Managing Disruption and Destabilisation
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Preface

25 Years of Partnership between Cracow University of Economics and University of Applied Sciences Muenster

For already 25 years the close collaboration between Muensters University of Applied Sciences and Cracow University of Economics exists. There are only a few academic partnerships lasting that long and are still actively pursued. One could even call it a close friendship that these two universities established over the last quarter of a century.

There is a regular exchange in many aspects. Business administration majors, students of the European Business Program as well as Marketing & Sales Master students are constantly in Poland and vice versa. So far well above 500 students benefitted from this possibility. Furthermore the universities act jointly regarding conferral of doctorates, postdoctoral lecture qualification as well as a number of research projects for the European Commission for instance.

To celebrate this anniversary a ceremony and a conference were planned as well as this Festschrift regarding “disruptive change and inconsistency management” was published.

The matter of disruptive change is a highly topical subject. For several years greatly dynamic and profound changes with far reaching consequences for society could be observed in politics, economy and the social framework. And there is no end in sight. For instance the change of economic systems (from socialist planned economy to a social market economy such as in the states of former East Germany or Poland) or changes of ethnic preferences towards more liberal systems (such as in South Africa or the Balkans). Further evidence is the global financial and economic crisis, the turnaround in energy policy and the current increase of academic students.

The participants of the conference exchanged views regarding these topics for two days. Speakers from science, economy and politics led lectures and discussions on different aspects of disruptive change.

This collected edition, written by scientist from both universities, summarizes the key findings regarding disruptive change. They provide an important contribution to the knowledge transfer. Therefore organisations and students from both countries benefit equally from this partnership.

Thus we wish for this fertile friendship to continue many more years as well as be nurtured and further developed by subsequent generations.

Prof. Ute von Lojewski
President of Muenster University of Applied Sciences
It is rare that two academic institutions to be connected by a bond so tight as is the case between the Cracow University of Economics and Fachhochschule (University of Applied Sciences) Muenster. Over the span of a quarter of a century these two universities, known in their homelands as prestigious centers of teaching and research, developed and deepened their cooperation, resulting in a variety of academically significant activities in the dynamic field of international management.

The origins of this important collaboration date back to 1989 – an important period in the history that redefined the make up of Europe and how countries would work together in the future. This significant time created the opportunity to establish a cooperation between the universities. The dynamic nature of subsequent activities of redefining the level of cooperation reflects the strong desire of both universities to intensify the bond of cooperation. Prof. Janusz Teczke, an expert in the field of International Management was the first visiting professor from the CUE. In the following year, Cracow hosted the first international seminar of both universities. The International Students Exchange also took on the pace. The challenge of coordinating large-scale projects successively was undertaken by Prof. Helmut Wittlage, Prof. Fritz Isenbart, Prof. Detlef Steinhausen, Prof. Thomas Baaken. Coordination from the Polish side was undertaken by Prof. Janusz Teczke and Dr Halina Łyszczarz.

Another significant initiative, which cemented the close ties between both Universities was the German Doctoral Seminar which was managed by Prof. Teczke and coordinated by Dr. Halina Łyszczarz from the Polish side and counterparts on the German side were Prof. Helmut Wittlage, Prof. Detlef Steinhausen, and Prof. Christian Weinert from FH Aachen. Over the 16 years in which this programme was on offer approximately 90 students graduated with a PhD, many of these doctorates continued their career in the academic environment and are now working at Universities in Germany and abroad.

The collaboration also included joint scientific symposium and workshops – two particularly important events were the conferences in 1999 and 2009 celebrating the 10th and 20th anniversaries. Both conferences provided and excellent platform for bringing together reputed academics and creating opportunities to stimulate the circulation of ideas.

In this year we celebrate another important milestone in our cooperation – the 25th anniversary of this important collaboration. Change management – one of the major challenges faced by the global economy – is the focus of this anniversary’s conference. Revolutionary changes in both the economic and political context necessitate scientific interest and analysis, in particular with respect to minimizing the inevitable chaos. The relevant findings and conclusions of the research presented in this conference will hopefully appear as important points in the general discussion.

I would like to express my best wishes and sincere thanks to all participants of the conference and wish you fruitful discussions and interesting meetings. I sincerely hope that this unique initiative is another fundamental milestone in consolidating the strong cooperation between our universities and paves the way for a strong future.

Prof. Andrzej Chochół
Rector of Cracow University of Economics
Today's century is a period of rapid changes in technologies and communication systems, accompanied by no less rapid political, economic and social changes. Globalization processes, hegemony of multinational corporations and industrialized countries were supposed to be a guarantor of global peace. But a new age appeared in the contemporary world, which can be described as an age of disruptive changes and destabilization. It has already generated the following paradigms:

- stable societies became societies of risk in many places,
- safe markets for goods, services, money and labor do not exist,
- analysis of long term consequences and strategic planning is of less importance and seems useless due to unpredictable speed of changes, and
- social inequality is increasing.

The presented discussion of scientific papers in this publication referring to paradigms of disruptive change and destabilization is a significant challenge for contemporary businesses. From a business point of view, the characteristics of the environment are: fluidity, growth in the importance of knowledge and science, and technological dichotomy. The result of the distinguished characteristics of the environment is such behavior of business organizations, which shall face emerging threats and make consequent use of opportunities.

Disruptive change and discontinuation force all kinds of organizations to search for solutions less sensitive to the variability of environment. Such solutions are partnerships, network structures, outsourcing, flexible and/or lean management. Partnerships and network structures allow delocalizing human and information resources, increase the reliability of an organization by the possibility of taking over the responsibilities of any partners by other members of the network, and protect against unforeseen interference. The concept of outsourcing allows to decentralize activities, increase business mobility, enables concentration on key areas of company operations. Flexible and lean management allow eliminating unnecessary functions of the organization in various areas, such as manufacturing, administrative tasks and services.

Using capital mobility, a business brings its investments to countries with the best economic and social conditions and is constantly looking for countries offering more advantages for investments. Production market and target market are different areas both economically and often culturally, e.g. China, Brazil and India for production processes in the form of direct investments, U.S. and European Union for the process of R&D and Asia for sales. The created protection barriers for import are hardly effective, and differences in the costs of labor are substantial. They may not be compensated by higher work efficiency in industrialized countries. Societies in disruptive change and destabilization times are moving into the decision offering space.

The presented considerations in this book point out the complexity of relations taking place between the societies and businesses. The paradigms of disruptive change and destabilization on the one hand, and the variability and indefiniteness of business on the other, lead to a new setting of regions, countries, industries and educational or-
ganizations. Thanks to all authors for undertaking the effort of approaching the topic from different angels and perspectives, offering solutions and by this for their contributions to the presented publication.

The broad scope of scientific approaches and interests included in the papers presented enforced publishers to a logic structure. Three parts of the book present papers referring to: economics, management, society and knowledge.

Janusz Teczke, Cracow
Thomas Baaken, Münster
Chapter 1

Transition
Why developed economies are at risk of deflation?

The aim of the research and theoretical analysis is to explain the causes of deflation, and an indication of activities in the sphere of theory and practice necessary to achieve a state in which the monetary unit is stable and not subject to inflation or deflation. Article examines the hypothesis of sources of deflation and imbalances in the developed economies. The main outcome of the research is to clarify that deflation is an inherent factor in the current economy because the financing of the labor in the public sector by taxes introduces an imbalance between the value of the streams of product and money. If inflation is under control by good management and adequate wages for the work, as is the case in developed economies, then the deflation reveals itself naturally. A correct remedy is to use a phenomenon of labor self-financing.

1. Introduction. Deficiencies in the theory of economics and the issues of deflation

Remuneration for work is the main economic issue and a real process a positive solution to which has a decisive impact on maintaining the money-goods economy (MGE) in a balanced condition. Wages belong, to an equal extent, to the sphere of microeconomics (remuneration systems and costs of work in organizations) and macroeconomics (productivity of work, currency exchange rate, inflation, deflation), and play an important role in every field. However, in the theory of work and adequate remuneration, work and wage categories must be scientifically stricter. In the presented discussion work is transfer of human capital to work objects, and adequate remuneration is equal to the value of this transfer. Capital is an abstract, potential capacity to perform work, and the value determines concentration of capital in the object (Kurek and Dobija, 2013).
Despite the fact that remuneration determines demand and propels the economy, it has a direct impact on inflation (and similarly deflation), considerations and discussions relate to the cash money, credit money and activities of central banks. *Quantitative easing*, additional printing of dollars, euros or yens, are core issues in macroeconomic thinking about the balance in MGE. Practice shows, however, that the effectiveness of those actions is poor. This is the effect of underdevelopment in the theory of work and wage. The lack of understanding for the fact that work finances itself, and consequently it does not need levying taxes for its financing, is the main defect of the present economics. As a consequence, this is also the main factor of deflation.

The purpose of this study is explanation of reasons for the phenomenon of deflation in the present MGE system and indication that this is the issue related to the fiat type currency, whose theory can be neither complete nor correct, due to a discrepancy with fundamental principles determining the nature of reality, which was analysed in the article (Dobija and Kurek, 2013) and others. The main conclusions from these discussions indicate that the law of demand and supply is not the only fundamental principle of economics. Other principles, such as the inability to create capital from nothing, spontaneous and random dispersion of values, the principle of least action, are equally significant. In the present MGE system, there is no respect for the principle of capital maintaining, creating cash from nothing. In correct theoretical approach money is generated by work. For this reason, the whole sphere of central banking and money does not have the theory in the scientific sense, that is of science type.

A different reason for theoretical difficulties in MGE is the lack of understanding for the inseparable complementary association between capital and work. These two categories form a tandem, given that one category is potential (capital) and the other – dynamic (work). It is necessary to collect capital in a human or a machine for work, that is transfer, to be possible. Work is transfer of human capital, or capital materialized in assets, to work objects. Work transfers the universal capacity to perform work (capital), embodied in employees and various assets and locates it in products. These issues are explained in monographs (M.Dobija (ed), 2011, 2014). Capital is a measurable category, which means that this category can be assigned a real positive number meeting the postulates of measure, such as additiveness and monotonicity. Capital measurability results in measurability of work, used also for measuring the capital value.

Consideration of correct categories of capital and work leads to an original conclusion that work generates money, which means that, as a result of its performance, a record of value of the completed work is created, constituting the amount due to an employee. The second important conclusion indicates that work finances itself, since it generates money. This, in turn, means that taxes for financing work in the public sector are theoretically unjustified and practically harmful. They are the cause of the observed, constantly growing indebtedness of economies and, as we can notice now, the deflation hazard. Reasonable taxes apply only to financing assets in the sphere of budget, consumption of materials and utilities, social and foreign aid. Work is a factor for formation
of profits (capital growth) and finances itself, so it is possible and necessary to release
the economy from taxes for covering the costs of work.

2. Sample opinions of scientists and journalists on deflation

A deviation from the natural idea of MGE is paying for work in the public sec-
tor from taxes. This causes reduction in the value of stream of remuneration in relation
to the value of the stream of final products, that is, finally, GDP. If such economy is far
from effectiveness and there are permanent sources of inflation (e.g. payment for un-
necessary work, excessive wages and profits, etc.), the deflation effects are eliminated
by inflation. If, on the other hand, under the effect of globalization, Chinese and East-
Asian competitors, improvement in the cost account and control systems, prices can-
not grow and raises in the public sector also cannot be made due to excessive budget
deficit and high percentage rate of the debt to GDP, the inflation pressure decreases
and the deflation pressure appears. In this system, there are no visible relevant measures
of counteracting, and MGE acting in this way does not regulate itself independently.

The presumptions that the central bank generates money, without which there
would be no MGE, and protects it against inflation and deflation, are also true because
such a system has been purposefully created. This system developed historically, without
impacts of various forces, which is mentioned by (Hongbing, 2010) and many others.
However this system currently generates problems which are difficult to control, such
as crises and present deflation phenomena. Above all, it is a manually (and also politi-
cally) controlled system, and it is not controlled by the invisible hand of the market.
In this system the central bank must undertake actions defined as “empty money printing“
to level the lack of values in the stream of remuneration. However, the effectiveness of
these actions is small in the light of the presented explanations. The road from issuance
of cash to pay-outs of remunerations for work and the increase in demand is long in
contemporary world.

In this context, we can expressly see that deflation means a major difficulty in
maintaining stability of a monetary unit and this is not the issue of decrease in prices of
some product volume under the effect of demand and supply or reductions of prices as
a consequence of the technology progress. This is a problem of reductions in the index
of consumer prices, which is observed in present economies. Deflation means decrease
in the general level of prices, as it was during the Great Depression (Bootle, 2013).
For this reason, the appearing deflation raises concern of many scientists, journalists
and politicians. There are various opinions with regard to of deflation, central banking
and the phenomenon referred to as empty money printing.

The major scientist whose opinion concerning inflation and deflation, i.e. stabil-
ity of money, remains highly significant in the monetarism system, is Milton Friedman.
According to this author, the “amount of money” is to increase in accordance with the
pace of economic development, thanks to which stability will be achieved. This justified
view encounters, however, theoretical difficulties in practice. In a situation when work
finances itself, economy development and growth (employment and productivity) involves the growth in remuneration, which automatically provides growths in amounts of money on bank accounts and appropriate demand. Taxes finance only purchases of assets for the budget sphere and social and foreign aid. In addition, use of fair wages, that is not allowing depreciation of human capital of employees, does not lead to inflation, so money stably maintains the value. In the monetarism system there is no similar regulatory mechanism.

R. Bootle (2003 p. 71–99), a commonly respected economist of the City of London, is the author of detailed studies concerning deflation, and clearly warns against its effects. He claims that we should not submit to delusions that the present deflation is the effect of growth in work productivity, new technologies and a significant cost reduction. It can be noticed that the present condition of deflation appears after the crisis of 2008 along with high growth in indebtedness of citizens, companies and governments. He indicates that significant growth in deflation will be dangerous for companies financed from debt which will remain in the nominal value when assets lose a lot of value. This state of affairs opens the way to bankruptcies. Harmful consequences of deflation will manifest themselves also in relation to pension funds.

J. Makin (2014), representing the American economic policy, believes that it is time to handle deflation, to prevent damage in the global economy. It is necessary to operate in advance, because deflation develops according to the principle of positive feedback, so at delayed action, it is possible to lose control. The author juxtaposes the data. In the euro zone there was a decrease in the general price index to 0.5% in March in relation to February 2014 from the level of 0.7%. In the USA, this index in January 2014 was 1.2% and in February – 0.9%. Index excluding food and energy amounted in February to 1.1%, that is approximately half of the FED inflationary target. Also, taking into account the data from China the author concludes that deflation presents a real hazard.

Columnist M. Stangret (2013) juxtaposed opinions of scientists, awarded by the Bank of Sweden, concerning the issues of increased money printing and at the same time reduction in inflation. The observation that he made at the beginning is significant. “… Some economists say that without money printing, the banking system, and along with it, the entire global economy would have collapsed long ago. Others – that all these billions of dollars, euros or yens that people try to sweep under the carpet, one day will explode, resulting in intimidating inflation and crisis. …” Opinions of famous scientists focus, however, on existence of large free production capacities, which causes the lack of growth in costs. They express a belief that inflow of money will activate these capacities and that employment, remuneration and inflation will grow.

Bank analyst and columnist I. Morawski (2014), who clearly claims that it is possible to print billions and do no harm to the economy, comments on the fact of interest rate reduction by EBC by 10 base points, bringing thereby the reference rate to 0.15 percent, and the deposit rate to −0.1 percent. He emphasizes, at the same time, that ECB’s increase in credits for businesses by 400 billion euro, constituting about 10% of the value of currently granted credits for enterprises, will not necessarily lead to increase in inflation.
I. Morawski explains that this *money printing* is not operation of printing machines, but operations of central banks consisting in purchasing securities from commercial banks, often those losing their value. This is growth in amounts on accounts of commercial banks as a result of payment for sales of, for example, government bonds. The Central Bank, on the other hand, created these amounts by *fiat*. According to the author, “…for two decades the Bank of Japan has been trying to stimulate the economy in this way. Although the result is mediocre, the Japanese Central Bank keeps trying and at the beginning of April it announced that it intended to increase the monetary base by 60–70 trillion yen within two years…”. Recent reports increase this amount up to 80 trillion yen. This is, however, a reason to feel surprised. How can it be that central banks create “empty money”, but the threat of deflation persists?

