that he can see his client in different work situations. When these situations are brought up during the sessions, the coach can raise his client's awareness when sharing his own observations. Physical closeness results in flexibility of meetings. If something happens between appointments that the client wants to share with the coach by all means, it can be easily done if they only work a few doors away from each other. Creating trust may be easier in the case of outside coaches. The clients might suspect that the information at the sessions will get into the human resources system of the company, or that it will get into the ear of certain supervisors. The inside coach most often is a member of the HR department, which is unfortunately not well respected in a lot of companies. The fear that a third party will be made aware of what was said at the sessions, is founded.

4.4 Coaching Methodology:

- DIADAL⁵
- Polaris Management Coaching
- Psychodrama based coaching
- NLP based coaching
- Gestalt Coaching
- TA-based coaching
- 7C Model

5 Evaluation Results

5.1 The primary research:

The Hungarian KKV-s were in my research focus. I analysed the KKV-s data from 2011 to the present day. The questions are related to the corporate trainings, coaching and HR system. During the research 118 online questionnaires were filled in and 19 personal interviews were completed. The online questionnaire and personal interviews results of what has been said in aggregate are as follows

⁵ Komócsin L. Módszertani Kézikönyv coachoknak és coachingszemléletű vezetőknek I. (2009.)

Surveyed KKV's	Yes	No
Do you know coaching, its uses also	42%	58%
Among the yes answers, cover the total expenses:	52%	48%

Table 1
Enterprise survey using the coaching process.
Source: Járdán (2014)

Surveyed KKV's	Yes	No
They spend personnel (training, team building):	50%	50%
They have HR manager:	16%	84%
Apply benchmark:	66%	34%
The discretion of individual treatment Promotion:	80%	20%
Apply reward in order to retain high-performing colleagues:	50%	50%

Table 2
Survey of the use of corporate HR processes.
Source: Járdán (2014)

Surveyed KKV's	Yes	No
They are useful for training, according to the workers:	90%	10%
They have taken part in training (mental worker)	67%	33%
They have taken training (manual workers)	43%	57%

Table 3
Corporate survey of employee training participation representation.
Source: Járdán (2014)

There is an oversupply in the areas of time management, work, private life and burn out. There is a great need for leadership skills development. The companies would like to use coaching in solving mainly stress and conflict management and personal image building. In Hungary, there are numerous micro and middle enterprises, so this survey shows a true picture of the situation.

5.2 Secondary research results:

Synergon HR 2011 National Benchmark Survey KKV's (%)	Yes	No
Operates a performance evaluation system:	69%	31%
Performance evaluation has impact on incentives:	79%	21%

Table 4
Survey of the use of corporate HR processes.
Source: Synergon Hr Benchmark (2011)⁶

At the 2011 National Synergon HR Benchmark Survey 69 per cent of the participants were applying a performance appraisal system, 22 per cent not, and 9 per cent were planning to introduce it. In 79 per cent of the companies the performance appraisal influenced the incentive system.

According to a recent survey one of the main reasons for voluntary change of workplace among the 35-45-year old age group is the lack of inside career possibilities and the search for new challenges. Increasing salaries or the intention to improve work-life balance was of a much lesser importance.

Work anxiety inducing factors:	%
Reorganization, uncertainty about job preservation:	72%
Excessive workloads, long working hours:	66%
Work humiliation, harassment:	59%

Table 5
The most common causes of stress at work.
Source: EU-OSHA(2014)⁷

The main reason for stress at the workplace is work reorganization, and job insecurity, as was suggested in a recent European statistical survey. According to the survey, conducted by the EU-OSHA, 72 per cent of the respondents indicated reorganization and job insecurity to be the main reason for work anxiety. 66 per cent classified excessive workload and the too long working hours as a source for stress, 59 per cent talked about humiliation and harassment at work.

⁶ <http://www.hrportal.hu/hr/hol-merik-a-dolgozok-teljesitmenyet-20150330.html>

⁷ <http://www.hrportal.hu/hr/a-munkahelyi-stressz-fo-oka-nem-a-leterheltseg-hanem-az-atszervezes-20150423.html>

According to statistics, stress at the workplace is provable in the background in 50-60 per cent of loss in working time, which corresponds to the fact that according to 51 per cent of the employees work anxiety and tension is an everyday thing. In Europe it is the second most common work related medical problem-right after disorders in the skeletal and muscular system. According to the survey, 40 per cent of the European respondents think that the problem of anxiety is not dealt with properly at their workplace.

The Training Round Table Association conducts surveys annually about the trends in the training market.

The survey suggests that although as one of the first reactions to the economic crisis, the companies had cut the resources to be spent on training the employees and the leaders, following the 2012 shift in trend, last year training gained ground again, and spending on training was again higher. A EU resource for the development of human capital has been made available in recent years, and it also contributes to the increase. This resource contributed approximately 10 per cent of the spendings on the training market.

The survey summary suggests that in 2014 mostly production companies, service providers and commercial companies took advantage of trainings. In contrast with previous periods, there were much fewer banks, insurance companies and public service providers were among the customers. In comparison with previous years the number of leadership training programmes had increased, the companies spent more money on organization development, resources for the development of customer service had somewhat decreased.

6 Conclusion / Summary

The available research suggests that despite excellent communication skills, good interpersonal skills, high professional qualification owner the desired success if they poorly tolerate the stress. Today's practice is to stress the problem of the individual, and even take a lot of responsibility on site, saying it is a private matter for everyone. Stress impairs the individual and therefore the efficiency of the organization. More mistakes, misunderstandings, conflicts and even a variety of psychosomatic illnesses can occur. In companies where they recognize that the ability to take a fraction of the voltage of people out of themselves, not only improves the organization and management methods, but consciously deals with stress in the workplace as well.

The findings are shown below:

- Increasing number of domestic firms use an coaching in process of the assist those who. Have not yet applied, it are also planning to introduce. It was confirmed in the primary and secondary tests.
- The HR processes cover an increasing part.
- The performance evaluation, rewards, talent retention, more and more companies recognize it importance.
- The application of the coaching staff turnover decreases.
- Employees are according to useful courses and trainings, but these higher-level white-collar workers are called first and foremost.
- Work-related stress, according to the statistics of time-loss of 50-60% of detected.
- Coaching is one of the most effective means of workplace stress management.
- The primary and secondary research from the analysis carried out clearly confirmed the hypothesis that corporate coaching processes have an impact on economics.

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Main Trends in B2C E-commerce in the Slovak Republic

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Abstract: Slovakia is one of the fastest growing region in Central Europe when comes to e-commerce. As the digital infrastructure and logistics network improve, the potential is obvious. The strong growth of B2C e-commerce in Slovakia in the last years means that Internet is now a favourable place for Slovak enterprises as well as for Slovak citizens to do their businesses and shopping. The widespread use of Internet and high level of access to smart phones and mobile broadband are common explanation for growth of online shopping in Slovakia. More and more people are finding that shopping online has a number of benefits compared with shopping in a physical store: it is easy, saves time and can be done at a time to suit the consumer. What shoppers agree on is that both price and delivery time are reasonable factors and that sites make a serious impression. The aim of the article is to present main trends in the development of B2C e-commerce in the Slovak Republic and to identify the main factors determining the decision of Slovak online shoppers to buy through Internet.

Keywords: e-commerce, B2C e-commerce, Slovak Republic

1 Introduction

In recent decades there has been evident noticeable increase in e-commerce segment in Slovakia. As a consequence of this trend constantly are created new internet shops and online companies.

Electronic commerce or e-commerce refers to a wide range of online business activities for products and services (Rosen, A., 2000). It can be defined as “the use of electronic communications and digital information processing technology in business transactions to create, transform and redefine relationships for value creation between or among organizations and between organizations and individuals” (Andam, Z. R., 2003).

In e-commerce information and communication technology (ICT) is used in inter-business or organizational transactions (transactions between and among

firms/organizations) and in business-to-consumer transactions (transactions between firms/organizations and individuals).

The impact of e-commerce on the economy of developing countries is evident in the following areas (Andam, Z. R., 2003):

- transaction costs – there are three cost areas that are significantly reduced through the conduct of B2B e-commerce. First is the reduction of search costs – as buyers need not go through multiple intermediaries to search for information about suppliers, products and prices as in a traditional supply chain. In terms of effort, time and money spent, the Internet is a more efficient information channel than its traditional counterpart. Second is the reduction in the costs of processing transactions (e.g. invoices, purchase orders and payment schemes), as B2B allows for the automation of transaction processes and therefore, the quick implementation of the same compared to other channels (such as the telephone and fax). Efficiency in trading processes and transactions is also enhanced through B2B e-market's ability to process sales through online auctions. Third, online processing improves inventory management and logistics;
- disintermediation – through B2B e-markets, suppliers are able to interact and transact directly with buyers, thereby eliminating intermediaries and distributors. However, new forms of intermediaries are emerging. For instance, e-markets themselves can be considered as intermediaries because they come between suppliers and consumers in the supply chain;
- transparency in pricing – among the more evident benefits of e-markets is the increase in price transparency. The gathering of a large number of buyers and sellers in a single e-market reveals market price information and transaction processing to participants. The Internet allows for the publication of information on a single purchase or transaction, making the information readily accessible and available to all members of the e-market;
- economies of scale and network effects – the rapid growth of B2B e-markets creates traditional supply-side cost-based economies of scale. Furthermore, the bringing together of a significant number of buyers and sellers provides the demand-side economies of scale or network effects.

The major different types of e-commerce are: business-to-business (B2B); business-to-consumer (B2C); business-to-government (B2G); consumer-to-consumer (C2C) and mobile commerce (m-commerce). In our article attention will be given to the B2C e-commerce.

2 Main trends in B2C e-commerce in the Slovak Republic

Business-to-consumer e-commerce, or commerce between companies and consumers, is the second largest and the earliest form of e-commerce. Its origins can be traced to online retailing (or e-tailing). Thus, the more common B2C business models are the online retailing companies.

The more common applications of this type of e-commerce are in the areas of purchasing products and information and personal finance management, which pertains to the management of personal investments and finances with the use of online banking tools.

B2C e-commerce reduces transaction costs (particularly search costs) by increasing consumer access to information and allowing consumers to find the most competitive price for a product or service. B2C e-commerce also reduces market entry barriers since the cost of putting up and maintaining a Web site is much cheaper than installing a “brick-and-mortar” structure for a firm. In the case of information goods, B2C e-commerce is even more attractive because it saves firms from factoring in the additional cost of a physical distribution network. Moreover, for countries with a growing and robust Internet population, delivering information goods becomes increasingly feasible (Rosen, A., 2000).

The facts and figures show great potential for e-commerce in Slovakia. As we can see in table 1, enterprises' total turnover from e-commerce in Slovakia (as a percentage of turnover) was 13 % in the year 2014 and in comparison to the average of European Union (28 countries) was lower by 2 %. Percentage of turnover from e-commerce by all enterprises in the year 2013 (Slovakia) was 18 % and it is 5 % less, as it was in the year 2014. The changes in percentage of turnover from e-commerce during the last five years are the result of variable turnover of all enterprises in Slovakia and of those factors that have influenced the turnover in general (economical, financial, market factors).

GEO/TIME	2010	2011	2012	2013	2014
Slovakia	11	16	12	18	13
European Union	14	14	15	14	15

Table 1
Percentage of turnover from e-commerce
Eurostat, 2015

What concerns the enterprises selling online (as a percentage of all enterprises) – it is 12 % of all enterprises in Slovakia in the year 2014. The average of European Union (28 countries) in percentage of enterprises selling online is 15 %. It is evident, that during the last five years the percentage has increased by 5 % according to the year 2010, what can be viewed positively. The changes in

percentage of enterprises selling online during the last five years in Slovakia are very similar to those in Table 1. The number of Slovak enterprises selling online has influenced considerable the total percentage of turnover from e-commerce (Table 2).

GEO/TIME	2010	2011	2012	2013	2014
Slovakia	7	13	12	18	12
European Union	13	13	14	14	15

Table 2
 Percentage of enterprises selling online
 Eurostat, 2015

Positively is viewed the increase in the percentage of enterprises purchasing online – in the year 2013 it was 20 % of all enterprises in Slovakia and according to the year 2010 it is increase by 6 % (Table 3). Many Slovak enterprises utilize the advantages of purchasing online, especially the access to the global market, economies of scale and lot of information on Internet.

GEO/TIME	2010	2011	2012	2013
Slovakia	14	15	14	20
European Union	27	19	16	18

Table 3
 Percentage of enterprises purchasing online
 Eurostat, 2015

What concerns the percentage of individuals purchasing online, the number for the year 2014 was 31 %; that is more than in our neighborhoods countries (Czech Republic 25 %, Hungary 20 % and Poland 24 %). European Union (28 countries) average in percentage of individuals shopping online in the year 2014 reached the number 41 % (Table 4). This confirms growing interest of Slovak to purchase online.

GEO/TIME	2010	2011	2012	2013	2014
Slovakia	19	23	30	30	31
Czech Republic	15	16	18	21	25
Hungary	10	13	15	17	20
Poland	20	20	21	23	24
European Union	31	33	35	38	41

Table 4
 Percentage of individuals purchasing online
 Eurostat, 2015

Statistics of The Slovak Banking Association gives us an overview of electronic transactions that have been realized by Slovak banks. In 2014, the total number of e-shops that support payment through Slovak bank was 1 590. The number of e-commerce transactions that was realized in the first quarter of 2014 was 1 201 434, what is 1,5 % of total number of transactions realized within the same time period. The total volume of e-commerce transactions in the first quarter of 2014 was 3 934 628 842 € in Slovakia, what is 1,2 % of total volume of transactions realized through Slovak banks' accounts.

3 Factors influencing the decision of Slovaks to buy online

The results presented in the following part of the article are coming from the research conducted in the year 2014 by the Media Research Slovakia for the Slovak Association of Electronic Commerce (the survey was carried out on a representative sample of 1 006 respondents of the Slovak National Panel), as well as from the research conducted by the students of our university during last 2 years. The aim of the research was to identify the factors influencing the decision of Slovak online shoppers to buy through Internet.

The main advantages for shoppers buying online is the convenience (buying from home), non-stop opening hours, a lot of information on Internet as well as the access to global market.

One of very important question is B2C e-commerce information security. The threats of hackers and other misuse of information. An additional costs are connected with this disadvantage on the side of enterprises. On the side of consumers it causes doubts and mistrust. As e-commerce is multinational, the legislation regulation is more complicated, because the legal standards are different in each country.

Slovaks are buying more and more online. The internet shops are very popular by Slovak customers. 31 % of all citizens bought goods online. In the year 2014 it was more than in Poland, Hungary and Czech Republic. The reason of this growth is increasing use of the Internet as well as access to smart phones and mobile broadband, combined with the fact that this is anything "new" for them (Lesáková, D., 2010).

One of the factors that influence the development of B2C e-commerce in every country is customers' level of IT skills, especially level of internet skills. To confirm it, we realized correlation analysis using Eurostat databases. We compared data describing internet purchases by individuals and individuals' level of internet skills in 30 European countries. The results are in the following table.

Year	2010	2011	2013
Value of correlation coefficient	0,835	0,828	0,832

Table 5
Correlation of internet purchases by individuals and individuals' level of internet skills
Results of own analysis using Eurostat data, 2015

As we can see, the strong direct correlation is obvious in all investigated years (there were no reliable data for year 2012). On the basis of these results we consider the statement that e-commerce development depends on internet skills of consumers as confirmed.

Besides traditional motivation factor to buy online because of lower prices, Slovak customers enjoy the shopping through Internet, they state it is convenient for them and they take it as a form of any “relax” (Lesáková, L., 2014).

According to the results (Media Research Slovakia, 2014) with buying on Internet, majority of Slovaks (95 %) have the best or at least good experience. More than 25 % of the internet users buy on the internet at least once a month and 30 % at least once a quarter. Only 4 % of respondents never bought anything in any e-shop. The top 7 products bought by Slovak consumers online are:

- clothing/footwear,
- home furnishing and garden,
- books,
- cosmetics,
- electronics (TV, computers),
- films/DVD/CD,
- food.

Clothing and footwear as well as home furnishing and garden are the most popular product categories for online shopping; in Slovakia more than half of online shoppers bought clothing and footwear online last year. In second place is home furnishing and garden followed by the books and cosmetics.

When it comes to the average amount spend on one order, it was 80 € spent by Slovak consumer shopping online.

Slovaks buy mostly from domestic sites, but only 46 % of respondents have bought the goods also from foreign e-shop. This fact might be caused by the relatively low knowledge of foreign languages. For more detailed investigation of this hypothesis, we searched for data describing online purchases and knowledge of foreign languages within Eurostat databases. We were able to compare the data for 26 European countries in the year 2011. The value of correlation coefficient is 0,493 that signals medium direct correlation. It means that more foreign languages known, the higher is B2C e-commerce activity in specific country.

Most buyers via the Internet are university-educated people. This is probably due to the fact that people with higher education are forced to use in their work ICT for several hours a day.

Slovak online shoppers declare that *price* is the most important factor influencing their decision to purchase online. Slovaks are very price-sensitive buyers. More than one half of Slovak respondents' state, that it is very important that online store has lower prices. 55 % of respondents feel that it is very important that the price is lowest when making a purchase online.

Free delivery is also significant, 53 % of respondents consider this issue as very important. Other competitive factors that play important role in decision to buy online is also *good service* and *support if problems arise*.

Online traders know that it is important to offer a *payment solution* that customers want and trust. To the question which method do you prefer when to pay for a product bought online, more than 48 % answered, they prefer direct payment of cash on delivery. Relatively popular is, however, bank transfer that according to the survey is preferred by a quarter of customers. At present, 13 % of people pay by the debit or credit card.

One of the success factors for e-traders is to be able to offer *quick delivery*. More than 68 % of Slovak online buyers state that it is very important that a delivery takes no longer than three days if they are to be willing to buy. Demand for quick deliveries is highest among more than one half of shoppers, who believe it should take no more than three days. However, today 8 % of e-shops are able to supply the goods within one day. E-shops more often rely on courier companies whose services are used by 56,8 % of online shoppers. The Slovak Post as a form of goods delivery is used only by 32, 2 % of shops.

For the companies the most important benefits of B2C e-commerce include the opportunity to carry out business within the global market, shortening the time required on reactions in the process of provider-customer communication, and last but not least, a more precise targeting on target customers through a more thorough segmentation of customer markets.

4 Conclusion

B2C e-commerce allows mutual enterprises-customer connection. This connection offers a wide range of benefits not only for customers in the form of increased comfort, but also for enterprises in the form of valuable information, which are suitable for subsequent analysis. Mutual interactive connection of communicating parties also brings benefits in terms of providing important information needed for effective business, even in real time. Analysis of these information may provide a

significant competitive advantage in terms of better understanding of factors affecting business and has a positive impact on future decision making by Slovak enterprises.

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A Possible Categorization of Product Placement Based on its Position within the Film or TV Programme

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Abstract: We can go to the movies with a bag of popcorn to see a Hollywood film, stare at a new reality show on TV, watch music videos on YouTube, or play with a game console with great enthusiasm, yet they all have something in common – it is not only entertaining content but also brands that appear in them from time to time.

In a certain sense product placement is the TV advertisement of the 2010s. While traditional advertising, and especially 30-second TV spots experience increasing difficulties, this genre is booming.

Marketing literature, however, has only been catching up with practice recently. At this point there are no comprehensive publications on the categories of product placement, or how it could be divided into categories. The author of this article recommends the grouping methods listed below:

- by the position of the product placement within the film/programme,*
- by the type of the products placed,*
- by the position on the product lifecycle,*
- by the brands placed,*
- by the financial background of the cooperation.*

The article examines the first way of grouping featured on this list, that is, what types of product placement we can differentiate by their position within the movie or TV programme.

Keywords: product placement, brand placement, TV advertisement

1 Introduction

We can go to the movies with a bag of popcorn to see a Hollywood film, stare at a new reality show on TV, watch music videos on YouTube, or play with a game console with great enthusiasm, yet they all have something in common – it is not only entertaining content but also brands that appear in them from time to time.

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The article examines the first way of grouping featured on this list, that is, what types of product placement we can differentiate by their position within the movie or TV programme.

2 Product and brand placement

In the case of product placement the product itself appears in the movie in the reality of its own. Brand placement is a broader term; in such cases they mention the brand name or the logo appears, but the product itself is not displayed. In *Sex and the City: The Movie*, for example, Samantha is seen driving a Mercedes car, but the movie also features an event with Mercedes flags in the background.



The difference between product and brand placement: from the *Sex and the City*

3 Visual, auditive and audiovisual product placement

Impact on our senses may be the simplest way of grouping. In the case of visual product placement we see the brand, e.g. the main character of *Superman 2* is thrown on a Marlboro truck, but then he casts the evil into a Coca-Cola advertising board. We can also mention another superhero movie as a similar example: the main character of the first part of *Spider-Man* jumps on a truck carrying Carlsberg beer. This is also how car placements usually appear: in most cases the character does not state directly what kind of car he/she drives, but we can clearly see it.

On the other hand, in the case of auditive product placement, we can hear the brand name, but do not see the brand. For example, the secret agent of the *James Bond* movies always says "Vodka Martini, shaken, not stirred!" Another example is Danny de Vito's argument in *Other People's Money*: "If I can't count on Dunkin Donuts, who can I count on?" But we could also mention the famous dialogue from *Rain Man*, where Dustin Hoffmann plays an autistic character and tells Tom Cruise that Quantas is the only airline that had not had an accident before. In *Confessions of a Shopaholic* the main character asks his boss „You speak Prada?" – by the way, this sentence also appears in the trailer of the film. Auditive product placement also includes cases when they do not say the name of the brand, but we hear a sound clearly associated with the brand, e.g. the well-known music of the brand, the so-called jingle. An even more special example is when the screenplay includes a kind of anthem for the brand. The movie *The Coca-Cola Kid* has a sales character arriving in Australia straight from the Coca-Cola headquarters in Atlanta – and one of the first things he does is to create a song composed of authentic Australian sound with the main line "Dont't want to go where there is no Coca-Cola."

And finally, in the case of audiovisual product placement, we both see and hear the brand. For example, in the movie *Cast Away*, Tom Hanks' companion is a Wilson-brand volleyball "whom" he calls by the name Wilson.



The difference between visual and auditive placement: from the movie *Cast Away*

In *Back to the Future, Part I* Marty's mother calls him Calvin Klein because it is the brand of his underwear, and in Part III of the series cowboys make comments about the Nike moccasin he is wearing instead of proper boots.

In the first part of *Transformers* (2007) we can hear the remark "Nokias are real nasty. You've gotta respect the Japanese." with the riposte "Nokia's from Finland."

However, the most typical example is probably a scene from *Yes Man* when Jim Carrey gets out of the car with Red Bull cans falling on the ground around him, then he gets hopped up, and performs a lengthy monologue about Red Bull to please his (future) girlfriend:

- We hit a couple of raves last night. It was totally off the hook.
- Yeah, you seem a little hyper.
- I had a couple Red Bull's. Have you ever had a Red Bull? I'd never had a Red Bull before but I had one last night and I really like Red Bull. I got a new necklace. It glows in the dark, but you can't really see it right now unless you do this.
- That's really something. Doesn't Red Bull make you crash pretty hard?
- No, no, no. No, no. I don't think so. No! Hey, after we jog we should get a Red Bull. You could get a Red Bull and I could get a Red Bull. We could share a Red Bull.
- Okay that would be really...
- Red Bull.
- That sounds g ...
- Red Bull.
- I think I'd r...
- Red Bull. Reeceed Buuuull. Reeceed Bull.
- Okay, a lot of energy. I like it.

4 Front and background product placement

In the first case the brand can be seen in the foreground. In the latter case it is only displayed in the background; for example, when a boxed product is placed on a shelf, or let's say the brand name is printed on a poster. Of course, when the camera goes from wide shot to close up (or, to put it simply, zoom on the object), positioning in the background can easily be converted into positioning in the foreground.

5 Active and passive product placement

Active product placement means that the character is using the product, for example sipping his/her drink or writing an SMS using a smartphone, while in the case of passive product placement we see a vending machine selling soft drinks or a bar with drinks, but the product itself is not being used. Ideally, active placement also plays a dramaturgical role, but at least it has to be credible. Passive placement usually involves the brand as an accessory. In the movie *Fantastic Four* Burger King is placed passively several times. We can see Bacardi logos everywhere in the first part of *Underworld*, filmed in the underground in Budapest.

A study conducted by Synovate in 2005 proved that the active solution has a greater effect on viewers (Jhaveri, 2011). At the same time advertisers must be more careful in such cases – they must not go over the top by creating placements that are too "advertising-like".

6 Full and partial product placement

Product placement is full if the product/brand/logo is completely visible in a physical sense; for example, if we see a soft drink bottle with a logo on it. Product placement is partial if only a part of the product is displayed; for example, if only half of the bottle or the logo can be seen, and the brand is not clearly recognizable.

7 Picture in picture or ad product placement

This is a rather rare occurrence of product placement meaning that a movie or a TV programme incorporates another programme (in several cases, an advertisement).

In *Minority Report* Tom Cruise is passing a Guinness video advertisement among others. In *Analyze This*, Robert de Niro is watching a Meryll Lynch life insurance commercial, then bursts into tears wondering why does not have a quiet life. In *Jack and Jill* Al Pacino performs Dunk Acino in a Dunkin Donuts advertisement.

In *Rocky III* we see advertisements where Rocky, the protagonist recommends Nikon, Harley-Davidson, Budweiser, Maserati, Gatorade and American Express. In *What Women Want*, a film set in an advertising agency, they screen a preliminary version of a Nike commercial created by the company, being presented to the client by Mel Gibson.

Examples from Hungary include the soap opera *Szomszédok* ("Neighbours"), where Uncle Taki interrupts a conversation by pushing a button on the remote control, saying "I'm watching TV". Then the music of the series starts up. He switches it off and says "I'm not watching TV".

8 Creative (plot) and non-creative (on set) product placement

Just like advertising or marketing communications in general, product placement is also more successful if it is creative. At the same time, creative placements require much more background work, too. A typical example for on set (non-creative) placement is when characters engage in a conversation at the bar, and we can see what brand of beer they are drinking.

A creative drink placement can be seen in *Spider-Man* when the main character is practicing his net shooting skills with a can of Dr. Pepper. Another example is *Wall Street* released in 1987, which depicts Charlie Sheen presenting Fortune magazine with a photo of Gordon Gekko, a stockbroker played by Michael Douglas. He even states that the magazine is the Bible. Home Depot was also placed in a creative way in the reality show *Survivor*: competing tribes had to put a roof over themselves using products from the home improvement retailer. In the series *Sex and the City*, Samantha's model boyfriend appears on the posters of Absolut vodka, and the brand plays an important role in the dramaturgy, too.

Therefore this kind of placement is also called product integration (Tóth, 2006). However, in the case of non-creative (on set) product placement, the role of the product is more of an accessory; therefore it is also called non-integrated placement.

9 Product placement integrated into a movie as a whole (embedded marketing)

This is a special sort of product placement with a brand interweaving the whole movie or TV programme. The story of *The Gods Must Be Crazy* is set around a Coca-Cola bottle. In the film *The Hunt for the Hidden Relic* (original German title: *Das Jesus Video*) (2002) a Sony camera appears, and in the first part of *Matrix* (1999) Neo always receives calls on a Nokia telephone. In *Knight Rider* Michael Knight is pulled out of trouble by Kitt, that is, a Pontiac Trans Am. In *Cast Away* great emphasis was placed on the brands FedEx and Wilson.

In *Evolution* (2001), a sci-fi comedy film starring David Duchovny, several attempts are made to fight off aliens (who are evils in the movie), but the only solution is a component of the Head & Shoulders shampoo. Moreover, a mini-advertisement appears at the end of the movie: as the actors say, the fight against extraterrestrials is just as tough as to keep our hair well-groomed, shiny and dandruff-free. Therefore it is always good to keep some bottles of Head & Shoulders at hand...



A mini Head & Shoulders shampoo advertisement appears in the movie *Evolution*

The Sisterhood of the Traveling Pants, an American comedy released in 2005, was a perfect opportunity for the placement of a jeans brand. According to a description by port.hu (2013), a Hungarian entertainment website, the movie features "four friends spending the summer without each other. When they find a pair of jeans in a second-hand shop that suits all of them perfectly, they decide that each of them will wear it for a week, see if it is good luck, and then forward it to the next girl. Although several kilometres separate them, the four girls experience

life, love and loss during the summer together, which proves to be an unforgettable experience for all of them.” The depiction of jeans created an excellent advertising opportunity, and the brand taking it was Levi’s. The brand was also displayed on the poster of the film as the back pocket of jeans with the unique red Levi’s symbol was photographed for it.

10 Brands featured in film titles

The inclusion of a brand in the title of a film/programme is an even rarer example of brand placement, but there are a number of examples. A silent film released as early as in 1916 had a suggestive title that declared what car brand women desired – its title was *She wanted a Ford*. Hotels have also been placed in titles. *Night at the Ritz*, released in 1935, featured a night and the Ritz Hotel, and *Dinner at the Ritz*, released in 1937, featured a dinner and the hotel. Then, in 1961, Audrey Hepburn advertised a luxury jewellery shop in a movie titled *Breakfast at Tiffany’s*. Examples from the 1980s and 1990s include *The Coca-Cola Kid* (1985), *Harley Davidson and the Marlboro Man* (1991), and *The Adventures of Ford Fairlane* (1990).

In the 2000s Harold and Kumar visit a White Castle fast food restaurant in *Harold and Kumar Go to White Castle* (2004). The posters of the movie, of course, were placed in the restaurants of the chain (all 392 of them), and there was a booth on Hollywood Sunset Boulevard, too. It is true, however, that two guys smoking marijuana and having fun might have not had a positive effect on the reputation of the family-run fast-food restaurant after all.

In the movie originally titled *Because of Winn Dixie* (2005) Winn Dixie is a dog – and in reality it is a well-known supermarket chain. The title of *Slumdog Millionaire* (2008) refers to the TV programme *Who Wants To Be A Millionaire?*, which is the focus of the story. The lawyer works mostly on the back seat of his Lincoln limousine in *The Lincoln Lawyer* (2011).



When the brand appears in the title: *The Lincoln Lawyer*

There are peculiar cases, too. The Philip Morris tobacco company was not necessarily happy with the movie *I love you Phillip Morris* (2009) with its story about a gay couple. The erotic movie *Electra Luxx* (2010) may have caused difficulties for Electrolux. McDonald's was pilloried by the documentary *Super Size Me* (2004). The intertitle *The Children of Marx and Coca-Cola* appeared in a movie produced in French-Swedish cooperation.

But let us get back to less convoluted examples. *The Devil Wears Prada* (2006) is definitely the most well-known piece from the past years with a brand in its title. The same brand appeared in another movie, *From Prada to Nada* (2011), too:

It happens less often that a slogan is incorporated in the title of the film. *You've Got Mail* (1998) starring Tom Hanks and Meg Ryan was named after the slogan of AOL.

11 Placement in a trailer

It is often important for brands to appear not only in the movie itself, but also in its introduction, the so-called trailer. Coca-Cola Light is placed in the trailer of the French animated film *Renaissance*, set in 2054. We can see the FedEx and Wilson brands in the trailer of *Cast Away*.

12 Placement within films and related campaigns

Surprising though it may seem, brand placement outside movies or TV programmes is also possible. It is used in films where it would be strange to display the brand itself because the plot is set in another era, e.g. the middle age or the space age. The brand may also support the campaign of the movie with co-branding or cross promotion agreements.

We could see such activities when Pepsi facilitated the introduction of new *Star Wars* versions by appearing on movie posters, and *Star Wars* figures were printed on Pepsi soft drinks. Of course it was impossible to place a car brand in *Luther*, a historical film set in the middle ages. However though, main characters were wearing civilian clothes for the film premiere, which BMW took advantage of, and provided cars for each of them, then the press published reports on this.



Placement in related campaigns: *Star Wars* themed Pepsi cans

13 Product placement added in post production digitally

The cost of placing a brand in a programme or film in the post-production phase is still relatively high, but using digital technology for this purpose will become cheaper and cheaper in the future. A logo can be printed on a pizza box, a coffee brand name can be put on a mug, and walls can display various advertisements after the film has been produced. We can also place products afterwards, for example by parking new car models on the street. Is it hard to believe? It has become reality, just watch the works of MirriAd agency.