3. **The essence of natural MGE. Work sets the economy in motion and generates money**

The answer to the question can be found by better understanding the nature of work and remuneration. The essence of MGE is constant confrontation of two streams, which are activated by the human capital potential and its work, as it is shown in diagram 1. The first stream (left side) is the value of final products generated by composition of manual work and mental work (assets) and exchanged on the market, and the second is a stream of remuneration, amounts due for work, that is legal-accounting records of the equivalent of the completed work. The source of these two streams is the same human capital of employees, and their limit is the market exchange of due amounts to products, which can be described mathematically in the form of an exchange equation. The streams run constantly, but to capture the quantitative relations, we use the size in the annual scale, in particular GDP category.

And so, the final production for a given year is the value of GDP in current prices. GDP is the product of labour costs $W$ and work productivity $Q$. The latter size is a result of discussions over the cost function of production, presented, among others, in (Dobija, 2013). The right stream determines a stream of remuneration with all additional components, which in the annual perspective, determines the value of $W$. Part of remuneration in the $aW$ value passes directly to market exchange, and the second part generates stream flowing to the system of commercial banks $(1 – a)W$. These are savings and pension premiums. In commercial banks this stream can be increased by multiplier $k$ to the volume of $(1 – a)Wk$, due to the conducted lending and payment of pensions. Part of this inflow remains on bank accounts due to the requirements to maintain liquidity and other provisions.

The market confrontation of these two streams (products and money) finally determines the purchasing power of money and the final value of products. Quantitative perspective of exchange of products for money (and vice versa) written in the form of a wage exchange equation leads to indication of a relation between the introduced values. Assumption at which the wage exchange equation is introduced establishes that
work finances itself and generates money (amounts due for work), and pension premiums are a kind of savings.

Let us notice that diagram 1 encompasses the work of every employee: farmer, worker, teacher or police officer. It is easier to understand when perceiving GDP as the sum of manual and mental work measured by depreciation (Dobija, 2014). The formula for this method of calculating GDP is presented below:

\[
\text{GDP} = \text{Labour costs} + \text{Depreciation} + \text{Taxes} + \text{Gross profits} + \text{Change in SP}
\]

In this formula labour costs include wages with premiums, and SP is the condition of products. This also means that summing up, the indicated economic sizes, in the entire economy, we calculated the contribution of each economic unit regarding value added; both from the private and the budget sphere. If people working in their profession were building bridges, they would receive money (crediting receivables on the bank account) as remuneration, the costs of their work would become a part of the bridge’s value. Now, having already retired, they receive payments from capitalized retirement premiums, and in the stream products there is an increase in the amounts of depreciation of the existing bridges used by the inhabitants. Similarly, a teacher and a policeman worked maintenance and development of human resources and the capital materialized in them. Work of this capital currently increases GDP.

**Diagram 1.** Market as a mechanism leveling the value of product and money streams.

Source: Modification of the diagram included in the article by Dobija M. (2011)
Wage exchange equation levels the value of GDP with the sum of money M, that is amount due for work at considering savings in the form of deposits and credits generated from them. According to diagram 2, this equation is as follows:

\[ \text{PKB} = \text{PKBR}(1 + i) = a \times W + (1 - a) \times W \times k + c \times S \] (1)
or

\[ \text{PKB} = \text{PKBR}(1 + i) = a \times W + (1 - a) \times W \times k + d \times W \] (1a)

Symbols of values are as follows: GDP – nominal GDP, PKBR – real GDP, W – labour costs, Q=GDP/W – work productivity index, Qr=PKBR/W – real work productivity index, i – inflation rate, k – coefficient increasing the value of deposits as a result of lending in the banking system, d=c×S/W.

On the basis of equation (1a) the multiplier (k) is determined. With the assumption \( i = 0 \), that is the zero inflation condition, we obtain:

\[ \text{PKB} = \text{PKBR} = a \times W + (1-a) \times W \times k + d \times W \] (1b)

On the other hand, equation (1b) is divided by variable W, which gives:

\[ Q = Q_r = a + (1-a) \times k + d \] (2)

Hence the formula determining k:

\[ k = \frac{Q_r - a - d}{1 - a} \] (3)

Therefore, the maximum credit stream is presented as:

\[ \text{Credit} = (1-a)W(\frac{Q_r - a - d}{1 - a}) = W \times (\frac{Q_r - a - d}{1 - a}) \]. (4)

The above formula indicates only main macroeconomic variables, which have impact on the possibility of generating credit by commercial banks. Apart from these values there is a set of constraints, in particular the need for providing continuity of a commercial bank, which seriously limits lending. Formula (4) explains that the credit value depends on: remuneration stream W, real work productivity Qr, wealth level (a) and the level of pension pay-outs. The greater the productivity of work (depending strongly on the value of assets) the greater the possibilities of crediting.

In this system, the central bank does not generate the cash money from nothing and has no tools to save a commercial bank. For this reason, requirements of maintaining liquidity must be strict and rigorously observed. In addition, the banking system as a guard of citizens’ money must operate under permanent supervision of the state. In its new role, the central bank is a guard of work productivity Qr, and thus also of adequate size of the budget sphere.

At the base of diagram 1 there is work, that is human capital transfer. The theory of employee human capital measurement, and the resulting fair remuneration, is already seriously tested by numerous studies conducted by various authors, such as: M. Dobija (1998, 2000, 2011), W. Koziół (2011), I. Cieślak (2007, 2008), J. Renkas (2012), O. Koshulko (2012), D. Dobija (2003), B. Kurek (2007). The human capital account originates from the general capital model and determines fair constant remuneration W with formula: \( W = s \times H(p, T) = p \times H(p, T) \). Where: \( s \) – random rate of human capital dissipation and \( p=E(s) = 0.08 \) [1/year], \( H(p, T) \) means employee human capital, and \( T \) is the number of years of professional work. Model \( H(p, T) = K + E + D \times (T) + C \) where \( K \) – is capitalized (at rate p) necessary maintenance costs, \( E \) – capitalized (at rate
p) costs of professional education, D (T) – professional experience capital, C – creativity capital.

Use of economic constant \( p = 0.08 \) protects wages against *uncontrolled relativism* mentioned by J. Barrow (2002, p. 290) in his work on the role of constants in science. It is demonstrated that wages resulting from the human capital account are fair in the sense that they prevent depreciation of employee human capital (Dobija, 2011). As everybody knows, even Plato indicated that the range of wages should not exceed 6 times. According to calculations of human capital the range of fixed wages (without considering creativity capital) should not exceed 6–7 times. This means that maximum fixed wages with premiums should not exceed the amount of 15 000 PLN at the current maintenance costs. In Poland the number resulting from dividing average earnings in groups of 10% with the highest and the lowest earnings is 10 times.

In practice, it can be noticed that often the weaker a country is economically and organizationally (with the exception of USA, China), the greater its GINI wage index is. Using the data provided by M. Wójcik-Żołądek (2013) and other research we may indicate a group of countries with the model volume of the index. Nordic countries: Denmark, Sweden, Finland, Norway and apart from them, Austria and Slovenia have the index below 0.27. Human capital measurement enables assessment of the proper volume of the GINI index in the present economy. It was done by W. Koziół (2010, p 73–98) assuming the estimated diversity the population of employees in terms of education and experience. The result of estimation is 0.24 +/- 0.01. There are many developed countries where the index does not deviate significantly from the standard, such as: Belgium, France, Germany, the Netherlands, or Switzerland. Poland, with the index estimated significantly above 0.3 has excessive wage inequalities.

4. **Hypothesis. In monetary MGE there is a need for additional money printing at a level similar to the amount of remuneration in the public sector**

Diagram 1 shows the natural balance, reached by the money-goods economy, in which money is the amount due for work. Then, preventing a decrease in work productivity \( Q \) and compliance with the designated credit volume ensures maintaining the value of money, that is balance (lack of inflation or deflation). Some small inflation may appear, due to the fact that the systems for measurement and management of work processes are not perfect. On the other hand, in the present state of affairs, financing work in the public sector from taxes results in the fact that according to diagram 1 the value of completed products and services is not a fully balanced value of remuneration and pensions.

The correct state of affairs requires that remuneration in the sphere of budget, for example for a teacher performing her work should come from taxes, otherwise deflation may appear. In its new MGE these due amounts are generated by the payer of remuneration in the budget sphere, that is the reformed central bank. The fact that of currently
deflation is not a common condition, although it does occur (Japan, Switzerland), and affects economically developed and well-governed countries, results from those extensive issuances performed by central banks. This way, the government partially acquires money for financing work in the budget sphere. In improperly governed countries, remunerations exceed the value of work, so inflation prevents deflation.

This can be roughly estimated using the example of the USA economy. Assuming GDP in the USA, at the level of 16 000 billion USD in 2014 and estimation of index \( Q = 3.60 \) we obtain the volume of labour costs \( W = \frac{\text{GDP}}{Q} = 4 444 \) billion USD. From this, I calculate, the part attributable to costs work in the public sector using Polish division rate of 0.23. Therefore, \( 4 444 \times 0.23 = 1022 \) billion USD. Therefore, the amount per month is 85 billion USD. In practice these remunerations are financed from taxes, thus limiting earnings, which results in constant excess of values in the stream of products (at least at times of peace and lack of inflation). Quantitative easing, applied by FED is thus justified, just like the statement that without money printing economy will collapse. Similar calculation for Poland, at \( Q \approx 2.0 \) and GDP \( \approx 1600 \) billion PLN makes it possible to estimate a similar amount at 11 billion PLN/month. Calculations are consistent with practice. In December 2013 (Forbes, 2013) \(^1\) informed that additional printing of dollars by FED will be limited: “American FED decided to reduce the scale of purchase of assets (treasury bonds) to the level of 75 billion USD a month. ... Reduction in the quantitative easing programme by 10 billion dollars a month is the first step towards withdrawal from additional money printing, which so far has fostered the USA economy.”

Does quantitative easing lead to stable value of money? This is not clear. It is known, on the other hand, that correct, natural and simple solution consists in the fact that the reformed FED is a payer of those 85 billion USD for work in the public sector, and consequently does not purchases treasury securities, has no increase in indebtedness, nor a budget deficit. Also, it does not print money from nothing. In the new order, FED gains the function of an independent controller of work productivity, and thereby, of the size of the public sector. In addition, in normal economic conditions, the deficit is not formed, so USA will be able to repay their international liabilities faster.

It is not possible to state with absolute certainty that these rough calculations of remunerations clearly indicate an economic pattern, but its real nature is supported by the fact that FED, focusing on an inflationary target, that is actually the balance, determines the amount of 75 billion USD a month as a necessary constant issuance.

The main conclusion drawn from the existing state of affairs indicates the presently insufficient theory of the money-goods economy in the scope of the most important issue, that is money. Persistent building of the theory without proper consideration to the issues of work and wage resulted in defective exchange, equation with a bizarre category of “money amount” without understanding for the triad of: capital – work – money. Di-

\(^1\) (http://www.forbes.pl/fed-ogranicza-dodruk-pieniadz,168357,1,1.html downloaded on 2014-04-20)
agram 1 and wage exchange equation (1) correctly present the main relations, showing the inalienable role of the work productivity index $Q$ in solving the issues of inflation, credit and remuneration. An important role is also played by the theory of measurement human capital and fair wages.

5. Conclusion

Inflation and deflation have two different causes, but a common denominator is that they relate to remuneration. The cause for inflation is inconsistency of remunerations with the value of work; remunerations are too high and work is poorly productive, and deflation results from reducing fair remunerations with taxes, for example, to finance work in the public sector. The presented considerations lead to a basic statement that deflation may appear and gain momentum in the present state of economy and knowledge, which does not include self-financing of work.

In the present economics, at high competition, effective management systems with sufficient costs control, increase in remuneration is limited by demand shortages. Payment for work in the public sector from taxes reduces the stream of money confronting the stream of products which, however, contains the value of work performed in public and family sector of the economy. To cause self-regulation, traditional actions of central banks are not sufficient, and there is a need for a reform of the central bank. When deflation becomes visible, a reasonable move of the central bank would be payment to the employees of the amounts which are taken with taxes and spent for wages in the budget sector, instead of providing the banks with credits with a rate close to zero. The proper path to the systemic maintenance of balance is a reform of the central bank to the role of the payer of remuneration in the public sector and independent agency controlling the productivity of work in the economy and the size of the public sector.

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Short bio of author

Policy instrument adjustment for green economy

1. Introduction

Research on the ecological aspects of social and economic development has been continuing for quite a while. Focusing merely on the second half of the 20th century, it is worth mentioning the wide response to the First Report to the Club of Rome titled “Limits to Growth” apparent in the daily papers. The report, which was based on an econometric model of the world economy, pointed to the looming threat of exhausting some natural resources in the near future. The idea of zero growth, suggested under the same cover, did not meet any acceptance, while the slogan for eco-development – in its quite narrow meaning, focusing merely on the protection of the natural environment – evolved into the concept of the Sustainable Development. Its implementation is to ensure economic, spatial, social and environmental order as well as to provide sustained development poised to safeguard adequate standard of living for the future generations. The concept of the Sustainable Development is reflected, inter alia, in the ideas of the so-called Third Way, which was initially devised as an interim link between the market (capitalist) economy and the socialist economy (mainly as understood by the Eastern Europeans). The names of the Labour Party activist, and then British Prime Minister Tony Blair as well as an economist and a politician Anthony Giddens, or a Polish econ-

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omist Tadeusz Kowalik merit attention. There are also some views promoting connection of the ordoliberal doctrine of Wilhelm Röpke and Walter Eucken, and somewhat contemporary principles of German social market economy (highlighting economic order and competitive order based on ethical standards) with the concept of Sustainable Development.

Despite certain controversies, the concept of SD has been included in practical programs of social and economic development. However, there have also emerged parallel concepts and programs of green economy.

The concept of green economy, popular in the Anglo-Saxon literature, has become relatively common also in Poland. Even though it may seem a mental shortcut, or a term coined by journalists to describe natural environment protection projects, it has assumed a more profound meaning in Western Europe. That is because it is related to the new trends of industrial development which include environmental aspects, and in particular low-emission technologies, which were especially supported by the state.

This paper is poised to present the concept of the green economy and its impact on industrial and energy policy, giving due regard to the controversies in the terminology and the links between the sustainable development. We will focus not merely on the terminology issues – which sometimes raise some controversy – but also on the evolution of their content. Our foremost aim is to provide a succinct analysis of the economic instruments that support the implementation of the green economy.