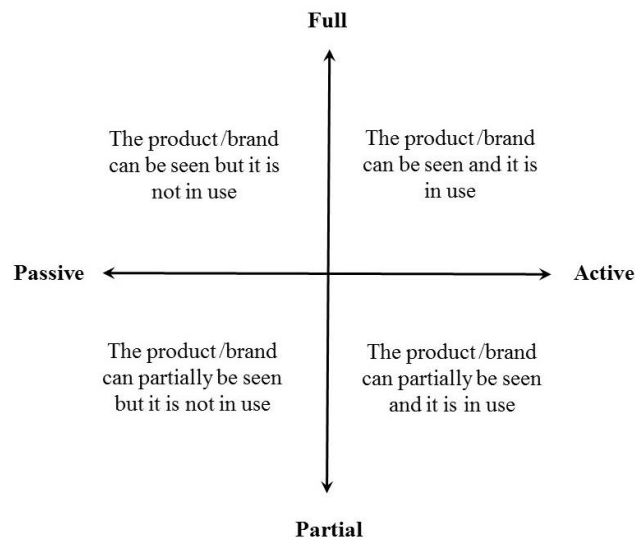
Various digital advertisements can be put in to films in the post-production phase

14 Product placement and anti product placement

It may seem strange at first glance, but there are cases when product placement is not allowed in movies or TV programmes. In such cases it must be ensured that there is no possibility of brand placement; for example, there may be no billboards along the streets, and characters must drink soft drinks without a clearly recognizable brand in nonbrand fast-food restaurants. Of course this is limited primarily for legal reasons. In Hungary, for example, it was forbidden to include product placements in film series between 1996 and 2010. Therefore specialist teams were set up to develop methods to hide or remove brands: to rotate products so that they would not be recognizable, decrease the depth of field, or digitally remove the brand name, and so on.

15 Conclusions

Of course there may be several other possible approaches besides the groupings described above, and these groupings can also be combined with each other, creating various matrixes (Mihálszki 2011). This is exemplified by the figure below, which is used both in Hungary and worldwide.



The above-mentioned groupings can also be combined with each other. This is one of the most frequently used matrix for the measurement and assessment of placements.

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Trends of the Sales Force Monitoring Development in Multinational Firms

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Abstract: The sales-force is one of the most important function in the marketing mix in case of many companies. It comes more into prominence when the company operates in business to business relations. The objective of this research to explore and present the development trends of the sales-force controlling procedures in field-force oriented, multinational firms.

Having the sales-force management in key functionality is essential to support this field by well developed innovative reporting system. Decisions are strongly influenced by the sales force reports, so their continuous developments plays very important role in the companies' life. Without that the firm will lose its position in the strong competition. So it is essential to invest in the sales force monitoring developments.

Keywords: sales-force monitoring

Journal of Economic Literature (JEL) code: M16, O3

1 Introduction

The objective of this research is to examine important monitoring processes regarding sales force evaluation used in multinational firms, with relative large field-force team, in which companies the field-force is one of the most important function in the marketing mix. The aim of the study is not to examine all of the sales-force evaluation methods, but to focus on the activity and sales monitoring techniques. The research shows practical realizations and tries to highlight their most important elements.

The sales-force team is one of the most important marketing tool for many companies, which represents the interface between the customers and the company. The field-force is often only function that generates sales, especially in industrial goods, but also in FMCG sector, or on the medical field.

Therefore the intensive control, the proper monitoring system and the adequate compensation system is essential for these kind of companies. The different

combination of these tools might affect the behavior of the sales person differently (Bergen, Dutta, and Walker, 1992).

2 Theory

Beyond matching the business strategy and the marketing policy it is also crucial to build a bridge between marketing policy and the sales force management, which is one of the most important element of the marketing mix. The sales-force management plays a prominent role in creation of customer value (Porter, 1985; Day, 1992). The sales-force management is the most important form of promotion in the business to business market.

There are two dominant frameworks of business strategy in the strategic management approach. These are Miles and Snow (1978) and Porter (1980) typologies.

Miles and Snow model is about the alternative ways in which organizations define and approach their product-market domains and construct processes and structures to achieve success in these domains. This model define four type of aggressiveness strategies: prospector, defender, analyzer, and reactor.

In this model market defenders attempt to cover and seal off a part of the total market to create a stable set of products and customers, while the prospectors continuously try to find and exploit new product and market opportunities.

There is the analyzer type between the defender and prospector. They are less committed to stability than defenders but they take less risk and make less mistakes than a prospectors. They are often second or third place entrants in the market. Most companies are analyzers.

The forth one is the reactor, which has no proactive strategy. These companies responds only when they are forced by pressures coming from their environment. They have no real focus direction. This is the least effective company strategy (Miles and Snow, 1978).

Miles and Snow typology	Strategy	Organization
Prospector	Trying to find new market opportunities, Making innovations, Growing, Taking risk	Flexible structure, decentralized, Innovative and creative
Defender	Protecting its well-established business by doing whatever is necessary to aggressively prevent competitors from entering their turf.	Centralized, strong control, efficient production
Analyzer	Performing moderate innovations, monitoring the activities of the competitors and using their successful ideas.	Flexibility but under tight control, efficient production, creativity
Reactor	There are no clear strategy, responding to environmental changes	No clear organizational approach, depends on current needs

Table 1
Miles and snow strategy typology
Source: Miles and Snow, 1978

Porter proposed to view the entrepreneurial problem as a product of how the firm creates value and how it defines its scope of market coverage. He outlined three generic strategies, cost leadership, differentiated, or focus.

We are talking about cost leadership strategy is when the company wins market share by focusing on cost-conscious or price-sensitive customers. They operating with the lowest prices in the target market segment, or at least the lowest price to value ratio. Due to the low cost products the firm must operate at a lower cost than its rivals, to achieve profitability and a return on investment.

Porter’s second strategic approach is the differentiation when the company try to differentiate its products or services. They try to highlight the advantages and gain market share from the customers who are willing to pay more for the better or more fashionable products or services. (E.g. Mercedes, Apple, etc. are following this strategy.)

Lastly there is the so called focus strategy (also called as segmentation strategy), when the company tries to focus on a few target markets, which are distinct groups with specialized needs. The choice of offering low prices or differentiated

products or services depends on the needs of the selected segment and the capabilities of the company.

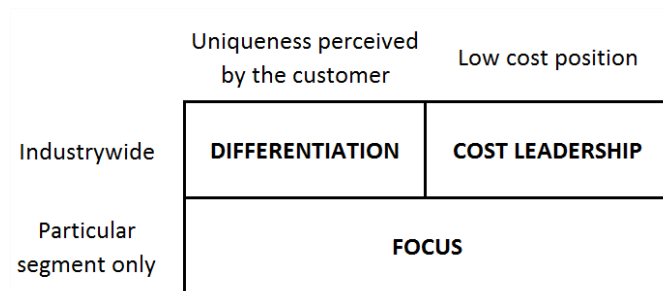


Figure 1
 Three generic competitive strategies of Porter
 Source: Porter, 1985

This article is not intended to analyze the relation between business strategy and marketing strategy. It is generally known that the business strategy defines the company itself. It is a long term plan of action designed to achieve the goals or objectives, so it is about how business should conduct to achieve the desired goals. It defines the desired goals too (e.g. increasing sales volume, increasing profits, etc.) and identifies the market.

While marketing strategy is about the activities, so it defines the actions like campaigns, direct marketing tools and their timings. So it is about the mix of the tools which will help to reach e.g. the required market share. Marketing strategy includes all the activities in the field of marketing that deal with the analysis of the strategic initial situation of a company and the formulation, evaluation and selection of market-oriented strategies and therefore contribute to the goals of the company and its marketing objectives (Homburg, Kuester, and Krohmer, 2008).

It is generally known that the sales-force plays the most important role in the implementation of the company's strategy. Therefore the two-way communication - including the sales force monitoring - between the management and the field-force is critical.

If the company follows e.g. the focus strategy, then the sales force monitoring team should be able to control the activities of the field force members whether they really visit the desired segment of costumers, or whether they promote the products and services in line with the desired strategy.

3 Sales-force monitoring development trends

Most of the sales-force controlling systems contain the main trunk databases like the client database, the sales-force¹ structure (which contains the representatives² and the area managers³ and their hierarchical relations), and of course the relations between the data (like representative linking to a group of clients). These linking are mainly based on territorial units, for example by counties, or by subregions (often called as bricks⁴). Of course it is beneficial to use the same level of territorial units in the sales-force controlling system and in the sales monitoring system too, because in that case it will be possible to easily compare the promotional visits⁵ and the result of them, so the sales on the same territorial level.

So in the sales-force controlling systems the representatives report their activities and the given promotional materials to the customers. In case of more than one product promotion most of the systems record all of the mentioned products during the promotional visit.

3.1. Sales-force monitoring development methods

We can extend the controlling functionalities of the sales-force by several quite effective functionalities detailed below.

- Appointment planning. The representative is able to define the intention of the visit in advance if the appointment has been already discussed with the customer in advance. With the help of that controlling functionality improvement, the representatives, or even their controllers will be able to check the in advance planned visits and optimize the routes of the representatives.
- Improving the personal sample inventory functionality allow us to handle the product samples, or the promotional materials more effectively. It improves not only the controlling of the representatives, but also helps in the financial

¹ Sales-force: Sales-force team is a team which operates on the field with customer visits. They promote and/or sale products or services direct to the customers of a company. Sales-force team contains the sales representatives and the area managers. Sales-force and field-force expressions are often used as synonyms.

² Representative: Representative person is a sales-force member, who operates on the field with product presentations and promotions to the customers. Most of the companies abbreviate them as REPs.

³ Area Manager: The area manager is the principal of a small group of representatives.

⁴ Brick: The brick is a group of several nearby cities and/or towns. It is a smaller area than the county. Hungary has 175 bricks in 2014.

⁵ Visit: In this context we are talking about a visit to a customer done by representative for promotional or sales reasons.

accounting as well. Based on the tax rules in most EU countries a company can reclaim the VAT of the promotional materials if there is a strict recordkeeping of these materials. Without personal inventories it is not possible.

So the personal inventories of the representatives keep the record of all material movement by the representatives. It will save all the material transactions from the headquarter to the corresponding representative and also the transactions between the representatives and the customers. With the help of that we will be able to get an actual stock report at any time even on headquarter, or even on representative level.

- The effective client targeting is also essential. A targeted market is a group of customers towards which the business has decided to aim its marketing efforts (Kurtz, 2010). For that purpose there is a need of grouping, or targeting possibility from the customers' database point of view. In an improved sales-force controlling systems this function is already present, so we can create a "should be visited" customer group for the representatives. The representatives will be able to filter the customers by this group too, having the possibility to see the chosen/grouped customers. Later on, based on the visit experiences the representatives will be able to categorize the clients. They will be able to define important, medium important, or not important clients.
- The client validation is also important. It is not too effective when the representative is able to modify the customer's data but without any control. Of course it can be controlled somehow by a headquarter based team, but this is a huge workload, and an office based worker, or even an office based team will not know all the clients all over the country, so they will not be able to effectively validate the modifications on clients made by the representatives. The semi-automatic validation can be a very effective innovation. It means that we can get the validation from another representative in the same territory. So we can set the sales-force controlling system to accept the modification of a representative if it is accepted by another sales representative as well who works also on this territory (but e.g. on another product line).
- And there is a very beneficial facility which is the correction possibility. The first generation sales-force controlling systems gives the functionalities to report the visits or activities done by the representatives, but if they make reporting errors then it has to be corrected by the headquarter' monitoring team. Of course it can happen that the representative forgets to enter e.g. the given product samples or an expense and he/she sends the daily report to the headquarter. When the representative realizes this mistake then it is too late. So the day will be defective/insufficient and the representative will not be able to correct it anymore. The innovative solution can give a time period

(e.g. some days) while the representatives are able to modify the already sent, or closed days. But this modification can be monitored and has to be approved by his/her manager.

4 Findings regarding operational cost monitoring developments

There are several quite effective ways to improve the field-force monitoring. With the help of them the controlling team is able to reduce the operational costs and improve the efficiency of the activities on the field.

4.1. Market share with customer visit and marketing activity analyzes

Asking marketing managers and sales force managers about most important reports they will answer almost certainly that the measurement of marketing activity effects is one of the most important indicator for them.

They obviously want to know the effect of different sales-force or marketing activities for the activity planning. Of course it is a more unknowns equation. The effect of the activity depends on many internal and external factors, such as competitors activity, seasonality, intensity, volume and effectiveness of the activity, etc.

But based on the empirical evidences from the former activity results coming from the sales-force monitoring the management can predict more effectively the expected results of activity plan's elements. These kind of reports are also very important in the activity effectiveness monitoring. If e.g. a marketing activity result remains below the expected effect then the management can react at once, and can draw the conclusion and detect the execution errors.

Market share is closely monitored for signs of change in the competitive environment, and it frequently drives strategic or tactical action. (Farris et al., 2010).

The following report shows the visit numbers of the representative with a certain product on monthly bases together with the activities and also shows their effect on market share in one graph.

Similar effective reports can be produced by modern sales-force monitoring systems. In case of a business intelligence solution the report interactively changes by altering the filtering parameters (e.g. by choosing another product).

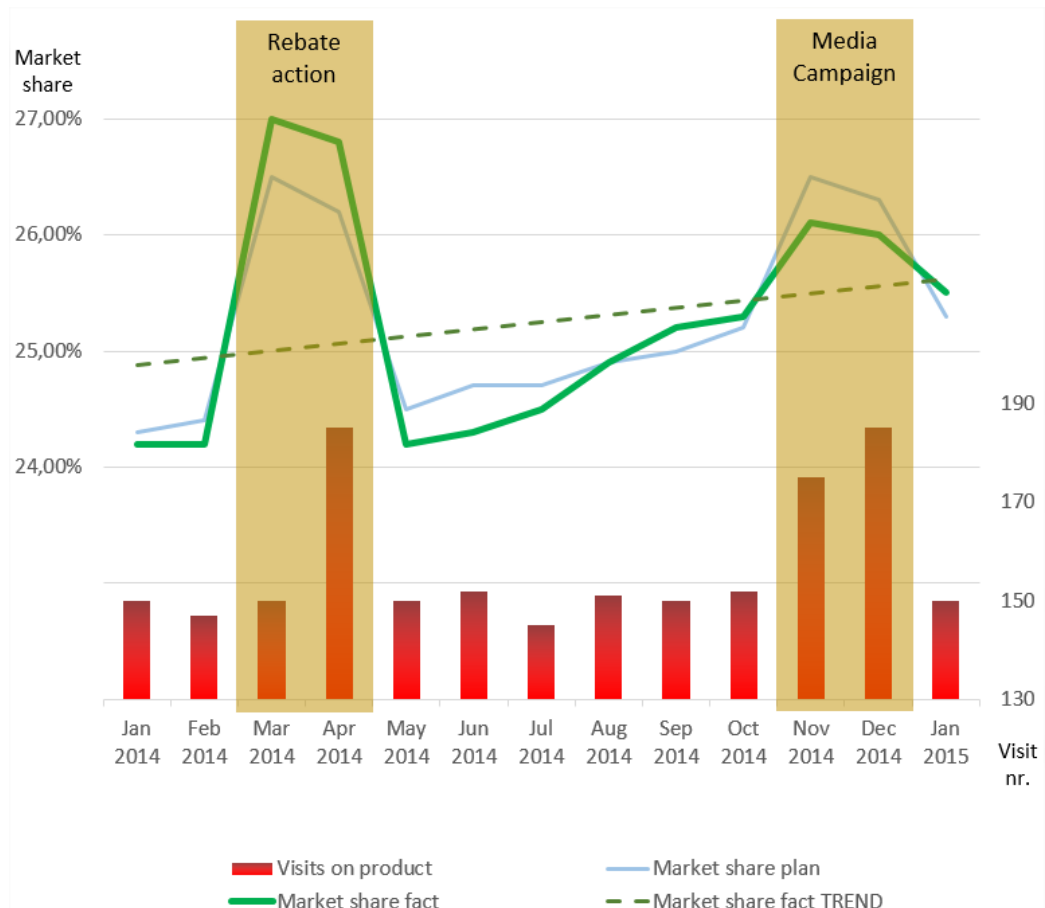


Figure 2
 Sales-force report about visit and marketing activity effect on market share
 Source: Erményi, 2015

So this report shows two important factors and a key performance indicator together on a quite effective visualized way. In the bottom of this complex chart we see a bar chart with the promotional visit number of the chosen product. The large beige columns - from the top to the bottom of the chart - mark the periods where special marketing activity has been performed on this product. On the top of these columns this activity is specified.

The line graph shows the market share. The pale blue is the market share plan coming from the marketing plan and the green line is the fact market share. The dashed, straight line is the linear trend of the fact data of the market share.

With a help of this report the manager can measure the efficiency of the marketing activities within several seconds and also can evaluate the accuracy of the sales planning on market share basis.

4.2. Crosschecking of dual visits

One of the important controlling functions is the crosschecking of the representatives' and the area managers' data.

We are supposing that we have all data of the promotional visits reported by the representative and all the reported data of the area managers too. In most of the sales-force controlling systems the area managers also have to report their activities, which are short summarization reports about the days. And in most of these controlling systems the area manager has to report the number of the double visits made together with the representative.

So from controlling point of view we are able to make crosschecking. It can happen, that sometimes they do not say the same. Of course there can be some accidental administrative mistakes made by the area manager or by the representative when e.g. the representative forgets to indicate that a certain promotional visit was together with the area manager. But if there are a lot of contradictions between their reporting then somebody is cheating.

Of course the crosschecking of the daily reports is a huge workload because we have to crosscheck the reported visits of the representatives and the activities of the area managers day by day. So the monitoring team can spend even a whole day with a task like that. But in case of innovative sales-force controlling system it will take just some minutes. It will provide the anomalies between the reports of the representatives and the area managers. With the help of that the sales-force manager will be able to easily analyze if there is cheating or not by the sales-force workers.

Most of the sales-force controlling systems defines an indicator which shows the matching ratio of the dual visit reports of the representatives and the area managers. A general equation for that purpose is the following:

$$\text{Dual visit matching ration} = \frac{\text{dual visit number reported only by one of the parties}}{\text{total dual visits}}$$

So the controlling system iteratively check all of the representatives (one by one) concerning the reported dual visits. If the system find a dual visit either reported by representative, or by his/her area manager, then it will be counted under the "total dual visits", so it goes to the denominator. Of course the dual visit reported by both will be counted only once.

Then the system will count how many of these visits are reported only by one of the parties, so only by the representative, or only by the area manager. This number goes to the numerator.

The sales-force controller can easily filter the representatives where the ratio is too low (eg. below 90%) and can perform further check on the representative or even on the area manager.

The following figure shows a simple dual visit crosscheck report, where the sales force manager can find the problematic representatives at a glance. The report shows the dual visit matching ratio by representatives as a bar chart. The representatives with lower values (under 90%) are indicated with red column.

The desired time period and the representatives can be filtered by the controls on the top of the report. Currently one month (February of 2015) is shown.

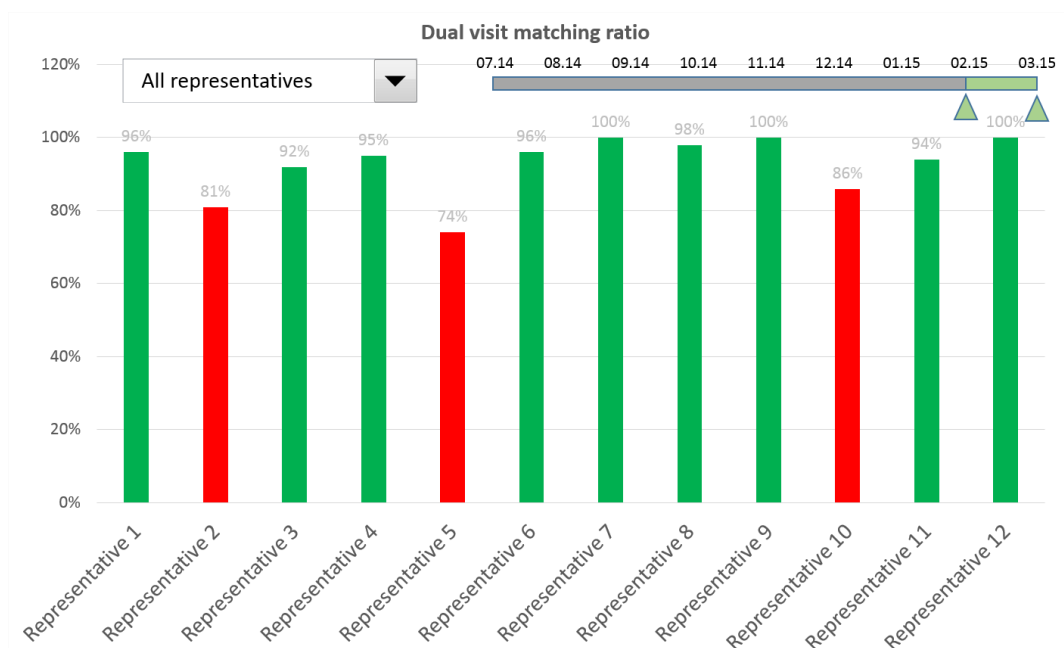


Figure 3
 Crosschecking the dual visit reporting of representatives and area managers by dual visit matching ratio
 Source: Erményi, 2015

4.3. Checking the coverage and the frequency of promotional visits

If we project the cost of the visits then we will agree that even one visit costs a lot, due to the representative has salary, uses company car, uses IT or communication appliances, etc.

So it is essential to check the visits from coverage and also from frequency point of view because the company can not afford to perform non-effective visit strategy.

So the companies have to perform monitoring developments to check how the targeted customers are covered by visits and how frequently the representatives visit these persons with the appropriate portfolio. The visit frequency can be calculated by the following formula.

$$\text{Frequency} = \text{Number of visits} / \text{Visited customers}$$

By checking the frequency the controller can conclude whether the representative visits the targeted customers enough frequently or not.

But the coverage information is also very important. The coverage shows how the clients on the territory are covered by visits.

$$\text{Coverage of targeted clients} = \text{Visited clients} / \text{Total targeted clients}$$

$$\text{Coverage of available clients} = \text{Visited clients} / \text{Total active clients}$$

If the graph based outputs are not available then it is worth to develop them. Innovative sales-force monitoring systems provide very effective visualizations as well, because by the help of that the sales-force monitoring can find the too high peaks, or the too low valleys at once. These kind of reports are very informative. If a good target database is available (which show the important clients from the company point of view) then it is worth to use the so called “coverage of targeted clients”, due to it will show the percentage of the visited customers from the “should be visited clients” data-set.

An example - from a company interested in medical products - is shown about the amount of targeted customers, the visited customers and the visit frequency together. The report currently shows half year period, but the period can be modified arbitrarily.

The bottom of the composite chart contains a bar chart. The grey columns represent the numbers of the important customers. Beside that there is a colored column about the coverage, which is the number of the really visited customers. This column is red in case of lower values than the planned amount, and green when all of the important customers were visited.

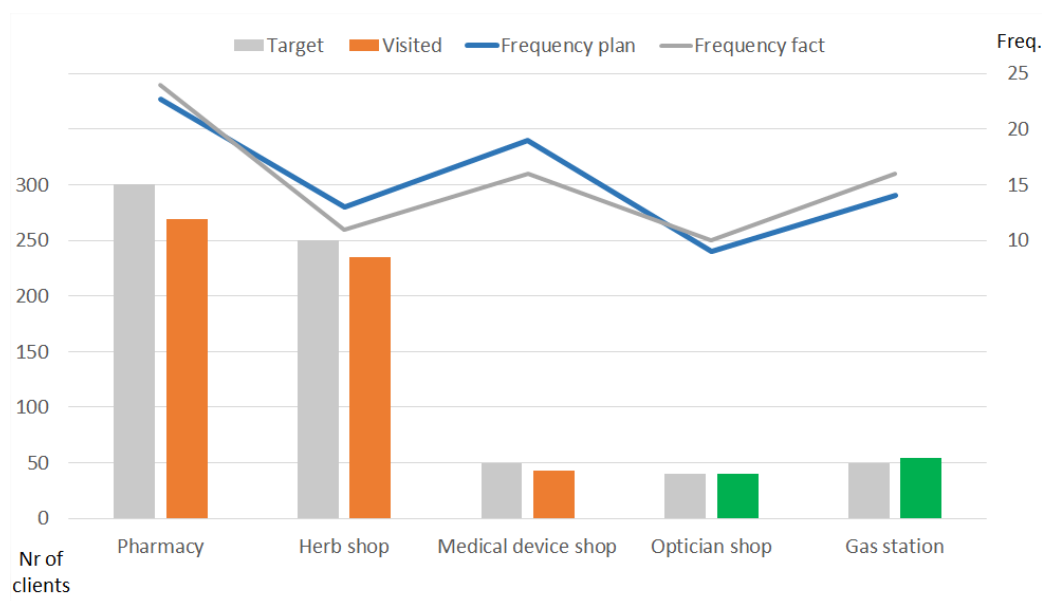


Figure 4
 Checking the customers' coverage and the visit frequency
 Source: Erményi. 2015

Above these bar chart section the planned visit frequency and the fact visit frequency numbers are shown in a line diagram. Planned frequency is plotted by a grey line while the fact frequency is presented by a blue line.

With the help of this report the sales force manager can monitor very effectively whether the important clients are visited or not. And the manager also sees the frequency of these visits (compared to the frequency plan) at once.

4.4. Operating cost monitoring

Beyond the importance of the activity controlling developments we have to mention the improvement need in the monitoring of the directly available operation costs.

There are companies with a huge sales-force team operating on the field, which generates one of the most meaningful parts of the operating costs. Therefore the

innovation in the operational costs monitoring has a key importance, especially during an economic crisis.

It is essential to have the possibility to check the aggregated operation costs but the controlling needs innovations to have the possibilities to check these important values even by cost centers, or by persons (e.g. by representatives). In case of anomalies they are able to find its reason by drilling the information level down even to the type of costs.

The figure below shows an example of a very effective management report which shows the operating costs by representatives. An innovative system can produce such a report from the available data of expenses. With the help of a report like that the controlling can easily find the persons who has to high operative costs.

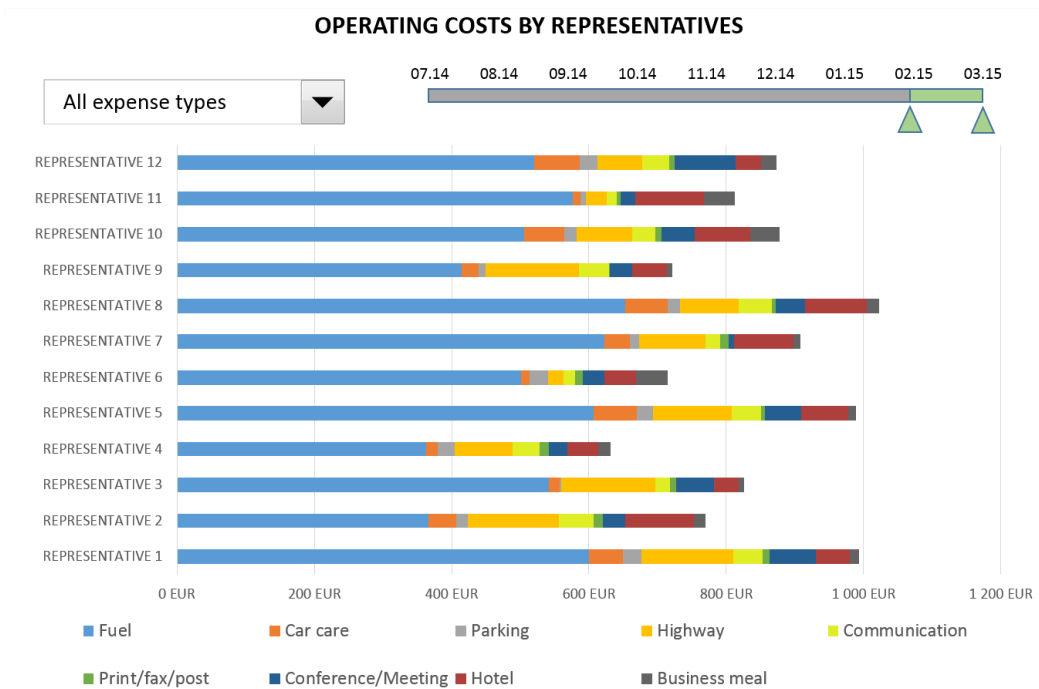


Figure 5
Monthly operative cost monitoring
Source: Erményi, 2015

The controller can chose the type of the desired cost(s) with the help of the combo-box control at the top left corner of the report, or he can leave it as “all

expense types”, when all of the operating costs are shown in a cumulative horizontal bar chart. Different cost types are with different colors.

The requested time period can be defined with the help of the time line control on the top right corner of the report.

So if an effective solution is not available for cost checking purpose, then the business controlling needs innovative monitoring solutions in this field, because the controlling and the management need always updated information in an easy to understand format.

5 Conclusion

Marketing and the sales-force do not operate in a vacuum. Decisions are strongly influenced by both organizational forces and market-level. These decisions strongly influence the company’s success at achieving competitive advantage (Porter, 1985).

It is fundamental to have an effective sales-force monitoring tools. Successful monitoring and controlling services provide an indispensably required support to managers, especially in times of change (Weber and Nevries, 2011).

Without that it is almost impossible to get good finance results and to survive an economic crisis. Most of the business sectors endure more and more restrictions from the governments as well. Without strict and effective monitoring developments there is no possibility to survive in the intensified competition.

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Moving from Information to Knowledge for Water Quality Management Worldwide

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Abstract: In this paper we take a global view of fresh water management at various sector levels and in select nations. We focus on sustainability, water usage, river quality, capital spending and other variables. Our emphasis is on pressing current issues, but also on a long-run perspective. We suggest that (1) the policy process involve identification, evaluation and implementation and that (2) stages of data production involve monitoring, analyzing, and disseminating information. A classification scheme is suggested for categorizing environmental pollution and observing existing laws in various regions and nations. We advocate analysis along two lines: (1) longitudinal data, to note changes over decades rather than years and (2) cross-sectional data for comparing companies and nations of similar size. The emphasis is on improving water quality and in moving from information to knowledge in regard to environmental indicators.

1 Overview of Water Supply

There is as much water in the world as there was a 100 or 1000 years ago, with this permanency based on the hydrologic cycle from runoff to evaporation to precipitation. Total world supply is estimated at 1350 mil km³ a truly high figure. This quantity of water on Earth exceeds the needs of the world's current 7.2 billion

persons or even more people. But, as early pioneers in the field recognized, much of the water is unavailable, inaccessible, or unevenly distributed by location or seasons of the year (Biswas 1978, Nace 1969, Ambroggi 1980, Gleick, 1993). In fact, 97% of the figure cited for total supply is saline or ocean water, 2% is frozen or brackish, and only 1% is fresh water. Desalination of ocean water is still a prohibitively costly solution. Of the fresh water, only about one-hundredth of that 1% is in rivers and lakes, many of which are polluted.

Only one-fourth of all precipitation falls on land: the distribution of such rain or snow shows much variation shows much variation by nation and on an annual or seasonal basis. Only one half of the runoff becomes available for use due to lack of storage. To capture either surface or ground water is not easy. Simply, it is not economical to build reservoirs to capture all the runoff due to evaporation or silting. As for dams, their number is on the rise, with China, USA, and Russia leading the way; yet the World Bank refused a big loan toward constructing the Three Gorges Dam for environmental reasons (China built it just the same) and some dams have been demolished recently in USA. Deforestation, melting of glaciers, increased irrigation, and urbanization all contribute to reduced supply. Desalting of ocean water is on the rise, especially in the Middle East, but the total impact has been small so far (UN 2012, UN 2015, WB 2014).

2 Overview of Water Demand

The use of fresh water has been rising worldwide along with population and economic activity. During the four decades between 1960 and 2000, the annual growth rate has been put in the range from 2.8% to 3.5%, though some estimates came in as high as 4%. These figures can be contrasted with world population growth of 1.8%-2.0% and world gross domestic product (in real terms) at 4.2%-5.2%. This gave rise to cautious optimism and indeed growth rates have been reined in for water use during 2000-2014. Water use by major sectors of an economy changes as development takes place; share going to agriculture declines and those to industry and households increase. However, even in highly developed nations, agriculture is often still the major user of fresh water (Barlow 2013, Blewitt, 2008, Gleick 2014). As rainfall decreases and as wells run dry, droughts recur. So the cultivation practices of farmers will have to change greatly as in California and urban areas will likely to restrict usage to as in Sao Paulo just now (Davidow & Malone 2015, Hoekstra, 2013, Molden, 2007, Piper 2014, Romero 2015).

Much of the increased demand for water in the 21st century comes from nations in Latin America, Africa, the Middle East, and South Asia. Several countries in these regions experience shortages of fresh water, have not managed well the demand from various sectors, and as a result are approaching their 'maximum developable supply'. Indeed, in a just released 2015 report by the United Nations, the planet is

said to be “facing a 40% shortfall in water by 2030 unless we improve management of this precious resource.” Various agencies are at work examining daily and annual use of water in the three major sectors and in specific operations e.g. rice vs wheat fields, steel vs plastic production, and washing garments vs flushing toilets. Average daily use per capita in households ranges from 50 to 400 liters per day; withdrawal per capita for all uses can be from 400m³ to over 3000 m³ per year (Drinan & Spellman 2012, OECD 2014, UN 2012, UN 2015, World Bank 2014 plus select websites listed in Bibliography).

3 Sustainability and Water Usage

The concept of sustainability has been around for decades (Bruntland 1987, Kahle & Gural-Atay 2014, Tolma 1991) but its practice is more recent. A simple definition: it is development that meets the needs of the present without compromising those of future generations. Related to this definition has been the emphasis on a ‘triple bottom line’—dealing with economic, social, and environmental needs. As others have stated: profits, people, and planet. Yet another ‘shorthand solution’ proposed is espousing ‘reduce, reuse, recycle.’ But the application of these broad concepts in daily activities of billions, whether at work or at leisure, and in keeping our ecosystem less polluted is truly complex and challenging. That is due to life styles, economic growth, urban overcrowding, overgrazing, and deforestation (DeLange, 2010, Gleick 1993).

Three major factors cause or contribute directly to environmental damage and specifically to water pollution. First, although degradation occurs in the absence of man-made activities, it is the latter that are responsible for most of the problems. If population and economic-industrial activity were more dispersed then 90% of existing pollution would be eliminated. Second, such non-economic factors as lack of trained personnel, resistance from vested interests, and bungling by bureaucrats loom equally significant to demographic and economic forces. Third, non-point sources such as fertilizer runoff from farms constitute major sources of water pollution, but are almost impossible to monitor or eliminate (Biswas 1978; Gross 1986a; Black & King 2009; Drinan & Spellman, 2012; etc.). The impact of water pollution may be short-run or long-run or both; it may be visible or invisible. But the assessment of damage is a complex undertaking; it has taken years to prove that air pollution results in acid rain and lake contamination far away

3.1 Corporate Sustainability: Case Study of Water Use by Two Giant Mining Firms

The broad definition of sustainability as balancing the needs of the present and future generations must be made more meaningful at the individual, organizational, and public level. In a Dow Jones index, sustainability is defined as a “business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental developments.” The International Council on Mining and Metals stated in 2008 that for mining firms at the project level “investments must be technically appropriate, environmentally sound, and socially responsible.” These statements go beyond mere profit goals, but they are still broad.

We compare two long-established, global mining firms on water usage. They are BHP Billiton (founded in 1885) and Rio Tinto (founded in 1873) that have recorded, respectively, revenues of \$67 billion and \$48 billion in 2014. Both are multinational in scope and have grown on their own as well as via mergers and acquisitions. Our choice was governed by being asked to deliver a lecture at a major Ecoforum exhibit in Sydney in 2012 on sustainability and water use by resource-based firms (Castrigano & Gross, 2012). Both firms have been criticized in the past, BHP Billiton for air pollutants, Rio Tinto for open-pit mining in Indonesia. However, in regard to sustainability in their use of water they have done better as discussed below.

Both Rio-Tinto and BHP-Billiton developed a corporate sustainability framework as shown here in **Figure 1** and **Figure 2**, respectively. These are concise exhibits that duplicate the broad ideas or definitions given above, so we needed to move beyond that. Accordingly, we examined their annual reports as well as specific environmental reports that the two giant firms had to offer. While we were interested in total water usage, of greater importance was their recycling ratios. We found that both firms are heavy users of water as shown in **Table 1- Part A**, with Rio Tinto using more than twice as much as BHP-Billiton. But on the recycling front, shown in **Table 1-Part B**, Rio Tinto is lagging behind BHP-Billiton (Castrigano & Gross, 2012).

Both promised to do better and to increase recycling rates. We probed further in publications and websites of the two giant firms and in **Table 2** show how they are promoting their achievements to stakeholders, including shareholders and employees, various government agencies and other diverse communities. They do this to build trust among stakeholders and to strengthen their corporate reputation for monitoring agencies. BHP Billiton is practicing sustainability more so than Rio Tinto as we look at a compare their achievements for key performance indicators.

We can also gain additional insights on water conservation by these companies if we examine the individual mining operations. The Olympic Dam mine of BHP Billiton in southeast Australia extracts copper primarily, but uranium is also mined.

A water efficiency initiative established in 2006 targeted reducing water use in three production areas: concentrator, hydromet, and smelter. After one year, total reduction of water usage was 5.5 megaliter per day (1 megaliter = 1 million liters). The Northparkes mine of Rio Tinto, in the same region, extracts copper and gold. Targeted total use of water use was exceeded by 17% in 2006, but the operation was redesigned and water evaporation from surface water was reduced. The company received an award from the Mineral Council for this innovation and later on chose to commercialize it.

3.2 Water Use by Nations and by Key Sectors

Moving beyond the corporate level, we must explore how nations and regions use fresh water and what the distribution of such water is among the three sectors of agriculture, industry, and domestic consumption. While geography is not destiny, the history of civilization over centuries can be described as the clustering of population along major river basins. These basins remain vital today for all three major end use sectors (Ambroggi 1980, Gleick 1993, Black & King, 2009, OECD 2013). In densely populated areas, even small rivers were intensely developed.

Rise of mega-cities and the growth of mega-farms have created major burden for governments. Drought conditions have been reported for Sao Paulo in Brazil, several regions of Pakistan, the state of California, and many other locations around the globe. Water supply has been imperiled by declining rainfall, rising temperatures, and bureaucratic mismanagement. The UN, WHO, OECD and other multinational agencies identified the top ten “water-scarce” and top ten “water-stressed” nations, with a majority in the Middle East. In total, 47 nations face water shortages, 18 are ‘water-stressed’, and 29 ‘water-scarce’ (Hoekstra 2013, Leahy 2014). Total global water usage was estimated by the UN at about 3800 km³ per year in 2000 (with agriculture around 70%, industry 30%, and households 10%) and to rise to nearly 4900 km³ by 2025.

Fresh water withdrawals (also known as water abstractions) are shown in **Table 3-Part A** for ten nations using recent data from OECD. The statistics are over a considerable period, from 1985 to 2005. This 20-year span reveals cause for optimism for these industrialized countries. Despite population and economic growth, along with urbanization, most of them were able to “hold the line” or even decrease the amount withdrawn. The exception is Turkey; it had the highest rate of growth and experienced rapid industrialization (OECD 2014, UN 2012).

Fresh water use by three end-user sectors shows variability among industrialized nations as seen in **Table 3-Part B**. These figures are averages for the 2008-2012. Notably, **agriculture** takes a large share in these countries and the sector accounts for much more, 85% to 95%, of fresh water withdrawal in emerging economies e.g. in India, Iran, Iraq, Kazakhstan (OECD 2012, UN 2015). This is because reuse or recycling of water is largely impractical in agriculture. A major report conducted in

2007 focused on whether there was sufficient water for agriculture to produce food for nearly 7 billion people then and the forecasted 9 billion persons by 2050 (Molden, 2007). The conclusion was that this would be possible only with reduced irrigation and major changes such as moving away from water-intensive produce and meat production.

‘Virtual water’ refers to water used to produce commodities, such as wheat, cotton, fruit and produce; when the product is shipped, such water is considered as an export. California is said to export over 20 trillion liters of virtual water even as it suffers from drought. How can this be? It is due to misallocation, mispricing and mismanagement. Water transfers among distant points is cumbersome and regulated. Farmers planted almond groves when price for almonds was high and water use was cheap (almonds, pistachios, berries all require intensive irrigation). Some municipalities have rules against sale of ground water. But now changes in irrigation practices, municipal rules as well as market incentives are advocated (Davidow & Malone 2015). Molden’s report, cited above, also called for similar policy changes globally on agricultural water use.

Water use in **industry** -in manufacturing, mining, and utility operations- is rising in importance in both industrialized and emerging economies. There are major variations among nations as to what percentage of the total use is taken by the industry sector. At one point, UN agencies predicted sharp increases in this sector due to higher electricity generation and manufacturing activity, but there has been a slowdown in both in all regions. In the developed nations there is a strong trend to recycling in process industries and in developing nations steps are taken to adopt new technology in regard to water intake, consumption, and waste load handling. Much of the **capital spending** on these is on equipment for more efficient water and wastewater treatment and more recycling. In addition, **operating expenses** are also being cut; for example organic coagulants are replacing inorganic ones. The former cost 10 times more than inorganics, but they are 15 times more efficient; far lower quantity is needed and far less solid waste is precipitated. This phenomenon gathered momentum over the years (Duncan & Gross 1995, Gross 1986b).

In an analogy to the concept of ‘virtual water’ or ‘exported water’ for agricultural commodities (fruit, produce, grain) and the raising of livestock, the concept of ‘water footprint’ is advocated in the manufacture of all products ranging from plastic bottles to steel, from paper to linen napkins. Many calculations have been carried out for different countries and different operations. For example, in case of a plastic cola bottle, about 5 liters of water are needed to make a half-liter bottle; but there is additional water needed for packaging and shipping which brings the total footprint to 175 liters (Leahy 2014). Large soft drink and water bottling firms are engaged in a strong dispute around the world; conservationists advocate less bottling, more use of tap water, and ‘thermos’ type or reusable containers (Hoekstra 2013). Further, it is said that poor dry countries in Asia and Africa should not sell ‘water-rich products’ to wealthy wet nations.

In regard to **domestic** use, progress has been made via conservation and pricing measures; still, its share of the total has risen due to growth in population, urbanization, and adoption of new lifestyles. Variables that come into play are income, tradition, price, and water/sanitation facilities. Per capita daily use varies widely in the 10 to 450 liter per day, but these numbers have shown a steady slow rise as people acquire appliances and as the middle class is growing in China, India, and other major developing nations. However, in industrialized countries most consumers respond positively to water-saving measures and even to proposed price increases charged by public and private utilities. A report in water prices charged in major European cities show a wide range from \$2/m³ in Wroclaw to \$3/m³ in Budapest, \$4.50/m³ in Amsterdam, and \$9/m³ in Copenhagen, but residents proved capable of adjustments (OECD 2013 citing IWA).

4 Expenditures and Achievements on Water Treatment

At this point we tackle the dual question: (1) how much is spent for battling water pollution and (2) what can be achieved in improving water quality, both locally and globally. These are complex questions that cannot be answered easily, in part because the cleanup task is tied to sovereign nations, different climates, rivers crossing national boundaries and past public policies along with regulatory enforcement. However, we can now make at least a partial assessment in regard to efforts and expenditures as well as subsequent results by taking a long-run view.

For the past half-century, under prodding by environmentalists, governments, and enlightened business interests, progress has been made in devoting efforts and funds toward reining in water pollution problems. Visible evidence such as the infamous Cuyahoga river fire incident of 1969 in Cleveland, Ohio and subsequent laws such as the U.S. Clean Water Act contributed to an upsurge in spending on water cleanup tasks. Business opportunities arose in marketing 'air and water purification' equipment around the world (Gross, 1986a). An early monograph on past and projected water pollution control spending in 30 nations was developed (Gross 1986a). In creating a framework, the author espoused the idea of using both the top-down method of utilizing aggregate data from government censuses and trade associations as well as the bottom-up method of combining data from major equipment producers (Duncan & Gross 1995).

Since 1980, many additional reports appeared on global, regional, and national markets for water pollution control equipment from various sources, especially by large market research agencies such as Datamonitor, Euromonitor, The Freedonia Group, and IBISWorld. **Table 4** reveals a 20-year span of past and projected statistics on major countries and regions. Total demand globally for water treatment equipment rose from about \$29 billion in 2007 to over \$38 billion in 2012 and

projected to grow to over \$53 billion by 2017 (The Freedonia Group, 2013). Annual growth rate for the world should rise from 6% during 2007-2012 to 7% during the 2012-2017 period, showing dedication on the part of industrial firms and municipalities to tackle water pollution in their respective countries. Filtration, membrane, and disinfection equipment will continue to be in high demand for supply water to households and process water for industrial use, even as water-saving devices in homes and recycling ratios in factories are on the rise.

Water and wastewater equipment are widely used by government and manufacturing entities, but they cannot be easily used in agriculture. Irrigation and accompanying cultivation steps that provide water for the growing of grain and produce on farms are not amenable to reuse or recycling; wastewater from livestock cannot be cheaply cleansed. Thus, there is flow of contaminated water from land into rivers and lakes. Furthermore, pesticides used on large farms and agribusinesses become part of the runoff. This key problem –called non-point source– has been around for many decades, but became more acute with intensive irrigation and livestock production. Dispersal of farm operations and cutbacks in pesticide use are costly, cumbersome, and not easily enforced. But all users of water should practice source not end-of-pipe solutions.

There is evidence on hand that that cleanup efforts, expenditures and legislation are working in regard both water and wastewater treatment. Numerous measures for gauging the extent of water pollution exist. For drinking water these are turbidity, pH values, lack of toxic chemicals, etc; for wastewater it is suspended solids, pH, BOD, lack of metals, etc. To be sure even in 2014 around the globe, over 1.2 billion people lacked access to potable water and over 2.2 billion did not have access to indoor sanitation (UN 2015). Many metrics show improvements; here we focus on BOD or biological oxygen demand. **Table 5** lists several major rivers, mostly in Europe, with practically all of them showing an improvement on this measure (the lower the better). Our emphasis is on Europe since it is the leading continent in regard to environmental action; but included are data from Japan, Turkey, and USA. The general improvement between 1970 and 2005 is encouraging and cause for optimism. It is notable that major rivers, such as the Rhine and the Danube, that cross several national borders show good results (OECD and UN data).

5 Framework for Classification, Legislation, and Action

To build an information to intelligence framework for understanding environmental degradation and for analyzing and improving the situation is no easy task. The old-fashioned, simple view that factories emit visible smoke and dirty water, that industrial leaders ignore these, and that the solution lies in strict legislation is gone. The causes and effects of pollution are many and varied, while remedies are equally

numerous and complex—as seen in **Table 6**. The reason for such complexity is that all human activities—both work and leisure related—cause physical degradation. The resultant effects can be mild and dangerous, but are neither easily measured nor easily tackled. In the short run solutions are in ad hoc economic, legal, and technical advances. In the long run, changes must be made in lifestyles, cultural values, and social conditions.

Three major factors cause or contribute directly to environmental damage and specifically to water pollution. First, although degradation occurs in the absence of man-made activities, it is the latter that are responsible for most of the problems. Concentration is really the problem; if population and/or economic-industrial activity could be dispersed evenly over land, then 90% of existing pollution would be eliminated. Second, such factors as lack of trained personnel, resistance from vested interests, and bureaucratic bungling are at least as significant as economic failures. Third, nonpoint sources, such as fertilizer and pesticide runoff from agriculture, are hard to monitor and even harder to eliminate (Gross 1986, Duncan & Gross 1995).

The impact of pollution is likely to be both short or long run or both; it may be visible or not; and assessing damage, actual or potential, is no small task. Yet in an era emphasizing sustainability it is mandatory to consider solutions for health and wellness. At the same time, the notion of ‘triple bottom line’ cited earlier and a cost-benefit analysis can lead to economic payoffs. Among the short run solutions suggested are: incentives (barriers or subsidies), regulation or licensing, and more efficient treatment facilities. Economists in the past recommended levying discharge fees and establishing regional or river basin management authorities. A consensus is emerging that overly strong regulation is unfair, inefficient, and self-defeating.

As to legal and administrative approaches to water pollution control, we have constructed yet another framework as shown in **Table 7**. Common law—as practiced in the UK-US milieu with emphasis on precedent—has always been concerned with the use of property by both individuals and organizations and its impact on neighbors. This is applicable and appropriate in regard to the use of rivers and the notion of ‘riparian rights’ that avoids harm to those downstream. In practice this means: (1) setting limits on specific pollutants, (2) agreement on threshold standards, and (3) negotiations on actual and potential harm (Gross & Scott, 1980, Gureusway & Leach 2012).

Going further, we have seen the emergence of broad statutory steps that affect all media—air, water, and solid waste. Transferring pollution from one medium to another is a temporary or localized solution as natural resources are connected. Much in the news these days is carbon tax to control air pollution; but the record so far is mixed and its adoption is still widely debated. In water and specifically river pollution the trend is toward river basin management as practiced in France and Germany. Just now, in mid-March 2015, Egypt, Ethiopia, and Sudan finally agreed

to better management of the Blue and White Nile and the construction of a large dam.

Other frameworks have been suggested for classifying water pollution problems and solutions. At a major environmental information forum, sponsored by Environment Canada in 1991, two conceptual frameworks were proposed. The first one by T. Friend of Statistics Canada proposed two routes, a material-energy balance and a stress-response system that includes “preventive, curative, and conservation steps.” The second framework, proposed by Nishioka and Moriguchi, at the same forum, put the emphasis on (1) stages of policy process—identification, evaluation, and implementation and (2) stages of data production—collection, analysis, and dissemination. Their 3x3 matrix makes a contribution by relating policy to data (see details on both in Gross & Duncan 1996, Chapter 6). A third, recent and comprehensive framework suggests a complex information network “allowing contributions by all players and building a web of trust” along with creation of website (wqin.org), database, collaboration tools and a user interface (Dalcanalet al. 2010). The ideas discussed have merit, but the website is currently not functional.

Much progress has been achieved in regard to environmental data collection and analysis by the major agencies of the United Nations, including WHO, UNESCO, UNICEF, et al; but the key player is the UN Environmental Program. Specifically, UNEP sponsors GEMS which is the Global Environment Monitoring System Water Programme. It is dedicated to providing water quality data of “the highest integrity, accessibility and interoperability with more than 4100 stations with 4.9 million records, and over 100 parameters.” The UN also sponsored an inter-agency mechanism called UN Water; it just issued, on March 20, 2015, its latest World Water Development Report (UN 2015). Another major agency on the global water scene is OECD with its Factbook 2014 focusing on economic, environmental, and social statistics. The OECD has been the fountainhead for economic data for many decades for Western nations, but it has now broadened its scope of collection. The World Bank in its annual World Development Report also contribute to the dialogue as do many other public and nonprofit agencies (see websites cited).

6 Summary, Conclusions and Recommendations

In this paper we offered a short, guided tour of the global situation regarding water quality. The discussion focused on water supply and water demand in a worldwide setting, then exploring the relation between sustainability and water usage. This was followed by a case study of corporate sustainability—a comparison of water use and recycling practices of two giant mining firms. In the next section we considered fresh water withdrawals by nations and its use by the three key sectors of agriculture, industry, and households. Spending on water treatment equipment and

the resultant river quality levels were analyzed. Finally, we considered classification schemes for tackling water pollution along with legal and administrative steps to achieve higher water quality on a worldwide basis. We think that both cross-sectional and longitudinal analyses are needed. The challenge is to make progress on the cleanup front and to develop meaningful databases for use by analysts and policy-makers. Combining our two final tables with comparisons across and over time can constitute a viable framework for those who generate, analyze, and disseminate data. In moving from information to intelligence or know-how, the key is reducing the numerous data points in quantity while upgrading quality.

Sustainable development framework



Figure 1

Rio Tinto's Sustainable Development Framework

Source:http://www.riotinto.com/annualreport2010/performance/our_approach.html

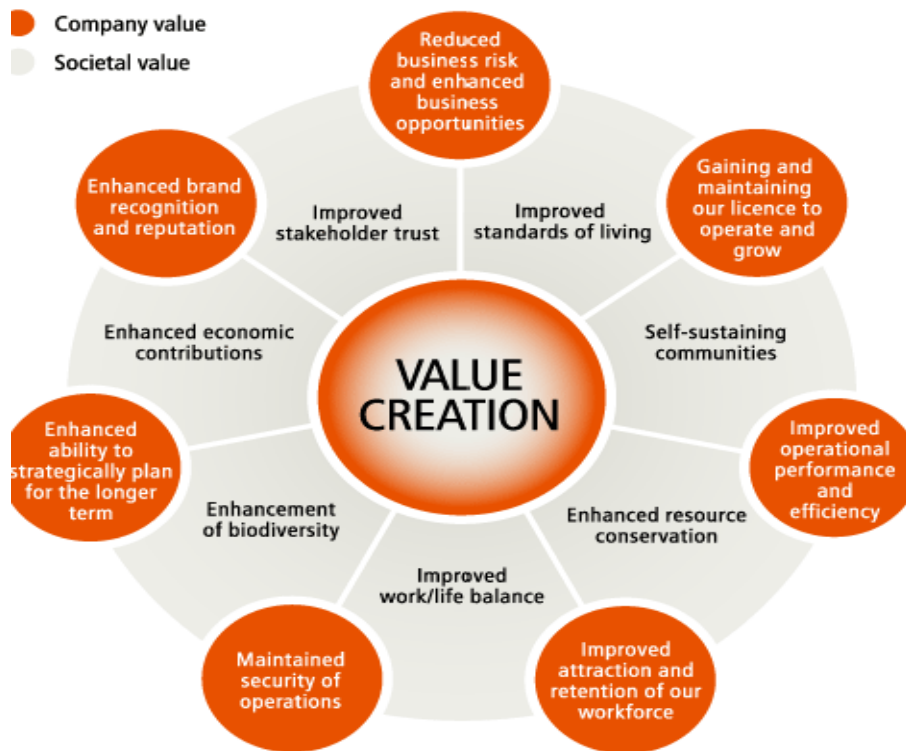


Figure 2

BHP Billiton's Sustainability Framework

Source: <http://www.bhpbilliton.com/bbContentRepository/docs/fullSustainabilityReport2008.pdf>

Part A: Comparison of Rio Tinto and BHP Billiton on Total Water Usage

Year Ended:	2010	2009	2008	2007	2006
TOTAL WATER USED (in ML)					
Rio Tinto	747,500	740,000	1,458,824	984,000	1,015,385
BHP Billiton	387,234	400,000	411,364	354,348	367,391

Part B: Comparison of Rio Tinto and BHP Billiton on Recycled Water Volume

Year Ended:	2010	2009	2008	2007	2006
RECYCLED WATER (in ML = megaLiters)					
Rio Tinto	299,000	259,000	248,000	246,000	264,000
BHP Billiton	182,000	168,000	181,000	163,000	169,000
RECYCLED WATER (as a % of Water Used)					
Rio Tinto	40%	35%	17%	25%	26%
BHP Billiton	47%	42%	44%	46%	46%

Table 1

Water Usage by Two Major Mining Firms in Australia

Source: Rio Tinto, annual reports; BHP Billiton sustainability reports; authors' work.

	Rio Tinto	BHP Billiton
Sustainability discussed in annual report	Yes	Yes
Annual Sustainability Report, separate from annual report, with more detailed strategies and results	No	Yes
Key Performance Indicators (KPI's) for Sustainability	Yes	Yes
Measurement and reporting of KPI's	Yes	Yes
Number of KPI's Achieved / Stated for 2010	3 / 5	10 / 13
Management Systems Achieved / Stated for 2010	-	1 / 1
Safety Achieved / Stated for 2010	1 / 1	1 / 2
Health Achieved / Stated for 2010	1 / 1	2 / 3
Environment Achieved / Stated for 2010	1 / 3	4 / 5
Community Achieved / Stated for 2010	New for 2011	2 / 2
Listed on the Dow Jones Sustainability Index (DJSI)	Yes	Yes
Rank on the DJSI for 3/31/2011 for Asia Pacific Region	10th	1st

Table 2

Comparison of Rio Tinto and BHP Billiton in Proving Sustainability to Stakeholders

Source: Rio Tinto, annual reports; BHP Billiton Sustainability reports, 2006-2010; and authors' research .

Note: Portions of this and previous table are based on invited lecture by R. Castrigano and A. Gross at Ecoforum Sydney, March 2013.

Part A: Fresh Water Withdrawals (bil m3) in Major Countries, 1985-2011

Country	1985	1990	1995	2000	2005	2011
Australia	14.6		24.1		19.3	14.1
Canada			47.3		42.0	
France	34.9	37.7		32.7	33.8	
Germany			43.4			
Hungary	6.3	6.3	6.0	6.6	4.9	
Japan	87.2	88.9	88.9	87.0	83.4	
Poland	16.4	15.2	12.9	12.0	11.5	11.9
Spain	46.3		33.3	36.5	35.7	
Turkey	19.4	28.1	33.5	43.7	44.7	
USA	464.7	462.3	466.1	482.6	483.0	

Part B: Fresh Water Withdrawals in Major Sectors, Select Countries, 2008-2012

Country	Agriculture	Domestic	Industry	Total (%)	Total (bil m3)
Australia	74	16	11	100	22.6
France	12	18	69	100	31.6
Germany	12	12	76	100	32.3
Japan	63	19	18	100	90.0
USA	40	14	46	100	478.4

Table 3

Fresh Water Withdrawals in Select Nations

Source: Part A= OECD Factbook 2013; Part B = Worldbank.org/indicator & CIA Factbook 2013

Item	<u>% annual growth</u>						
	2002	2007	2012	2017	2022	12/07	17/12
World Pop (mil)	6240	6627	7018	7395	7755	1.2%	1.1%
\$ equip/capita	3.24	4.34	5.46	7.21	9.34	--	--
Total Eqp Demand20245	28765	38300	53350	72400	5.9	6.9	
North America	7080	9045	11930	15990	20780	4.8	6.0
USA	5860	7760	9760	13010	16830	4.7	5.9
Canada & Mex.	1254	1685	2170	2980	3950	5.2	6.5
Western Europe	5910	7360	8360	10560	12970	2.6	4.8
Asia-Pacific	4425	7455	10980	16580	24400	8.1	8.6
China	865	2180	3780	6520	19560	11.6	11.5
Japan	1890	2490	2980	3590	4220	3.7	3.8
Other Asia-Pac	1670	2785	4220	6470	9620	8.7	8.9
C & S America	815	1155	1610	2270	3110	6.9	7.1
Eastern Europe	840	1235	1830	2590	3610	8.2	7.2
Africa-Mideast	1175	2115	3590	5360	7530	11.2	8.3

Table 4
 World Demand for Water Treatment Equipment by Major Regions/Nations
 (in mil current \$ except as noted)

Source: E. Park, The World Water Treatment Equipment Market (Cleveland: The Freedonia Group, 2013)

Note: See also related publication, A. Gross, World Water Pollution Control Equipment (Cleveland: Predicasts, Inc, 1980)

Country	River	1970	1975	1980	1990	1995	2000	2005	2010
Austria	Donau				3.80	3.00	1.20	1.90	
Czech Rep.	Morava				7.90	4.22	3.65	4.40	2.19
France	Loire					4.00	4.30	3.80	
	Rhone					1.30	2.00	1.40	
Germany	Rhine	7.0	7.9	7.5	3.3	3.0	3.0		
	Elbe				9.60	5.40	7.21	6.60	4.00
	Donau				2.80	2.80	2.10	2.35	1.60
Hungary	Duna				3.10	2.10	1.60		
	Tisza				1.50	1.90	2.80	3.51	1.92
Italy	Po				3.60	2.50	1.90	1.30	
Japan	Tama	6.8	7.1		4.60	3.80	2.00	1.50	
Netherlands	Rhine	3.1	3.2	3.1	1.6	1.9			
Poland	Wisla				6.00	4.20	3.80	3.18	3.00
	Odra				7.00	4.50	4.60	5.44	7.30
Spain	Ebro				2.30	13.60	5.00		
Slovakia	Hornad				6.60	5.70	2.90		2.50
Turkey	Gediz				10.60	31.00	3.70	5.20	
UK	Thames				2.90	1.80	1.70	5.20	
	Mersey	20.2	9.5		4.4	3.7	2.8		
USA	Delaware	3.2	3.5		1.23	2.62	3.67	3.23	
	Mississippi				1.85	1.15	1.48	1.85	4.95

Table 5
River Quality in Selected Countries (BOD levels)
Source: Gross (1986); OECD (1979 and 2013) and other multinational agencies, 2012

Table 6. Key facets of environmental pollution.

Causes/classification schemes	Impact/effect	Remedies/solutions
I. Natural vs manmade occurrences A. Natural: 1. Volcanic eruptions 2. Soil erosion, topsoil removal 3. Nutrient runoff from land B. Man-made: 1. General a. Growth of population b. Industrialization c. Urbanization d. Acquisitive lifestyle 2. Specific a. Factory & auto emissions b. Plant & household wastewater c. Oil tanker spillage d. Nuclear waste e. New chemicals	I. Public health attacks A. Respiratory ailments B. Digestive ailments C. Communicable diseases, etc. II. Economic damages A. Damage to human productivity B. Damage to animal health and productivity C. Damage to vegetation, plant life D. Damage to materials, corrosion, etc. E. Damage to recreation facilities, etc.	I. Cultural & social change A. Change lifestyle, consumption patterns B. Change social/cultural values C. Change underlying attitudes II. Scientific, technical & industrial changes A. Change pollution from one medium to another B. Change assimilative capacity of the environment C. Neutralization or offsetting reactions D. Utilization of effluent/waste E. Switch to new materials & processes F. Limit production of new/untested chemicals
II. Economic vs noneconomic failures A. Economic: 1. Consideration of air & water as free goods 2. Reluctance to spend on "nonproductive goods" 3. Lack of financing, tax base 4. Lack of subsidies, incentives B. Non-economic: 1. Lack of professional & technical personnel 2. Poorly designed legislation, enforcement, jurisdiction 3. Resistance from vested interests	III. Noneconomic impact A. Aesthetic & psychological impact B. Social & cultural values C. Disruption to lifestyle(s)	III. Legal, political, & economic changes A. Regulation by the government 1. Outright ban 2. Across the board or point by point regulation 3. Environmental impact statements filing B. Economic subsidies 1. Public spending on treatment facilities 2. Subsidy to individuals, groups C. Economic & other incentives 1. Levy fee on discharges—issue "permits to pollute" 2. License dischargers D. Adjustment of administrative machinery 1. Retain existing boundaries 2. Establish basin or regional authority 3. Establish new ministries or coordinating bodies or "pollution management agencies" 4. Allow suits by individuals and groups
III. Point vs Nonpoint Sources A. Point: specific factories, cars, households B. Nonpoint: untraceable emission/effluent		
IV. All other classification schemes A. On basis of degradability B. By type of medium emitted to air, water, etc. C. On basis of toxicity		

Sources: Primary work by the author based on literature cited and field interviews.

Table 7. Legal and administrative aspects of environmental pollution.