2. The concept and practical application of the green economy

Most likely, the concept of green economy was conceived in the USA, yet it became popular with the publication of a report “Blueprint for a Green Economy” of 1989, submitted to the British government. The report was written by David W. Pearce, Anil Markandya and Edward Barbier, who worked for several universities. The concept, which actually became a postulate, was put on the agenda of the UN bodies (Green Economy Initiative, 2008) and discussed on the OECD forum, in particular the most recent Earth Summit in Rio de Janeiro in 2012, as a proposal for a new approach to shaping industrial production structure as well as a practical way of implementing the principles of the sustainable development and combating poverty. Those issues were also discussed within the framework of the low carbon economy which highlights the need to reduce greenhouse gases emission, especially carbon dioxide (in Poland even greater emphasis was put on reducing the emissions of toxic sulphur dioxide released

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by burning coal). All this has been focused on the main objective, viz. the improvement of the quality of life.\(^5\)

President Obama aimed to launch reforms in the energy sector, education and health care. The program of energy development included implementation of new technologies poised to protect the natural environment, deal with the climatic changes and foster energy saving. The promised benefits include lowering the emissions of carbon dioxide so that they reach the level recorded in 1990 in 2020, increasing the use of renewable energy sources to reach 10% in 2012, and 25% in 2025, creating five million jobs over 10-year timeframe by investing 150 billion USD in the renewable energy sector, stepping up fuel consumption standards and emission controls for vehicles (Energy Efficiency and Renewable Energy Program). The implementation of the program is to be overseen by a team of scientists and experts, i.e. the green team. Apart from the financial support rendered by the state, “cap-and-trade” system proves to be an important part of that program, even though it raises some doubt as it may become another speculative bubble.\(^6\)

In the USA, the postulate for the green economy gained importance as it became, simply speaking, a response to the financial, and then the economic crisis of 2008 – 2009. The recovery plan that was relatively quickly launched by the Secretary of Treasury Henry Paulson, and which consisted in purchasing the “toxic derivatives” from the US banks for the sum of 700 billion USD, and then allocating 23 billion USD to aid the motor industry, etc. The recovery plan was included in the President Obama’s program “American Recovery Reinvestment Plan” poised to ensure long-term economic growth, and create new jobs in the first place. It is worth mentioning that the new plan was called the New Green Deal, to the likeness of FDR “New Deal” which was created to fight the crisis of the 1930s.\(^7\)

President Obama’s reforms within social welfare and health care came under fire of the liberal circles, mostly the Republicans. The program of changes in the energy sector was also attacked due to the increased prices of energy resultant from the stepped up ecological standards, and forced creation of green jobs at the expense of other, less capital intensive power equipment. Hence, the program has been implemented at a slower pace, and, at least for now, within a narrower scope.

The issues of the green economy are still much discussed. To give an example, UNEP, a UN department coordinating environmental protection, moved some slogans and programs for the green industrial revolution and the green city (focusing on eco-


logical transportation and energy-saving housing). In the report of the World Council for Sustainable Development, the increasing competition within that area was called a green race in the new technologies of production, quality of production and services, and social responsibility. Those issues remained in the focus of other documents, e.g. the most recent version of the EU Lisbon Strategy, or “The Plan for Stabilization and Development” in Poland, which did not highlight the green economy. Nevertheless, that slogan is eagerly applied by NGOs, such as the Green Party.

There is another interesting and useful concept, i.e. the issue of putting some green on the GDP, i.e. including those values in the calculation of GDP which decide about the wealth level, even though they are not a subject of individual consumption (or market valuation) as e.g. the natural environment and its condition. In particular, this is about appraising net benefits derived directly from the environment, and investing in the natural capital to renew the natural resources. This may prove difficult, yet it is more credible than elaboration of Human Development Index (HDI) which, apart from the national product, also includes other indexes of social and economic development. Anyhow, the work on improving HDI is still being continued.

Generally speaking, the green economy is characterized by three elements: low emissions, efficient use of resources and social inclusion. Consequently, the risk to the natural environment and its resources is reduced. In other words, it means a reduction of greenhouse gases and other pollutants, increased efficiency of the use of resources, in particular energy as well as biodiversity and ecosystem protection to increase revenues and employment, and social equality in the long run. Social inclusion has been defined as a process poised to improve the conditions of life of the community, and it is diagnosed with the threat of poverty. Currently it constitutes a serious problem, since according to the Eurostat poll, 25% of the EU residents are in that category, including 27% of the residents of Poland.

Many experts have claimed that the green economy means a practical implementation of the concept of sustainable development, which has not been sufficiently reflected in the political practice due to the operational shortcomings, and the pessimistic view on reconciling the shrinking natural capital with the sustainability of development. That is because to date there are no practical solutions to forming the relationships between the natural capital, sustained capital (production, anthropogenic) and human (social) capital and making the distinction between strong and weak sustainability principle, i.e. the rate of substituting natural capital by the other types of capital. In turn, the opponents of the green economy, particularly those from the political circles, watching the slowdown in the implementation of green economy programs, tend to formulate opin-

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ions that the new concept seems to be overtly idealistic, especially with Obama at the helm. Nevertheless, many authors consider that the green economy constitutes an important factor contributing to increasing the wellbeing, and improving the quality of life as well as a prerequisite for curbing the depletion of natural resources and limiting the ecological hazards. In short, the sustainable development is a theoretical macroeconomic concept that is more and more included in the programs of social and economic development at the government level and international forums. In the last decade its ideas and some practical concepts have been implemented at the enterprise level. In turn, the concept of the green economy is consistent with the principles of the sustainable development – which fact is frequently stressed in the launched programs – and as it seems, it has become a more and more apparent element of the economic policy, particularly within the area of energy and industry. Hence, it has assumed a more practical character and is more frequently applied. Nevertheless, quite frequently the labels of green energy and the green city are used merely for educational purposes as well as for informative and persuasive reasons, to raise the ecological and environmental awareness of the community.

3. New economy founded on knowledge

Similarly to the green economy, other terms such as the new economy, and the knowledge-based economy in particular, have become popular in the works describing social and economic changes and the progress of civilization. Although it may be ascertained that it is easy to discern some new rules for economic development and new economic structures within each stage of development of mankind, and that process is inseparably connected with the development of science and its practical application, yet by the same token the on-going changes embrace significant factors with far-reaching consequences. Hence, even if an assumption is made that the observed changes are consistent with the typical trends in development, and the ever increasing classifications and multiplying terms reflect the dash to innovation, and are merely the consequence of “terminological progress”, yet the new terms and definitions are still worth analyzing and evaluating.

New economy is synonymous with the knowledge-based economy. Beyond any doubt, this is about the common application of hi-tech and provision of “intelligent”, fractal, virtual organizations as well as new principles of functioning of economic entities which are due to the advances in IT and flexible adaptation to the rapidly changing environment.

Classic factors of economic development such as land and natural resources, labour and capital (fixed assets and investment) are supplemented with knowledge, information and entrepreneurship, and expertise in the application of modern technologies.

The new economy is characterized by:

– Large engagement of IT technologies in the economic and social life as well as high input of high-tech and advanced sectors to total sales (in Poland, 12–15%),
– Availability and a wide range of information,
– Low, or even zero transaction costs,
– Negligible, or non-existent barriers to start-ups,
– Low, or non-existent barriers to market launches,
– Care for the environmental protection.

There are stringent prerequisites for inclusion in the group of knowledge-based economies, e.g. approximately 20 USD per capita of GDP, approximately 70% of services in GDP generation, R&D investment reaching 3% of GDP, innovation and openness of economy, etc. So we cannot yet include Poland to these high developed countries but there are more and more characteristic circumstances for new economy.

The economy based on knowledge and the enterprise of the future should be highlighting the care for the natural environment, yet most publications focused on that area do not give much attention to those issues (apparently that is due to presenting the viewpoint of management disciplines). However, even here there are some publications devoted to the environmental issues.

In conclusion, the new economy based on knowledge does not address the ecological issues as strongly as the green economy. This is apparent in more detail in the environment management systems such as ISO14000 and EMAS, and it is also manifested by the growing areas of the national and landscape parks, and “Nature 2000” areas. A note on the margin; formerly many countries, and the EU in particular, put the pace and factors of GDP growth at the forefront of their strategies and economic policies. Then, in the 1990s, the protection of natural environment became the supreme task. Currently, the ultimate objectives include striving for high quality of life, fighting unemployment and eradication of poverty.

4. Instruments for the implementation of the New Green Deal

The instruments of the state economic policy are quite diversified and relatively well known, yet the crisis of 2008–2009 changed the scope of their application, and the proportions of the state intervention in banks and the corporate world. Hence, putting aside certain nuances and differences between the countries, it might be inferred that the governments decided on a significant increase in public aid by way of subsidies and grants – in contrast to the cultivated principles of the market economy and the indirect instruments of influencing corporate entities – and then on the launch of green economy programs, with the application of both types of economic policy instruments. Those instruments may be programmed in the following way:

- legal and administrative instruments such as orders, prohibitions, mandatory or optional norms, certifications and other regulations;
- grants from the state budget and earmarked funds;
- government guarantees necessary in application for investment and export credit;
- insurance for foreign transactions;
- tax policy, customs policy, changes in interest rates;
- raising state reserves;
- informative and persuasive instruments.

It should be noted that the above instruments are more and more often applied to launching and implementing new technologies which ensure clean production and clean energy, in line with the Technology Assessment. Under those circumstances there is an urgent need to provide green jobs, i.e. new jobs in the clean energy economy as well as such jobs that help to eliminate emissions, while restoring and maintaining a high quality of the natural environment, the protection of biodiversity and ecosystems.

The concept of the green economy emerged in the USA on the foundation of the New Deal of the 1930s experience, and on the framework of economy transformations poised to protect the natural environment and create new jobs. Similarly to the FDR portfolio of reforms, the slogans of the new green deal of the 21st century are poised to globally repair the economy after the crisis which started with the slump on the financial markets, to stimulate the activity of the state to encourage economic recovery, and to promote large public expenditure on the implementation of investment projects, including those in the public sector. Such programs of the green new deal have been launched in China, Japan, South Korea and Germany.

Those issues were raised during the G-20 summit in London in 2009. Regrettably, the final statement did not include any definite plans or the quota to be allocated to the development of the green economy (despite the fact that pro-ecological investment projects play an important role within the anti-crisis portfolios of individual states). Also, in the years to follow, there were no much sought far-reaching solutions.12

The implementation of the green economy and the green new deal calls for structural changes, since it requires transformation of the traditional sectors of manufacturing and municipal services, i.e. the most energy-intensive areas responsible for the emissions of greenhouse gases. Such program has been already launched by the United States of North America, where the Green New Deal was announced to be the key element of the anti-crisis portfolio. This may sound somehow surprising, for even though the US possess modern, continually upgraded technologies, they have been dodging international commitments within the environmental protection due to the high cost of their implementation (e.g. refusal to ratify the Kyoto protocol on the reduction of

greenhouse gases emission). Acting in his capacity, President Obama launched many projects in his country, e.g. commencing the system of carbon emissions trading or lowering fuel consumption standards for vehicles. Those projects reverted to the earlier legislative acts which were blocked by the industrial lobbyists and the Republicans due to the high cost of their provision as well as the rising public expenditure and the state control of the private sector.

The US administration activity has been targeted on increasing the power efficiency, fuel saving and carbon emissions reductions by promoting investment in the following areas:

- renewable energy sources,
- implementation of clean energy technologies,
- manufacture of fuel frugal vehicles,
- the use of ecological fuels,
- large-scale thermo-insulation of buildings.

To this end legislation was passed to curb fuel consumption of cars, regulate energy efficiency of buildings and industrial installations, tax breaks for the buyers of ecological vehicles, discounts for the buyers of solar installations and energy-saving systems, financial support for the manufactures of electric motors and batteries, loans for the motor industry, subsidies for 100 cities to lower fuel consumption by public transport (Clean Cities Program), grants for households to increase thermal insulation of homes, etc.

By 2020, the implementation of the above programs which is instituted by 35 government agencies should have lowered fuel consumption by 30%, greenhouse gases emissions by 28%, water demand by the economy by 26%. It also should have increased the share of renewable sources of energy to 16% of general energy consumption, and recycled waste to 50% by 2015. In addition, the share of government contracts meeting the requirements of the environmental protection and sustainable development should have grown to 95%. Those programs should generate 2 million new jobs.

In the European Union, the objectives of the economic development and the methods of its stimulation were formulated in The Lisbon Strategy for Growth and Jobs of 2000, yet that document did not even hint at the sustainable development or climatic changes. In 2001, The EU Sustainable Development Strategy was adopted, and then a program for the development of environment friendly technologies was launched in 2004. Those programs made a real difference in real terms, and that is why an amended version of The Lisbon Strategy was adopted in 2005. In 2007, work began on the elaboration of an integrated climatic and energy policy poised to ensure:

- greater safety of supply of energy and fuels,
- competitiveness of the economy and delivery of energy at competitive prices,
- promotion of environmental balance and counteracting climatic changes,
- transformation of the European economy towards low-emission model.

At that time work was begun within the framework of the European Strategic Energy Technology to ensure a significant increase of energy generation by the wind farms.
and solar systems. Other programs were also launched, particularly those dealing with the climatic changes.

The financial meltdown in the USA triggered steps taken to stabilize the banking sector in Europe, e.g. the bail-out of Hypo Real Estate and Fortis Bank. In 2008, A European Plan of Economic Recovery was launched to stimulate the economy with budgetary subsidies amounting to 200 billion EUR, and to increase the competitive edge of Europe in the long term. The plan was to safeguard energy security and limitation of \( \text{CO}_2 \) emissions with the application of legal and financial instruments, and with the structural reforms. Total value of financial instruments (mainly taxation) amounted to 400 billion EUR, i.e. 3% of the EU GDP.

The EU program of stimulation highlighted the complementary character of the objectives set to boost the economy and the environmental protection due to clean technologies, green products and green skills. It should be noted that the program was more comprehensive than the anti-crisis plan adopted by President Obama.

Some European states launched their own anti-crisis programs which included the green issues. In most countries, green issues are considered to incorporate steps taken to improve energy efficiency, renewable energy sources, development of public transport and scrapping written-off vehicles. Some countries give due regard to environmentally friendly technologies and innovations as well as ecological taxes. The share of green issues in anti-crisis programs (i.e. allocated financial resources) reaches from 1.5% in Italy to 13% in Germany, and 21% in France.

All the member states adopted the National Energy Efficiency Action Plans stipulating energy efficiency standards for public facilities and private homes, and possible tax breaks for those properties. Some countries provide interest-free or low-interest loans earmarked for the purchase or construction of such properties. Tax breaks also apply to the purchase of green cars and buses. Great Britain was the first country to pass a budget primarily poised to limit the emissions. Cap-and-trade system has become an important instrument in fighting emissions; the system, which was launched in 2003, allows trading ETS permits. The insufficient number of permits (cap) leads to trading the limits. Initially, merely 5% of permits could be traded (a complementary allotment made up 95%). Currently 50% of the allotment are auctioned (which should raise a relatively low price of that instrument), and it is envisaged that the whole allotments should be auctioned in 2027.

The environmental objectives of the EU are aptly described with the already proverbial 3 x 20, which stands for limiting the greenhouse emissions by 20%, decreasing energy consumption by way of increasing the efficiency of its use by 20%, and raising the share of renewable energy in total energy consumption to 20%; all those objectives should be met within 1990–2020. The EU anticipates further increases of those indexes, in particular boosting the reduction of \( \text{CO}_2 \) emissions to 30%, which has raised much controversy and protests within those countries that base their energy generation on coal. Poland is most concerned with those prospects, however the support for that concept is expected to grow gradually, providing there is bigger EU financial aid.
“Europe 2020. A Strategy for smart, sustainable and inclusive growth”, a document adopted in 2010, laid the foundations for the development of the green economy whose priorities include: intelligent economic development, sustainable growth and development fostering social inclusion. “Energy 2020” was released as a continuation of “Europe 2020” whose expenditure allocated to finance the objectives of energy and climate policy are to amount to 20% of the EU budgetary expenditure. Energy saving has become the most cost efficient way of reducing emissions, improving energy security, and increasing competitive advantage. It has been envisaged that low emission economy to be implemented by 2050 should have resulted in dropping CO₂ emissions by 80% in comparison to 1990 level.

In 2008, Poland also adopted an anti-crisis plan called “The plan for stability and growth” with the allocated budget of 91.3 billion PLN (almost 22 billion EUR). The plan stipulated taking steps to stimulate the economic growth by boosting consumer and investing demand. However, the government plan did not envisage earmarked projects and instruments that would stimulate the development of the green economy. To give an example, there were no tax incentives for the motor industry for the manufacture of environmentally friendly vehicles (such incentives were introduced in Germany). The issue of the green economy was not put on the agenda of “Poland 2030. Challenges for development” report. “Energy and climatic security” was the only “green” issue mentioned among the ten listed challenges. Still, ecological and sustainable development issues were raised within the confines of the national program of reforms “Europe 2020” launched by the Ministry of Economy in 2011, as a part of “Energy and Environmental Security” strategy. It anticipates the modernization of the energy network and the development of the low-emission economy attained with the application of the advanced technologies. The Green Party criticized the program for its too liberal approach to the model of economic growth as well as for insufficient exposure of the position of Poland which is, in their view, lagging behind in terms of modernization of energy sector and transportation.13

Poland has excelled within the application of economic instruments fostering environmental policy. It launched a complex system of environmental taxes (for the emissions and other forms of exploiting the natural environment) which are credited to the National Fund for Environmental Protection and Water Management as well as the regional funds, i.e. voivodship funds (till 2010, they were the district – powiat and commune – gmina funds). Environmental (ecological in Polish) taxes and product taxes prevail in Western Europe (they were introduced in Poland as late as 2001). The taxes and ecological funds allowed financing 40% of investment outlays allocated to the environmental protection in the early 1990s, which made it possible to raise their share in GDP from 0.2 – 0.3% to approximately 1.5%, almost matching the share practiced

13 D. Szwed (ed.): Zielony Nowy Ład w Polsce (Green New Deal in Poland). Green European Foundation, Heinrich Böll Stiftung, Warszawa 2011.
in the Western Europe\textsuperscript{14}. Currently the share of environmental funds amounts to 12–14\%, while the contribution of the EU to financing environment protection investment jumped from 3–5\% to over 20\%.

To a certain degree, the government program supporting strategic investment, i.e. the projects poised to accelerate the economic growth, was based on the American or German models. Within 2012–2013, a state joint stock company “Polish Development Investment” was set up to implement the program “Polish investment” with the Bank Gospodarstwa Krajowego. The stock capital of the company was 10 billion PLN, with the credit line of 40 billion PLN granted by the BGK. Investment projects are to be financed from the sales of state-owned plc\textsc{es} on the Stock Exchange (including the shares of PKO BP for five billion PLN). The project is to be implemented by the consortia, with the contribution of the PIR partnership. Hence, the doctrine has been changed; the privatization of the state owned enterprises will not credit the state budget – which has been the tradition – but rather directly finance development investment. Despite some critical comment warning that a state-owned partnership will be pressured by the politicians and that investment from public funds is less efficient, the launch of the venture was successful. In 2014, the PIR partnership invested over four billion PLN (1 billion EUR) in energy projects, implemented jointly by the state-owned and the private partnerships. The partnership, among other ventures, signed a contract with Lotus Petrobaltic to extract oil in the Baltic and, jointly with the BGK, another contract to set up the Regional Infrastructure Fund.

In keeping with the issues of the green economy, Poland has not yet defined the green jobs, hence there is no statistical data on that subject. The Foundation for the Environment and Natural Resources Economists distinguished 28 positions engaged in the protection of the natural environment (making reference to the Classification of jobs and specializations by the Main Census Office), and then surveyed employment in green jobs. Currently there are 374 thousand people, i.e. 2.6\% of total workforce. There are 48 thousand people working for water and sewage management and waste management, while the remaining approx. 282 thousand work in production and services, and 44 thousand are employed in the state administration and the territorial government. According to the Greenpeace assessment, Poland can create 350 thousand jobs in the renewable energy sector by 2020. In conjunction with the environment management systems ISO 14001 and EMAS currently implemented by the enterprises, there is an opportunity to double employment in the environmental protection sector. The development of the new branches of industry considered green or green is even a wider issue. They have become a dynamically growing part of the hi-tech, or advanced branches and constitute 12 – 15\% of the processing industry.

5. Conclusions

The concept of the sustainable social and economic growth is already widely recognized by the business circles and it has found its place in the economic strategy and policy. The only question that has to be answered is about the strength of that sustainability. The green economy has picked up after 2000, and it should become an important instrument for overcoming the economic crisis and combating unemployment, particularly with the application of a new restructuring of industry and energy sector in the USA and Western Europe. In the economic practice, those processes take much longer time than it was anticipated. In Poland, the changes after volatile transformations of the 1990s take even more time, even though the GDP growth rate seems positive in comparison to other countries. This may be the consequence of delays in building knowledge-based economy rather than a slow progress in the developing green economy. At any rate, the sustainable growth and the green economy may need certain conditions, such as the democratic system and citizen community, market economy with the active contribution of the state – particularly in terms of provision of the institutional order – and environmental awareness of the society, which, contrary to appearances, is not easy to instigate in the contemporary world.

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**Short bio of author**

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Research and teaching in industrial economics and management, economics of environmental protection, informal economy. Former director of the Institute of Industrial Economics, the first chairman of Polish division of the European Association of Environmental and Resource Economists.
The role of change management in times of destabilization

Destabilization, a state of imbalance where equilibrium has been disturbed (Cambridge Online Dictionary) is not a new phenomenon. Economic destabilization which affects the markets has increased in the last decades and this in turn affects the performance of business. Change management can be implemented to counteract this negative development however despite much research in this field the success rates are generally disappointing. One central problem appears to be the management problem or rather managerial behavior. The following article analyzes the relationship economic destabilization and change management and the major managerial problems that are regarded as responsible for change management not fulfilling the anticipated results.

1. Introduction

Destabilization means to make a “situation less strong or safe, by causing changes and problems” (Cambridge Dictionaries Online). Equilibrium has been disturbed and a situation of imbalance exits. Destabilization can be resolved by changing or adapting to the new circumstances and therefore bringing the situation back into a state of balance or stabilization. Destabilization in the business environment can for example stem from external shocks from national or international macroeconomic factors falling into imbalance and affecting the markets. Economic destabilization is a normal phenomenon however its speed, intensity and frequency has increased in recent years due to technological development and globalization and the free flow of goods, labour, capi-

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1 I would like to thank Anand Jayakrishnan, FeiHei and SulanNi for their assistance
tal and information (Christensen and Overdorf, 2000, Miller and Morris 1999, Kotter 2012). If manager do not succeed in restoring a situation of equilibrium in the markets in time the entire future of the business may be in jeopardy. Change management may help the businesses to counteract this increasing destabilization (Kotter, 2012: 22, Little, 2009).

Despite extensive research in the fields of destabilization, particularly with regard to the economic aspects and change management there are still many research questions that remain unanswered and are becoming increasingly acute as the virulent environment takes up in speed and complexity. For example economic destabilization continues to be a major challenge for the business environment as market connectivity and transparency rapidly increase and change managements fail to provide the expected success rate (Christensen & Overdorf, 2000).

The following paper aims to close part of this gap and analyses the relationship between (macro)economic destabilization and change management and the major management behavioural problems that are associated with change management projects. In order to achieve this the terms destabilization and change management are defined and their relationship discussed. The results of change management over the past decades has presented disappointing results, despite extensive research, therefore one of the central challenges – the manager problems – management behavior – is the focus of section 4.

2. **The term destabilization and factors influencing destabilization**

Before we can begin with exploring the relationship between destabilization and change management and the management problems associated with this I would like to define the term destabilization.

According to the Cambridge Online Dictionary destabilization is defined as “a government, or political group losing power or control, or to make a political or economic situation less strong or safe, by causing changes and problems”. Destabilization is therefore an unstable situation or a situation that has been changed resulting in a disturbance in the equilibrium or an unbalanced momentum. This says nothing about the extent of the imbalance – small or major. Furthermore the period of destabilization may be regarded as long-, mid- or short-term.

In the following paper focuses on destabilization in an economic context which is regarded as an external factor because the businesses can not influence these factors directly but have to react by changing or adapting to suit the new situation. Economic destabilization has many different characteristics for example turbulent financial markets, volatile interest rates, stagnant Gross Domestic Product, dramatic inflation or deflation (Keenan, Bixner, Powell, Brooks, 2008). In the following I will analyse the destabilization of two economic factors that have recently affected the markets and their influence on businesses and change management processes.
2.1. Examples of Economic Destabilization

2.1.1. The development of the Deutsche Aktien Index (DAX)

The DAX (German Stock Index) can be used as an indicator for the general state of the German economy, therefore rapid and radical downturns may suggest a phase of economic destabilization. The DAX is a blue chip stock market index composed of 30 major German companies which trade on the Frankfurt Stock Exchange and measures their performance according to order book volume and market capitalization. It is comparable to the FT 30 and the DOW Jones Industrial Average.

Fig. 1. DAX Development (2008-2014)

The graph shows the development of the DAX from 2008 and the dramatic downturn in the capital markets when the Investment Bank Lehman Brothers went into insolvency and the financial crisis was seen to have hit the markets in September 2008. During the following three weeks the DAX fell by 27 percent from 6232 points to 4519 points, for the same period of time the DOW Jones fell by 24 percent from 11,422 points to 8,691 points (Spiegelonline.de 2008). “What started as a banking crisis ended in an implosion of business-to-business confidence across the industries” (Little, A.D. 2009:3) and a brutal downturn.

The international turmoil on the financial markets in 2008 and the impact on the real economy lead to many companies having to rethink their strategies under time pressure, research suggests that this macroeconomic destabilization was not just regarded as”a cyclical downturn by management but rather a fundamental questioning of the way business are run… A mantra of cost cutting change management and risk-manage-
ment programmes swept through the corporate landscape” (Gissler, Kreymborg, Venters: 2009). Companies found themselves in a state of crisis change rather than chosen change (Price & Chahal, 2005).

**Fig. 2.** The impact of the crisis on business

![Diagram showing the impact of the crisis on business](image)

*Source: Global CEO Survey, A.D. Little, 2009: 2*

**Fig. 3.** Degree of future change by industry

![Diagram showing the degree of future change by industry](image)

*Source: Gissler, Kreymborg, Venters, A. D. Little, 2009: 12*
2.1.2. The oil price development

The oil price development is also an important economic factor indicating the state of the economy. Dramatic price changes can lead to instability in the market and businesses having to react quickly to the new situation of instability.

Research undertaken by the IMF concludes that a sharp oil price increase of 20% could lead to the global GDP falling by 0.5–1.5%. Equity prices in rich countries would decline by 3.7% and inflation would be at least half a point higher (Economist, 2014). Oil price increases mean that consumer have less money available for consumption and consequently businesses will be affected. Businesses may react to this situation of destabilization by implementing change management projects, for example experts observed an significant development in the field of managerial accounting and controlling after the first oil crisis in 1973 (Henzler, 1973).

Fig. 4. Oil Price Development in the World Market (1965-2014)

Source: http://www.tecson.de/historische-oelpreise.html, accessed on 01.11

Economic destabilization is not new and has always existed, however many experts with a practical and academic background are of the opinion that the macroeconomic powers and destabilization are becoming more virulent (Kotter, 2012). The speed, intensity and frequency of destabilization has increased in past decades and will continue to do so in the future driven by technological development and globalization.

Burke and Trahant (2000:xi) describe the situation as follows:
“… living through a time of tremendous sea changes…. Globalization, the disruptive influence of new technologies, the emergence of e-business, and growing electronic
connectivity among far-flung financial markets are all accelerating the pace of commerce throughout the world today – in virtually every industry. Add deregulation, political instability, emerging new economic in the Pacific Rim, and an exploding number of new scientific discoveries (many of which lead quickly to new products and commercial applications), and you have a recipe not only for…. “disruptive phase shifts” in how business is conducted.”

3. Change management to counteract destabilization

3.1. Definition change management

As we have previously established destabilization can effect business performance and this development should be counteracted before it affects the performance of the business substantially. In the following we will explore how change management can help close the gap that destabilization has created (Kotter, 2012, Trahant 2010). First the term change management must be defined. Change management can be defined as:

“… effective and efficient significant adaption of the business strategy of the organizational and operational structure of a company as a whole or significant parts of the business. This adaption occurs in response to sudden changes in the business environment or changes in objectives.” (Oltmann, Nemeyer, 2010: 28)

Change management has its academic origins in the field of social sciences (Dicke, 2012: 49) one of the first and leading academics to undertake academic research in this field Kurt Lewin, he explained change management in the 3 stage model as: unfreezing, effecting change and refreezing. One starts with the status quo, moves/changes and continues with a new status quo. In recent years this model has received criticism by those who say there s no “stable equilibrium” and the process is too linear, especially in these turbulent times of destabilization.

Independent of the chosen definition change (management) shows the following basic characteristics:

• “Change works in an interactive system which itself is within a wider environment,

• “Any human system will have a variety of forces at play which can help and/or hinder movement. These forces need to be addressed; and

• The change process is helped through a process of observing or being in the system and exploring what works and what doesn’t. “ (Green, 2007: 5)

However there are different degrees of change, for example drastic versus evolutionary. Balogan and Hailey (2004) have developed four different types according to the nature of the change from the end result (transformation and realignment) which results in fur fundamental types of change:

a) Adaption – is a “non-paradigmatic change implemented slowly through staged initiatives”.

b) Reconstruction – is also a “non-paradigmatic change to realign the way the organization operates, but in a more dramatic and faster manner”
c) Evolution – is a “transformational change implemented gradually through different stages and interrelated initiatives”.

d) Revolution – is “fundamental, transformative change… but it occurs via simultaneous imitative as many fronts, and often in a relative short space of time”

In the course of the last couple of decades different types of change management approaches have developed influenced by the characteristics of the destabilizing factors and the reactions of the market. Figure 5 illustrates this development, it shows approximately the year of development and different types of change management that characterized these periods. A precise chronological order and a clear-cut delineation of the approaches is however only partially possible as the core elements of the change management approaches are developed partly parallel or may overlap and have found their way into different change management concepts. Older models are also not completely replaced by the newer approaches, rather, they exist in theory and practice, both in their original form, and in connection with the elements of the newer approaches. It is therefore not possible to talk about a further development in the systematic and progressive optimization of the models in terms of improved efficiency objective, hence the question mark at the top of the ordinate (Vahs, 2007: 271). However it can be observed that different change management approaches have domineered certain periods of destabilization, the core of the change management approach often being influenced by the root cause of destabilization.

Fig. 5. Change management approaches in the last decades

Source: Own compilation adapted from Vahs, 2012: 271
3.2. Factors initiating change management

Powerful macroeconomic factors are at work resulting in more organizations having to consider change management processes to counteract the effects of destabilization. (Kotter, 2012: 20, Branch, 2002: Burke and Trahant, 2000).

Prior to the 1990’s, when the business environment was less global and the economy was slower moving Ansoff divided the environmental dynamics into different stages (see Fig. 6). Kotter describes business leaders prior to 1990 as being more driven by the motto: “If it ain’t broke, don’t fix it.” (Kotter, 2012: 20).

**Fig. 6. Increasing environmental dynamics (according to Ansoff)**

<table>
<thead>
<tr>
<th>Time Characteristic</th>
<th>1900</th>
<th>1930</th>
<th>1950</th>
<th>1970</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge of event</td>
<td>• known</td>
<td>• extrapolation through experience</td>
<td>• discontinuity, but experiential</td>
<td>• discontinuity and novelty</td>
<td>• slower than business reaction</td>
</tr>
<tr>
<td>Speed of change</td>
<td>• slower than business reaction</td>
<td>• comparable to reaction of businesses</td>
<td>• quicker than reaction in businesses</td>
<td>• periodic return</td>
<td>• prediction through extrapolation</td>
</tr>
<tr>
<td>Predictability of the future</td>
<td>• periodic return</td>
<td>• prediction through extrapolation</td>
<td>• prediction of chances +risks</td>
<td>• partially predictable weak signs</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Horváth, P. 2008: 3*

However in the last decades the complexity of businesses has increased dramatically (Horváth, 2008: 3, Ogilvie and Stork, 2003) since this time change management projects have increased significantly (Kotter, 2012: 21). Branch describes change management as “one of the most widely recognized critical and challenging responsibilities of organizational leadership” (2002: 67). Change management is not an exception but the norm in today’s business environment if companies want to remain competitive (Münstermann, 2011: 4). Businesses are experiencing times of tremendous “sea of changes” (Trahant, 2010: xi). New technology, “the emergence of influence of e-business, growing electronic connectivity among far-flung financial markets, deregulation, political instability, emerging new economies” and new scientific discoveries lead to disruption and destabilization (Trahant, 2010: xi:), Macharzina, (1999: 492) refers to this period as the “age of discontinuity” and divides discontinuity into the following groups:
### Fig. 7. Discontinuity Catalogue

<table>
<thead>
<tr>
<th>Areas</th>
<th>Discontinuity</th>
</tr>
</thead>
</table>
| Political           | German re-unification, fall of Socialism  
Peace negotiations between Israel and Palestine  
Break-up of old co-operations (e.g. Libya/Egypt, Greece/Turkey  
Increasing number of regional wars (e.g. Falkland, Golf War, Yugoslavia, East-Timor)  
Society revolution (e.g. Iran, East Block, Ethiopia, Ruanda)  
National or ideologically motivated expropriation (e.g. Oil companies in the Gulf States)  
The development of the “Green Parties” in Western Europe  
The ratification of the Maastricht Agreement |
| Economic            | Opening of the Eastern European market  
Insolvency of developing countries  
Legal restrictions in the free market (e.g. Japan, import quota)  
Exchange rate changes, |
| Ecology/Energy      | Opening of the Eastern European Market  
Environmental disasters (Bhopal, Sevesco, Tschernobyl)  
Temporary collapse of the Opac-Kartell |
| Technology          | Development of the Pentium processor  
Development of artificial intelligence |
| Cognitive orientation | Change in values in Western European countries  
Increasing fundamentalist movements in the Arabian world |

*Source: Macharinza, 1999: 492*

Kotter (2012: 20) classifies the destabilizing factors into the following groups: “technological change, international economic integration (less tariffs, free floating currencies, increased international capital flows), maturation of markets in developed countries (sluggish domestic growth, increased exports and deregulation) and the fall of communist and socialist regimes (increase in capitalism and private ownership).”