Definition/ determination of pollution	Primary legislative and administrative approaches	Levels of legislation and/or administrative structure	Facets of individual rights and action
<p>I. Traditional definitions & views</p> <p>A. Alteration of the existing environment</p> <p>B. Right of the territorial sovereign (no extraterritorial effects recognized)</p> <p>C. Damage to humans, property, environment</p> <p>D. Interference with others right to use the environment</p> <p>E. Exceeding the assimilative capacity of the environment</p> <p>II. Nontraditional definitions or views</p> <p>A. "Label substitution" or specification of harmful substances emitted or discharged</p> <p>B. Combination of approaches, i.e., any two or more of the above</p>	<p>I. Comprehensive environmental policy and laws e.g., Australia, Colombia, France, Greece, Ireland, Japan, Malaysia, Portugal, Sweden, UK, US</p> <p>II. Specific environmental (medium) policy and laws e.g., Austria, Canada, Finland, W. Germany, Italy, Norway, Spain, Switzerland, Turkey</p> <p>III. Combination environmental policy and laws ("mixed systems") e.g., Belgium, selected provinces in Canada, Mexico, New Zealand</p> <p>IV. Natural resource legislation e.g., Algeria, Czechoslovakia, Cyprus, Israel, Libya, Peru, Poland, USSR</p> <p>V. Other Systems</p> <p>A. Protection of certain living or natural organisms e.g., Syria</p> <p>B. Specific discharge or emission prohibitions e.g., Egypt</p> <p>Note: Comprehensive laws coexist with specific medium (air, water) laws in many countries i.e., these are not exclusive categories, but indicate main approach</p>	<p>I. Supranational and international organizations and agreements</p> <p>A. Global e.g., UN, UNEP, UNESCO, UNCTAD, WHO, FAO, IMCO, WCJ, WMO, IGOC, Earthwatch</p> <p>B. Regional e.g., OECD, EC, CMEA, Rhine Catchment Basin Danube Countries</p> <p>C. Bilateral e.g. Canada-US, Mexico-US, two country tribunals</p> <p>II. National level government</p> <p>A. 1. New department or ministry e.g., Canada, Denmark, E. Germany, Norway, Japan, UK</p> <p>2. Old department or ministry with extended jurisdiction e.g., Netherlands, Nigeria</p> <p>B. Coordinating body e.g., Algeria, Chile, France, Israel, W. Germany, Morocco, Spain, Syria</p> <p>III. State or provincial government/ organization</p> <p>A. 1. New department or agency</p> <p>2. Existing political boundaries and bodies</p> <p>B. Coordinating committee for local government</p>	<p>I. Judicial proceedings (hearing of lawsuits brought against the activity complained of)</p> <p>A. Where the acts complained of have threatened the plaintiff</p> <p>B. Where the plaintiff has sustained no "direct" injury</p> <p>II. Administrative proceedings</p> <p>A. Extent to which a public hearing is required before administrative rule-making</p> <p>B. Individuals' right to participate in hearings concerning the environment</p> <p>C. Challenging admin. action concerning the environment</p> <p>D. Needed improvements</p>

Sources: Primary work by the author based on literature cited and field interviews.

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Select websites for associations, governments, and multinational agencies;

- <http://www.awra.org>
- <http://www.fao.org/nr/water/aquastat/main/index/.stm>
- <http://www.epa.gov/scitech/swguidance/standrads/criteria/>
- <http://www.globalreporting.org>
- <http://www.stats.oecd.org/wbos/Index.aspx?>
- <http://www.smartwatermark.org/>
- <http://www.unep.org/gemswater/Globalnetwork/>
- <http://www.waterforlifedecade/quality.shtml>
- <http://www.water.worldbank.org>
- <http://www.worldwater.org/conflict.html>
- <http://www.worldwatercouncil.org/>
- http://www.who.int/water_sanitation_health/

For full name, location and main mission of the organizations behind websites, see list below:

American Water Resources Association (Middleburg, VA, USA)—education, research

Food & Agricultural Organisation (Rome, Italy) –food and farm issues, health, safety

Environmental Protection Agency, US Gov. (Washington, DC)- regulation, policy

Global Reporting Initiative (Amsterdam, Netherlands)- education, research, compliance

Organisation for Economic Cooperation & Development (Paris, France)- research, statistics

Smart Approved WaterMark (Sydney, Australia)- education for households, research

United Nations Environment Programme (Nairobi, Kenya)- policy, advocacy, education

Water for Life Decade 2005-2015 an interagency coordination program of the UN

World Bank (Washington, DC)- major economic policy, financial assistance, statistics

Worldwater -> Pacific Institute (Oakland, CA, USA)- research, protection, equity

World Water Council (Marseille, France)- conservation, protection, policy, research

World Health Organisation (Geneva, Switzerland)- health, wellness, prevention, research

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Examining Young Entrant Motivations and their Connection to the Learning Organization of Family Businesses

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Abstract: One of the greatest challenges of family businesses is passing on ownership and/or management from one generation to another. The question of learning and teaching is unavoidable within this context. What kind of knowledge do the predecessor and the successor possess? Is the successor, who is probably the member of a younger generation, motivated to take over the business at all? What kind of tools do enterprises use to transfer knowledge? To answer the above questions, we conducted a research in the spring of 2014 with the help of 143 young people (between 18 and 33) with family business background. Based on the results, those young people who were planning to take over the family business seemed to be internally motivated, receiving further support from their family and organizational background. At the same time, they also seemed to be in the family socialization stage of the generational change process and they had not yet reached the stage of business socialization.

Key terms: family business, motivation, learning organization, knowledge transfer, business competences

Introduction

Based on previous research, experts agree that members of Generation Y tend to change their jobs frequently, are impatient and wish to make a career quickly (Jobonline, 2013). According to the 2011 international research of GUESS – conducted among more than 28 thousand college and university students with family business background – the majority of the respondents (64.5%) would like to be an employee, 13.15 would launch their own business, 6.95 would take over the

family business and 15.5% is considering other unique options. According to the 2013 Y Horizon research, Generation Y chooses jobs based on remuneration, the chance of working in a relaxed, friendly team and further career prospects. Besides the above, other factors include fringe benefits, versatile tasks, direct and relaxed tone in communication and the presence of colleagues with serious professional background (Lerf, 2013). The same research indicates that 35% of the respondents imagine this this dream job to be abroad while the two most popular positions among these young people are being your own boss or working as the employee of a multinational company. Whatever the career plan, however, both being an employee and an employer require competences and motivation as well as possessing or learning the ability to adapt to changes – all of which gains special significance within the generational change of family businesses.

1 Theoretical Background

1.1 Knowledge, Competence, Motivation

In order to actually realize an idea and launch an enterprise, one needs knowledge (Hanlon, 2014), skills, professional know-how as well as a certain type of personality and attitude (EC, 2013). Entrepreneurial competences are discussed in several studies like Hemingway-Bálint (2004), McClelland (1987) or Niuwenhuizen (2008).

According to the professional literature (Hessami - Moore, 2007), people are competent if they have experience and/or professional knowledge and abilities to efficiently carry out certain necessary tasks and to put their knowledge in practice (that is, they should know what they are doing) (Bencsik, 2014). They are also motivated to reach their goal, strive for excellence, are able to adapt to changing circumstances and the requirement of new know-how; finally, they can sense what is expected of them and they are able to carry it out to the complete satisfaction of their client. Chirico (2007) in his study distinguishes industry related competences (special knowledge and skills in production), business competences (acquiring and using resources, making the best product, risk taking, problem solving, conflict management, changes as well as crisis) and ownership competences (creating government in business, controlling, practicing rights and responsibilities, adding economic value, balancing between stakeholders etc.).

Irrespective of the type of enterprise, older employees possess larger social capital, due to the following:

- a higher degree of professional competence, unspoken knowledge and their willingness to cooperate,
- better organizational, functional and structural knowledge,

- a more extended network of clients,
- a better understanding of the operative environment (Ilmarinen, n.d.).

Bourdieu (1997) interprets social capital as a resource available for individuals, which is in essence a form of social support. Social connections serve as a means to increase the welfare of the individual, which means this capital has to be acquired, enriched and maintained consciously.

Practical experience and years or even decades spent in a field of work may result in the strength, energy and a unique basis for turning knowledge into capital. As one gets older, knowledge through doing some work also contributes to employability (Carmel, 2010), which gains special significance in the context of knowledge transfer. Perhaps the most difficult task is to transfer tacit knowledge (e.g. managerial ability, process approach) to a successor (Csákné, 2012).

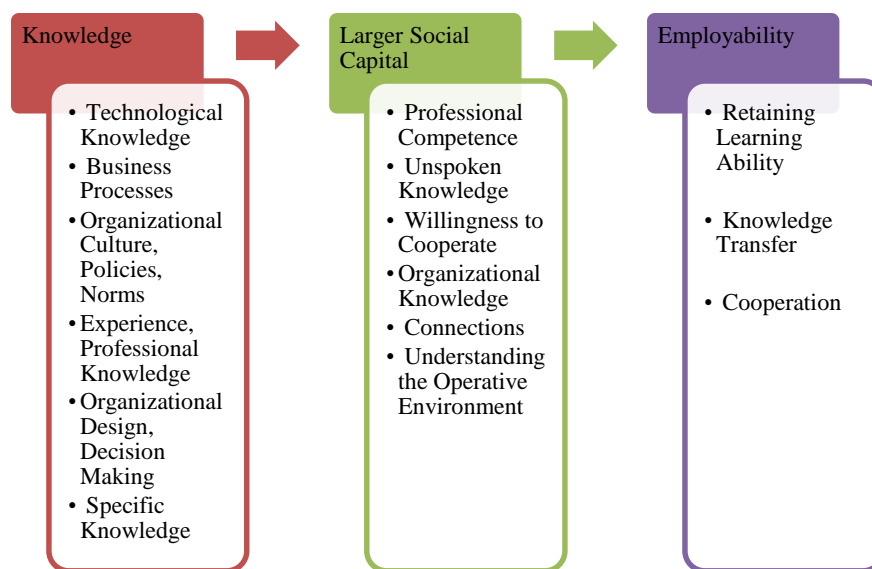


Figure 1
Connections of Knowledge – Social Capital – Employability
Source: own edit based on Carmel (2010)

When it comes to the demographical characteristics and goals in family businesses, one should take into account:

- the age, gender and regional background of the successors as well as their previous participation in the business,
- the age of the parents or proprietors as well as the circumstances of the business

transfer,

- the size of the enterprise, the number of generations in the business etc.,
- all of which affect the decision of joining and/or taking over the business in question (Stavrou, 1999, p. 44).
- At the same time, there are also other factors, such as:
- life and career stages (early, mid-, late adulthood),
- expectations at home (workload, conflicts) and home resources (family support, chances of development),
- work expectations (workload, conflicts) and work resources (social support, autonomy, feedback),
- work-family interaction (work-family conflicts, family-work conflicts, growth) (Demerouti-Peeters, Heijden, 2012, p. 243).

Skills and competences are not worth much in themselves if they are not supported by motivation. Someone being motivated means someone is moved to do something (Ryan – Deci, 2000, p. 54). Job performance and job behavior of employees depends on their motivation and also on the conditions under which the task performs (Dobai Korcsmáros – Seres Huszárík, 2012). Motivation is mostly interpreted by *content-theoretical* (e.g. Maslow, 1954; Herzberg (1959), Alderfer (1972), Hunt (1965), McClelland, 1953, 1967; MGregor) and *process-theoretical* (e.g. Locke 2012; Skinner, Vroom, 1964) approaches. According to the content-theoretical approach, motivation is a unique set of motives which makes the individual act (Éger, 2012, in: Tóth-Bordásné 2012). Ryan and Deci (2000a, b) uses a self-determination theory (SDT) where the individual identifies three internal and unique needs for optimal “operation” and growth in forming their motivational schema: competence, social environment and autonomy.

1.2 Generational Behavior Samples Vs. Learning Organization Features

Competences and motivation become important in the sense that there may be serious differences between various generations in many areas, all of which may appear as a risk factor during the transfer of family businesses. The research conducted by PwC (2014) “Nextgen” points out that the risk of making mistakes during the transfer of a business is particularly great in the case of Baby Boomers and Generation Y because of the differences between the generations on the one hand and the differences between their relevant plans and goals on the other hand.

Organizations – family businesses included – have a unique base of knowledge formed from functional knowledge on the one hand (explicit knowledge referring to the actual pursuit (database, analyses) and implicit knowledge (task-solving

routine)); on the other hand, their knowledge also contains so-called integrating knowledge, which is the ability to control (also consisting of explicit knowledge (e.g. formal coordination and operating system) and tacit knowledge (as part of the organizational culture)) (Bokor, 1999). While explicit knowledge is more characteristic of centralized (mechanical) organizations with rigid structures and strong control and programs, tacit knowledge is more typical of decentralized, mostly flat-structured, project-based (organic) organizations (Lam, 2000; Nonaka-Takeuchi, 1995). Tacit knowledge is also typical of family businesses (Lazányi, to be published). It is important for companies and family businesses alike to be able to adapt to changes, which means they are also required to continuously learn and renew. If this means essential competences, they are able to function as a learning organization. Senge (1998) lists five basic principles, based on which an organization is able to develop: system approach, self-control and self-development, common future vision, internal conviction (attitude changes, thought schemas) as well as group learning (team work). The aim of the operation of a learning organization is to mobilize the hidden or disjointed knowledge of the company through the various groups of the organization (Bencsik, 2009). The professional groups within the learning organization should possess professional competence and emotional intelligence; they should be able to form and apply competences; they should be able to learn; finally, they should apply new knowledge transfer and management approaches (Kengyel, 2007). Garvin (1993) claims that learning organizations are essentially able to apply systematic problem solving, experimenting, learning from their own – or from others’ – experience and, finally, they are also able to spread knowledge.

A common feature of family businesses is that they seek the most efficient solutions to sustain themselves. While less organization-oriented knowledge may be obtained in the school system and through practice done on other businesses, the most important knowledge transfer process “within the house” is socialization, where the tacit, organization-specific knowledge elements revealed, transferred and developed through joint work gain special significance (Lazányi, to be published). Creating, sharing, transferring knowledge as well as succession is closely related within family businesses:

- cooperation within the business increases trust,
- it motivates and enables commitment,
- emotional threads are attached (psychological ownership),
- academic courses and practical trainings may result in new viewpoints,
- gaining experience outside the family business may bring new knowledge and practices into the enterprise,
- talented non-family members may be hired (Chirico, 2007).

The authors Bencsik – Eisingerné (2013) sorted out the essential elements (requirements) of learning organization operation, and they examined how various generations can contribute to this operation with their own characteristics and abilities (*see Table 1*)

Elements	Baby-boomer (1946-1964)	Generation X (1965-1980)	Generation Y (1981-1995)
Thinking	communal, thinking in whole systems	self-centered, mid-term	selfish, short-term
Relationships	primarily personal	personal and virtual networks	primarily virtual networks
Aim	secured existence	secure position in multi-environment	competition, becoming a leader
Self-Realization	conscious career building	quick promotion	immediate career
Teamwork	alien concept	natural environment (multinational companies)	believe in joint effort
IT	self-taught, lacking	handle well	part of life
Values	patience, soft skills , respect traditions, EQ, hard work	hard work, openness , respect variety, curiosity, practical nature	flexibility , mobility, wide range of (superficial) knowledge, success oriented, creative
Other possible features	respect towards hierarchy, extreme modesty or arrogant inflexibility, passivity, cynicism, disillusionment	follow rules, believe in equal chances, less respect towards hierarchy, sense of reality , pressure to prove themselves	desire for freedom, no respect for tradition, new forms of knowledge seeking , inverse socialization, insolence, telework, part-time work, interim management, underestimated soft skills or EQ
Knowledge sharing	natural and voluntary	based on mutuality or remuneration	only if forced or in their own interest

Table 1.

Generational Behavior Templates from the Point of View of the Learning Organization
Source: Bencsik-Eisingerné, 2013

We seek answers to the following questions:

- Are the respondents motivated to take over the family business or work in the business at all?
- What are the ways of sharing knowledge (preparation) in the examined family businesses?

We assume that

H1 The respondents who think the family business benefits from generational change are also motivated to take over the business.

H2 The respondents appreciate/expect the support of their predecessors as the successors may benefit from their larger social capital.

H3 Those young people who are interested in taking over the family business are already being prepared for it in some way.

2 Primary Research

To answer the above questions, a primary sampling was conducted at the beginning of 2014 among the technical management students of Óbuda University. The sample contained 143 young people between 18 and 33 with family business background. The questionnaire examined motivations and plans for career entry, attitudes towards the family business, questions about generational changes as well as questions regarding the general characteristics of the business and the specific features of the respondent. The structured questionnaire contained variables at different measuring levels as well as interval, ordinal and nominal measuring level scales. The data was analyzed with the help of SPSS, and it contained not only simple descriptive statistics but also cross-table analysis, correlation analysis and concordance examination in order to reveal deeper connections.

2.1 Sample Characteristics

71.6% of the respondents were male (101 people) while 28.4%-a (40 people) were female. The sample contained 143 young people belonging to Generation Y (between the ages of 18 and 33). Based on the age category,

- 27.1% were between 18 and 20,
- 62.1% were between 21 and 24,

- 10.7% were between 25 and 30.

Based on the number of employees, most family businesses (83.8%) were micro-enterprises, with only 15.5% small and 1 (0.7%) mid-level enterprises. The businesses typically operated within the service industry (72.3%, 102 enterprises) with examples in the building industry (17.0%, 24 enterprises), processing industry (6.4%, 9 enterprises) and agriculture (4.3%, 6 enterprises).

Regarding the age of the companies themselves,

- 16.0% (23 enterprises) have been in business between 0 and 3 years;
- 12.6% (18 enterprises) between 4 and 6 years,
- 21.7% (31 enterprises) between 7 and 10 years,
- while 49.7% (71 enterprises) have existed for more than 10 years.

As for the leaders of the businesses, 6.3% (9 people) belonged to Generation Y (19-33 years old), 48.3% (69 people) were between 34 and 49 (Generation X), 40.6% were between 50 and 68 (Baby Boomer Generation, 58 people), there were 3 people over 68 (Veteran Generation), and 4 people did not give information about their age.

2.2 Research Results

Of all the young respondents, 26 people (18.2%) were planning to take over the family business, 7 people (4.9%) would have joined the business as employees, while a third of them (49 people), were uncertain, with no definite plans. One out of four (25.2%) would have launched their own enterprise, and 25 people (17.5%) were certain that they would not want to work in the family business.

The majority of the respondents (88%, 127 people) said they would be able to utilize all the knowledge they gained through their studies in real life as well, either in the family business or outside it.

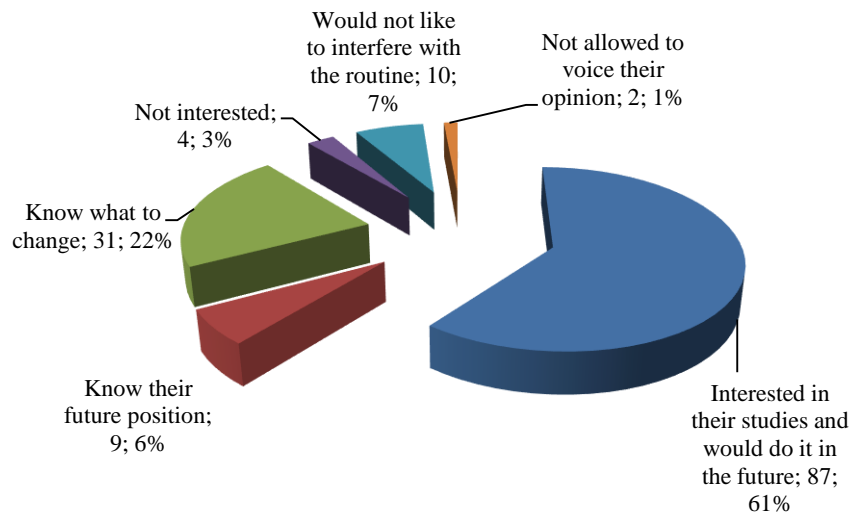


Figure 2.
Opinion Concerning Knowledge Gained through Studies

When being asked about the motivations of their future choices, the most important factors seemed to be independence, gaining more experience, higher wages and better life conditions. They were followed by flexible working time, developing skills as well as the need for promotions at work and getting better positions. The need to manage resources, control others or risk taking were weaker or at most medium-level factors. (See figure 3)

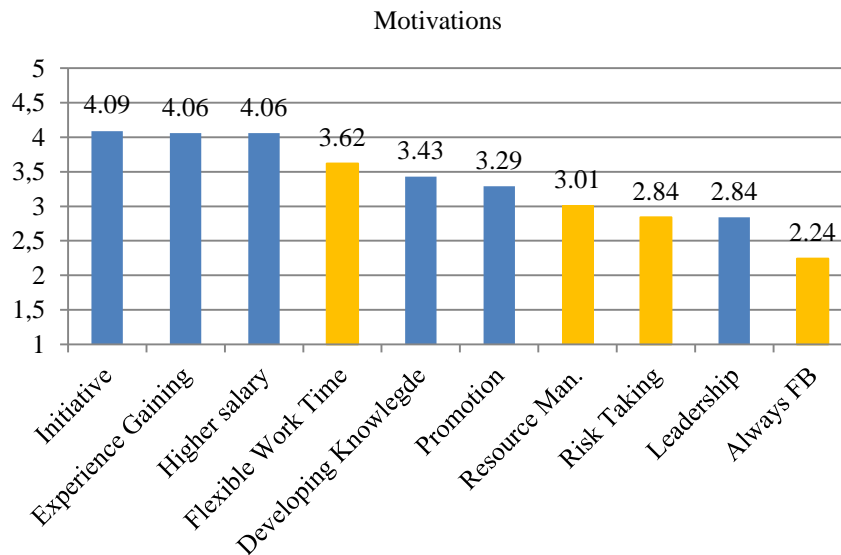


Figure 3
 Factor Averages Influencing the Choices

The respondents typically considered the generational change to be an asset, and they looked at it as a way of renewal. This was so because they believed that entrants have new and fresh ideas, and they could introduce a lot of novelty into the pursuits of the enterprises, especially where the management is also young and, as such, it has already been exposed to the same ideas. Whatever age group the management was, they almost universally acknowledged that these new skills would greatly contribute to the competitiveness of the company. Even so, the respondents claimed that the ageing founders or older predecessors do not completely follow new technological developments, which also affects the operation of the company. Besides quoting the advantages, they did not really agree – and this feeling got stronger as the average age of the management rose – that a generational change was not advantageous because it would break a well-established routine and, as a consequence, the new employees would have to be trained at high expenses. They did not feel, or barely felt, that the implementation of the new ideas appearing during a generational change may not occur, and, as such, there was a risk of the company going out of business. However, in the case of a Baby Boomer Generation management, a generational change was judged to be uncertain on a five-point scale, that is, the generational change was an advantage and a disadvantage at the same time. (See table 2)

Generation Y	Generation X	Baby Boomer	
sign<0.000 Kendall's W= 0.614 Rank Aver.	sign<0.000 Kendall's W= 0.448 Rank Aver.	sign<0.000 Kendall's W= 0.366 Rank Aver.	Opinions about Generational Change
4.17	3.74	3.30	It is advantageous as young entrants are full of new skills which may increase the competitiveness of the company.
3.28	3.40	3.53	It is advantageous as technology continues to develop, which the majority of the founders do not know, and so, the business is not run properly.
4.00	3.98	3.93	It is advantageous as young entrants are full of fresh ideas, and they can renew the pursuits of the enterprise.
1.56	1.96	2.12	It is not advantageous as the well-established routine is broken and the employees will have to be retrained, which is costly.
2.00	1.93	2.50	It is not advantageous as the future application of the new ideas is uncertain, and so, there is a risk which may eventually dismantle the enterprise.

Table 2

Opinions about Generational Change in Terms of Management Generation

Regarding the motivations of the respondents, the opinions about generational change and the succession of the family business, the connections form certain patterns. The need for managing resources was identified as a typical motivational factor for taking over the management, just like the need to take risks. The strongest motivation to take over management among the respondents proved to be the internal, intrinsic (Deci, 2000) motivation of always thinking in terms of the family business. These people also consider a generational change to be a good idea because fresh entrants with their new ideas can renew the pursuits of the business.

However, even in spite of having earlier plans for the takeover of the family business, many of the respondents harbored uncertainty as to whether the enterprise could bear the changes, having an extra member or even innovation. As a matter of fact, many respondents were no longer willing to enter the family business either in a managerial position or as an employee. The respondents were well aware of the connection between family life and the family business, and those who considered work time important specifically supported the family business form. They believed that fresh entrants may use their updated knowledge to make the business more

competitive, and owing to their fresher technological knowledge, they could also make their enterprise more adaptable (effective) *See Figure 4.*

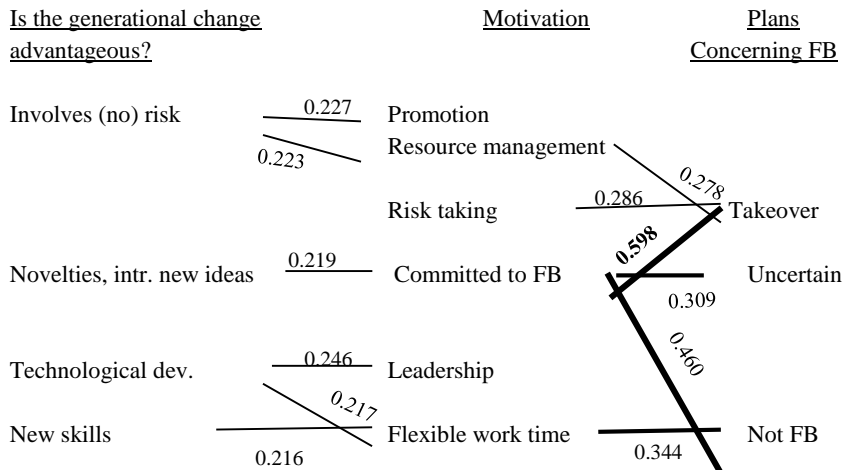


Figure 4

Opinions on Generational Change and Its Connections with Motivation and Family Business (based on the strength of the correlations, with a 0.05 significance level)

We asked the respondents in the sample what they would have expected from their predecessor after retiring – provided they were to succeed them. Most of them would have expected those people to continue to support them even after their retirement (93 people, 65%). Some (19 people, 13.3%) expected the predecessor to continue to appear at the company not as an active participant and decision-maker but as a person making and maintaining an extended network of connections or perhaps as someone with representative tasks. One person out of six would have involved his predecessor in the decision-making processes (25 people, 17.5%). Some others (2-2 people, 1.4-1.4%) expected the predecessor to remain in control or – as another form of extreme – to completely leave the enterprise and its management. There was no significant difference in opinions, no matter which age group the management belonged. (*See table 3*)

	Generation Y	Generation X	Baby Boomer	Other	Total
Control	0	0	2 people, 3.4%	0	2 people, 1.4%
Representation	1 person; 11.1%	9 people, 13%	7 people, 12.1%	2 people, 28.6%	19 people, 13.3%
Planning	2 people; 22.2%	10 people; 14.5%	12 people; 20.7%	1 person; 14.3%	25 people; 17.5%
Observant	6 people; 66.7%	48 people; 69.6%	36 people; 62.1%	3 people; 42.9%	93 people; 65%
Total Retirement	0	1 person; 1.4%	1 person; 1.7%	0	2 people; 1.4%

Table 3

Expected Role of the Predecessors Regarding the Generation of the Management

Approximately two-thirds of the respondents (66.3%) received some form of preparation before joining the family business, especially in the case of business takeover (*see Table 4*). The most prevailing form of preparation was to be allowed to have a glimpse into the economics of the family business (61 people, 42.7%), besides receiving useful advice as the would-be successor (33 people, 23.1%). Close cooperation (19 people, 13.3%) and a more through insight into the finances (18 people, 12.6%) was less usual, while having to undergo trials and challenges (10 people, 7%) or even ending up in deep water to learn to swim on their own (9 people, 6.3%) was almost non-existent.

Taking over Enterprise Management	Not prepared	Insight into Business Economics	Insight into Finances	Useful Advice	Close Cooperation	Trials, Challenges	Deep Water
Sign. 2 sides. Cramer's V	0.000 0.300	0.010 0.214	-	0.002 0.295	-	0.019 0.226	-

Table 4.

Connections of the Preparation for Management Takeover

3 Conclusion

Although it seems that only a small percentage of the people would have liked to take over the family business (18.2%), this was still a more optimistic picture than the international average (6.9%, GUESS, 2011), which meant there is a tendency to keep family businesses in the hand of the family.

The examination of the motivations verified that in the case of internal, individual, demands like competence (utilizing learnt skills), social environment (thinking in the context of the family business) and autonomy (independence), the individual motivational schemas of young people are optimal (Ryan and Deci, 2000a,b).

The strongest motivation among the respondents in the sample was independence, gaining experience and higher income, although these were not the most important factors in the case of family businesses. The strongest factors there were the possibility of flexible work time, resource management and risk taking among the managerial competences and, finally, the internalized demand that their future should be with the family business. Taking into consideration the age of the enterprises and the respondents, we can see that these young people could see the tasks, challenges, responsibilities etc. of the family business throughout their entire life.

We could map out a unique pattern of motivations behind the aims and plans concerning the family business (in terms of taking it over or even abandoning it). When set against the relevant factors of the learning organizational requirements (self-realization, common goals, knowledge sharing) (Bencsik-Eisingerné, 2013), the appearance of these motivations naturally occur more often. This is also verified by the fact that these motivations are closely linked to the opinions concerning the advantages of generational changes (novelty, introducing new ideas, technological renewal, new skills to increase competitiveness). All this is reflected in the flexibility of young people, the new forms of knowledge seeking and the strengths of the technological competence of information.

The results confirm that family businesses consider generational changes as a process, even though based on the age of the respondents and the family business management, it seems that the generation change will occur later, as most respondents were still in the stage of socialization (handing over values and giving training). Taking part in the business and, consequently, knowledge sharing, is not necessarily a consciously controlled, planned or even mutual (joint predecessor-successor) process, even though one of the characteristics of the new generation is that they believe in common efforts. The most common way of preparing for management is to involve the successor in the economic processes, and one out of four people also receive advice. We cannot yet talk about business socialization (Garcia-Álvarez – López-Sintas, 2001), the aim of which would be the reproduction of a successors to help them become the new leader. On the management's side, carefulness can be observed in how they rarely test the future successors or throw

them into deep water outright. There is also a visible degree of mistrust in the general decision of keeping the would-be successors away from the financial side of the business. All this means that the learning organizational conditions are already possible, but not necessarily present in all cases.

The above is supported by the results which show that many young people are uncertain about their plans concerning the family business; some even turn away from it and want to start their own business or would rather become an employee at a different company where they could utilize the knowledge they gained during their education coupled with their own personal experience.

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The Usage of Geotagging in Hungary

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Abstract: The evolution of ICT technologies and the increasing difference between the technological and social development specified the guideline of the research written in this paper. From the perspective of privacy, one of the most neglected technology is geotagging. Through a survey and technological examinations, this paper describes the dangers from several aspects. These are: examination of file formats, processing images with mobile and PC applications, using offline and cloud applications, measuring user geotagging-consciousness and user behaviour. Dangers were found both on the technological and also on the user side: the technology is more advanced than the awareness of users. The results are pretty surprising, in spite of bad results that were expected. Something must be undertaken urgently to increase the technological awareness of the users.

1 Introduction

The evolution of ICT led to the appearance of new, intelligent communication tools. The level of these technologies rose above the users'. This process led to a rift, and its dangers' are examined in this paper. The geotagging – what is saving GPS coordinates as metadata - [1] is a very interesting topic. It concerns so many people, but in Hungary only few of them investigate it. A lot of people underestimate the importance of the technology and its dangers up to the present. The technology cannot be called as a new, but by the evolution of the mobile phones and the more intensive spreading of smartphones, its usage is growing continuously. This technology is supported not just by the smartphones, but by the increasing number of webpages too. This technology contributes to our fast-growing digital footprints. [2] Information can be extracted from images created by cameras, mobile phones or any GPS capable devices which can be a huge threat, if gets into wrong hands. [3] This technology implies danger for more and more careless users as it can be automated. [4] There is an endeavour to geotag web contents automatically since

2004. [5] An accurate user profile can be created by using only location information gathered from uploaded images, which can lead to privacy risk. [6] But in spite of this threat, only a very few people know its functions. This is the reason why this topic must be examined in the order of the following steps:

- Technical background of positioning
- Examination of file formats
- Examination of top solutions of various software markets, including both smartphone and PC softwares
- Checking online applications
- Measuring the users' geotagging-consciousness

This paper analyses the possible main sources of geotagging-based privacy violation by testing applications and file formats, and asking people about their geotagging-consciousness. The examination of geotagging as a background technology becomes more and more important because more and more software uses this function of the smartphones without notifying the users. People reveal so many information about themselves by sharing GPS data, mainly because collecting data from the Internet became continually easier by simple crawlers. [7] This is why researchers should pay more attention to privacy-based topics, and this is why this research has been made.