In the past couple of decade’s globalization and technological development and the free flow of goods, capital, labour and information have increased destabilization, influencing businesses and managerial behaviour. It does not look like this is going to change in the future (Kotter, 20012: 20, Burke and Trahant, 2000, Forster and Kaplan, 2001, Gladwell, 2000).
3.3. The success of change management

In 1994 Kotter’s seminal paper concluded that only 30 percent of change programmes were successful (Kotter, 1994:1). Much research on the question of change management followed as the management tool became increasing important in the destabilized business environment however despite receiving a substantial amount of attention the success rates of change management projects has not increased as one would have expected it to, on the contrary, some research suggests that the success rate may have even decreased in the course of time. Miller (2002: 359) “reported that 70 percent of change programs fail”, Higgs and Rowland (2005: 121) reported that “Only one in four or five change programs actually succeed”. Could this low success rate despite extensive research be related to the increasing complexity of external environmental factors and increasing destabilization?

4. Management challenges for change management and the consequences for destabilization

The abundance of literature published in recent years on change management suggests that there are many reasons for change management failures. In the following I would like to focus on one area that has been the centre of research for many years now, the role of the managers and the major behavioural problems they encounter when...
undertaking change management projects (Beer and Nohria, 2000; Caldwell, 1994; Kotter & Heskett, 1992).

4.1. The motivation for change – sensitivity

Most managers are aware of the importance of communication in change management projects and are generally very conscientious in planning and executing their communication strategy however research has shown that although communication is certainly important for the success of change management projects, it is also important what is being communicated. Many managers leading change management projects often communicate their change projects using powerful company and shareholder orientated adjectives such as creating a competitive advantage, customer needs, cost reduction, profitability, business ratios and shareholder value (Keller & Aiken, 2009: 1). However, research suggests that only approx. 20 percent of the employees are motivated to change by statements that focus on the company or shareholders. Leading academics from the social sciences (Zohar, 1997, Beck & Cowen, 2000, Barrett, 1998) argue that there are at least four other forms of meaning and motivation that can be addressed for the employees, these are as follows:

- Influence on society (e.g. making society better)
- Building the community (e.g. stewarding resources)
- Impact on the customer (e.g. better service, better product quality)
- Impact on the working team (e.g. creating a team spirit, caring environment, working together constructively)

The success rate of change management projects can be effectively improved if managers communicate messages that consider all of these 5 factors. Research has shown that all 5 aspects should be taken into consideration as there is apparently no “preferred” motivator of the five but rather results show that there is a consistent 20 percent even split for all dimensions.

4.2. Employee involvement and active listening

Managers should not only consider the motivational aspects of their employees when communicating their change management programmes but also spend more time actively listening and reflecting upon what their employees are saying. Research (Shaw, 2005: 27) has shown that “when we choose for ourselves, we are much more committed to outcome, by a factor of approximately five to one”, thus a sense of “ownership or “self responsibility” increases the motivation and consequently the chances of change management projects being successful, Shaw (2005) sees it as” translating employee potential into employee performance and business success”. However many managers driven by the motto “time is money” regard this idea of letting the employees decided for themselves as too time consuming and resort to the easier but less effective method of telling their employees what to do. Although employee involvement is more demanding than leaders telling their employees what to do, the traditional top-down leader-
ship approach, there are different degrees of employee involvement that may be taken into consideration. The appropriate type of employee involvement is dependent on the scope of the change management programme. Some change management projects may for example involve such fundamental change that all employees should be involved—a “full-scope democracy” is best suited, however, others projects may be better suited for a “representational democracy” for example in change management in specialized areas where specialist knowledge is essential.

4.3. An authentic role model

Probably nearly all managers agree with Ghandi’s famous aphorism: “Be the change you want to see in the world” however many change management projects fail because the manager who is expected to be the role model in this process is not behaving like a genuine role model. This generally starts with the problem that many executives do not see themselves as “part of the problem” and therefore do not see the necessity in having to change their behavior. For example the CEO’s of many companies introduced urgent and drastic cost cutting programmes shortly after the financial crisis 2008 (see section 2.1.1). A long list of tough and cost saving measure were immediately put into effect for example rationalizing operations, cutting overhead costs, the postponement of capital expenditure etc. However some less sensible measures were also explicitly listed in the cost cutting measures for employees for example no biscuits for employees at meetings and prohibiting employees to re-charging their mobile phones in the office. Yet, at the same time, senior executives continued to spend large amounts of corporate money on luxury items and activities for example expensive und non-essential (business) trips, building lavish administrative buildings and up-holding non-essential privileges such as expensive cars, corporate aircrafts, houses and free-time activities. Top executives, especially in blue chip company’s should remember that they are exposed to public scrutiny and a critical society in which envy and jealously may be strong (Scott, 2008: 173). Managers are expected to act ethically all the times and not only when they think they are being watched. Employees do not expect them to be “super humans” but to demonstrate genuine behaviour and “practice what they preach”.

Managerial behavior is important for the success of change management projects. Managers should be reflective open, empathetic and self-critical. Managers should be able to communicate effectively and understand what the employees want to hear so that they can unleash the power to change and motivate their employees to participate in the change management process. Managers are also expected to be genuine role models showing authentic ethical behavior all the time and not only when they think they are being watched. The pressure to act accordingly is becoming increasingly important as the usage of technology makes participants more transparent and critics more verbal. Managers should live by Gandhi’s prerogative and “be the change they
want to see” if they want to achieve that change management works and counteracts destabilization.

As the virulence of destabilization has increased in recent years the profile of managers has changed. Managers are no-longer in the classical principal-agent role acting as stewards but are expected to be innovative and forward looking, integrated in the business and aware of the external macroeconomic factors at work and able to work with them. They must communicate, listen and involve the employees showing empathy, authenticity and acting as motivators without undermining their leadership authority. Managers must develop and enhance these skills throughout their careers – lifetime learning is key factor to success.

5. Conclusion

Economic destabilization has increased on a global scale in the past decades driven by the free flow of capital, labour, goods and technology. The speed, intensity and frequency have exposed business to a tremendous “see of change” (Burke & Trahant: 2000), for example the Financial Crisis in 2008 which affected the markets nationally and internationally and took the business world by surprise. Economic destabilization will continue in the future and we can only predict the dimensions. In the past managers have frequently implemented change management projects to counteract destabilization, however the practical results of these programmes have generally been disappointing. Many problems related to the success of change management programmes have been seen to have their origins in managerial behavior. As Kotter (2012) wrote the impact of destabilization requires a new type of manager with different qualities to their predecessors. The “age of destabilization” no-longer requires stewards but innovative, empathic, integral managers who are authentic and willing to change themselves! The era of destabilization requires managers to be life time learners.

These essential management qualities should be developed as early as possible continuously trained and enhanced. Universities and Institutes of Higher Education are the appropriate place where these skills can be developed equipping managers with the necessary skills for the new management challenges in a world of destabilization. Training should however not be limited to business students but available or better still compulsory for all academics, especially at a Masters level where we are educating for senior positions. Training should continue regularly throughout the career of the individual and here too the Universities can offer an excellent platform. Life time learning is essential in a dynamic world characterized by destabilization.

A regular dialogue between Universities and Institutes of Higher Education and managers discussing the challenges of destabilization in a global business environment are strongly recommended as they can actively support the development of these essential skills and might also help to improve the success rates of change management programmes used to counteract destabilization.
References
Cornelia Scott was born in Oxford, Great Britain in 1969 and studies Business Studies at the Heinrich Heine University, Düsseldorf from 1989 – 1994 majoring in International Management and Accounting and Taxation. After completing her Diplom-Kauffrau she went onto to work for PricewaterhouseCoopers in Düsseldorf, Germany and Zürich Switzerland in the area of International Accounting and Auditing. During this time she had numerous publications in this area of management and accounting including her first book – Due Diligence in der Praxis, Gabler Verlag. In 2002 she was appointed Professor for International Management and International Finance at the University of Applied Sciences Anhalt and parallel to this joined the joint PhD Programme between the Fachhochschule Münster and the University of Economics, Cracow which she completed successfully in 2008. Since then Prof. Scott has organized the International Project Week with International Master Students from the Hochschule Anhalt together with Dr. Lyszczarz on an annual basis.
The survey on the Polish corporate auditors’ procedures and the most commonly detected irregularities as measures of preventing creative accounting

The purpose of the paper was to investigate the effectiveness of external corporate auditors in detecting creative accounting in Poland. According to the survey results, auditors regularly identified such practices and introduced appropriate adjustments to the financial statements.

1. Forms of Financial Statements’ Manipulation
   According to the Polish Accounting Law (Ustawa o Rachunkowości) and the Polish National Council of Statutory Auditors Standard no 1, the financial statement should give a true and fair view of the actual financial position and earnings of the company. The management of a company carries legal responsibility for preparing financial statements according to all accounting regulations (Strupczewski 2013). Despite the clearly defined guideline and many specific financial reporting rules, financial statements are still prone to a certain amount of error and manipulation.

2. Previous Research on Reasons of Financial Statements’ Manipulation
   In many cases financial statement’s irregularities are simply caused by errors and wrong interpretation of the accounting policy and regulations. Sometimes, however, irregularities seem to be caused by intentional manipulation.

   All forms of financial statements manipulation can be (from the theoretical point of view) brought down to the informational perspective (Schipper, 1989), and explained as the management exploitation of their privileged position for private gain; the management refrains stakeholders from receiving useful signals to avoid their reaction (Oriol, Gowthorpe, 2004). Due to informational asymmetry, but also insufficient skills and
unwillingness to engage in detailed analysis investors usually are unable to discover financial manipulation (Breton and Taffler, 1995, Healy and Wahlen, 1999).

There are many management’s motivations of concealing the truth from the investors. Hepworth (1953) mentions the tax levies based on income and the investors’ expectations of stable earnings, Healy and Wahlen (1999) and Beidleman (1973) add to the list: share valuation premium if a company maintains stable earnings, better perception of a company with stable earnings which is especially important before significant capital market transactions, and willingness to close the gap (if it exists) between the company’s performance and analysts’ expectations. Fox (1997) extends the list of motivators by adding to it: willingness to match reported earnings to profit forecasts, and necessity to retain enough of liquidity and profits to pay for future customer support costs and upgrades. Collingwood (1991) adds the distraction factor: changes in accounting policy improving its earnings reports can distract the market’s attention from the company losing its leading market position. Another important reason is added by Healy (1985), which is the management’s compensation linked to the company’s performance. According to Oriol and Gowthorpe (2004) another reason of creative accounting is insider trading which requires the postponement of bad news and the cost of capital, which is lower when a company seems to be less risky. Finally, there may be contractual obligations and constraints based on the financial performance of a firm.

3. **External Auditors role in preventing Financial Manipulation**

An obvious antidote against errors and financial manipulation is the external audit. Without question, auditors can identify and correct unintentional errors and misinterpretation of accounting rules. The question is whether financial auditors can detect financial manipulation in audited companies and how common these manipulations are. The following results present the answers provided by the Polish senior corporate auditors describing frequency with which they encountered selected manipulation techniques. Research was carried on 15 certified Polish financial auditors who agreed to fill-in the questionnaire. Presented answers to the selected questions concern direct testing and detecting errors and illegal activities of the companies.

**Table 1.** Of the last 10 auditor’s opinions you prepared, how many of them were:

<table>
<thead>
<tr>
<th>Itemized</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<th>12</th>
<th>13</th>
<th>14</th>
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<tbody>
<tr>
<td>unqualified opinion</td>
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<td>7</td>
<td>10</td>
<td>9</td>
<td>3</td>
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<tr>
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*Source: own data.*
In the first question, the auditors reported how many of their last 10 opinions were qualified or adverse. Based on the provided answers, almost 10% of audit reports were qualified and 1% were adverse. This demonstrated an important role of external auditors in detecting errors and manipulation techniques and gives some view on the commonness of such problems in Poland. The next set of questions was to reveal areas that are tested by corporate auditors in Poland. Auditors were asked about reviewing the companies’ accounting policy, document workflows, IT systems, efficiency of the internal audit systems, checking for red flags, managerial plans for the future, and procedures of dealing with the post-balance sheet events.

Table 2. Do you control the company’s accounting policy?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, always</td>
<td>15</td>
</tr>
<tr>
<td>Yes, but only when there are reasons to do so</td>
<td>0</td>
</tr>
<tr>
<td>Rather no</td>
<td>0</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: own data.

Table 3. Do you control the company’s document circulation scheme/document workflow?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, always</td>
<td>15</td>
</tr>
<tr>
<td>Yes, but only when there are reasons to do so</td>
<td>0</td>
</tr>
<tr>
<td>Rather no</td>
<td>0</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: own data.

Table 4. Do you control the company’s IT system?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, always</td>
<td>15</td>
</tr>
<tr>
<td>Yes, but only when there are reasons to do so</td>
<td>0</td>
</tr>
<tr>
<td>Rather no</td>
<td>0</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: own data.
Table 5. What do you test during the internal control system audit

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>The extent to which the external auditor can use the internal auditor's findings in his/her job</td>
<td>6</td>
</tr>
<tr>
<td>Whether there is a proper (correct) division of duties between employees</td>
<td>14</td>
</tr>
<tr>
<td>The level of subjectivity in the internal auditor judgement (of internal audit control findings)</td>
<td>8</td>
</tr>
<tr>
<td>Reliability of the internal audit system findings</td>
<td>9</td>
</tr>
<tr>
<td>The ability to effectively communicate with the internal auditor</td>
<td>2</td>
</tr>
</tbody>
</table>

*Source: own data.*

Table 6. Do you check for the red flags during the audit?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, always</td>
<td>11</td>
</tr>
<tr>
<td>Sometimes</td>
<td>4</td>
</tr>
<tr>
<td>Rarely</td>
<td>0</td>
</tr>
<tr>
<td>No, never</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: own data.*

Table 7. Do you make yourself acquainted with the audited company’s management plans for the future that are going to influence the financial situation of this company?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, always</td>
<td>9</td>
</tr>
<tr>
<td>Sometimes</td>
<td>6</td>
</tr>
<tr>
<td>Rarely</td>
<td>0</td>
</tr>
<tr>
<td>No, never</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: own data.*

Table 8. Do you make yourself acquainted with the procedures established by the managers to make sure that material post-balance sheet events are properly revealed

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, always</td>
<td>15</td>
</tr>
<tr>
<td>Sometimes</td>
<td>0</td>
</tr>
<tr>
<td>Rarely</td>
<td>0</td>
</tr>
<tr>
<td>No, never</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: own data.*
According to the auditors’ answers, all of the surveyed auditors investigated the company’s accounting policy, document workflows, and the audited company’s IT systems. Almost 40% of auditors test the entire internal control systems to back up their opinion about the company, 93% test whether there is a correct division of duties between employees, 53% test the level of subjectivity of internal auditor’s reports, 60% tests the reliability of the internal audit findings and 13% test the ability of efficient communication with the internal auditor. Around 60% of auditors always test for red flags, 40% of auditors do it occasionally. All auditors make themselves acquainted with the post-balance sheet events accounting procedures.

The purpose of the next question was to determine what type of irregularities were the most commonly discovered during the audit. According to the answers provided by the respondents, the majority of auditors believed that the most common problem they discover are embezzlements (67%). Some (33%) pointed out that the corruption was the most commonly discovered irregularity. No respondent pointed out fraudulent financial reporting as the most common problem during audit.

**Table 9.** Which irregularities do you find the most often during audit?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embezzlement</td>
<td>10</td>
</tr>
<tr>
<td>Corruption</td>
<td>5</td>
</tr>
<tr>
<td>Fraudulent financial reporting</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: own data.*

According to additional annotations provided by the respondents, the most common forms of embezzlement included: theft and all other reasons of asset deficiency that were discovered during stocktaking (stock check). The most common type of corruption was the conflict of interest and bribery to win the public biddings (bid offerings).

**Table 10.** While working as an auditor, were you testifying as a witness in the economic offense/crime trial?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>0</td>
</tr>
<tr>
<td>No</td>
<td>15</td>
</tr>
</tbody>
</table>

*Source: own data.*

According to the answers to the next question, none of the surveyed auditors ever testified as a witness in trials, which suggests they did not report their findings to the police.
After general questions about the commonness of irregularities during audit, the next set of questions focused on financial manipulations. Respondents were asked about falsifying accounting records, inaccurate postings, abuse of accounting policies, inside-holding manipulative transactions, inappropriate valuation, inappropriate recognition of revenues and expenses, inappropriate posting of derivative instruments and theft of inventories.

Table 11. How often do you find manipulation, falsifying financial documentation (accounting records)?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very often</td>
<td>5</td>
</tr>
<tr>
<td>Often</td>
<td>1</td>
</tr>
<tr>
<td>Rarely</td>
<td>5</td>
</tr>
<tr>
<td>Never</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: own data.

Table 12. How often do you encounter incorrect or inaccurate posting of transactions or conscious omitting them?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very often</td>
<td>3</td>
</tr>
<tr>
<td>Often</td>
<td>4</td>
</tr>
<tr>
<td>Rarely</td>
<td>8</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: own data.

Table 13. How often companies that are the members of the holding use transactions with affiliates to improve their financial situation or the image of it (for the purposes known only to their managers).

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very often</td>
<td>12</td>
</tr>
<tr>
<td>Often</td>
<td>0</td>
</tr>
<tr>
<td>Rarely</td>
<td>1</td>
</tr>
<tr>
<td>Never</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: own data.
Table 14. How often the reason for audit adjustments is inappropriate valuation of assets?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very often</td>
<td>8</td>
</tr>
<tr>
<td>Often</td>
<td>4</td>
</tr>
<tr>
<td>Rarely</td>
<td>3</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: own data.

Table 15. How often the reason for audit adjustments is inappropriate recognition of revenues and expenses (costs)?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very often</td>
<td>2</td>
</tr>
<tr>
<td>Often</td>
<td>5</td>
</tr>
<tr>
<td>Rarely</td>
<td>8</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: own data.

Table 16. How often the reason for audit adjustments is the inappropriate recognition of derivative instruments?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very often</td>
<td>12</td>
</tr>
<tr>
<td>Often</td>
<td>2</td>
</tr>
<tr>
<td>Rarely</td>
<td>0</td>
</tr>
<tr>
<td>Never</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: own data.

Table 17. How often during the inventory control you detect property theft?

<table>
<thead>
<tr>
<th>Itemized</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very often</td>
<td>11</td>
</tr>
<tr>
<td>Often</td>
<td>3</td>
</tr>
<tr>
<td>Rarely</td>
<td>1</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: own data.
According to the submitted answers, respondents were divided as to the opinion, how often one discovers manipulation and falsifying of financial documentation during audit. 33% of respondents believe such problems are very common, another 33% believe that it happens rarely. Only 6% answered that such cases are common, 26% never discovered such irregularities during audit.

Much more compatible were the answers about prevalence of incorrect postings. All respondents encounter it, but depending of the person some consider them to be very common (20%), some to be common (27%) and most respondents believe that they happen occasionally (53%).

In the respondents’ opinion, very common are transactions with affiliates or other units inside the holding group, aimed to modify the picture of the financial situation of the audited company. 80% of respondents believe that such transactions are very common. Surprisingly, at the same time respondents believed that conscious misappropriation of the accounting policy is rare (60%) or never happens (40%).

Inappropriate valuation of assets is another common audit problem – 53% of auditors answered that it is very common, 26% that it happens often, only 20% rarely discover inappropriate asset valuation.

Much rarer is inappropriate recognition of revenues and expenditures – 13% of respondents believe it is very common, 33% that it is common, 53% that they encounter it rarely. Very often inappropriate recognition of revenues or expenditures is connected with derivative instruments – 80% of respondents very often corrected posting transactions on these instruments. Only 6% of respondents never encountered problems with the derivatives. Finally, 73% of auditors formed an opinion that it is very common to find out during the inventory control that they were stolen.

From additional comments provided by the respondents, it seems that very often auditors have to deal with payments of private expenses with a company’s money and claiming them as the company’s tax deductible expenses. Auditors mentioned also that stolen money or property is mostly used by employees to set up their own businesses, that directly compete with their employer (they offer the same services). In the publicly traded companies the biggest problem respondents observed was the incompetence and the lack of knowledge how to account for complicated derivatives. Many companies carried out manipulative transactions between affiliates within the same holding group (to improve liquidity to be granted a bank loan).

4. Summary and conclusions

Presented survey results suggest quite an important role of external auditors in detecting irregularities in financial statements. Most of the respondents encountered many different problems in audited companies and set their records straight.

Respondents quite regularly detected all sorts of accounting mistakes, which included valuation problems, wrong postings, problems with the recognition of revenues and expenditures. Auditors’ regularly detected such practices as: embezzlements, cor-
ruption, manipulation and falsifying of financial documentation, inter-holding transactions aimed to improve financial statements, inappropriate valuation of assets, inappropriate recognition of revenues, expenses, derivative instruments, theft.

Audit procedures always included learning the company’s accounting policy, document workflow, the control of the IT systems and post-balance-sheet date events procedures. Not always did corporate auditors test internal control systems (if they did, they mostly analyzed internal control reports), or checked for red flags. Around 60% of respondents made themselves acquainted with the management plans for the future (it is reasonable to assume that for the rest of the audited companies the plans might have not existed).

References

Short bio of author

Dr Joanna Wyrobek, adjunct, works in the Department of Corporate Finance at the Cracow University of Economics. Her major interests are: the application of econometric methods in finance, corporate finance, financial management and programming.
Why enterprises buy insurance? Theoretical aspects of corporate demand for property insurance

In the event of large corporations, aversion towards risk among investors becomes an insufficient explanation for motives of purchasing property insurance. The classic theory of capital markets does not give sufficient reasons as well. However, in reality enterprises significantly insure their property risks. Thus, there is a need to explain the motives that affect the decisions of enterprises about insurance. Insurance literature provides such motives for purchasing insurance by enterprises as: aversion towards risk of stakeholders of the company, increase in goodwill, theory of agency costs, access to insurance-related services, asymmetry of information, sectoral regulations or stabilization the conditions of operation. Insurance policy may be the best way to minimize transaction costs related to the application of different solutions after occurrence of property damage (reference is made here, among others, to such costs as risk portfolio management, the feasibility of compensation in the event of damage, damage liquidation costs, risk estimation in the company).

1. Introduction

Aversion towards risk, described by the expected utility hypothesis, determines the demand for insurance in the case of individuals and small enterprises. In the event of large corporations, aversion towards risk among investors becomes an insufficient explanation for motives of purchasing property insurance (Main 1983, MacMinn 1987, Mayers and Smith 1990).

In the light of the classic theory of capital markets (CAPM), risk is divided into systematic and specific risk (Wyrobek 2006). The latter covers risks that are characteris-
tic for a particular company and take place only within it (e.g. fire, machine breakdown, civil liability for a product). Systematic risk applies, in turn, to a smaller or larger extent, to all market players (e.g. inflation, foreign exchange rate, interest rates). Insurance may reduce exchange rate fluctuations of the shares of the insured company, however – as proven by Grillet (1992) – it is not reflected in the growth in goodwill. Benefits from insurance are also not felt by shareholders, as they may secure themselves against the negative effects of unforeseeable events by way of diversification of the asset portfolio (Yamori 1999, p. 239). Purchase of insurance, understood as a tool for dispersion of risk between all the insured, is a substitute solution from the point of view of the shareholders. Both solutions lead to reduction in the variability of the company’s performance (Zweifel and Eisen 2012, p. 139).

Despite the aforementioned arguments, in reality, enterprises significantly insure their property risks (Strupczewski 2014). Thus, there is a need to explain the motives that affect the decisions of enterprises about insurance.

Most theoretical works, fundamental for the issues discussed here, were published in the 1980s and the 1990s. However, there is a dramatic lack of empirical studies resulting from difficulties in obtaining the data. Some studies are based on small and non-representative samples of enterprises from such countries as: USA, Canada, UK, Germany, Japan, South Korea, China.

The paper is of a theoretical-compilation nature. Its goal is collecting and synthesising the current achievements of science in the scope of motives of purchasing insurance coverage against property risks by enterprises. This study will become the basis for empirical research on a representative sample of Polish companies.

2. Motives of enterprises’ demand for insurance

An in-depth analysis of world literature in the field of enterprises’ demand for property insurance resulted in formulation of the following catalogue of major purchase motives (see Fig. 1):
1. Aversion of stakeholders towards risk
2. Growth in goodwill
3. Agency costs
4. Protection of company liquidity and stability of revenues
5. Asymmetry of information
6. Insurance-related services
7. Financial leverage
8. Sectoral regulations
2.1. Aversion of stakeholders towards risk

Although aversion towards risk is not the main reason for enterprises to purchase insurance (which has been explained in the introduction), in the opinion of many authors (Mayers and Smith 1990, Grillet 1992, Doherty 2000) this motive still remains noticeable in activities of various stakeholders of an enterprise, such as: owners, management staff, employees, business partners, banks. It consists in the tendency of these stakeholders to pay the amount exceeding the expected losses (insurance premium) in order to change the risk into the state of confidence. Company shareholders, able to eliminate the unsystematic risk at a lower cost, maintaining a diversified asset portfolio, remain in a privileged position. For this reason, the final force of impact of this factor will depend on ownership structure of a given enterprise, as well as the strength and the nature of contractual relations between the company and its stakeholders.

2.1.1. Enterprise owners

Enterprises with concentrated ownership structure have greater demand for insurance than corporations with dispersed shareholders’ structure, which may be explained – like in the case of individuals – by aversion towards risk among owners directly involved in management. A company with hardly diverse shareholders’ structure will have a greater demand, as shareholders have smaller opportunity for diversification of specific risk of the company with other assets (Main 1982, Mayers and Smith 1990). Insurances give the owners of companies with uniform shareholders’ structure an op-
portunity for specialization in retention of a certain types of risks, which leads to achieving competitive advantage.

2.1.2. Management staff
Han examined the role of insurance as an effective method of transferring non-diversified risk of human capital at various forms of managers’ remuneration. It turned out that the form of managers’ remuneration affects their tendency to take risk: the more the remuneration depends on the company, the smaller the propensity to sustain risk is (Han 1996, p. 382).

The purchase of insurance is thus affected by aversion towards risk in the management staff, interested in stabilization of results of the company and own remuneration. Excessively cautious behaviour of the management staff can result from the applied commission remuneration system.

The demand for insurance will be greater, if even a small percentage of remuneration of board members has the form of cash bonuses, such as awards for results or share options. If the commission-based system of managers has characteristics similar to the options, the expected payment will be reduced by the insurance, as insurance reduces the variability of cash flows (Smith 1986).

Companies may purchase insurance in response to expectations of managers who strive to increase the security of their workplace and amount of remuneration (even independently of whether it is dependent on in company's performance). For managers, insurance is an additional incentive to work (Han 1996, p. 396).

Hoyt and Khang (2000, p. 92), examining differences in demand for insurance of owners and managers stated that their source are various risk preferences. Managers having shares of their employer are interested in stability of its financial standing which can be provided by insurance. On the other hand, managers having shares can make their preferences similar to those of other shareholders, which means lower demand for insurance. The final effect is difficult to predict and will depend on the size of the company, i.e. the smaller the company, at significant shares of the manager shares, the greater the demand for insurance.

Other research showed excessive tendency of people responsible for risk management in the company to purchase insurance, which resulted from willingness to avoid possible liability for insufficient insurance of the company against potential risks (Borkan & Kunreuther 1979).

2.1.3. Employees
Aversion towards risk of employees may be demonstrated in two aspects. On the one hand, the concern for survival of the company after occurrence of an insurance accident and care for safety of employment are reflected in the possibility to put pressure on purchase of insurance by the company. On the other hand, employees of the company who have its shares, have smaller possibility of diversification of portfolio risk, and
consequently will be more interested in maintenance of their employer in a good financial state, which, in turn, can be achieved, among others, thanks to an insurance policy (Main 1982, p. 12).

2.1.4. Others stakeholder (suppliers, recipients, banks)

Contractors of the company (suppliers, recipients, banks) may require possession of insurance (insurance obligation) to secure their business interests and possibility of an effective pursuit of compensation claims. Proceedings marked by unwillingness towards risk is shown also by holders of corporate bonds of an enterprise, who can expect lower risk bonus, if the company—the issuer has insurance of its property, which will better secure the interests of bondholders (Main 1982, p. 12).

2.2. Growth in goodwill

Insurance might raise goodwill understood as the value of expected future cash flows by:

- reduction the expected bankruptcy costs or sudden financial disturbances (reduction in transaction costs),
- reduction in tax liabilities (tax benefits).

2.2.1. Reduction in bankruptcy costs and sudden financial disturbances

The high level of transaction costs related to bankruptcy may encourage companies to insurance. In the light of modern finance theory the lack of insurance and exposure of the company to significant fortuitous losses is not in the interest of shareholders and creditors, though in many cases the interests of these two groups of stakeholders are contradictory. Fortuitous damage may deteriorate financial situation to such an extent to increase the cost of external capital, increase the risk bonus required by investors, and in an extreme case – cause extra costs related to bankruptcy of the company (Main 1982, p. 11).

Costs of company bankruptcy can be divided into direct and indirect costs. Direct costs are of settlement or bankruptcy procedure. Indirect costs are loss of market share, reputation, credibility (Mayers and Smith 1990).

The existence of bankruptcy costs results from the fact of the enterprise having such assets as patents and specialized know-how whose sale price would be significantly lower than the value they present for the company. Shareholders, as owners of such assets, have no possibility to diversify the associated risk. In addition, occupying the last position in line of creditors towards a bankrupt company, they will be interested in purchase of insurance securing their potential claims and property. Concluded business contracts, a valuable team of employees, additionally increase the bankruptcy costs (Zweifel and Eisen 2012, p. 147).

According to Mayers and Smith (1990), direct bankruptcy costs are less than proportional in relation to the size of the company, which means that relatively, for a small
company, the bankruptcy cost is higher than for a large one (company size was measured by market capitalization, sales value along with operating costs). For this reason, small companies will be more willing to purchase insurance. A small company also has lower chances of risk diversification. On the other hand, O’Sullivan (1997) demonstrated that a company size is positively correlated with demand for D&O civil liability insurance, because in a larger enterprise, it is harder to encounter strict close of the board of directors by stakeholders and this control role is assumed by the insurer. Independence of demand for insurance and bankruptcy costs was empirically confirmed by Hoyt and Khang (2000).