2 The method of research

During the research, at first the users' attitude to geotagging was examined through a survey, then a technical test was made to examine if the threat has other sources. In this paper the technical research is showed first. These two parts are the two main viewpoints of this topic. The existing connection between different types of threats could raise the vulnerability more, if these threats are present. Different methods has to be used to examine different types of threats to give a complete view of the topic.

2.1 The details of technical research

During the software tests, it was important to examine the support of geotagging by modifying pictures, using special functions, sharing them, and even it is important to try if geotags can be removed or not. In all cases Exiftool 8.8.3.0. and Jetphoto Studio were used for checking metadata. These two softwares were used just for maximum compatibility.

The initial file was a geotagged image with jpg extension. In every case the images were converted with ACDSsee Pro5 and Photoshop CS5.

The most popular image editors (according to the number of downloads) of mobile OS were tested, in addition the most popular downloadable image editors. The latter were the following: PicsArt, Color Touch, Photoshop Express. Beside the mobile applications the most popular PC software were tested too, and these were Microsoft Picture Manager, XnView, Paint, Photoshop CS5, ACDSee Pro 5 and Gimp.

It was important to examine the online applications – in consideration of the high numbers of their users. Three main groups were created and a geotagged image was uploaded to each of them. Then the image was checked if it still had geographic data in it or not. The examined online applications were the followings:

- Social media: Facebook, Google+, Hi5, iWiW, MySpace, Netlog, Orkut, Twitter
- Image sharing sites: Flickr, Fotolog, Photobucket, Picasa
- Blogs: Tumblr, Blogger (Google), Blogger (Hungarian version), Blogster, Livejournal, Wordpress

2.2 The details of survey

The survey of this research is made by Google Forms. The participants were users who are regarded as “information sharers”: the people using social sites a lot. This choice was made because of the importance of this type of users in the view of geotagging dangers. They are the most threatened people, and it can be expected from them to use this technology, these software and smartphones consciously.

The survey consisted of 16 questions, mainly multiple choice and it took about 5-7 minutes to fill. The demographic part was included at the end of the survey, because in the end, the users spend a greater willingness to fill it out. [8] The form measures the consciousness level of people in the field of geotagging, and their knowledge in opportunities in avoiding the threats caused by geotags. At certain technological questions the definition was given before the question.

3 Results / Recommendations

There is a greater threat than it was previously expected. The first type of the threats are the technical specifications of different filetypes and different applications. The second sources are coming from the nature of the “information sharer” users. There is something that must be done to increase the consciousness of the test fillers, both on the technological and sociological side to prevent unwanted data leaks.

3.1 Results of file formats and online applications

The most widespread file formats and online applications were examined during the research. The results of file format examinations were the following:

- **JPG:** This is the most popular file format, the default output of digital cameras. The smartphones that were used in this research saved the images with this extension. Storing the geoinformation is maximally supported and every software what is able to read metadata can view GPS coordinates in JPG images.
- **TIFF:** It is similar to JPG. This is because JPG and TIFF are considered the most compatible between various systems. [9] Both file format has an exif header, what is supported by most smartphones, digital cameras and camcorders. Among others, in this exif header contains the geographical positions too. [10] [11]
- **GIF and PNG:** Compared to the previous formats, these two file formats are not completely supporting geotagging. Not all the softwares can read the geoinformation, not even the Windows Explorer. The similarity between these two extension is because of PNG was intended to be the long run replacement of GIF. [12]
- **BMP, ICO, IFF, JPG2, PCX, RAS, RGB, RSB, SGI, TGA, WBMP:** These formats cannot contain GPS coordinates.
- **RAW, PSD, EPS:** It depends on the given software that these formats can contain GPS metadata or not.
- It is important to mention that the most popular file formats can contain the geoinformation. These are so widespread, that smartphones users are using them almost all the time. That's why more detailed research is needed in the field of applications.

Geotags are saved when the photo is taken. There are many applications in the markets of every smartphone platforms that are capable of editing images, but only the most popular and the built-in native applications were tested. The smaller corrections are made on the smartphones most of the time, these applications have to handle geotagging right to support users' consciousness.

As Table 3-1. shows, the three most popular native mobile OS image editors keep the geoinformation. The problem is that they do not let their users know about it, so the sensitive data remains in the images.

Function	Metadata persists
sending e-mail	yes
compressed sending	yes
cropping	yes
turning	yes
applying special effects	no
correcting	no

Table 1
Geotagging metadata persistence at native softwares of smartphones

After the analysis of the results of native mobile applications, it was expected that the most popular mobile image processing software will handle this type of metadata a better way, but the results caused disappointment. None of them supported the work with GPS metadata at all. This type of information disappeared from the photo. The most popular software was Photoshop.

In contrast to the mobile applications, softwares for PC fully supported GPS metadata. (Table 3-2.) The most surprising result came from the examination of Paint. It seemed to be the most simple image editor but it has full support.

Program	crop	turn	mirror	special effect	correction	drawing	text	contrast
Paint	x	x	x	-	-	x	x	-
MS Picture Manager	x	x	x	-	x	-	-	x
XnView	x	x	x	-	-	-	-	x
ACDSee Pro 5	x	x	x	x	x	x	x	x
Photoshop CS5	x	x	x	x	x	x	x	x
GIMP	x	x	x	x	x	x	x	x

(Signs and abbreviations used: x persists, - doesn't have this function)

Table 2

Results of the PC image processing softwares

The market share of online applications are increasing rapidly. In consideration of the values of personal data, it was relevant to find out which sites store and show the metadata in the image available on them.

At first the social sites were in the center of the research. One of the most popular social sites is Facebook. [13] In 2011 it has nearly 750 million users. [14] Later in 2014 it grew to 1.3 billion. [15] 78% of Americans use Facebook on mobile phones even from the registration. [16] This data shows us the importance of the connection between image metadata and smartphones. On Facebook the GPS data can be given voluntarily, and even superficially. The uploaded images don't contain this type of information.

Whereas the Google+ save these data and with a simple exif reader anybody can read them if he is able to see the images, which is a huge threat. The other social media sites (Hi5, MySpace, Netlog, Orkut, Twitter) don't support the displaying of these metainformation.

Not just the social media sites but the image sharing sites can have the ability to show geoinformation. The only site where metadata was deleted is Fotolog, and it doesn't support them at all. (Table 3.)

Site name	GPS metadata can be shown
Flickr	yes
Fotolog	no
Photobucket	yes
Picasa	yes

Table 3
Image sharing sites and geotagging

In this category we found the first online page that definitely tried to increase geotagging consciousness. It was Flickr. The page stored all GPS metadata but nobody could get it unless the approval of the user. This page draws user's attention to threats caused by geotagging.

On the other hand Photobucket and Picasa have no protection. The sensitive data on these page can be read very easily. It is important to mention that Picasa is the second service of Google that fails on the security test. Who thought that Google, who declared on 1st March, 2012 [17], that its pages are more secure, don't pay attention to such threat.

Only one of the examined blogs were unable to support geotags, which was Blogger, the only Hungarian one. Most of the time people writing blogs want to stay anonymous. With self-taken images, this is a security risk because with geoinformation users can be identified.

As it can be seen, in this case the data vulnerability comes from different layers of the image-sharing process: image capturing, file specifications, image editing processes, sharing on different websites. In this case the threat coming from technical side could be eliminated by warning the users each time a data leak could occur because of metadata sharing. This could be done on different layers: before the first start of the camera, or before the first upload of a geotagged image.

3.2 Survey

The form was filled out by 524 people, they were mostly smartphone users. The fillers were mostly females (64.3%). The distribution of the ages can be seen on Fig. 1.

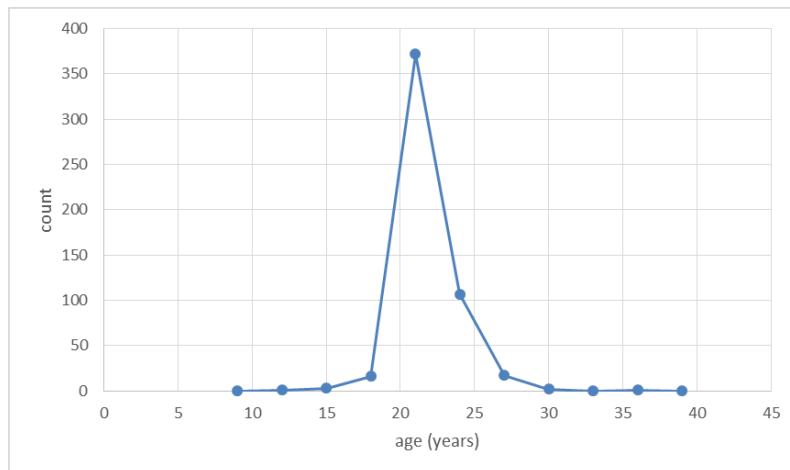


Figure 1
The distribution of ages of the answering people

Most of the answerers live in Budapest, in Pest county or in a bigger city. (Fig. 2.) Most of them (66.2%) didn't know what geotagging means, or what it can be used. After they get to know this, 44.6% declared that it doesn't comes to their mind that the metadata can be viewed with just a little computer knowledge. 63% of them thought that this function cannot be switched off.

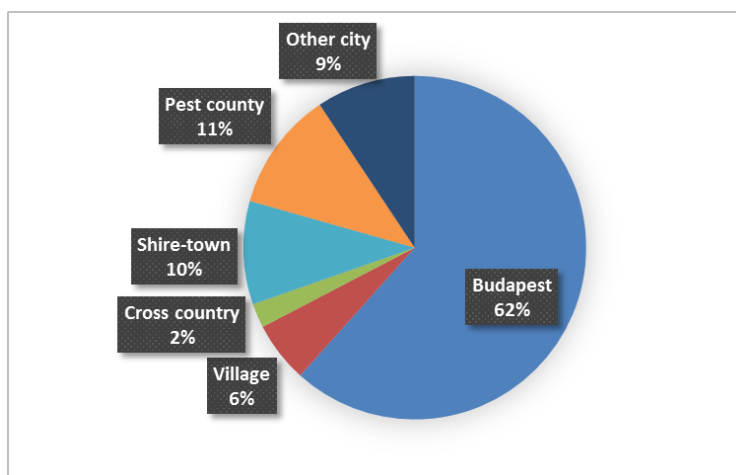


Figure 2
The distribution of inhabitation

On Fig. 3., the correctness of classification is shown of the mobile phone that are capable of geotagging. 48% of the answerers could not determine if their phone is able to use GPS metadata. In the worst condition were the people who answered that they definitely know that their phone is unable to use geotagging (6%). These people are in increased danger while posting photos, because they live in the false illusion of security.

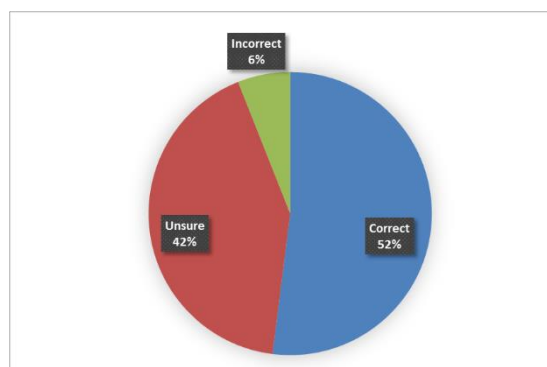


Figure 3
The rightness of the answers if the phone is capable of geotagging or not

In consideration of geotagging, as an IT-oriented thing, the younger (<15) and the older (>30) age-groups have lower consciousness. This is why the results of a survey participating from the whole Hungarian population would be worse.

People sharing self-taken pictures are in increasing danger, because they mostly use the same file formats that are totally support geotagging. Companies are trying to maximize their profit by using new technologies as they can attract more people to themselves with them. User safety is secondary for most of them. [18] Through more and more online applications are flowing the metadata to the open internet from the more and more popular smartphones.

The second source of the threat examined in this paper comes from the sociological part. It seems that geotagging and conscious information sharing is not the part of today's general technology training. People mostly trust the manufacturers, the huge companies. They think that these companies will keep their data in safety just because of so many people use their services.

4 Conclusions

The main sources of geotagging-based privacy violation were identified and the specific deficiencies were identified. As it can be seen, the sum of these problems raises the dangers to a higher level because of the many aspects of vulnerability: not just the people -using geotag-based services- are careless, but the companies making those services too. The possibility to secure these type of services are given, but only a few companies make use of this solution.

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Germany Sneezes, Hungary Catches a Flu – Is it True?

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Abstract: „When Germany sneezes, Europe catches a cold” – and this statement can often be heard. If Europe catches the cold it can be obvious that a small but still open to the world country being dependent on external demand, a country like Hungary inevitably gets pneumonia since the Hungarian economy is heavily dependent on German economy. The vast majority of economists agree that the global economic crisis of 2008 has finally ended by our time. Today it is an undeniable fact that the global crisis has left its traces on eastern and western economies for decades. The present study aims to assess the impact and the measures of difference of the impact caused by the crisis on the economies of developed and less developed nations such as Germany and Hungary analysing macro economic data using statistical methods.

Keywords: Hungary, Germany, GDP, GNI, GNDI, correlation

1 Introduction

The connection and the correlation of the Hungarian and German economies can be traced back for long. After the regime transition several German businesses were established in Hungary mostly due to cheap labour and the opportunity of low cost of ownership. In addition to that, cheap labour is relatively skilled and the proportion of skilled and educated unemployed people is very high (Lazányi, 2013, 2014; Tóth-Bordásné, 2011). The country's favourable tax environment also contributed to Hungary's turning to an attractive investment destination. After the end of the crisis a certain level of rise can be witnessed in some sectors of the economy, however the dynamics of this rise can not be regarded intensive yet, still, a positive long-term vision for the future can be experienced (Fodor – Medve, 2012). The situation has changed in a way since then as a significant

segment of the Hungarian enterprises function as a supplier of the German industry. On this basis it can be stated that the major part of the Hungarian exports is directed to Germany with the consequences of huge economic dependency for Hungary¹.

The comparison of these two economies can be conducted on the basis of several indicators. The limits of this current study, however, do not allow thorough comparisons of all these indicators taken one by one, so the method of the analysis is based on macro indicators, being the most important of all indicators. The Gross Domestic Product (GDP) is the most commonly examined indicator of the macro economy². Decision and policy makers, politicians and economists consider the GDP as a miracle indicator, though its shortcomings have been known for years (Andor, 2000). The GDP has not always been such a central position indicator. 1991 was the first year when GNI was switched to GDP in general as prime measure of economy. According to Varga (2013) the economic growth is not an end in itself. It can contribute to materializing the most important goals of the individuals and the society. Economic growth is not only showing a value expressed by one index number (typically by GDP), but it might represent developmental goals too, because the welfare and well-being of the people cannot be determined only by the GDP either.

The GDP and its indicators derived from it are largely opposed by some economists as the GDP and indicators struggle with a number of shortcomings³. Nevertheless, the GDP has still its central role since the most important international and market decisions are linked to it. In their programmes the political formations focus their slogans on economic growth no matter this may have several limits: the amount of natural resources and also the consumers' low ability to pay the services (Bánfi, 2012). While the exceeded pursuit and greed for economic growth destroy the previous indicator and by doing that the chances for a possible future growth of the economy diminish, the latter indicator can be increased to a certain extent by using various methods.

The most popular and widely spread means of increasing consumption since the early 2000s has been credit expansion, the implementation of which has raised the detectable GDP value, but at the same time by our time it also can be blamed for the period of slower growth and also of a number of social problems.⁴ The GDP is not only an indicator of the state of the economy but at the same time also

¹ The analysis of the changes of the economic conditions will have an impact on future investment decisions and thus indirectly on the GDP. (Szilágyi et al 2013; Szilágyi et al 2015).

² GDP can be also used for exploring and measuring economic poles of a country. (Szabó, 2014).

³ It should be also noted, that the estimation of a certain region's GDP can be also as problematic, due to the lack of data (Koppány et al, 2014).

⁴ The indebtedness of families and companies, pre-bankruptcy state of countries such as Greece or Spain and others, families losing their homes, social problems etc., although this is not an exhaustive list.

an indicator of welfare for economic and political decision makers. In centre–periphery analyses there is correlation and direct link between urbanisation level, per capita GDP measured in purchasing power parities, unemployment rate and capital investment (Borzán, 2005; 2015). GDP measured in purchasing power parities is often applied in international comparative researches in order to compare prosperity in the analysed countries (e.g. Kelemen-Erdős, 2011). Often, present political decisions made today offer promises for possible future benefits, development or growth in the GDP (Pintér, 2010). At first sight we might think that any country with high GDP is a land of plenty. This is most probably not the case and can be questioned both based on regulatory norms and also empirically. The GDP growth does not necessarily reflect the real trends and volume of development of the economy as the GDP values are increased by various factors that clearly destroy prosperity (Györi, 2012). These factors include wars and clashes, arms race, extensive exploitation of natural resources, post-war economic reconstruction of war-torn countries and economies, and it can be continued with other examples. Gergely Tóth (2009) combines the correlation of the GDP growth and the ecological footprint in relation to the tragedy of the commons and demonstrates the highest limits of the previous one. Therefore in his bionomy model the author suggests the dual usage of the GDP and the ecological footprint since the latter one has its limits of sustainability, i. e. it makes a good reason for a tight correlation (Tóth G. 2013).

Gordon (2013) highlights three main problems related to GDP and ranks them as follows:

- GDP suggests local communities that they should favour money (dollar) above all, they should make money and pursue it,
- GDP figures in general mask the territorial disparities within a country,
- GDP figures gloss over all externalities that cannot be handled by the market.

Furthermore, Dabóczy (1998) points out straightforwardly the Ten Commandments of GDP:

- „Thou shalt not adore and serve anything but market!
- Thou shalt not take the name of grey or black economy in vain!
- Remember cash flow and keep it holy!
- Thou shalt covet all from nature!
- Thou shalt not behold costs!
- Thou shalt not look after benefits of public goods!
- Thou shalt forget thy neighbours!

- Thou shalt covet the capital of thy foreign neighbour!
- Thou shalt not covet family!
- Thou shalt not covet quality or content criteria!”

The listing of these commandments may seem a bit eccentric for the science of economics but still, when it comes to this „miracle indicator”, the listing summarizes all the problems that should have been solved years ago.

Measuring the sacrifices caused by the crisis, can be conducted by using the indicators of the SNA system, despite the system's numerous deficiencies. The destructive impact of the crises on welfare can only be estimated or measured by diverse representative and non-representative research studies. (Csiszárík-Kocsir, 2012a, 2012b) For measuring these changes and to eliminate the GDP deficiencies several alternative methods have been developed, such as that shown in figure. (Farkas – Szigeti 2011; Tóth 2007) The widespread use of these methods have unfortunately not yet been spread and what makes the situation more difficult is that there is a high correlation between most alternative indicators and those of the GDP. (Szigeti 2013; Szigeti 2015) Unfortunately the application of these methods have not been spread yet either, so there's nothing left for the research, as the Hungarian proverb goes, „ if there is no horse, a donkey will do as well ”, what remains is the good old GDP and its indicators.

2 Material and method

The current study attempts to present a comparison of the current state of the Hungarian and German economies based on macroeconomic measures and indicators of the Gross Domestic Product (GDP) and the Gross National Disposable Income (GNDI) “If we suppose, that in the course of a research we have to reveal different connections in the course of queries, statements, then recognition and knowing the connections between the available data is very important.” (Pató, 2014) In the course of the research the most recent data available provided by the Eurostat have been used. All conclusions have been drawn by the author using available data provided and by own calculations. The data of the state of the macro economy can be accessed from the database in many forms. Because of the above mentioned deficiencies of the GDP in the study per capita values in Euro are used.

3 Results

3.1 GDP, GNI and GNDI per capita in the two analysed countries

Recovering from the crisis has often been dealt with in economic literature, both during and also after the end of the crisis. Basically three scenarios have been outlined in the discourse and they are as follows:

- optimistic (V-shaped macro variables): based on the successful adjustment of the government, which will not only alleviate the effects of the crisis, but, at the same time, will carry out the reform of the big supply chains, creating the foundations of a long-term growth model which will be able to exceed the growth rate of the European Union by even a hundred percent.
- realistic (U-shaped macro variables): the government successfully manages the problems caused by the crisis and the budget, but does not change the problematic big supply systems, which does not alleviate the present dependency of the country on external factors, only provides momentary solutions.
- pessimistic (L-shaped macro variables): the government is unable to alleviate the effects of the crisis both momentarily and in the long run, with the consequence of state bankruptcy or a currency crisis.

The following figures show the value of the Hungarian and the German economy's gross domestic product, before and after the crisis. It can be seen that the Hungarian economy's figures prove the fears that were rightfully verified during the crisis that the country's economy is unable to operate the optimistic scenario. The pessimistic scenario had been narrowly averted but the optimistic version wasn't achieved completely, either. The Hungarian economy of the last year was not capable enough yet to reach its pre-crisis level. The Hungarian GDP reached its peak in 2008, ever since year 2000 (105.535,8 m€), while it hit its lowest level in the next year with a figure of 86,6% compared to the previous year (91.415,4 m€). Even the recent value of 2013 is a mere 93% of the 2008 level. On the contrary, recession hit Germany in 2009 with a 4% decrease (the Hungarian figure is 13,4%) and in the subsequent years Germany bounced back and the GDP of the country now exceeds the 2008 level.⁵

⁵ The value of 2013 equals 110,7% of the value of 2008.

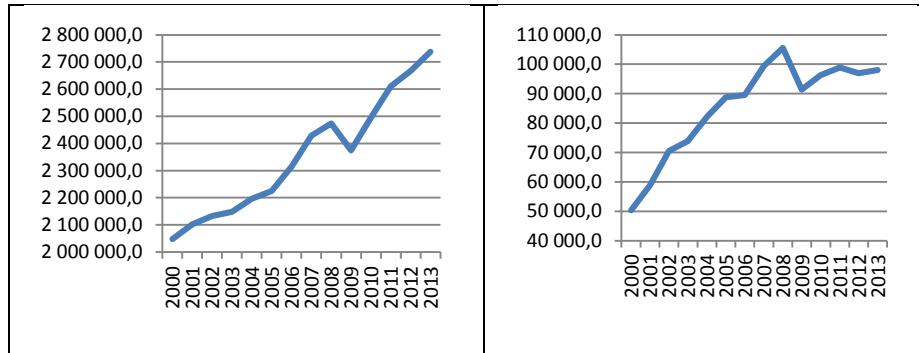


Figure 1.

The increase of the GDP of the German and Hungarian economies between 2000 and 2013 (data in million Euros)

Source: Own compilation, on the basis of Eurostat data, 2014

The following figure demonstrates the GDP per capita during the period considered. It is apparent that the values for the German GDP are far above the EU level while the Hungarian data are well below it. This difference is sharply visible relating all indicators. The German GDP through the period of 14 years examined has increased from 24.900 Euros per capita to 33.300 Euros per capita, by 34 %. On the contrary, the GDP of Hungary over the same period of time examined has just doubled, from the value of 4.900 Euros per capita to 9.900 Euros per capita. When the GDP figures of the two countries are compared to the EU average it can be seen that in year 2000 the GDP of Germany exceeded the EU average by 30% while the Hungarian GDP data is only 26% of the average. These data refer to enormous disparities in development of the two countries. The two economies were continuously approaching the EU average since 2000, while the German economy continuously worsened its position versus EU average the Hungarian economy was catching up to it.

Considering the data regarding Hungary, the country's best year of its GDP value was in 2008 (!), the same year of the pass-through of the crisis, when Hungary reached the 42% level of the EU average. In the period of decrease that followed, the Hungarian GDP levelled off at a value of 38-39% of the EU average. The German economy has continuously improved its value after the peak year of the crisis and its figures are again approaching the 2000 value of the EU average.

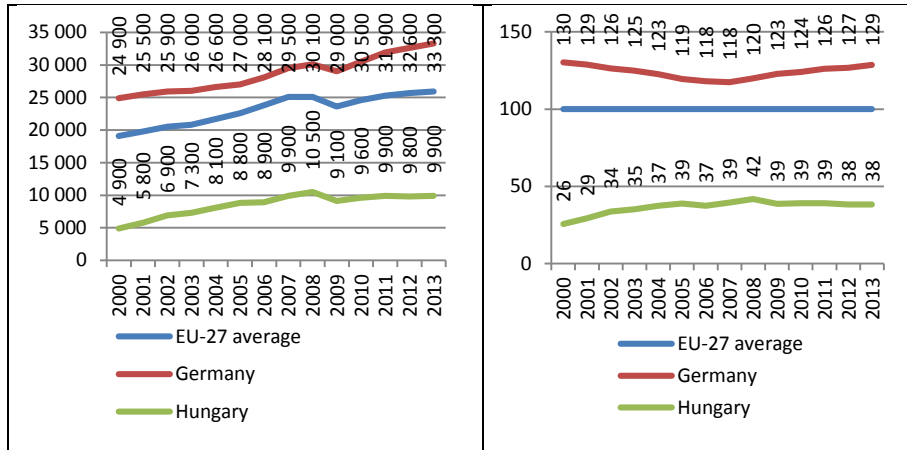


Figure 2.
GDP per capita (Euros/capita) and GDP per capita of the EU-27 average (%) in Germany and Hungary between 2000 and 2013

Source: Own compilation based on Eurostat data, 2014

Since the GDP captures only the value a country produces in terms of products and services for final consumption on its own territory and at the same time it also represents those values produced by non-Hungarian residents, respectively it does not contain the data of products and services produced or manufactured by Hungarian companies and citizens residing abroad.

Therefore, the GNI is a much better indicator as it corrects these errors. However, GNI would only be a slightly better indicator than GDP, yet all data are connected with the GDP. Even the GNI values show a very similar picture in the examined period of years to the values of the GDP. It is interesting to notice that in the case of Germany from 2004 onwards the GNI values exceed those of the GDP by 1-2%, that is to say, the incoming transfer revenues from abroad exceed the outgoing flow of revenues. This is due to the substantial number of German enterprises that carry out their business activities in foreign countries. If we take the value in relation to the EU average of the indicator, it can be seen that in the case of Germany we get a higher value than the value of the GDP calculated using similar methods.⁶ In Hungary, contrary to this, the situation is reversal in these years examined, as the outgoing revenue flow exceeds the incoming transfer revenues conducted by Hungarian nationals and enterprises from abroad. Thus,

⁶ In 2008 for example the GDP of Germany exceeded the EU average by 20% while the GNI measured 22%. Similarly to this, in 2013 the two data were 29% for the GDP and 39% for the GNI.

the Hungarian GNI shows an average 4-6% lower values, than the values of the per capita GDP ones. These data are demonstrated in the following table.

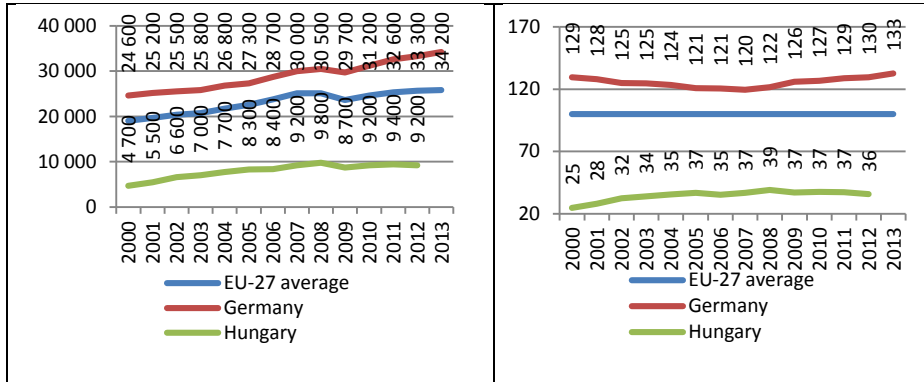


Figure 3
 GNI per capita (Euro/capita) and GDP per capita of the EU-27 average (%) in Germany and in Hungary between 2000 and 2013

Source: Own compilation based on Eurostat data, 2014

The GNDI value gives a more accurate picture of the state of the national economy since the GNI value is corrected by transfer flows. When analysing GNDI values we can also notice the peak and low point fluctuations similar to the previous two observed values as they depend on each other. The GNDI of the German economy compared with the GNI shows an average 1% lower value and from 2004 onwards exceeds the GDP value, just like the one of the GNI. In Hungary the difference between GNI and GNDI remains minimal, in most cases does not reach 1%, that is to say, transfer related cash flow remains non-significant.

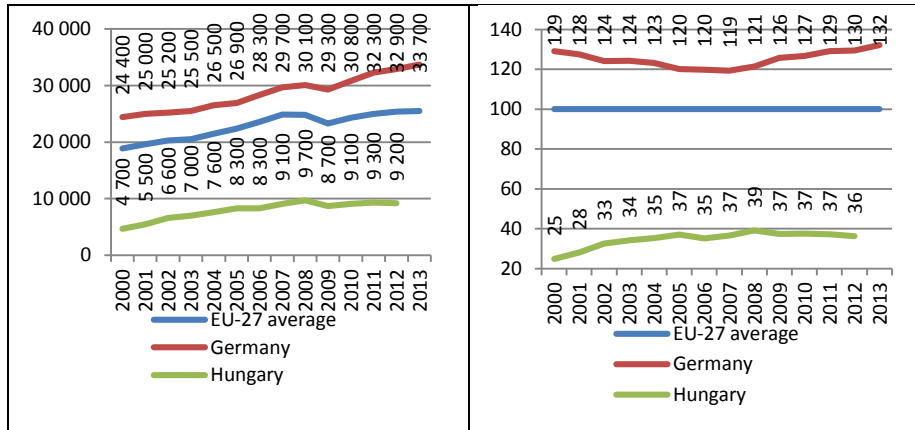


Figure 4

GNDI per capita (Euro/capita) and the GDP of the EU-27 average (%) in Germany and in Hungary between 2000 and 2013

Source: Own compilation based on Eurostat data, 2014

3.2 The rates of change of the examined indicators before and after the crisis

In the previous sub-section the values of the macro indicators per capita have been compared to the values of the EU average. In this current sub-section the rate of change is to be examined. The changes are examined from a perspective of year 2000 (when not a single sign of a possible future crisis could be foreseen) and from 2004 (when the signs of crisis could already be seen and also analysed in certain professional circles).

Examining the change of the values of the GDP from its base point taken in year 2000, it can be established that it was Hungary producing the highest rate of increase in the reference period. This is partly due to the fact that the values of Hungary were at a very low level compared to the EU and also to Germany. Despite the fact that the low GDP has doubled during this reference period, it can unfortunately still be considered low when compared with the EU average. This is also due to the enormous credit expansion in the Hungarian economy. After the end of this credit expansion Hungary suffered by far the largest downturn between 2008 and 2009 from 214% to 186%. In the light of the most recent GDP data, it is apparent that Hungary was unable to reach its pre-crisis GDP level yet, the country's value is still 12% below that value.

On the other hand, the GDP of Germany increased in the examined period below the EU average, however, the nominal value of this indicator is by far above the

average. This increase process was much smoother and steadier than that was in Hungary so the crisis did not cause such a dramatic fall (5% points) It is also a good indicator reflecting the healthiness of the German economy: after the crisis the GDP of the country is continuously increasing by 3 % points, contrary to the equivalent value for Hungary, which is well below 2%, in fits and starts (2012). When analysing the indicators from the base point of year 2005, it is noticeable that the increase of the Hungarian economy was not that intensive at all. The sudden rise of the Hungarian GDP was mainly due to the credits and loans and the increase has slightly receded afterwards leading to a similar overall situation to the German one. It is apparent and indisputable that that Hungary experienced a sudden rise right before the crisis but also suffered a major slowdown in 2009.