Notwithstanding the size of conducted activity, companies with lower liquidity and greater level of indebtedness (generally, greater bankruptcy risk) will be report greater demand for insurance. It results from smaller capacity to finance damage on own share from current funds or loan (Strupczewski 2013).

There is no agreement as to whether purchase of insurance is a cause or a consequence of lower bankruptcy risk. Mayers and Smith (1982) believe that insurance reduces costs of bankruptcy or serious financial problems. Similar conclusions on the grounds of a theoretical model were drawn by MacMinn (1987). On the other hand – which is surprising – Ashby and Diacon (1998) notice that companies in highly competitive industries (where bankruptcy risk is higher) are less willing to purchase insurance.

Tendency to purchase insurance will be greater, depending on the spatial concentration of assets within the company’s premises. A serious problem is also disorder in the functioning of the company caused by fortuitous damage (e.g. fire). Then, there will be an increase in demand for cash which may not be enough for financing provision of activity continuation (e.g. rental of substitute buildings), in this situation insurance may even prevent bankruptcy (Zweifel and Eisen 2012, p. 142).

A company which experienced serious losses will not be able to acquire additional capital on financial markets, and even if it is – the cost of such capital is high, and possession of insurance may considerably improve the situation of the company.

2.2.2. Tax benefits

Considering only the motive of avoiding bankruptcy costs and financial distress, companies would insure only large risks exceeding the specified, considerable level of damage. Meanwhile, many companies also have protection against the effects of small damage. This can be explained by tax benefits (Main 1982, p. 13). An insurance premium, being tax expense of the company, reduces the basis for taxation. It is done at the time of paying the premium.

Tax shield cannot be used by forming financial provisions for self-insurance. At self-insurance, benefit appears only in the event of damage and is limited to the book value of the lost object. Consequently, Main demonstrated that the larger the difference between the book value of assets and the cost of restoration, the greater the demand
for insurance (Main 1983). Property damage also reduces the tax basis, and significant
damage and the resulting negative financial result can be deducted from tax for sev-
eral years. In view of this Main (1982) proves that tax benefits from insurance are, for
a company, similar as in case of self-insurance (assuming that the company pays only
a premium for the risk alone, without surcharges).

Tax system may provide companies with an incentive to purchase insurance, which
results from convexity of the function of the tax amount. Additional demand is gener-
ated by progressive scale of CIT/PIT in connection with the fact that insurance reduces
the variability of the company’s revenue, which, in turn, reduces tax encumbrances and
increases the expected cash flows. Demand will be higher in companies where the ex-
pected taxable income is closer to the convexity point on the curve (Mayers and Smith
1990). An equally strong motive for purchasing a policy is reduction in variability of
taxable income (Smith 1986).

2.3. Theory of agency costs

Smith (1986) ordered application of the theory of agency in the analysis of enter-
prises’ demand for insurance, and a year later, MacMinn (1987) proved in his studies
the thesis that insurance is purchased to reduce the agency costs.

The theory of agency formulated by Jensen and Meckling (1976) examines con-
tractual relations between company stakeholders. Company shareholders engage an ex-
ternal manager (the so-called agent), transferring to him/her, by way of a contract, cer-
tain decision-making rights. The management staff using specialized skills and better
access to information may, in the first place, pursue their own goals, not taking due care
of the interests of the owners. By making risky decisions they, to a greater extent, take
account of risks which may endanger their own assets, which depend on good results of
their company employing them. Agency costs include costs of formulation, administra-
tion and enforcement of contracts (e.g. costs of monitoring, supervision). In addition,
account is taken of the losses related to the cost of alternative decisions made by the
agent, which can differ from decisions which could be made by the owners. The identi-
fied groups of agency costs also include the cost of moral gambling, transaction costs
and information costs (Smith 1986, p. 698). A solution to the agent–principal problem
may be a properly constructed system of remuneration for managers or exercising con-
trol over management by shareholders. In the area of risk management, a situation may
occur in which the board of directors, securing the company and their property against
fortuitous damage, shall aim at the purchase of the broadest insurance coverage, expos-
ing shareholders to excessive costs (Zweifel and Eisen 2012, p. 146).

Monitoring performed by the insurance company during conclusion and perfor-
mane of an insurance contract can help check whether one group of stakeholders does
not undertake activities to the detriment of another group in such areas as (Ashby and
Diacon 1998, p. 36):
• excessive concentration of activities of managers on the short-term perspective,
undertaking actions too risky, with damage to the creditors or banks\(^1\),
under-investment problem (discussed below),
insufficient monitoring in the scope of safety standards and occupational health,
restriction of external effects towards employees, natural environment and third parties (e.g. by means of compulsory insurance).

It is worth pointing out that views on the role of the agency costs theory in explaining enterprises’ demand for insurance are not consistent. De Alessi (1987) is of the opinion that the theory of agency does not explain the insurance demand. On a competitive market, possibilities of imperfect action of managers are limited by corporate supervision, the primacy of efficiency. In addition, purchase of insurance does not significantly affect the expected profits and goodwill, and thus is not in conflict with the interests of shareholders.

In particular, discussion should cover the so-called under-investment problem.
The under-investment problem draws attention to the existence of contradictory interests of owners and creditors of an enterprise, which can lead to omission of profitable investments, if their benefits would reach creditors, and not the owners (Myers 1977). Insurance reduces this problem and therefore, the under-investment problem may be one of the determinants for purchasing insurance (MacMinn 1987).

Empirical research demonstrated that the tendency to insurance will be higher in the companies with higher share of debt capital in the structure of funding (Mayers and Smith 1990).

2.4. Protection of company liquidity and stability of revenues

Doherty (2000) assumes that the main risk of the company resulting from property damage is loss of liquidity, which means the need for sale of most liquid assets at an underestimated price. If a company is not capable of obtaining a short-term capital necessary to repair damage, it is exposed to the bankruptcy risk. There are many possible sources of obtaining short-term capital which may be used by companies searching for possible coverage of indirect and direct damage. They can turn to financial provisions or increase their indebtedness on the market (self-insurance). They can also purchase insurance as a method of financing fortuitous damage ex-ante (Michel-Kerjan, Raschky and Kunreuther 2013, p. 2).

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\(^1\) The action resembles a purchase option. Its holder cannot lose more than the purchase price of shares, while profits from the growth in the share price are unlimited. This means conflict of interests between shareholders and creditors of the company (banks, buyers of bonds, etc.) who do not participate in profits, but risk loss of loaned capital. Profitable, but also risky projects lie thus only in the interest of shareholders, therefore, the conditions of loans and credits are often related also to the requirement of buying various kinds of insurance (Zweifel and Eisen 2012, p. 142).
Main (1983a) came to a conclusion that protection of company liquidity and revenue stability is the most important motive for purchasing insurance coverage by enterprises.

2.5. Asymmetry of information
The existence of asymmetry of information concerning knowledge about risk between an enterprise and financial markets can make the market perceive insurance as a positive signal proving credibility of the company and its security (Main 1982). Purchase of an insurance policy may be thus dictated by the willingness to manifest good company management and to increase, in this way, competitive advantage (Grace and Rebello 1993).

2.6. Insurance-related services
Another motive are the benefits arising from the insurer providing a number of services accompanying purchase of an insurance policy.

Risk prevention techniques, risk identification and assessment, liquidation of damage, seeking claims – are the value added to insurance coverage and are provided by a specialized entity (insurance company), which is able to achieve scale effects, has appropriate resources and experience. A separate purchase of these services would imply sustaining higher costs (Eisen and Zweifel 2012, p. 148).

Companies which retain risk and resign from purchasing a policy must bear costs of creating their own provisions, prevention, liquidation of damage, administration and other tasks that are usually performed by the insurer within insurance contract (Thlon 2011, p. 52).

If benefits from insurance-related services are greater than the sum of surcharges for a net premium and alternative cost of the net premium, purchase of insurance will be a favourable investment (Hoyt and Khang 2000, p. 93).

Skogh (1989, p. 731) claims that insurance may be purchased owing to the impossibility of full coverage of damage and securing compensation claims by way of contracts other than insurance, which results from existence of transaction costs.

In the opinion of Doherty (2000), corporate clients to a much greater extent make use of the services of insurance companies than only in terms of risk transfer. Insurance companies offer specialized knowledge related to risk management, and help creating own risk management procedures. Large companies may execute such tasks on their own (e.g. by means of their own risk management department) as opposed to smaller companies. Thus, it may be assumed that smaller companies will have relatively greater demand for insurance, owing to the accompanying additional services (negative correlation of the company size and demand) (Mayers and Smith 1990).

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2 The company’s size correlates with the insurance demand, when it is expressed by the total amount of insurance or turnover, but the size of employment is of no importance.
Large companies buy relatively less property insurances also for such reasons as: geographical diversification, more advanced own risk management procedures, better availability of short-term financing (Michel-Kerjan, Raschky and Kunreuther 2013, p. 19).

2.7. Financial leverage (share of external funding)

Smith (1986), in his research, came to a conclusion that the higher the degree of external funding of the enterprise capital (financial leverage), the greater the demand for insurance. In the event of financial distress of the company, interests of shareholders and creditors may become contradictory, as some actions to the benefit of shareholders can be unfavourable for the creditors. Anticipating potential conflicts of interest, creditors expect higher rates of return or more restrictive contractual terms (e.g. issuing secured bonds). Purchase of insurance may be a factor mitigating this potential conflict, as it protects against reduction in goodwill as a consequence of a fortuitous event (Davidson and others 1992).

2.8. Regulated business trade

In certain domains of economy there are supervisory regulations, which can apply to pricing (e.g. power sector), licensing activities, and the method of distribution or specified parameters of manufactured products.

Researchers are in discord as to how sectoral regulations affect the insurance demand. On the one hand, the possibility of transferring insurance costs to final recipients in regulated trades should stimulate the demand (Mayers and Smith 1990). However, on the other hand, privileged position of companies in regulated sectors in relation to free competition economy may lead to lower bankruptcy risk at the former, which, in accordance with the previously presented theory – should mean lower interest in insurance (Grillet 1992).

Empirical research conducted so far have yielded confirmation of the theory about positive correlation of sectoral regulations and demand (Core 1997, Yamori 1999, Krummaker and von der Schulenburg 2008) as well as opposite results (Hoyt and Khang 2000).

3. Conclusions

Insurance literature provides such motives for purchasing insurance by enterprises as: aversion towards risk of stakeholders of the company, increase in goodwill, theory of agency costs, access to insurance-related services, asymmetry of information, sectoral regulations or stabilization the conditions of operation.

Insurance policy may be the best way to minimize transaction costs related to the application of different solutions after occurrence of property damage (reference is made here, among others, to such costs as risk portfolio management, the feasibility of
compensation in the event of damage, damage liquidation costs, risk estimation in the company).

Regardless to the attitude of the company towards risk, a key question which should be answered before purchasing insurance is whether the insurance contract is a more effective way to reduce damage resulting from a fortuitous accident than other risk management techniques which the company could use on its own.

References

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Grzegorz Strupczewski is employed at the Cracow University of Economics in the Department of Risk Management and Insurance. His scientific interests concentrate on non-life insurance, insurance market, risk management, insurance demand and risk perception, natural disaster insurance.
The status of the Polish mining after 1989 was the subject of numerous restructuring plans implemented by subsequent governments. Considering the strategic nature of the extracting industry for the Polish economy, as well as the position of trade unions representing the employed workers, any of the conducted changes in this sector have always been extremely complicated. At the same time, it should be emphasized that, in particular, during the first period of the Economic Transformation, the changes in the mining sector were being introduced in an exceptional period of destabilization and economic crisis.

1. Restructuring of hard coal mines after 1989

1.1. The existing condition

The political and economic breakthrough that was believed to have taken place in 1989, found the mining industry in a very poor condition. Among many basic problems, the attention should be paid to very high production possibilities, exceeding 180 million tons of coal annually, with simultaneous decrease in the domestic demand for this resource. As a result of updating the costs of coal extraction and a decrease in the demand for energy in the industrial production sector, in 1990 hard coal consumption decreased by 25 million tons, which was almost 17% of the production of coal in 1989. Hard coal mining in Poland at the beginning of the 1990s entered along with other sectors of the economy into a period of deep changes which fundamental principles have become the free market and competitiveness. These transformations included all spheres of mining activity.

1.2. Stage 1, 1989–1993 (deep crisis)

In the early 1990s, under the program of restructuring hard coal mines, a significant verification of the industrial resources was made. The obtained results confirmed that in most mines, the amount of possessed resources was overestimated. In relation to the balance criteria of the coal deposits in force before 1994 the minimum bed balance thickness were increased from 0.7 m for coking coals and 0.8 m for power coals to a uniform thickness of 1.0 m. As a limit to the documentation of deposits the depth of 1000 m was adopted; formerly deposit documented took place to the depth of 1200÷1300 m and even up to 1500 m1.

The mining sector then found itself in a very unfavourable situation that was a consequence of a sudden decrease in demand for hard coal and an excessive development of the mines’ production capacities. The financial crisis in mining was deepened additionally due to anti-inflationary actions that relied on the delaying of coal price rises in relation to a complete release of prices services and materials. Such a situation forced actions that aim to improve the mines’ economic situation. Import parity was introduced that was valid during coal prices determination. Mines that did not meet this criterion were obliged to take actions aimed at cost reductions. Competition on the market was supposed to demonstrate which mines should be considered as permanently unprofitable and put into liquidation. Based on this assumption, the following hard coal mines were put into liquidation: “Walbrzych”, “Thorez”, “Victoria”, “Saturn”, “Sosnowiec”, “Nowa Ruda” and “Żory”.

The decision concerning the interference into this sector crucial for the Polish economy was made relatively quickly. The first Act on the mining sector transformation from the beginning of the 1990 liquidated the former conglomerates associating mines. Single mines were given the status of independent state-owned companies. With hind-

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sight, it can be stated that this experiment turned out to be unsuccessful. On the one hand, the mines were burdened with the heritage of socialism: excessive property (also of non-manufacturing nature) and by excessively numerous crews and, on the other hand, coal prices were shaped administratively on a relatively low level (Gandawski, 2005, p. 215). This led mining to a financial collapse.

In the years of 1990–1993 the focus was mainly on limiting production, which resulted in the reduction of extraction to 130 million tons in 1993. In the same period in Western Europe, the acceleration of the liquidation of mines took place, which was directly connected with the very low prices of oil, a mass switching of the power plants and heat and power stations to natural gas, a decrease in the demand for coke coal (due to electric melting of steel and blowing of coal dust instead of coke), as well as a growing environmental protection sensitivity (Błaszczyk, Cylwik, 1999, p.11). In 1989, 72 coal extracting companies functioned (which were created from coal companies). They were part of the largest economic groups in Poland, and, at the same time, one of the largest economic groups in terms of employment worldwide, functioning under the name of the Community of Hard Coal Mines, employing then more than 600 thousand people. In 1990, in connection with the liquidation of the Community of Hard Coal Mines, a top-down decentralization of the sector was conducted, which, at the same time, resulted in the transformation of mines in independent state-owned companies.

Until the half of the 1990s there was an overproduction in the country of approximately 10–12 million tons of coal annually for which there was no sale. At the same time a further deterioration in the world market was observed, along with unfavourable changes in the structure of supplies (high supply of cheap – surface extracted – coal from Australia and South Africa). It is extremely important that for many years an attempt was made to administratively keep coal prices at a constant level (with a two-digit index inflation in the economy). As a result, mining has been for few years excluded from the mechanism of normal market game, which resulted in losses throughout the whole mining industry (Czernińska, 2005, p. 1).