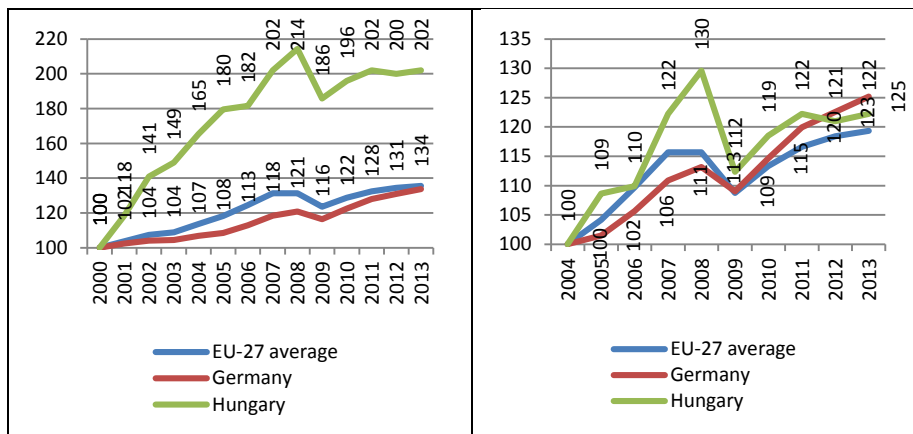


Figure 5
 The change of GDP per capita regarding base of 2000 and 2004 (%)
 Source: Own compilation based on Eurostat data, 2014

The change of the GNI values also show a diverse picture similar to the ones of the GDP. In the case provided for the growth from year 2000, Hungary definitely stands out of the comparison. The setback of 2009 is also significant and salient, however, this decrease is by no means as much as that of the GDP (29% points for the GDP versus just 23 % points for the GNI) As it can be concluded seeing from the base point of 2004, Germany robustly exceeds the EU average and obviously exceeds Hungary as well, at the same time the German values show a continuous and unceasing increase.

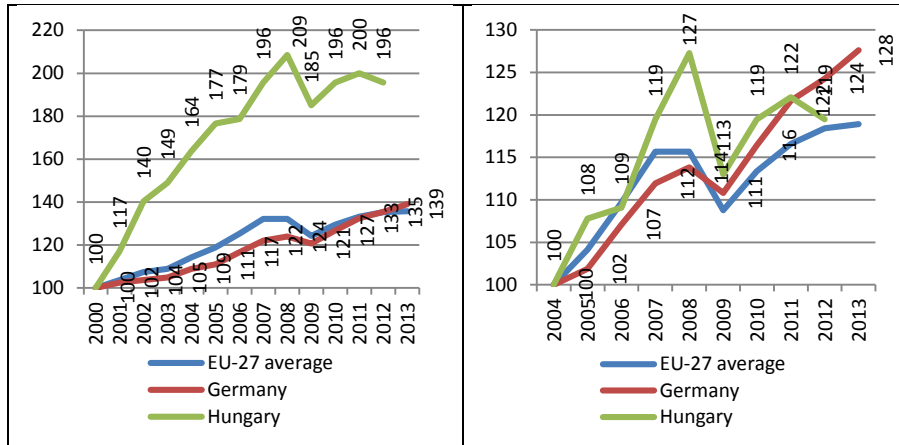


Figure 6
The change of GNI per capita regarding base of 2000 and 2004 (%)
Source: Own compilation based on Eurostat data, 2014

When examining the GNDI values from similar points of view, a very similar tendency can be observed with further decrease of differences. The curve showing the Hungarian data has been shallow when measured from the 2000 data and the curve's lowest point is the years of 2008 and 2009 with a difference between the two values showing just 21% points. While in 2013 regarding the same benchmark the GDP of Germany performed below the EU average by 2% points (136% and 134%), the GNDI performance of the country remained similar (135% and 138%). The values calculated on data of 2004 show an even higher degree of co-movement. The development of the German economy is continuously unabated, while Hungary, after a slight decrease in its growth still thrives to keep the rates of its indicators above the EU average.

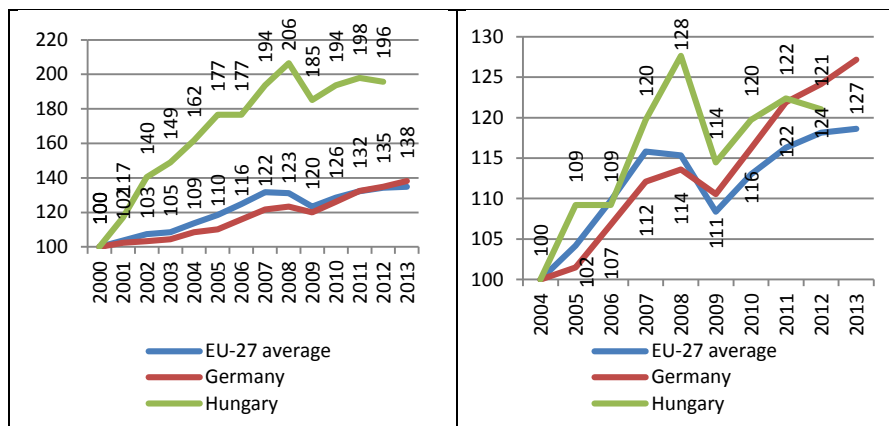


Figure 7

The change of GNDI per capita regarding the base of 2000 and 2004 (%)

Source: Own compilation based on Eurostat data, 2014

4 Conclusion

Based on the results of this brief analysis it is true to say that the economy of Hungary is in tight and strong co-movement with the German economy. Given the immense vulnerability of the Hungarian economy, the dependence of the economy even increases the threats and vulnerabilities. The data of the German economy demonstrate the evidence of the soundness of the German economy. Due to the smooth and continuous increase of the German economy over the past years, the setback caused by the crisis has just narrowly shocked the economy.

The values of it have slightly lowered but despite this relatively slight „brake”, in a short period of time its values got back on a rapidly increasing trend. In the other hand, Hungary was unable to recover completely from the significant impact and setback on its economy caused by the crisis. Not a single indicator could ever since the crisis reach its pre-crisis value.

This is greatly due to the increase that was pumped by credits. After the end of the credit boom, as it turned out, no fuel had been left in the economy since the economy lived up both the fuel and even its fuel reserves. The German economy had plenty of resources in its four-component expenditure model equation⁷ of

⁷ Components by expenditure (GDP) = consumption + investment + government spending + net exports

macro economy. Germany successfully increased its internal consumption (end-of-life vehicle programs), investments (car industry) and the government had its finances and the country's economy was capable of exceeding its exports in comparison with the imports volume. On the other hand, in Hungary no resources were left or could be found for consumption, the country lived up the resources it had no access to (consumer credit start-up), the country was unable to invest for similar reasons and the government don not have capital for investment, either, due to the country's vast indebtedness.

The only solution is the foreign trade the way it always used to be (we can confirm that the situation is improving) but the foreign trade largely depends on the state of health of the German economy. For us, Hungarians, there is nothing else left than to keep our fingers crossed for the German economy, for the strengthening of its immune system in order to prevent the economy's catching a cold.

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The Position of Agriculture in Hungary since the Political Regime Transformation (1990), with Special Regard to Outstanding Debts

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Abstract: In the past 25 years the situation of agriculture changed at its roots. An essential element of this change was the fact that the trade of agricultural products was relatively restricted at the time of the political system transformation, and within agriculture this was especially true in respect of the input materials. The associated risk has been extremely high (and it is high even today), even for the large companies and large farmers. Some of the banks and primarily some of the integrators backed up by foreign parent companies have not taken this into consideration and are not paying due attention to this aspect even today. It has to be highlighted that for the so-called forced entrepreneurs the sole strategy is the strategy of survival even today, and not development. This study deals with the management of the outstanding debts that evolved as a consequence of financing provided both by the banks and the integrators, since the development and the management of the claims and non-performances are practically independent of the form of funding. Therefore one of the major problems in this field is the development of outstanding debts and their appropriate management. Some proven and successful solutions are presented in this study in this regard, among others the study presents proposals for applying the method of the so-called "Standing Crops" for collecting the debts.

Keywords: Agriculture, receivables, debt collection, standing crop, inputs, cultivation contract

1 The agrarian business situation in Hungary after the political regime transformation

The situation of agriculture changed at its roots in the past 25 years. At the time of the political regime transformation the operation of farmers' co-operatives were characteristic which fought always with a permanent lack of capital, but nevertheless which tied down significant areas and a significant workforce. This was the time when the agricultural small entrepreneurs ([13] Borbás, L. 2014) appeared on the market, who just started their businesses, practically without any own assets and own lands, who did not have sufficient expertise either. In the case

of these small entrepreneurs the forced nature of entrepreneurship, and in a number of cases the wish to become rich fast and in connection with this the “special interpretation” of the laws and contracts can be observed.

The previously most characteristic producing units, the co-operatives have been gradually terminated during the time that passed since the political transformation. A clarification process had been started, which led to a bidirectional change.

On one hand forced enterprises were created from the co-operatives terminated, which do exist on the market even today ([18] Késmárki-Gally Sz. – Fenyvesi L. 2004), which with their lack of capital significantly hinder the stabilisation of paying discipline and paying intentions. These former agrarian workers promise that they will bring in the future even the rental fee of land, and they have some assets saved from the co-operatives and sometimes they operate even today with old, useless, practically valueless power machines of the socialist era. ([15] Erdeiné, K-G. Sz. 2008).

Simultaneously with the appearance of the forced entrepreneurs, large farmers entering the market could be also witnessed ([14] Katona, F. 2014), even though this was restricted only to a few persons in each settlement. This more well-to-do class usually had its own asset portfolio, which contained in addition to worn assets new agricultural means of production as well, usually financed from borrowed funds. These assets were primarily high performance power machines or other agricultural machines purchased in the framework of financial leasing, in addition to which they also included dryers, former co-operative warehouses, farms that were concentrated in the hands of individuals, usually with several hundreds of hectares of cultivated land.

In addition to the forced entrepreneurs, who evolved from the former agricultural workers and the group of large farmers the evolution of a third group may be also observed by today. This is practically the group of large company agricultural entrepreneurs operating with significant capital concentration, the capital of which is usually not coming from agriculture, but brought by owners coming from other fields of the economy, by parties who wish to invest their capital into agriculture.

However, the land ownership relations have not been clarified in Hungary until today, which means that the lands are owned by many partial owners, the ownership of land is scattered. The rather tangled ownership structure and usage relations makes the situation even more complex. This is also supported by the fact that in spite of the continuously increasing value and price of the land in our country, they are far from approaching the European Union level ([16] Erdeiné, K-G. Sz. 2013). The widely spread common ownership forms and the difficulties of establishing independent real estates, the collateral function of land real estates and agricultural building real estates may be also questioned, since in the case of an auction usually

it is difficult to sell them. Only a fragment of the market value and sales value that is accepted and acknowledged by the public belief may be enforced on the occasion of an audit because of the ownership relations.

It is important to highlight that the presence of the Hungarian state on this market is considered significant even by the EU players due to the pre-emption right of the National Land Fund, but the presence of the state is also reflected by the existence of the subsidy system operating within the agricultural sector (land based subsidies, machine subsidies, integrator interest rate subsidies, etc.), but a similar influencing impact is exerted by the guaranteed purchase prices and public warehousing as well. As a consequence of all the above it is possible to acquire the utilisation rights of cultivatable land areas relatively easily and cheaply in Hungary today, but to form independent contiguous lands is practically impossible. Therefore this latter one is not targeted by the agricultural enterprises, they rather target the development of the asset portfolio, for which it is possible to get significant state supports continuously and from different sources.

These developments have been realised inevitably from foreign resources and partially from state support after the political regime transformation, with a far higher security than previously, which has brought with itself the frightening nightmare of the collapsing of the co-operatives and a significant number of spectacular failures and bankruptcies. The risk is still big in the large company sector and the large farmer sector, however some banks and primarily integrators having a foreign parent company back-up do not pay due attention to this. For the forced entrepreneurs the only strategy available continues to be the strategy of survival and not the strategy of development. ([17] Szűcs I. – Horváth M. – Késmárki-Gally Sz. (2004).

The integration and asset developments in the case of using bank credits may be partially covered by Hitelgarancia Rt, but obviously outstanding debts cannot be regenerated, that is, the crediting losses of bank financing may lead to the termination of the additional guarantees. The biggest problem of bank credits is the fact that the average lead time of drawing credits is 5-6 weeks according to the data provided by the financial institutions, but in the case of different application deficiency remedies (provision of missing documents, guarantee applications) the lead time may be extended up to even several months, and the credit is disbursed to the applicant only after this. This delay for example in the case of an application for a credit requested for sowing seeds may even make a company bankrupt, but the situation is similar if the disbursement of credit required for diesel oil requested at the time of harvest is delayed.

This study also deals with the management of outstanding debts that have evolved as a result of bank and integrator financing since the development and management of claims and non-performances is practically independent of the form of funding.

It is important to note that in the case of bank financing the banks stipulate the existence of absolute direct surety provided by the integrator company, and if the farmer does not perform, they will call down this surety. Therefore collection has to be done by the integrator enterprise, the same way as in the case of integrator funding. Usually the integrator enterprises apply both funding forms, that is, in the case of a specific buyer they either use bank or integrator funding. The advantage of bank funding is the possibility of using the guarantee of Hitelgarancia Rt, while its disadvantage is that the integrator enterprise is separated from the buyer both as regards time and contact keeping, since the financing bank enters the picture, which otherwise passes over the non-performance of the farmer with the absolute direct surety. This type of conduct of the banks is otherwise natural under the conditions of a market economy.

Unfortunately it is also characteristic that the banks in order to reduce their risk over-insure their disbursed credits by demanding multiple coverage. The farmers are not aware of the fact either – in this regard the rules of the market economy have to be learnt – that the credit providing bank may stipulate prompt collection among the collaterals, and the bank may enforce prompt collection over the bank accounts and/or the business stakes of the debtor. In the lack of an agreement of this kind the financial institution may act only on the basis of the law or a court verdict.

In spite of the above difficulties the economic policy of the second Orbán government achieved the promised successes as regards both the entire economy and the agrarian economy by the last quarter of 2013 (3.2 %). In year 2014, as it is known a spectacular GDP increase took place in Hungary (3.6 %) throughout the entire year. ([5] www.napi.hu)

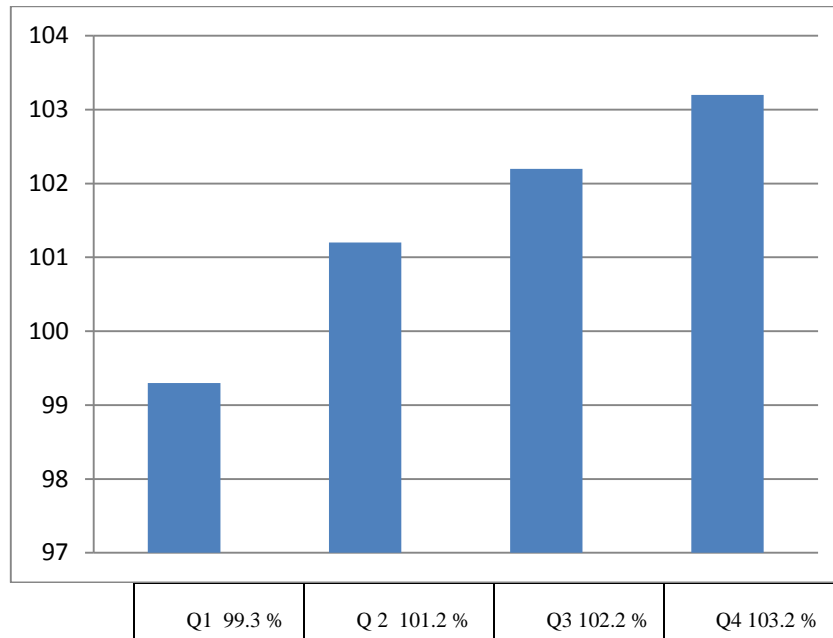


Figure 1

The increase of GDP in Hungary in Quarters 1-4 of year 2013, X= Q1-4, Y= %
Diagram made by the author, sources: KSH Statat (date of downloading 21.03.2015.)
http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_qpt001j.html

In year 2014 the economic growth achieved in the last quarter of 2013 has been sustained in Hungary, it even increased. It seems that the economic policy of the government matured. Naturally sustaining economic growth in Hungary depends on additional measures.

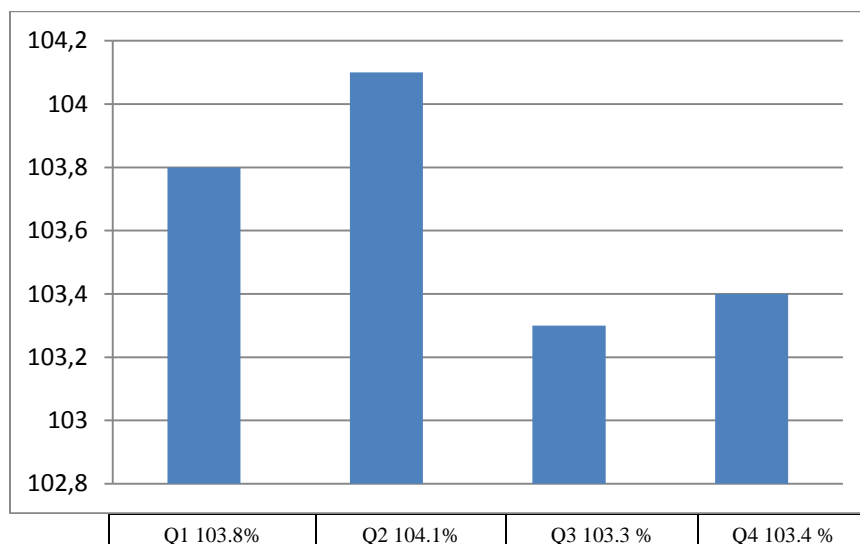


Figure 2

The growth of GDP in Hungary in Quarters 1-4 of year 2014, X= Q 1-4, Y= %

Diagram made by the author: KSH Statat (Date of downloading 21.03.2015.)

http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_qpt001j.html

In year 2014 the economy of the 28 countries of EU grew altogether only with 1.2 %. Hungary with its performance became one of the top runners throughout the entire year.

	Country	
1	Austria	99.8 %
2	Poland	102.9%
3	Lithuania	102.4%
4	Malta	104.0%
5	Hungary	103.6%
6	Germany	101.6%
7	Average of the EU (28 countries)	101.2%

Table 1

The growth of some EU countries in 2014, %

Table compiled by the author, sources: KSH Statat (date of downloading 21.03.2015.)

http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_int002b.html

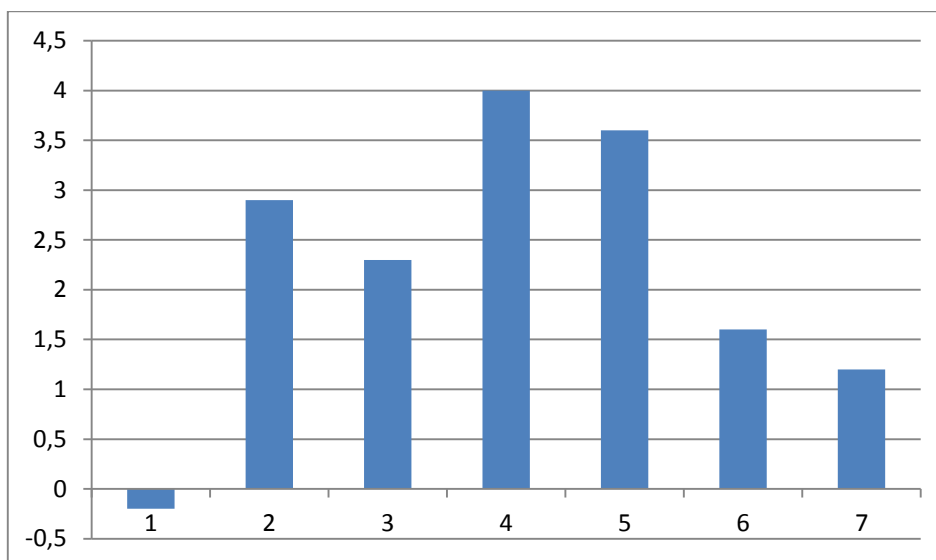


Figure 3

The GDP growth of some EU countries in year 2014, X= countries according to the Hungarian alphabetic order of Table 1, Y= %

Diagram made by the author, sources: KSH Statdat (date of downloading 21.03.2015.)

http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_int002b.html

The development of agriculture has been even more spectacular in the recent years.

2012, Q1	2012, Q2	2012, Q3	2012, Q4	Total
161 111	136 944	134 777	139 706	572 537
2013, Q1	2013, Q2	2013, Q3	2013, Q4	Total
159 584	165 034	169 178	165 080	658 876
2014, Q1	2014, Q2	2014, Q3	2014, Q4	Total
173 921	191 509	191 240	184 890	741 559

Table 2

Contribution of Hungarian agriculture, forestry, fishery to the GDP, at the average price of 2005 (at market procurement price), million HUF

Table compiled by the author, sources: KSH Statdat (date of downloading 21.03.2015.)

http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_qpt006i.html

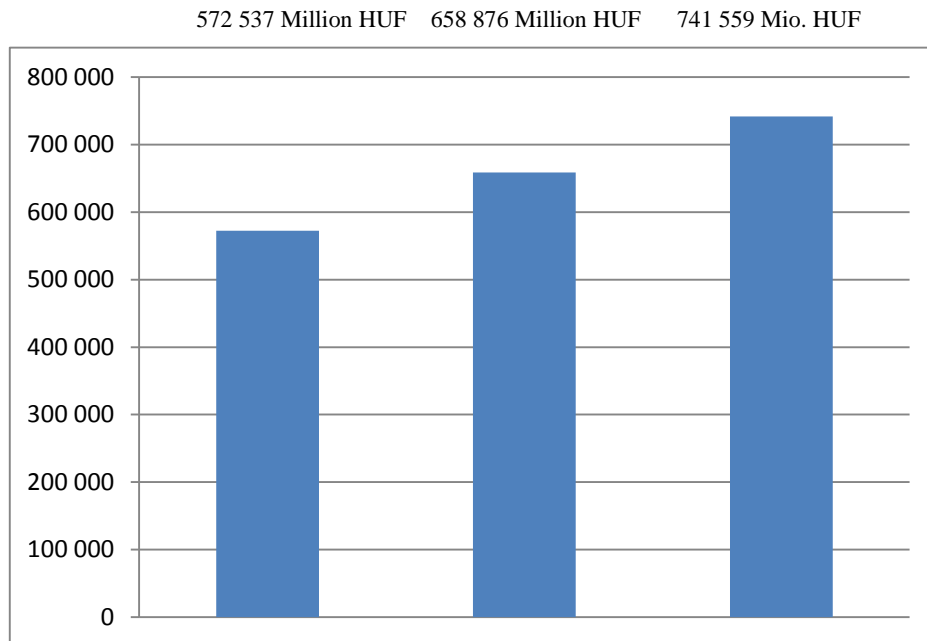


Figure 4

Contribution of Hungarian agriculture, forestry and fishery to the GDP, at the average price of year 2005 (at market procurement price), million HUF, X= Years, 2012, 2013, 2014, Y= Contribution
Diagram made by the author, sources: KSH Stadat (date of downloading 21.03.2015.)

http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_qpt006i.html

Compared to the end of year 2012 (1) the contribution of agriculture, forestry and fishery to the GDP increased with 15 % by the end of year 2013. Compared to the successful agricultural year of 2013 the GDP of the sector was able to further increase in year 2014 also (3), with more than 12.5 %. The development of the sector continued in the beginning of year 2015 as well.

The integrators mostly owned by foreigners, who did not have sufficient experience and/or who did not exploit the local experiences, but of course occasionally the Hungarian integrators as well, independently of the above growth, have got into such an outstanding debt trap, which caused them serious losses, and they were able to save or will be able to save a part of their capital only with hard work.

2 Integrators owned by foreigners and their integrator contracts

The essence of the operation of the integrator companies is that they also do make available input materials to the agricultural entrepreneurs, in addition to signing production and delivery contracts. They actually provide a kind of product credit, which may be manifested in the form of sowing seeds, fertilisers, insecticides and diesel oil. Occasionally parts or even machines may be the subject of the product credit. The farmer using the input materials produces crops, which may be for example wheat, barley, malting barley, sunflower, rape or maize. The farmer is obliged to sell the crops to the integrator at the contractual price.

In a lucky case the value of the crops covers the price of the input materials, the interest rates, and the transport costs and it also provides a profit for the farmer. 40 % of the interests is refunded by the state in the form of interest rate subsidies, this is the way the state makes the farmer and the integrator interested in production. The profit of the integrator is generated primarily through the selling of the input materials, and the profit of this depends on the quantity of the input materials the integrator is able to purchase from the manufacturers. The bigger the quantity purchased, the bigger the discount the manufacturers provide, and this therefore may increase the price difference between the procurement price and the retail price, that is, the price gap of the integrator. It has to be noted that the foreign integrator companies could not exploit their advantages offered by their international set-up in respect of procuring the input materials, since the transport cost of bringing the input materials from abroad would have surpassed anyway their price advantage, and on the other hand it is possible to sell in Hungary only products that have domestic licences for example in the case of insecticides and fertilisers. In the case of local procurements the foreign integrators had to endure a disadvantage, since for a smaller turnover a smaller procurement discount is due everywhere in the world.

The integrators appeared on the above introduced market, including also companies owned by foreigners at the time when the majority of the farming co-operatives had been still in operation, but these co-operatives had been already facing significant problems. The agrarian structure that existed at the time of the political regime transformation had been taken into consideration by the foreign integrator companies as the basis of their business models, that is, their target group was represented by the larger sized farm co-operatives that still existed on the market when the integrators entered the Hungarian markets. The companies that had been on the way to being dissolved, lacking capital did not object to the product credit injections that were offered by the integrators. In addition to this the local Hungarian integrators thanks to their market insight financed the better buyers. Therefore for the foreigners entering newly the Hungarian market increasingly only the bad

buyers were left, buyers, which already carried with them the debts of several years, which were near to being liquidated.

This was going hand in hand with the euphoria of the companies owned by foreigners, when in the period of disbursal they saw that they are able to realise a huge turnover. Soon they reached and far exceeded even the value of 10 billion HUF, however the payment of the receivables could not keep abreast with this turnover, and thus a huge chaos evolved involving a large number of non-paying buyers. The main problem was the fact that the integrators conducted their deals through a relatively non-demanding contractual arrangement, the so-called integrator contract, which did not meet the requirements of the time, which contained contractual collaterals that were practically inappropriate for protecting their economic interests.

The profit is even more modest in the crop trade than in the case of the input materials. Even together with the integrator interest rate discounts obtained, a negative interest rate difference could be achieved, if the integrator financed its product placements with credit. Therefore the commercial model of the foreign integrators was producing deficit from the start due to the high bank credit interest rates and the relatively smaller procurement volume.

However, the main problem is not this, but the generation of outstanding debts. The foreign integrators soon realised that their product credits placed on the basis of inappropriately secured integrator contracts had been frozen, the farmers did not deliver. When they tried to enforce the prompt collection registered they already found empty bank accounts. The filled-in bill of exchanges were also returned with an “uncovered” comment. They were unable to enforce the crop pledges, because the farmers were often able to dodge performance in a certified manner (with reference to damages caused by wild game, drought, or flood). There were agricultural years, when certain areas were hit first by a drought and then by a flood as well. But the farmers also tried to find other legal titles. Many farmers did not deliver, because they thought that a purchase price corresponding to the commodity exchange price reduced with 10 percent was insufficient, and this was the argument on the basis of which they dodged performing the contract.

Therefore an integrator contract had to be created, in the case of which in addition to the crop pledged the implementation of the deal was also secured with a movable property mortgage, and above a certain amount limit by a real estate mortgage as well. The farmer had to be also obliged to deliver the crops unconditionally at the defined price, by closing the so-called loopholes of non-performance. The new integrator contract involved in each case the signing of a bill of exchange and prompt collection agreement. The range of collaterals stipulated included movable property mortgages in addition to crop pledges already in the case of input placements below 1 million HUF, and in the case of a placement exceeding this a real estate mortgage had been also attached to the integrator contract. The parameters of quantity and quality performances had been also defined more

accurately, and the farmer could deliver its crops only to the integrator and at the price defined in advance.

The integrators were able to improve also by ensuring that the legal collaterals of the contract had been fulfilled, but at least the relevant written farmer promise was signed before the delivery of the input.

It remained a problem that they could target only the poor agrarian class of the market, which class is unable to sustain an integrator company that would trade in a volume, which would be sufficient for getting high procurement discounts after its significant procurements made in the Hungarian market.

Nevertheless a successful strategy already existed in Hungary at this time. The large Hungarian integrator companies with their national network, with their product offer that had been adapted to the demands of the buyers and with flexible integrator contracts have been increasingly increasing their turnover by winning the large farmers and the large company entrepreneurs, with complex services, and as a result of this they entered the profitable zone. The foreign integrators contrary to this try to react to the situation with reducing their turnover by selecting their buyer portfolio. In addition to all this, they had to also start to collect their outstanding debts, to regain their capital.

The state also tried to support the liquidation of the outstanding debts by issuing Government Decree 215/2002 (Government Decree [6] 215/2002), the intended task of which was to serve the consolidation of the integrated producers through the integrators. The base of the subsidy that could be applied for, was the annual average of the debt of the last three years before the end of year 2002 that was due to the given integrator. The planned subsidy was forty percent of the subsidy base, and approximately this value had been the extent of the actual subsidy. If at the time when the application was submitted the integrated farmer already did not have any debts towards the integrator, then the integrator was obliged to forward the subsidy to the farmer after calling it down.

The integrators owned by foreigners - in line with their former practice - passed over their outstanding debts to their own separate debt collecting company, which was unable to get a share of the state subsidy, since they had not been integrators. It seemed to be a viable solution if the integrator authorised its own debt collecting company to fill in the applications and to act in the course of submitting the applications and on the occasion of signing the assignment contract to get the relevant statements. In this case the farmers assigned the state subsidy received by them to the debt collecting company, which the integrator based on the assignment could transfer to its own debt collecting company after the application and the disbursal of the subsidy. The foreign integrators did not use this option, therefore they lost a significant state subsidy, moreover in some cases the debtors started a lawsuit, because finally they did not get the state subsidy, or they had to endure a

damage because the subsidy would have been due to them, since they already did not have a debt, or they had to endure a damage, because the state consolidation subsidy would have reduced their debt. Many farmers were only ready to negotiate in the course of debt collection only about the debt that was reduced with the unpaid consolidation amount.

3 The role of “standing crop” in debt collection

The crops produced in agriculture are classified “components” until being picked or harvested by the end of the harvesting period of the year. In this respect attention has to be paid to the fact that a component is not an independent item, therefore it may not have an independent legal fate either.

However, the agricultural products have a very special feature, namely, their independent fate is expectable, that is they may be considered a so-called future item. If the soil had been cultivated, it had been appropriately prepared, sowing had been done, the appropriate chemicals had been also applied, and then after the appearance of the crops, it may be expected that there will be crops to be harvested even without any human intervention. The legal literature acknowledges that the sale and purchase of so-called future items may be the subject of an effective contract.

In addition to this the handing over of the properties is very important from legal aspect. The ownership of a movable property is actually transferred, if in addition to transferring the effective legal title the property is also handed over. During the legal act of handing over we mean that the beneficiary gets the disposal right over the given property, while the old beneficiary loses its powers above the property. In view of this it can be said that the handing over of the property may be done administratively, e.g. in case a property was already in the possession of the new owner under another legal title previously. In this case the possessor will possess the property after handing over as its owner (*brevi manu*, so-called short way, without formalities). ([1] Kis lexikon, www.kislexikon.hu)

It is also classified as the handing over of the property if the handing over person, in the name of the new beneficiary, as its representative, (*Detentor*) keeps the given property in its possession (*constitutum possessorium*) ([2] E-Lexikon Switzerland). That case is also considered a handing over, if handing over is done only symbolically (e.g. the handing over the key of an apartment, *longa manu*). ([3] Gast, P. 2012).

It is also qualified a handing over – naturally – if the property is handed over in the framework of a lawsuit initiated for acquiring the property by legal succession (*cessio vindicationis*) ([4] Von Lübtov, U.195), but it is also qualified a handing over, if the third person possessing the property is instructed by the legal predecessor to possess the properties in the name of the new beneficiary. ([9] Eorsi Gy.1995) ([8] Eorsi Gy.2010)

Handing over is done in the case of standing crops through ‘*constitutum possessorium*’, that is, the handing over person will keep the property in its possession in the name of the new beneficiary. Already in the purchase and sale contract it has to be stipulated that starting from signing the contract the seller will keep in its possession the crop in the name of the buyer, then it will harvest it in the name of the buyer. For the case when it seems that the seller intends to terminate this latter assignment, it is practical if the contract also ensures for the buyer the right of harvesting.

When collecting the outstanding debts such debt management contracts have to be elaborated in which the integrator purchases standing crops, since this way such a strong owner position is established for the integrator, which provides a greater legal security, moreover often the debtors have solely the crops as their assets that they may offer.

If in the case of a non-paying debtor the integrator succeeds in finding any such standing crops which is not the security or collateral of any credit obtained from others, then with a well edited purchase and sale contract and by persuading the debtor the solution of the problem that lasted for several years is already found. However, usually the greatest surprise is that even in the case of the most insolvent debtors it is possible to find some future crops of the value of several million HUF, and in these cases usually the debtor signs the contract concerning the selling of the standing crops.

This kind of framework contracts in addition to the data of the seller and the buyer have to also contain a debt acknowledging section, which together with the relevant deed number also contains the size of the debt and also the plan that the debtor will pay the debt according to the schedule included in the attachment. It is especially important that starting with offering the standing crops obviously with even more care the debtor has to take care of the area with the due diligence of a good owner, to collect the crop and store it, and to start its treatment, moreover to inform about this the creditor. The creditor has to take care of transporting away the harvested crop within 30 days. The debtor within a couple of days after accepting performance in the form of the offered crops, that is, after signing the contract has to issue a certificate (invoice) on selling the crops (the VAT is 15 %, and the method of payment is compensation).

The appendix has to contain the lot number of the real estate, its size and the species of the standing crops that are to be grown there, its estimated quantity and value. From the arrangement it can be seen that after the contract, the invoice will be issued in line with the Accounting Act, that is, the outstanding debt that had been dragged along for years has been or was collected.

If it is not possible to realise the estimated value of the debt at the time of harvest, then it is possible to pay the difference. This cannot be a too big amount, because obviously the estimation has to be done with due care. According to the experience the debtors very often paid this difference, however, if they were unable to pay, the standing crops of the next year already provided a secure coverage for this.

According to the experiences, in many cases the debtors paid the debt before delivery. In this case the invoice and compensation had to be reversed. It also happened that the debtor, in spite of the fact that it issued a statement in the contract declaring that the standing crop is free of encumbrances, did not deliver the property of the buyer. However, this is already a criminal act, and in this case it is possible to enforce the debt in civil law against the private properties of the offender as well. It can be seen that purchasing standing crops is a method with the aid of which one may get its previously unsecured claim satisfied with a greater security by already getting the ownership at the time of signing the contract.

4 Purchase and sale contracts concluded for acquiring properties and/or real estates, with stipulating a repurchase right

Above it was described in detail that integrated crop growing has to be secured above a certain amount with movable property and real estate mortgages as well. Mortgage belongs under substantive law, which provides a coverage against anybody in respect of the claim of the creditor. At the time when the claim is due, the beneficiary is entitled to enforce the satisfaction of its claim from the object of the mortgage up to the extent of the claim that had not been settled. Actually there are three options available to the beneficiary to enforce its claim.

The basic case is when after the breach of contract the beneficiary submits a petition to the Court in order to be able to exercise its enforcement right. After the decision of the Court the usual execution procedure is started with an auction involving the mortgaged object. The executor has the right to reduce the announced auction price to its half in the case of a real estate, and in the case of a movable property to its one fourth in the course of the first auction, provided there is no interest towards the object at the announced price. After the second unsuccessful auction procedure the object of mortgage is offered by the executor to the beneficiary. If the beneficiary

does not want to become the owner, the auction procedure is closed unsuccessfully and the mortgage right of the beneficiary is terminated. This is clearly favourable for the debtor. ([10] Court Resolutions) ([7] Lenkovics B.1998)

The second case is when the contracting parties agree already in the initial contract that in the case of non-performance they will jointly sell the pledged property. In this case the contracting parties may even stipulate a value limit, and thus selling may be done at a more favourable price than the prices that are reduced by the executor in the case of an auction procedure. This second case is more advantageous for the creditors also because according to the auction experiences the auctions are usually done with the participation of a rather small and relatively permanent group of people. This limited group does not allow the development of an actual bidding, and they try to keep or frighten away the new unknown people interested. Very often in the course of the walkthrough the participants agree in respect of purchasing the different pledged properties. Thus this way if there is any selling, it is certain that it will be done at the least still lawful price. This way it may happen that the claim of the creditors cannot be satisfied.

The third case is when in respect of claims that are secured by mortgage the parties agree in advance in the taking over of the object that is pledged against the claim as the settlement of the claim.

In the case of all the above listed three cases the solution is provided by getting the ownership. It seems to be impractical to obtain mortgage collateral subsequently for a previously unsecured claim (of course if there is no other possibility, this opportunity has to be also exploited), in order to get – after several years of litigation and execution – to the solution in the framework of which the creditor will eventually get the ownership.

The solution for the above problem - especially in the case of previously unsecured outstanding debts – is to have a purchase and sale contract for real estates or movable properties, or for both, which is signed with stipulating a repurchase right. The repurchase right assists the creditor by allowing the debtor to exercise this right within the deadline stipulated in the contract, and if it does so, then the creditor does not have to accumulate real estates and movable properties, which it does not use. According to the experience some of the debtors exercise their repurchase right, or with the payment of a significant amount they ask the extension of the deadline of the repurchase right, since usually the objects are movable properties and real estates that the debtor could use, or does actually use.

The purchase and sale contract has to contain in addition to the data of the seller and the buyer the debt acknowledgement statement of the debtor. Subsequently the group of real estates and/or movable properties offered for sale are listed, with giving in the case of a real estate the lot number, name, and characteristics, and in

the case of movable properties the production number, type, age. The gross purchase price of the goods offered has to be given in detail in a separate point and also the fact that buyer accepts the purchase price as the settlement or a part of the settlement of its claim and of the interests that are charged for the claim. The buyer may give its consent for seller to use the real estate or movable property, but seller has to preserve the condition of the property and to take care of its guarding with the due diligence of a good owner. Seller has to warrant the litigation and encumbrance freeness of the object of the sale and purchase, and at the same time it has to declare that it is not indebted in respect of the given properties. Contracting parties establish a repurchase right until a defined time, and they also record that until when seller is obliged to notify buyer about the calling down of the repurchase right.

5 Conclusions

With the aid of the introduced arrangements, companies succeeded in collecting partially or fully a number of previously unsecured claims that had been frozen for years. Introducing the way one may succeed in persuading the debtor in a lawful manner to perform as described above is not the subject of this study.

The essential aspect is the fact that collection is definitely a commercial work, a commercial work that may be facilitated by good and smart legal and financial arrangements. Trader ingenuity is an essential requirement both as regards the debtors, the assets that may be offered by the debtors and in respect of the buyers, who purchase the assets collected. Only the thorough knowledge of the market and fast reaction capabilities may lead to results, which the integrator companies owned by foreigners could not have. Moreover they did not keep in high esteem their colleagues, who participated in the work of organised debt collection that had been established when they entered this specific market.

The assistance provided by the foreign parent company included nothing else, but the writing of notices, the preparation of accounting statements made with an increasingly tedious work, and the sending of the debt managing experts of the parent company to Hungary, who did not know the local market. Therefore a big ratio of the foreign integrator companies lost their previous market share, in spite of the fact that with the aid of the debt collection methods introduced, and primarily with developing their commercial work on the basis of the solvency and payment intention of the buyers they could have been the active players and winners of the agricultural boom that took place in Hungary. Unfortunately this foreign capital is missing very much from the local agrarian economy. With an active role undertaken by the foreign integrators the impressive development of the Hungarian agrarian economy could have been significantly more impressive.

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Development of Suburbanization in the Context of Socio-economic Changes in Urban Areas on the Example of Poland

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Abstract: Suburbanization is driven by the development of cities. People and businesses leave city centers and move to suburban areas because of social and economic considerations. The goal of the article is to identify the causes of suburbanization in Poland in the context of these two aspects and to determine the direction and degree of change in population movements observed in urban, rural and rural-urban communes for individual Polish voivodships over the period of 2004-2014.

Keywords: suburbanization, urban logistics, urban, rural and rural-urban communes

1 Introduction

Socio-economic development of urban areas is connected with broadly defined suburbanization processes. The expression urbanization [Lat. Urbanus – urban] is understood as social and cultural processes which manifest themselves through the development of cities, increase in their number, spreading urban areas and a higher percentage of urban population. [1] Factors which influence these processes are: population movements and trade and industry development. In such circumstances, urban centers are becoming too small and lacking space which results in the creation of highly urbanized metropolitan centers.

Urbanization processes can be discussed according to the following aspects [2]:

- Spatial aspect – urbanization is concerned with the size of cities, complexity of urban settlement forms and urban areas. It is connected with the expansion

of urban spatial planning areas in a way typical for cities, regardless of city boundaries.

- Demographic aspect – urbanization is concerned with population movements from rural to urban areas, urban population concentration and the growth of population on a given area.
- Economic aspect – urbanization is based on a constant increase in the number of people employed outside the agricultural sector.
- Social aspect – urbanization promotes the so called urban life style and also contributes to spreading social, economic and cultural patterns to rural areas.

In cities live already more than half of the world's population. [3] The empirical results have shown that "extent of urban population (or employment) might depend on crop production closely around that city, and transport costs between the city and elsewhere. [4] Unfortunately, urbanization often leads to the reduction of life quality due to eg. climate change, greenhouse gas emission, in which CO₂ [5, 6, 7, 8] and pushes people to move to suburban areas. The process of city centers depopulation accompanied by the development of suburban areas, which is also due to the movement of businesses, is called suburbanization. Knowing the principles of suburban areas creation and development is crucial to the proper placement of logistic infrastructure in the net of cities and around them. That is why suburban areas should be part of urban logistics system whose goal is to pull all economic entities operating in a city and around it together, with the consideration of economic, ecological and social aspects. [9] Suburbanization is connected with migratory flows. For this reason, the goal of the article is to identify the causes of population migration from city center to suburban areas and to determine the dynamics of this change and connections between the development of suburban, urban and rural areas in Poland in the years 2004-2014.

2 Character of the suburbanization process

The development of urban areas leads to adapting of adjacent lands. The increase in the population and suburban areas activity is called suburbanization. Etymologically speaking, the term's origin is in Latin – suburbium [Lat.] means a residential area either peripheral or lying outside city boundaries. [10] Suburbanization is understood as a further development of urban areas outside the central zone and is one of the four stages of city development. The other three are: urbanization (urban areas development), de-urbanization (decrease in population in central areas, and then in external areas, it leads to agglomeration reduction) and re-urbanization (renovation of cities, economic structure changes and the improvement of the environment) [11]. The term suburbanization is used in three basic spatial contexts [12]:

- Within administrative city borders (the so called internal suburbanization, on underdeveloped areas of the city).
- Outside the borders of the central city, within the closer suburban zone (urban fringe, suburban zone, peripheral zone) characterized by the spatial continuity of investment areas.
- Outside the closer suburban zone within the further suburban zone (urban-rural fringe, peripheral zone) giving the impression of a rural area.

3 The reasons of suburbanization in Poland

The history of suburbanization in Poland does not go back farther than 20 years and the term was transplanted here from the analyses of rapidly growing American cities (especially after the Second World War). In Poland the dynamic development of suburban housing estates is the consequence of the transformation of urban areas from socialist, then post-socialist into capitalist. The specific nature of the Polish suburbanization is due to the interaction of such factors as: shortages on the residential market – the aftermath of socialism (even though about 7million flats were built from the 1950s to the late 1990s, the problem lingers on), strict housing construction standards for block housing estates built on a mass scale which in 2006 were home for nearly 40% of Poles (Public Opinion Research Center 2010), progressing material and social degradation of communal urban resources, and, lastly, high land prices within the administrative city boundaries [13].

Current causes of Polish suburbanization can be discussed in the context of three aspects [14]:

- Social aspect – motorization increase, improvement of housing conditions without the need for giving up a career, changing a flat for a house with a backyard.
- Economic aspect – cheaper building plots accessibility on suburban areas.
- Industrial aspect – moving of trade and production businesses to suburban areas.

Following residents and broadly understood business, also the sector of services increasingly moves to peripheral areas. The suburbanization of services started in Northern America in the middle of the 20th century and intensified in the 1980s [15]. This phenomenon has also been observed in Europe and Poland since the 1990s.

4 Consequences of suburbanization

Due to its spontaneity, suburbanization is highly detrimental. Its results are visible in the spatial, economic and social spheres. As far as the spatial aspect is concerned, suburbanization leads to the degradation of the environment, including forests, rural, landscape and recreational areas. It is connected with the transformation of suburban areas into investment sites and adapting them for residential and economic functions which results in environmental pollution and natural resources destruction [16]. In terms of the economic aspect it leads to the disintegration of the central city through depopulation which reduces tax revenues. Taxes paid by residents and businesses on urban zones are raised due to the ineffectiveness of transportation. The city faces additional costs of social and technical infrastructure development and services connected with it [17]. In the social aspect, suburbanization breeds society polarization, lack of neighbor relations, and conflicts between indigenous and incoming people. Times of commuting to work, school or shops increase contributing to traffic jams and water and air pollution. What is more, growing of cities leads to the disappearance of central urban trade (shopkeepers) for the benefit of supermarkets and malls, unemployment increases intensifying poverty in the center of the city, estate values drop and the city's image is damaged [18]. Spatial planning of areas adjacent to city borders should therefore be well thought over with the above aspects in mind. Unfortunately, developing metropolitan areas in an orderly manner is doomed to fail in Poland due to the lack of proper laws and tools for planning highly urbanized areas [19].

5 Analysis of change dynamics and correlations in the suburbanization process in Poland

The pace of suburbanization in Poland differs from one region to another. Following this fact, a dynamics and correspondence analysis in terms of population in urban, rural and urban-rural communes was carried out. The dynamics analysis shows that in comparison to 2004 there was a decrease in urban-rural communes population in 2014. Table 1 shows the relative changes for the year 2014 with a base of 2004.

Voivodships	Average population in gminas [%]		
	urban	rural	urban-rural
Lower Silesia (V1)	-2,77	9,02	0,70
Kuyavia – Pomerania (V2)	-2,53	8,01	1,25
Lublin (V3)	-2,54	-0,70	-5,87
Lubusz (V4)	-0,76	6,64	0,46
Łódź (V5)	-6,24	-0,04	-2,61
Lesser Poland (V6)	5,91	6,46	-4,95
Masovia (V7)	1,96	3,97	7,15
Opole (V8)	-5,82	-3,30	-5,15
Sub-Carpathia (V9)	1,47	-1,12	-3,37
Podlissia (V10)	0,03	-3,80	-6,10
Pomerania (V11)	4,71	13,83	1,67
Silesia (V12)	-4,53	4,61	1,70
Kielce (V13)	-4,73	-1,31	-1,51
Varimnia and Masuria (V14)	-0,08	4,30	0,44
Greater Poland (V15)	-2,56	9,56	4,16
Western Pomerania (V16)	-0,47	7,90	-2,13

Table 1

Relative changes of average population in gminas in Poland for the year 2014 with a base of 2004 by voivodships.

Source: Own calculation based on [20].

The most significant changes in the urban-rural communes population were observed in the following voivodships: Masovia, Pomerania, Lublin, Opole, Lesser Poland, Greater Poland, and:

- In the cases of Masovia and Greater Poland, the average number of people in 2014 grew in comparison to 2004 by 7.15% and 4.16% respectively.
- In the other voivodships the average population number was smaller in 2014 compared to 2004, with the biggest drop in Podlissia – by 6.10%.
- The changes in the average population number in the voivodships Lublin, Masovia, Pomerania and Opole had the same direction.
- In Lesser Poland the drop in the average number of people in urban-rural communes was accompanied by an increase in rural and in urban communes.
- In Greater Poland there was an increase in the average population number in urban-rural communes and a simultaneous drop in urban communes and increase in rural communes.

Looking at the whole 2004-2014 period, the changes in the average number of people in communes in all voivodships are non-substantial. In table 2 average annual rate of change of average population in gminas in Poland by voivodships in the period 2004-2014.

Voivodships	Average population in gminas [%]		
	urban	rural	urban-rural
Lower Silesia (V1)	-0,19	0,58	0,05
Kuyavia – Pomerania (V2)	-0,17	0,52	0,08
Lublin (V3)	-0,17	-0,05	-0,40
Lubusz (V4)	-0,05	0,43	0,03
Łódź (V5)	-0,43	0,00	-0,18
Lesser Poland (V6)	0,38	0,42	-0,34
Masovia (V7)	0,13	0,26	0,46
Opole (V8)	-0,40	-0,22	-0,35
Sub-Carpathia (V9)	0,10	-0,07	-0,23
Podlissia (V10)	0,00	-0,26	-0,42
Pomerania (V11)	0,31	0,87	0,11
Silesia (V12)	-0,31	0,30	0,11
Kielce (V13)	-0,32	-0,09	-0,10
Varimía and Masuria (V14)	-0,01	0,28	0,03
Greater Poland (V15)	-0,17	0,61	0,27
Western Pomerania (V16)	-0,03	0,51	-0,14

Table 2

Average annual rate of change of average population in gminas in Poland by voivodships in the period 2004-2014

Source: Own calculation based on [20].

In the 2004-2014 period no voivodship showed a significant annual average drop or increase in the average urban-rural, rural or urban population number – the annual average change tempo in all voivodships assumes values lower than 1%. In the case of urban communes, both the annual average change tempo and the relative one-based increase in the average population number in most voivodships assumed negative values. And although the values for urban and rural-urban communes were positive, there is no correlation in the average population changes in these communes. At most, it is possible to speak of a moderate correlation between the changes in the average number of people in urban-rural and rural communes, and the correlation is positive which means the change direction is the same (statistically significant Pearson correlation coefficients on the level of 0.05 assumed respective values of 0.61 and 0.62 for the increases and average rate of change).

The study was complimented by a correspondence analysis of the average number of people in urban, rural and urban-rural communes by voivodships for the 2004-2014 period. Table 3 shows eigenvalues for analyzed set of data.

Number of dimensions		Eigenvalue and inertia (all dimensions) The total inertia = 0.00979 Chi2=12943, df=30 p=0.0000				
		Singular value	Eigenvalue	% of inertia	Cumulative %	Chi square
2014	1	0.096315	0.009277	94.72259	94.7226	12260.26
	2	0.022734	0.000517	5.27741	100.0000	683.07
2004	1	0.101001	0.010201	94.63452	94.6345	13599.03
	2	0.024050	0.000578	5.36548	100.0000	771.02

Table 3

Eigenvalues for analyzed set of data
Source: Own calculation in Statistica Software

For the analyzed variables, the first dimension allows to recreate 94.72% in 2014 and 94.63% in 2004 of the total inertia, the second dimension allows to fully explain the inertia. The profiles are situated in a two-dimensional system for both years 2004 and 2014.

The correspondence analysis confirms the correlation analysis for the discussed years. The first axis (Fig. 1a and 1c), which has the biggest share in the inertia, emphasizes two commune groups in terms of the average population number: urban communes is one group and rural and urban-rural communes is the other. The second axis (Fig. 1b and 1d) seems to separate urban and rural communes, whereas urban-rural communes are close to the axis center which means their profile is similar to the average profile.

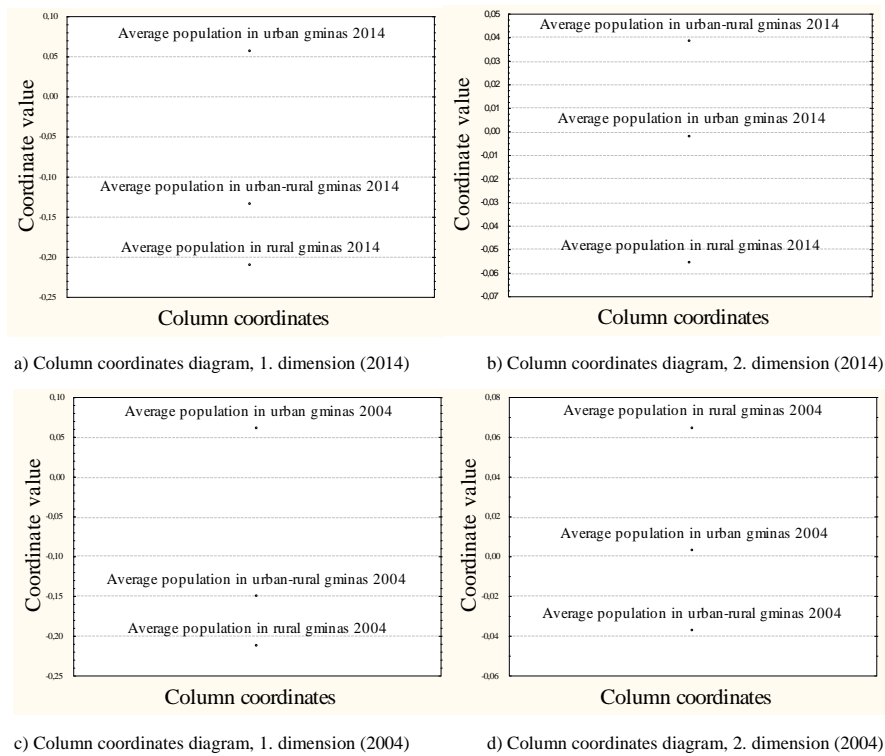
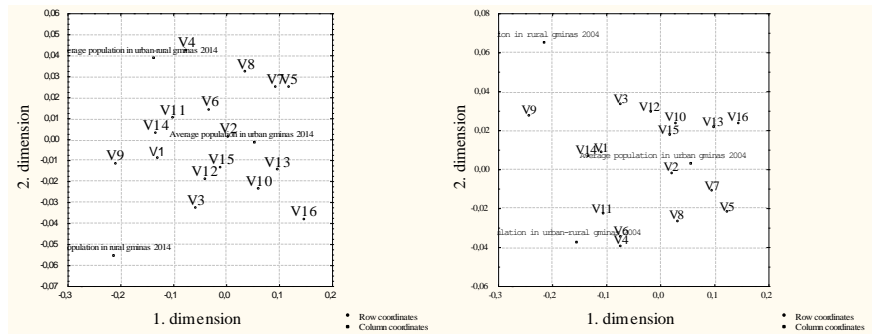


Figure 1.
 Column coordinates diagrams for the years 2004 and 2014.
 Source: own elaboration in Statistica Software.

Also an interpretation of the point's position representing one profile in relation to all points representing the other profile type was carried out (Fig. 2).



Row and column coordinates diagram for 2014

Row and column coordinates diagram for 2004

Figure 2.

Row and column coordinates diagram

Source: own elaboration in Statistica Software.

In 2004 in voivodships Lubusz, Lesser Poland and Pomerania, and in 2014 in Lubusz voivodship relatively more people lived in urban-rural communes. But in most voivodships the majority of population lives in urban communes, especially in typically industrial voivodships: Silesia, Masovia, Łódź, Kuyavia - Pomerania, Greater Poland. But the comparison of the row and column coordinated diagram for the years 2004 and 2014 shows that people increasingly choose rural communes for their place of residence.

6 Conclusions

The main causes of suburbanization in Poland are: motorization increase, the improvement of housing conditions, and especially the preference of living in a house to living in a flat, accessibility of cheaper building plots in the suburbs and the migration of businesses to suburban areas. Suburbanization in Poland does not have a mass character. From 2004 the changes in the area of urban-rural communes were only slight - their average area in 2014 compared to 2004 even decreased by 1.17%. The biggest drop was observed in the Lesser Poland voivodship (2.06%). The increase of the average area of urban-rural communes occurred in a small number of voivodships: Kielce (by 2.01%), Podlattia (1.55%), Silesia (0.94%), and Lublin (0.78%). However, the increase in the average area of these communes is not on par with the growth in the average number of

population which in the analyzed years was highest in Masovia (7.15%) and Greater Poland (4.16%). It is also hard to draw analogies between the changes in the average number of people in urban-rural, rural and urban communes. The case of Poland is actually somewhat out of ordinary in terms of the character of changes as the analysis of the 2004-2014 period shows no correlation between the influx of people to urban communes and the depopulation of rural communes. City continues to be the main place of residence and work of people in Poland.

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Abenomics: a Way to Accelerate the Japanese Economic Growth?

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Abstract: In Japan the Abe administration has begun a wide range of policy measures such as massive monetary easing, fiscal expansion and structural reforms, through which the government aims at revitalizing the whole economy. At the same time there are ambitions to reinforce the good international image of the country. The task is huge, because the country has been suffering from stagnation and resignation for more than two decades, facing many problems of the aging society, and difficulties arise with implementing the important reforms. Moreover, vested interests in the bureaucracy and the concept of developmental state may also hinder the structural changes which are greatly needed. The centralized role of the state is conflicting with many attributes regarded as essential parts of the free market economy.

Keywords: Abenomics, Japanese economy, developmental state

1 Introduction

The Japanese economy has been stagnating since 1991, the year of the collapse of its “bubble”. The decline in the economic performance was so huge and long-lasting afterwards that the period of the 1990s is commonly called lost decade. There were some signs of recovery in the 2000s, but the economic growth markedly slowed down, which formed the basis for speaking about not one but two lost decades. The crisis had a deep impact on the Japanese economy, as in many countries too (Csiszárík-Kocsir et al, 2013).

Prime Minister Shinzo Abe got (for the second time) into power at the end of 2012. He gave his name to a comprehensive economic policy approach, which has become well known as Abenomics. It addresses the weaknesses of the Japanese economy through three broad mechanisms commonly known as “arrows”. The first one has been an expansionary monetary policy led by the Bank of Japan (BOJ) with the target of inflating the economy. The second has been an expansionary fiscal policy directed both at encouraging the economic growth

through increasing stimulus spending and also at balancing the state budget through tax reforms. The third arrow is structural reform which is likely to prove to become the most problematic and difficult among the three focuses, and considered by many analysts the long-term assurance of the success of the reform package. Implementation of the structural changes entails serious concerns, partly because they touch upon too many fields like taxes, labour force, liberalization, partly because the Abe administration has to face many impediments in the way of carrying out the tasks (Patrick, 2013).

To understand the difficulties that might hinder the process of the planned reform it is worth looking at the features of the Japanese economic development. The role of the government was enormous through the past decades; it determined the main directions of the development of the society, purposely intervened with the market forces and managed the problems caused by restructuring the industries, unemployment and other economic changes. The concept of developmental state is originating from the assumption that a state can play an important role in facilitating the transition of a country from a less developed stage to a more modern one (Chang, 2010). This role entails various consequences, positive and negative as well, and the latter include such unfavourable trends like the rigidity of the economy. This issue has much to do with the capability of a country to find the way the most suitable to get continuously upgraded, and become, or in other cases, remain competitive among the continuously changing circumstances of the international market.

This paper is structured as follows. Section 2 gives a brief description of the components of the package of economic policies called Abenomics. Also we touch upon the outcomes of these efforts. Section 3 deals with the concepts of developmental state and the form it has taken in Japan. We are also concerned with the conflicts that may arise from the opposing aims of deregulation and vested interests of the members of the administration. Finally, we give a conclusion.

2 Three arrows of Abenomics

The Abe administration is very ambitious and greatly determined to revive the sluggish Japanese economy at long last. The economic strategies launched in 2013 consist of complex, far-reaching measures. The term Abenomics refers to Japan's three-pronged economic stimulus policy, which involves a combination of monetary policy expansion, fiscal stimulus and structural reform. They are aimed at ending the deflation by reaching an inflation of 2 %, and then attaining a sustainable growth of 3 % (Boesler, 2013).

Although the fiscal and structural components are essential in the package, the monetary policy – the first of Abenomics’ three arrows – has the toughest task in the short term. It has involved unconventional measures of quantitative and qualitative easing by the central bank (BOJ) starting in April 2013, when Haruhiko Kuroda was appointed as the new governor. The goal has been to implement financial easing on an unprecedented scale by reducing real interest rates. The BOJ has undertaken an aggressive buying of assets, particularly long-term bonds of the Japanese government to encourage inflation and spending of people, as well as force domestic investors to turn to more risky assets like stocks. The figure below shows that BOJ’s measures have led to a result in the balance sheet greatly different from those at the central banks of United States, England and the European Union. By the end of 2014, the BOJ’s assets had risen to over 60% of GDP.

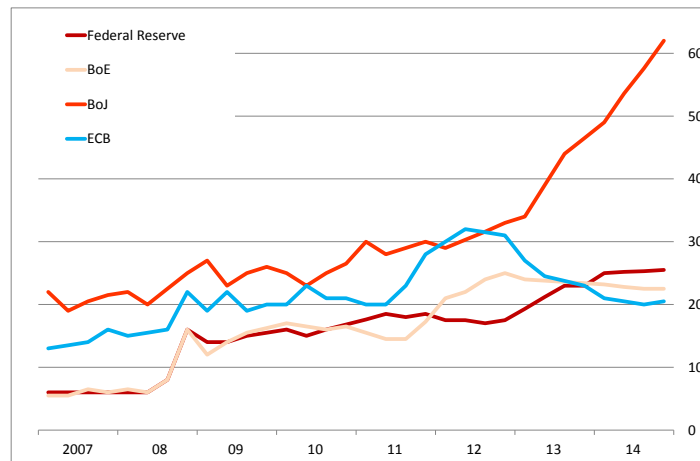


Figure 1

Central bank balance sheets (as of GDP)

Source: Dewit, 2015, p. 1

The step has had a significant side effect entailing the weakening of the yen. Due to the devaluation of the currency, the export has become boosted, as the goods manufactured in Japan have become more competitive abroad. As a consequence of the increase in sales, the corporate earnings (and presumably the business investment) have also expanded. There has been a dramatic boom in the Japanese stock market which has stemmed from the unconventional monetary policy, and the Nikkei stock index rose by 77 % by the end of 2013 (Hausman and Wieland, 2014).

The second arrow of fiscal policy is two-folded: its aim is partly similar to that of the monetary policy that is to give time for structural reforms to be carried out, partly different because it includes a fiscal consolidation due to the gigantic size of Japan’s public debt. As part of this approach an initial stimulus spending package

of Yen 10.3 trillion (approximately Euro 80.8 billion) was launched in January 2013, involving traditional infrastructure investment. This is very closely related to the rehabilitation programme after the disaster in March 2011 by bolstering resilience of infrastructure through laying emphasis on resistance, reliability, redundancy and response/recovery (4 R's of infrastructure resilience) (Dewit, 2015). Supplementary budgets, a long-term fiscal plan and an organizational structure provided additional resources and background to these efforts, which may make Japan a global leader in building resilience.

The fiscal policy also includes measures towards the consolidation of government budget. One of the most important steps to diminish the deficit was the increase in the consumption tax from 5% to 8% as of April 2014. The detrimental impact on growth was much above that anticipated by policymakers, resulting in the delay in the next increase of the tax. Thus it is scheduled to get introduced in April 2017 instead of October 2015. At the end of 2014 the Abe cabinet was desperate to get growth going on, and announced a stimulus package of yen 3.5 trillion. A large part of that was aimed at reinforcing resilience of waterworks and other social infrastructures in the face of natural disasters. The remaining sums were directed to reduce energy costs for low-income citizens and to revitalize local communities. (Dewit, 2015)

The third arrow of Abenomics is concerning the structural reform of the economy and considered the most important of the three. The first two arrows just aiming at creating the growth and inflationary expectations give possibility to the policymakers to undertake deep reforms necessary for an innovation-based sustainable growth. The steps of reform have been gradually released, and the publication titled Japan Revitalization Strategy has included long-range plans. Although economists, inside and outside the country have expected measures to ensure increase in productivity and incomes necessary to a higher growth, the plans have been vague and lacked determination to deregulate the labour market, corporate governance and other areas. The Abe administration has been willing to respond to criticism and been making various amendments to the original version. Yet the dismay has remained and the credibility of Abenomics has become threatened. Japan is unlikely to join the free-trade agreement about the Trans-Pacific Partnership despite the previous promise of the prime minister (McBride, 2015).

3 Developmental state and its role in Japan

According to Ha-Joon Chang (2010), the developmental state can be defined as a state that intervenes to promote economic development by means of selective industrial policy. It explicitly favours certain sectors over others, and its political legitimacy can be derived from the role it plays in economic development. Here

the development refers to a combination of steady high rates of growth and structural change in the productive system both within the country and in its relationship to the international economy. The experiences in East Asian countries from the 1950s through the 1980s were essential in determining the classical type of a developmental state. There were of course variations even within the region, but the Japanese experience was certainly influential.

In Japan after the World War II, the American occupation forces had begun a democratization (and demilitarization) process in the economy, agriculture and labour market. The target was to introduce (and strengthen) the mechanism of free market in order to create a competitive economy. The Cold War, however, distracting the attention of the Americans from the Japanese situation had caused a halt in the democratization and impeded its successful implementation. As a result, the centralized positions of the bureaucracy had become reinforced. Nevertheless it played an important role in achieving the high growth rate in the 1950s and 1960s, which is widely known as Japanese economic miracle (Flath, 2000). The success story depended upon an elite bureaucracy controlling industrial policy through powerful state institutions.

In the bureaucratic structure there were three major and important agencies responsible for and fully involved in directing the path to development. The Economic Planning Agency was small and powerless. On the other hand the Ministry of International Trade and Industry was the pilot agency, although its activities were constrained by the Ministry of Finance. Yet it was the former who had the right to control the allocation of scarce foreign resources and was mostly successful to secure the necessary funding for its programmes. Its supremacy was supported by the political consensus on the need for selective industrial policy, which helped it play a leading role in the economic transformation of the country. Coordination and regulation were important relative to subsidization, giving an essential feature of industrial policy (Chang, 2010).

International openness and export orientation (rather than trade liberalisation) were significant in rapid industrial change. Openness played a role not only in providing support for firms which depended on the competitive performance in export markets, but also in measuring firms against each other even while the state offered protection in the domestic market. It also ensured that firms were forced to adapt cutting-edge technologies and production methods. Competitive rivalry between big business groups was a very significant motivating and disciplining factor. The state support and intervention to augment investment in upgraded industrial capabilities were very closely connected to disciplining mechanism to ensure that the outcomes fulfilled performance expectations (West, 2014).

The Japanese state is a key factor by its measures behind the income support and income equality. It places emphasis on employment security and seeks to minimize the displacement of those people, which are vulnerable due to market forces. The overall efforts by the state also include financial and infrastructural

support for small businesses, programmes for employment maintenance in time of crises, and institutionalized measures for sunset industries.

Politics greatly affects the form a developmental state takes. In Japan right-wing hegemony emerged by the 1960s and determined the main features of the government till nowadays. The political system is plural theoretically, but indeed it is a one-party system. The government party has monopolized the power and government positions (Flath, 2000).

Effective bureaucracy is crucial for the functioning of a developmental state because the state has to be sufficiently autonomous to make national development strategies, able to maintain proper relations with stakeholders and to carry out ambitious programmes. The bureaucracy in Japan, insulated to some extent from different interest groups is characterized by strong corporate cohesion, which ensures that officials pursue institutional goals. Cohesion is also strengthened by the distinctive and rewarding status of bureaucrats, the high level of their expertise ensured through meritocratic recruitment, and the opportunities for long-term career rewards. There is a highly selective procedure (stringent civil service exam) for the applicants to become an official, who are all graduates of the most prestigious universities.

Evans (2010) draws attention on that the bureaucratic autonomy is closely connected to the surrounding social structure, which provides institutionalised channels for the continuous transformation of goals and policies. It is embedded in the society, particularly to certain groups (Marosi, 2013a,b). In Japan for instance the industrial policy relies on the relationship between ministries and industries, because their ties are reinforced by that former officials often receive crucial positions in corporations and industrial associations. The state acts as a partner with the private sector in the industrial transformation and managers respond to the incentives and disincentives through formal and informal channels. The phenomenon of corruption is rampant, and measures of industrial policy are commonly used to promote vested interests instead of aims of national development.

Riain (2000) emphasizes that the domestic alliance between the state and private sector was undermined also in Japan in the late 1990s, as firms became more integrated into the international markets. The responsiveness of the bureaucracy to changing local and global conditions proved to be poor. In this sense he labels the developmental state like that in Japan bureaucratic developmental state. It concentrates on the creation of new domestic capabilities as national actors, instead of transnationally integrated local networks. The state bureaucracy remains embedded only in the domestic market and its coherence is not substituted by flexibility.

4 Conclusions

In Japan the inclination to implement economic reforms seriously needed in many aspects, has particularly been pronounced since Prime Minister Abe got the power in 2012. The weaknesses of the Japanese economy have been addressed through three broad mechanisms commonly known as “arrows”: the expansionary monetary policy, fiscal policy and the structural reform. The three arrows of the policy package have been regarded as necessary to revitalize the economy. Of the package the structural changes would need tremendous effort to help increase competitiveness of the country. To support the liberalization of its market and to encourage the growth based on innovation, a new relationship between the elite bureaucracy and private sector would be necessary through eliminating or at least drastically decreasing the interference by the government.

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Place and Role of Public Employment in Improving the Situation of the Homeless of Budapest

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Abstract: The article presents the labour market situation of the homeless in Hungary and the role of public employment as an employment policy measure in improving their life situation. The relevant research, based on empirical data surveys, provides a complex analysis of the situation of homeless people in public employment, living in the capital, and examines their attitudes and expectations concerning public employment.

The article is meant to show the special significance of public employment in preserving and enhancing the life skills of the homeless who are ready to work, and it highlights the other support policies that could lead to their long-term reintegration through complex rehabilitation.

The participants of the research were the homeless clients in public employment of Budapest Esély Nonprofit Kft (Budapest Chance Nonprofit Ltd.). The survey covered a decisive part of the total reference population in employment in the survey interval; the survey was conducted on two occasions, in 2013-14, with the questionnaire-based-survey method. Capital-level comparisons were based on the data series of the Homeless Concept of Budapest, the Country Report on Homelessness of 2013, the flash reports for 2013 and 2014 of the "February 3rd" Panel of Menhely Alapítvány (Shelter Foundation) and the results of the participatory action research "Street and rights" (Utca és jog) of the Város Mindenkié Csoport (The City Belongs to All Group).

Keywords: homeless, employment, public employment, research

1 Introduction: Employment situation and the homeless in Hungary

In terms of the participation rate of the working-age population, ever since its accession, Hungary has been among the lagging Member States of the European Union. The decreasing proportion and weak market activity of the active-age population puts heavy pressure on the public transfer income systems, threatening their long-term sustainability. The fact that the number of the employed exceeded the pre-crisis level in the past years is explained by the rising numbers of persons in public employment or working abroad.

This situation hits hardest the social groups that are in an underprivileged labour market position anyway due to their skill, capability, qualification or work experience deficits, their age, gender or ethnic origin, or health, family or social status. It is difficult to determine the exact number of multiply disadvantaged jobseekers, but according to our estimate based on the data of the Hungarian Central Statistical Office, this is a population of at least half a million, whose marketable skills represent a major human resources potential that is yet to be tapped¹. The central public works programmes involving 209% more in 2012 than in 2002 are designed to attract them to the labour market (see Figure 1).

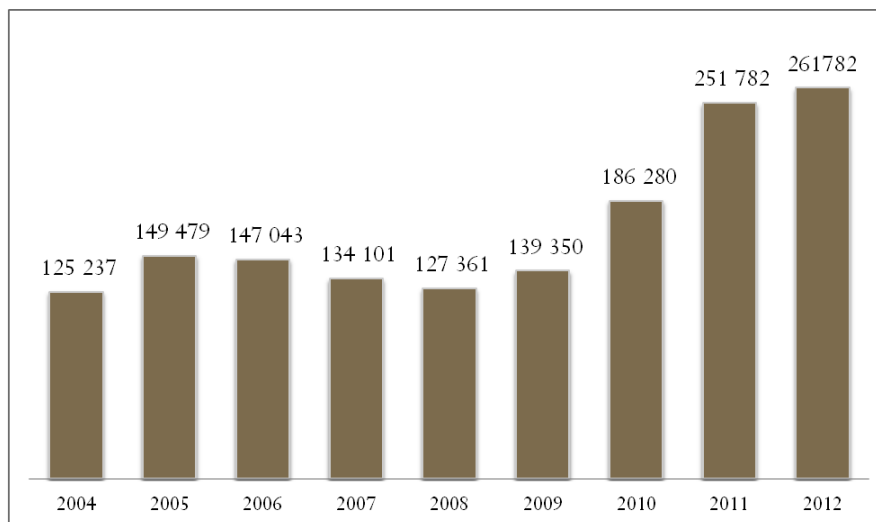


Figure 1
Number of persons involved in public employment, 2004–2012²

¹ based on [4]

² source: [3]

The homeless are a typical group of the population of unemployed people in a multiply disadvantageous situation. They make it particularly obvious that labour market reintegration is also a means of social reintegration, and complex support services – tackling the individual's qualification, lifestyle and state of health – are needed for effective rehabilitation.

According to the estimates, there are some 20-40 thousand homeless persons in Hungary today. The survey of Menhely Alapítvány indicated that at least 48 thousand were forced to spend the night, for a shorter or longer period, in public spaces or at hostels for the homeless; family members left behind included, this means at least 100 thousand persons. There are approximately 9 thousand homeless living in Budapest, the capital. One third among them spend the night in public spaces or buildings not intended for habitation (2500–3000), another 2000 at night shelters. Temporary accommodation or temporary family shelters are available in the capital for 4400, that is, around half of the homeless³.

One third of the homeless living in shelters has a regular income, one third some income based on (partly undeclared) casual work, but most of the homeless living in the street are practically excluded from the world of regular and declared employment. They make a living on recycling and selling items found, and selling the papers of the homeless. That is, a homeless with some regular accommodation possibility is in a better position also in terms of employment. The number of registered jobseeker among the Budapest homeless tells little about their actual labour market position as the administrative figures cover but a small proportion of population concerned. The number of the homeless registered as jobseekers was around 1500-1800 in the past years and almost three quarters among them were male, in line with the gender distribution of the homeless population in general. They are typically aged 36 to 55, and have low schooling.

2 Research methodology

The goal of the research is to explore the situation of homeless persons in public employment in the capital, and to test certain research hypotheses. Four research hypotheses were formulated concerning the group under study:

1. Homeless persons in public employment are in a better position in terms of social, housing, life-style and health status than the Budapest homeless in general.
2. Homeless persons in public employment have little chance of employment in the open, primary, labour market, so public employment is the only form of earning a regular and declared income that is accessible to them.

³ based on: [5]

3. The income of homeless persons in public employment originating from public employment represents a significant part of their revenues that could not be replaced by other sources.
4. Homeless persons in public employment have basically positive expectations and attitudes concerning the future effects of their participation in public employment on the development of their life situation.

The research participants were the homeless clients in public employment of Budapest Esély Nonprofit Kft. The survey covered 20% of the total population in employment in the interval under study, with random sampling. Data surveys were conducted on two occasions, with the participation of 101 in 2013 and 123 in 2014, with the questionnaire-based-survey method.

Comparisons were based on the Homeless Concept of Budapest, the Country Report on Homelessness of 2013, the flash reports for 2013 and 2014 of the “February 3rd” Panel of Menhely Alapítvány (Shelter Foundation) and the results of the participatory action research “Street and rights” (Utca és jog) of the Város Mindenké Csoport (The City Belongs to All Group)

Expectations and attitudes concerning prospective changes in the lifestyles of the respondents (hypothesis 4) were measured under the survey of 2014, in four dimensions: financial status, housing status, health status, employment-related knowledge and skills. Number of responders was changing between 117 and 119 per dimension. Each dimension was measured by one closed-question, asked the expected changes of the dimension during the next one year. With using the four dimensions responders were in three different and homogeneous attitude-groups along their expectations (level of significance were under 0,05 in each case). Processing of the results made under SPSS Statistic 20 system. This group construction resulted by cluster-analysis gave the possibility of making one varying from the four different dimensions of changes in the lifestyle, and comparing the values of this varying with the dimension of expected effects of involving to the public employment. Descriptions of the clusters and results of the comparing were used in the monitoring of the hypothesis 4, so results located in details in the hypothesis 4 related part of this study.

3 Research results

3.1 Testing of Hypothesis 1 concerning the general life situation⁴

The average age of the respondents was 47 years, with the age group of “elderly” (i.e. 40+) employees over-represented at approximately 75%. The ratio of people aged over 50, representing almost half of the total homeless population of the capital, is less than 40% among those in public employment, due mainly to their state of health and/or eligibility for other transfer incomes. The ratio of people under 30 grew by 7% from 2013 to 2014, whereas that of the 30-60 year-old shrunk by 9%, and homeless person over 60 in public employment appeared on the scene.

As for the gender distribution of respondents, men are over-represented at 73%, the same as in the total population of the homeless in Budapest. Besides, the public employment participation rate of women rose by 6% by the second year of the survey.

Somewhat more than half of respondents completed 8-year primary school or less, around 30% had some vocational qualification, 9% GCSE and less than 0.5 a degree. These data are somewhat better than the average schooling indices of the total population of the homeless living in Budapest.

More than three quarters of respondents declared at the time of their entry to public employment that they had no illness affecting their working capacity. Those who reported some illness affecting their working capacity referred in near-identical proportions (19-23%) to cardio-vascular, musculoskeletal, pulmonary and mental diseases and addictions. According to the survey, the health status of homeless persons in public employment is by and large identical with that of their non-homeless peers, and much better than the general health status of the homeless population of Budapest.

It is difficult to interpret the notion of “household” for the homeless. It means, practically, persons who habitually live together or maybe pool their money. In this conceptual framework, more than 60% of respondents is single; from 2013 to 2015, this rate decreased by 6%. One quarter live with a partner, around 12% with a relative or friend. Persons living with a child of minor age appear only in the research of 2014 and make up 7% of respondents. Half of the multi-member households has 2 members, but the ratio of households with 3-5 members increased by 23% from 2013 to 2014. All in all, the ratio of multi-member households is somewhat higher among the homeless in public

⁴ comparative data from: [1][2][5][7]

employment than the average homeless population of Budapest, probably due to their regular labour incomes and more stable housing arrangements.

86% of respondents has some stable housing. 55% live in temporary hostels /temporary family shelters, 28% rent a flat or a room, 16% spends the nights at acquaintances or family members (Figure 2). Three quarters of persons having no stable housing sleep at night shelters, 3% of respondents in public spaces, rough, or on premises not intended for habitation. This is a much better ratio than the average for the homeless of Budapest in general, one third of whom sleep rough, in public spaces, or in buildings not intended for habitation, and one quarter at night shelters.

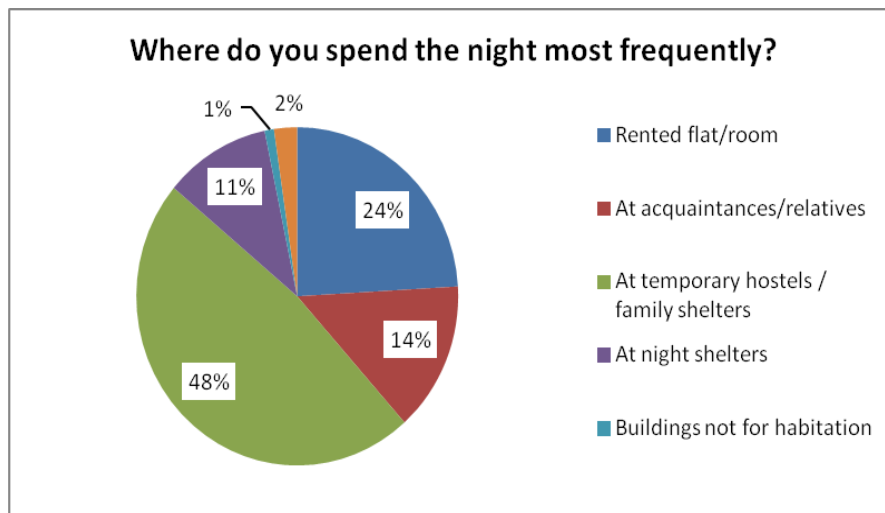


Figure 2
Housing possibilities⁵

That is, the gender distribution of the homeless in public employment is similar to that of the Budapest homeless in general, but in terms of age, qualification and health status, they are better off than the average. Their housing situation is also more favourable and, therefore, they live in bigger households with more members. Consequently, Hypotheses 1 is true.

⁵ Source: Own diagram

3.2 Testing of Hypothesis 2 concerning the labour market situation⁶

Only 18% of the Budapest homeless works for regular wages or salaries, of whom a decisive part has some relatively stable housing arrangement. One third of persons living at the Budapest hostels for the homeless has a regular, and one third some casual labour income.

As for the labour market position of the respondents, they had had no declared job for more than 8 years on average and for a longer period than that in 28% of the cases. Every fifth respondent had had a regular, declared job in the two years before the survey (Figure 3). Almost 53% did some casual work from time to time, but hardly more than one quarter among them were declared employees. Although the number of declared casual workers rose by nearly 13% over the two years under study, access to undeclared casual work has remained significantly better: 80% had had some income originating from casual work in the previous two years, and 50% in the previous twelve months.

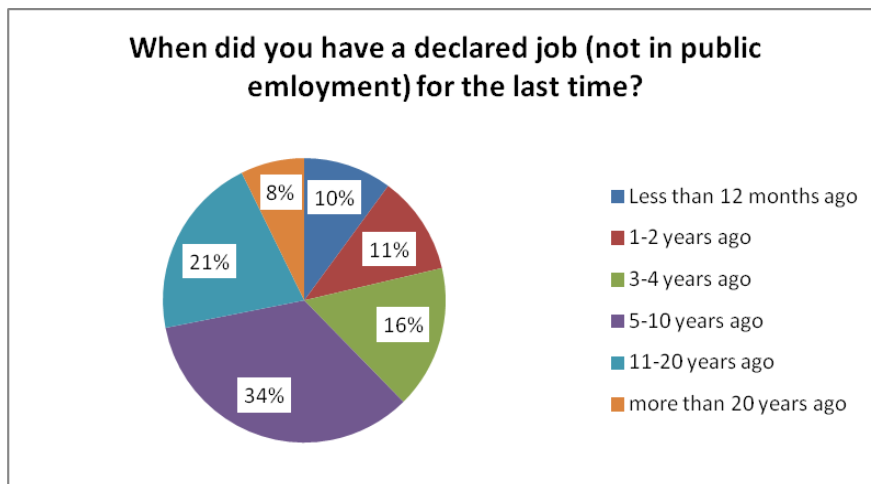


Figure 3
Last declared job⁷

The labour market of the population under study deteriorated in the two years of the survey, and public employment failed to fulfil its transit employment function. However, many new clients were involved in public employment, and the number of the extremely long-term (10+ years) unemployed increased as a result. In conjunction with the foregoing, the rate of early exits from the public employment schemes rose from 9% in 2013 to 17% in 2014. Various

⁶ comparative data from: [1][2][5][7]

⁷ Source: Own diagram

complementary life-skills and reintegration promotion services could presumably play a part in preventing the above, but this hypothesis is out of the scope of the present research.

The above data show that the homeless population of Budapest typically suffers from permanent exclusion from declared, regular work offered in the primary labour market and, consequently, a decisive majority has no labour market alternative to employment in the framework of public works. That is, Hypothesis 2 is proven to be true.

3.3 Testing Hypothesis 3 concerning the significance of income originating from public employment⁸

The average total income of persons living in multi-member households is HUF 81 826, the average per capita income is HUF 31 thousand. On average, the monthly total income of 40% of households did not exceed HUF 60 000, 40% had HUF 60-100 thousand and 21% more than HUF 100 thousand. From 2013 to 2014, the rate of households with more than HUF 100 thousand increased by close to 8% and that of households with HUF 60-100 thousand by the same percent.

However, the per capita income was less than HUF 30 thousand in 61% of households, and more than HUF 50 thousand in 8.96%. Over two years, the average per capita income fell by HUF 2800, and the proportion of households with a per capita income under HUF 20 thousand grew by 13% and that of households with over HUF 30 thousand per capita fell by 10%.

That is, parallel with the increase of the total income of the households, per capita incomes decreased due to higher number of household members.

⁸ comparative data from: [1][2][5][7]

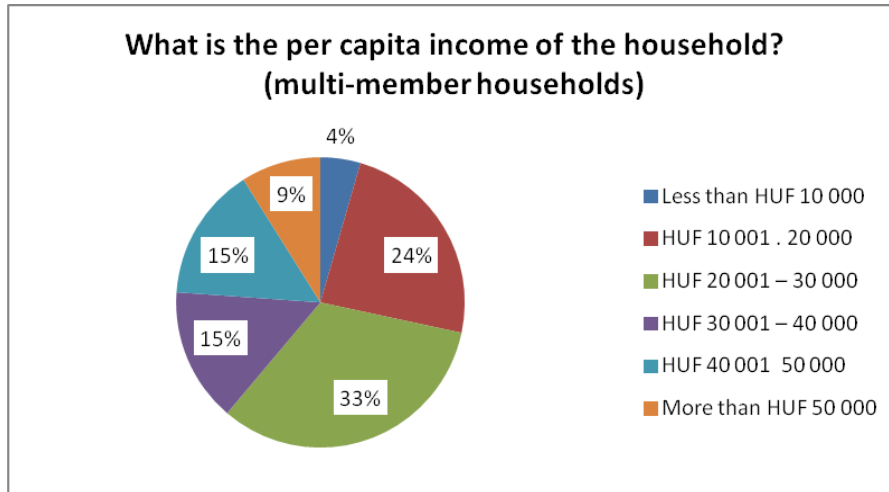


Figure 4
Per capita income⁹

Without public employment, the average income of multi-member households would be no more than HUF 41 000; in 2013 and 2014, 48% and 64%, respectively, would have been below the HUF 40 thousand total income threshold.

Exclusive of public employment, the per capita income of households would be HUF 15 350 on average; in 39%, the per capita income would be lower than HUF 10 thousand and in another 33% lower than HUF 20 thousand – the rate of the households concerned rose by 20% by 2014.

All in all, without public employment, the monthly income of multi-member families would drop by almost half.

⁹ Source: Own diagram

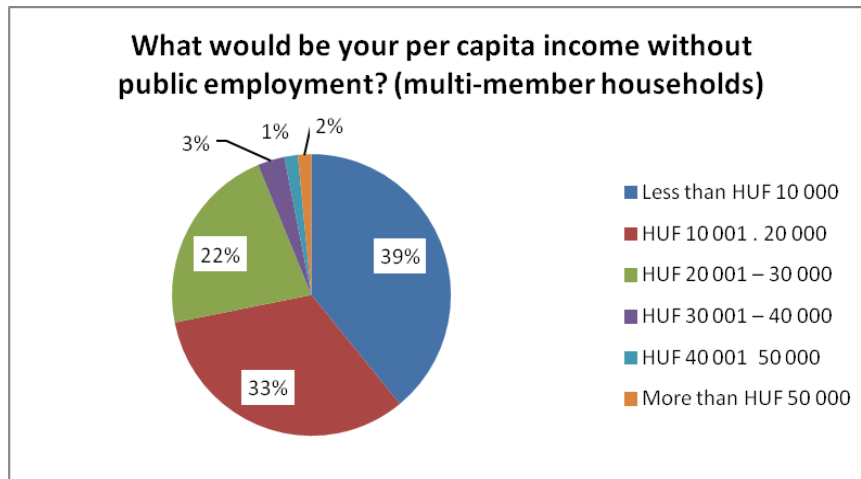


Figure 5
 Per capita income without public employment¹⁰

The average income of single-person households was HUF 51 000; the total income of 92% of respondents was HUF 40-60 thousand – from 2013 to 2014, the income of single persons grew by HUF 1800.

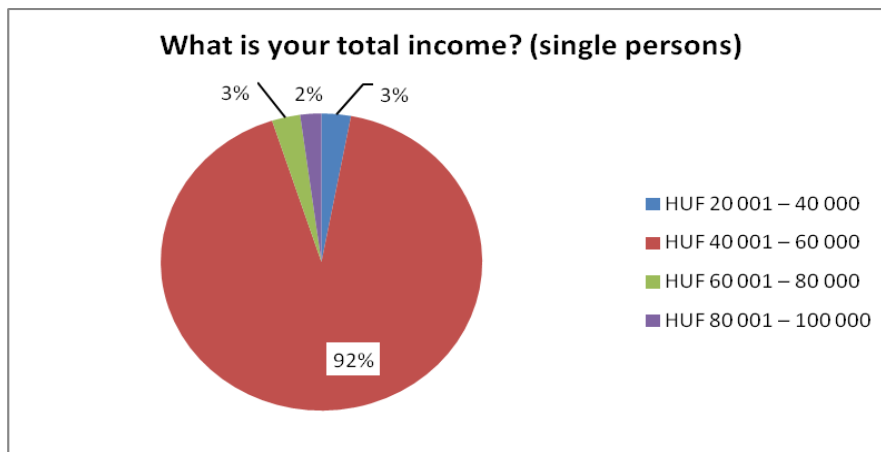


Figure 6
 Income of single persons¹¹

¹⁰ Source: Own diagram

¹¹ Source: Own diagram

Without public employment, the average income of single persons would be HUF 19 800; 96% among them would have less than HUF 40 thousand. As compared to 2013, single persons would lose HUF 3 500 in 2014.

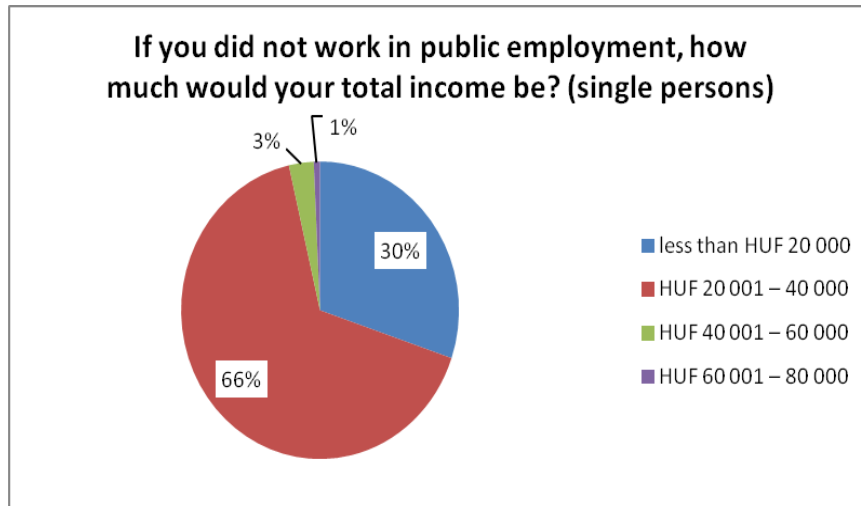


Figure 7
Income of single persons without public employment¹²

Without public employment, significant income drops impossible to offset by passive measures and benefits would have to be expected in all the households. That is, Hypothesis 3 is proven to be true.

4.4 Testing Hypothesis 4 concerning attitudes and visions

Expectations and attitudes concerning prospective changes in the lifestyles of the respondents were measured under the survey of 2014 in four dimensions: financial status, housing status, health status, employment-related knowledge and skills.

Considering the financial situation, 11% expected deterioration and 49% improvement – and 10% significant improvement – within one year. 7% expected their housing status to deteriorate, 29% to improve and 56% expected no change of merit. 17% expected their health status to deteriorate, 23% to improve and 59% to remain unchanged. As for employment-related knowledge and skills, 46% expected them to expand, 12% to expand significantly, 45% to remain unchanged and 7% foresaw deterioration.

¹² Source: Own diagram

Based on the four variables and with the help of cluster analysis, the respondents were assigned to three homogenous attitude groups according to their visions for the next 12 months (Table 1).

Groups expecting	%
1 stagnation	55
2 positive change	32
3 negative change	13
Total	100

Table 1
Attitude groups based on a one-year vision¹³

The table shows that the homeless involved in public employment are rather confident: 87% expects no negative change and one third expects positive change.

The correlation between the respective visions of the attitude groups and their expectations concerning public employment were also examined, by integrating the attitude groups into the same cross-table with the variable measuring public-employment-related expectations (Table 2). Two thirds of those expecting positive changes and 72% of those expecting stagnation thought that public employment would have a positive effect. One quarter of those expecting positive change and one fifth of those expecting stagnation did not associate the prospective change of their situation with public employment, expecting no effects out of it. Only 7% of the members of these groups feared that public employment might have a negative effect.

Group expectations	Expected effect of public employment (persons)					Total
	Clearly positive	Rather positive	None	Rather negative	Clearly negative	
Stagnation	13	31	13	3	1	61
Positive change	12	12	8	2	1	35
Negative change	0	6	3	2	2	13
Total	25	49	24	7	4	109

Table 2
Attitude groups and public-employment-related expectations¹⁴

¹³ Source: Own compilation

¹⁴ Source: Own compilation

Among those expecting a negative change, the ratio of those expecting public employment to have a negative effect is almost one third, whereas almost half of the group expects public employment to have at least some minor positive effect.

On the basis of the above, Hypothesis 4 is true.

4 Further conclusions and summary of the research

The research has shown that public employment plays a significant part in the life of homeless persons living in Budapest, since it provides this social group in a multiply disadvantageous labour market position regular, declared work and an income that could hardly be replaced in any other way. Public employment contributes thereby to their higher quality of living, more positive visions and the emergence of larger households that function as a supportive medium for the homeless. Obviously, however, providing a job opportunity is not sufficient for lasting reintegration. This is confirmed by the data included in the secondary analysis, and the (already mentioned) early exists from the public employment schemes. Therefore, in addition to the examination of the hypotheses, the research was meant to identify the health care, social and labour market services needs to be satisfied by all means to ensure the lasting integration of the homeless.

Therefore, data collection covered the natural support systems and the use of and demand for the services of the social network. The answers have shown that only 30% of respondents receive help from their non-homeless acquaintances or relatives, so they can count primarily on the members of their households and on the institutionalised support services. As for the latter, the homeless rely firstly on the institutions providing accommodation and secondly on the staff of the outreach teams, the street social worker or family assistance services. Almost half of respondents receive help in administrative matters, one quarter in being supplied with clothes, food and medicines, but only 12% in 2013 and 19% in 2014 claimed and received job search assistance.

Half on average of the respondents is dissatisfied with the available support options – in 2013, one third was dissatisfied, by 2014, this ratio doubled. A major part of the dissatisfied persons expresses the necessity of upgrading public employment to make it a more permanent solution and of raising the relevant wages and improving the working conditions. Almost one quarter of the dissatisfied pointed to the need for complementary services promoting return to the primary labour market.

The assistance expectations of the respondent homeless apparently underwent radical change over one year: besides public employment, a growing proportion would like to see complex assistance intervention covering housing and reintegration to the open labour market. This suggests that one of the essential preconditions of the complex options complementing public employment, i.e. the well-motivated client willing to co-operate in a proactive way, is met already.

However, to ensure efficient case management, it is equally important to have an extensive professional network and co-ordinated resources allocation, to have scheduled (finite) case management objectives and milestones, focusing on the improvement of the position of the client in the open labour market, and to conduct multi-criteria (educational health care and social) surveys and realise complex interventions. In their revised forms, the public employment programmes give an opportunity to create such a system. The expected benefit of such complex programmes is that they help set the optimum level of public employment through real reintegration wherever possible. And, where long-term reintegration is impossible due to the age, schooling, state of health of the client, lasting public employment accompanied by life skills support remains the only option. Overall, this will relieve the social and employment services, and reduce specific costs through reintegration and value creation by public works, and thus improve the sustainability of the redistribution systems.

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