1.3. Stage 2, 1993–1996 (time of destabilization)

Up to 1993 the production, as compared to 1989, decreased by about 43 million tons. In February 1993 the Act on ownership transformations of some companies of particular significance to the state was adopted. The most important assumption was to create seven coal companies, with 8–13 mines that were simultaneously ceased to be independent companies, and have become mining plants of the supreme institution, which was the carbon company. The entirety of this property was in the hands of the State Treasury. In March of the same year, the program “Restructuring of hard coal mining in Poland – implementation of the first stage within the financial limits of the state” was adopted. In the first period of its execution, all mining industry achieved good financial results, however, already from 1995 financial losses started to appear and grow again. This plan was a base to create the present organizational structure of the coal sec-
The adopted Act as well as the restructuring program that was being introduced created conditions for thorough system transformations in the coal industry. Unfortunately, the assessment of the results of the activities introduced cannot be positive, it seems that there was a regression in the sphere of institutional solutions. The inclusion of mining into the group of sectors of strategic importance and the creation of coal companies did not influence in a positive manner, the situation in the coal industry. In the second half of 1993, coal prices increased by 40%, and in the years 1993–1995 the growth in prices was as much as 220%. The Anti-Monopoly Office and the Council Ownership Transformations found confirmation of their opinions that merging into one organizational structure mines, which are to conduct extraction, with plants stipulated for liquidation will affect adversely the effective mines management results, with all its consequences for the sector and, subsequently, for the budget and consumers (Błaszczyk, Cywlik, 1999, p. 19). In connection with the very bad situation of hard coal mining in the middle of 1993 the postulate to prepare and implement an immediate rescue operation for the concerned industry was approved. The result was the implementation, in July 1993, of the governmental “Program to refrain bankruptcy of hard coal mining”, and the conclusions of its implementation have become the base for the development of the restructuring program of the 2nd stage conducted in the years of 1994–1995.

1.4. Stage 3, 1996–1998 (stagnation)

Another program, entitled “Hard coal mining – the state policy and the sector for the years 1996–2000. The program to adjust hard coal mining to the conditions of market economy and international competitiveness” (Czermińska, 2002, p.1), was adopted in April 1996. Unfortunately, the implementation of this program assumed that, among others, rises the economic efficiency of mining at the rate of allowing it to achieve positive financial result from 1998, remained mostly only in the sphere of government declarations. The cost of the implementation of the program has been estimated in the amount of PLN 12420 million, of which its own means of the sector amounted to PLN 5697 million, subsidies from the budget were to be PLN 4594.6 million. The rest of the funds was supposed to come from the replacement of liabilities into shares and with incurring credits guaranteed by the government (Błaszczyk, Cywlik, 1999, p. 27).

From the beginning of the restructuring activities one of the main goals to realize by subsequent governments was the rationalization and limitation of the number of people employed in mining. In the initial period preceding structural transformation the number of people employed in hard coal mining amounted to more than 400 thousand (and in the following 20 years decreased slightly below 110 thousand).

This stage, in terms of organization, is defined as neutral. The organizational structure of the industry was not changed fundamentally. A characteristic element at this stage was the systematic reduction of subsidies for restructuring processes, which resulted in the occurrence of negative phenomena in the functioning of coal companies (Turek, 2002).
1.5. Stage 4, 1998–2002 (the search for new solutions)

On 1.07.1998, yet another mining restructuring program has been adopted. “The reform of hard coal mining in Poland in the years 1998–2002”. It was introduced with an intent to improve most of the assumptions which have not been completed during the implementation of previous programs. In the introductory part of the concerned program, the following has been stated: “The implementation of a government program of hard coal mining restructuring of in the years 1996–97 ended in a complete fiasco. In the years 1996–97 in all of these mining areas which were subject to the restructuring processes, practically none of the tasks assumed in the program were performed. This applies both to tasks with regard to economics and finance, extraction and sale structure of coal, employment, adjusting production to the capacities of the market needs and tasks related to the introduction of the decisions and legal instruments conditioning their effective execution”. Naturally, such strong criticism of the previous program resulted not only from reliable evaluation as to the proportion of the effects of the restructuring processes, but also from political motives. An element with the most beneficial characteristic is deemed the improvement in all basic technical indicators:

- an overall improvement in efficiency by 53%,
- an average growth in daily extraction from one wall by 119%,
- a decrease in daytime number of active walls by 61%.

Unfortunately, even those positive changes cannot cloud the most important issue, namely the fact that mining still remained unprofitable.

It seems that the central government determined only two basic reasons, which, in the opinion of the government, caused that mining in Poland to yield losses and that it could not recover from its collapse:

- excessive production capacities at the level of approximately 10–12 million tons annually,
- excessive employment in mines by about 50–60 thousand people.

With hindsight, it appears that also and in the case of the program from 1998, the evaluation of the condition of mining has not been conducted sufficiently reliably. Superficial analysis of the problem did not give, unfortunately, any guarantee for a clear and prompt improvement in the condition of the mining sector. Coal sale price, the unit cost and unit accumulation have been shown in fig. 3.5. and in table in 3.10. Such bad results of unit accumulation were mainly influenced by the relatively high costs of extraction as compared with other producers. For instance, in the USA the cost of extraction fluctuated at the level of USD 28–43 per ton, in Australia USD 5.5–30 per ton, and in South Africa USD 3.3–9.2 per ton. For comparison, in Poland this cost reached the level of USD 28–43 per ton.

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As major assumptions of the mining reform accepted in 1998, the following were listed:
1. The adjustment of hard coal mining business entities to function economically effective.
2. Satisfaction until 2010 of the domestic demand for hard coal and economic justification for export, while keeping the requirements of competitiveness and environmental protection.

Apart from the aforementioned general goals, the assumption was to realize simultaneous partial objectives including the following elements:
1. Coal companies had to stop bearing losses from 2000.
2. After 2000, companies should obtain surplus financial shortages, which were meant to be used to repay overdue liabilities towards the state.
3. Annual extraction to 2002 was supposed to be decreased by about 25 million tons.
4. The number of people employed in hard coal mining was supposed to be decreased by about 105 thousand people and in 2002 to amount to approximately 138.4 thousand people.
5. Reconversion was to be implemented in mining communes’ industries, which was supposed to constitute a significant impulse to their economic development.

Among many methods of operation that were supposed to bring the assumed results, the process of the actual mines liquidation was mentioned. As major causes for undertaking such actions the following have been recognized:
• the exhaustion of coal resources and high costs of acquiring new resources,
• sustainable unprofitability,
• the presence of unnecessary infrastructure.

It was assumed that in the years 1998–2002 the employment in mines would be approximately 12 thousand, and assuming the quitting and admission to mining, the expected in the future by the plan condition of employment in 2012 was supposed to amount to approximately 138.4 thousand people. With hindsight, it should be stated that the estimation – in spite of the fact that it was not ideal – turned out to be similar to reality. Actual employment level as of 31.12.2002 was 140 717.

The program had to be reformed in 1999 as a result of social protests (Gwiazda, 2011, p. 29). On 21 December 1999 the approved correction of the governmental program “the reform of hard coal mining in Poland in the years 1998–2002” assumed, among others the establishment of the Mining Restructuring Company, which was

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3 „The reform of the mining...”, p. 14.
4 The information about the course of the restructuring process of hard coal mining in 2003, the Ministry of Economy, Labor and social Policy, Warsaw 2004, p. 15,
launched in 21 August 2000. The general purpose behind the establishment of the company was to separate the liquidation process of the mines from the repair processes of other factories, while the partial goals were a more efficient liquidation process, mainly by the reduction in its costs and by shortening its duration, rational use of budget funds designated for funding the mines removal costs, and an effective management of the property of companies.

While referring to this period of transition, it is worth mentioning the concept, innovative for that time, that assumed the merging of the extraction industry with the energy industry. The result was the establishment by the Vistula Coal Company and by the energy industry company “Jaworzno III” of the Mining and Energy Company “Sobieski and Jaworzno III”. With hindsight, it can be stated that the assumptions underlying this concept were correct, which was confirmed by, among others, obtaining sustainable profitability after two years in operation of the company.

The Supreme Chamber of Control negatively evaluated the organizational and financial restructuring of hard coal mining conducted in the years 1990–2001. The reform programs of hard coal mining prepared over this period by the government – according to the Supreme Chamber of Control – were prepared in a manner which did not guarantee the achievement of the most important goals of all reforms which was the profitability of the industry.

In the opinion of the Supreme Chamber of Control, the activities undertaken in the years 1998–2001 were delayed (optimal period for their implementation, according to the Chamber was the first half of 1990s) and towards the disastrous condition of mining in 1997, the underestimation of needs as well as limited financial possibilities of the state, the assumed basic goal of the reform was not reached5.

1.6. Stage 5 2002–2007 (dynamic changes)

Real changes in industry were brought only at the next stage of reforms (Gwiazda, 2011, p. 29). The basis for the program during this period was the document “Restructuring hard coal mining in the years 2004–2006 and strategy for the period 2007–2010”, adopted by the Council of Ministers 27 April 2004; 8 basic restructuring goals were mentioned in it:

1. The maintenance of energy security of the country and co-participating in increasing the safety level of the European Union.
2. Obtaining by the mining companies stable profitability, economic efficiency and competitiveness on the uniform European market.
3. Obtaining a satisfactory level of financial liquidity as well as creditworthiness to ensure stable functioning and of mining companies’ development.

4. Balancing cash in a way to enable current regulation of liabilities, in particular public obligations.
5. Adjusting production capacities up to the needs of the domestic market and economically profitable sales and export on the uniform European market.
6. The adjustment of the employment offer to the needs of production along with providing an improvement in efficiency and work effectiveness.
7. Actions aiming at rationalization of costs.
8. Privatization of mining companies.

To sum up the effects of the reform conducted in the years 2002–2006, it should be stated that:

- hard coal mining was granted positive net financial result in the amount of PLN 404.6 million;
- sale of hard coal amounted to 93.5 million as compared to 2005 and were lower by 0.7 million tons;
- hard coal mining inventory balance amounted to 3.3 million tons, which meant a decrease as compared with 2005 by 0.3 million tons;
- the total elimination of production capacities of hard coal mining amounted to 6.6 million tons, which was 84.6% of the planned reduction;
- work efficiency achieved on average 793 tons per employee annually, what means a growth of 2 tons per employee annually as compared to the preceding year;
- investment outlays incurred in the amount of PLN 1889 million (which comprised 90.6% of the planned for 2006 amount); for purchase of machines and equipment PLN 937.8 million were issued (89.4% of the plan), while for achievement objectives with regard to excavation voids – PLN 571.4 million (98.3 of the plan); 6
- implementation of debt repayment process caused the remission of obligations in the total amount of PLN 18.1 billion and deferment of repayment of further liabilities in the amount of PLN 2.5 billion. Upon deferment and postponement of the obligations the rapid growth in interest from liabilities ended;
- the repayment of public liabilities (towards Social Security (ZUS), FP, FGŚW, PFRON, the state budget, local governments, national and voivodeship funds for environmental protection and water management) for the amount of PLN 25865.9 million;
- as of 31.12.2006 the condition of employment in hard coal mining amounted to 119.3 thousand people, and consequently employment in the period 2004–2006 has been reduced by 17.1 thousand people which constituted 88% of the assumed plan;

6 Information about the course of the restructuring process in hard coal mining in 2006 with the inclusion of synthetic conclusions concerning incomplete execution assumptions of the program for the period 2004–2006, Project examined by the Council of Ministers, Warsaw in 2007, p. 20.
in government documents: “The Program of hard coal mining restructuring in Poland in the years 2003–2006 with the use of anti-crisis acts and with initiating privatization of some mines (with adjustments resulting from the government Agreement with the trade union of 11 December 2002 and adjustments resulting from the legal sector as of 10.012003)” and “Restructuring of hard coal mining in the period 2004–2006 and strategy for the period 2007–2010” budget funds for hard coal mining for the period 2003–2006 have been estimated at the level of PLN 6 305.8 million.

1.7. Stage 6, 2007–2015 (stabilization)

The sixth stage of the reforms began in 2007 and has been lasting until now. Its implementation is based on the records of the 7.09.2007 Act on functioning of hard coal mining in the years 2008–2015. During this stage there were no changes of critical importance for the organization industry (Gwiazda, 2011, p. 29). It is worth noting that, in accordance with the experts’ forecasts, until 2015 the size of employment may fall below 100 thousand people (employment in mines, accessed on 03.11.2014). Among the assumed goals the following are listed: organizational changes, privatization of mining excavation companies, legal changes, work safety, possibilities of coal sales and production capacities adoption, employment policy implementation, debt repayment and capital pumping into KW SA, development of post-mining areas, limiting the impact of mining on the natural environment, investment in mining, dehydration of liquidated mines, the use of hard coal to produce gas and liquid fuels, the preparation of coal company strategies and the monitoring of the mining operations program.

1.8. Summary

To sum up the hard coal mining transformation process, it should be stated that it was conducted with different intensity from the beginning of the 1990s and it was accompanied by a very difficult financial situation of the mining companies (Turek, Jonek-Kowalska, 2008). In 1990, 72 hard coal mines were active, and the total mining area occupied by these companies amounted to 1975 km². The restructuring of the mining sector was adopted in order to improve management effectiveness and was to be supported by the government through special legal regulations. The first step was to order Arthur Andersen & Co., Wardell, Armstrong and National Economic Research Associates to study, which was entitled: “Restructuring Program – Polish Hard Coal Subsector”. It is significant that the first reliable governmental program for has been prepared no sooner than in 1996. It should be emphasized that in the 1990s an important issue of the hard coal mining sector was a difficult economic situation and a low level of financial liquidity of the mines and, above all, the debt that arose in the previous years. The restructuring process of hard coal mining and the improvement in economic efficiency of companies from this sector required dismantling some of the mines or to rationalize the level and the structure of employment.
References

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Companies’ Demand for Competencies to Overcome Disruptive Changes

Nowadays, disruptive change is a reality for many industries. Companies need to speed up their efforts when facing disruption. Successful management in such times requires the development of particular organisational competencies. Past research has mainly focused on evolving theories to enable an organization to manage disruptive change successfully. However, it is not the organization but the employees, united by a proactive and market-driven culture, that are innovative and which combine to populate and to equip the organization with the required competencies. Hence, the individual competencies required of employees in times of disruption need to be researched. This paper proposes a plausible research methodology to close the research gap and to analyze the individual competencies that should be fostered by higher education marketing programmes in order to provide graduates with the desired competencies. In this context, a quantitative, cross-sectional approach with subsequent test of hypotheses is discussed.

1. Disruptive change

“Perhaps the greatest challenge business leaders face today is how to stay competitive amid constant turbulence and disruption.” (Kotter, 2012, p. 46). McCann et al. (2009) define disruptive change as “severe surprises and unanticipated shocks that destabilize performance, even threaten ongoing viability”. Characteristic of such change are periods of sharp, novel conditions that overthrow competitive dynamics, generated by, for example, disruptive technologies, natural disasters or man-made crises (Christensen and Overdorf, 2000; McCann et al., 2009; Buescher and Viguerie, 2014).
In 1995, the term ‘disruptive technology’ was introduced by Bower and Christensen. Adner (2002) declared disruptive technologies to be those that introduce a different performance package from mainstream technologies, while also being inferior to mainstream technologies within the performance dimensions important to most mainstream customers. After market introduction, they initially only appeal to niche segment customers due to their specific performance features. When those specific performance attributes become important to the main market segments, the technology becomes disruptive and takes over the mainstream market. Adner demonstrated how changes in the structure of consumer demand generate the disruptive impact of a technology (Adner, 2002). Christensen (2003) broadened the perspective from focusing on disruptive technologies to disruptive innovations. In 2008, Christensen and Johnson remarked that it is the business model, enabled by technology, which generates the disruptive impact.

Buescher and Viguerie (2014) stated that disruptive change is now a reality for many industries. The common understanding among many industries is that disruptive change is accelerating, driven by the rapid emergence of new technologies, the blurring of lines between industries, and competition from both traditional and non-traditional players (Innosight, 2014). The development of globalization has increased the worldwide network density, and thus, the speed and intensity of change. The complexity of the system ‘Earth’ is dramatically different from what it was only a few decades ago. Such developments combine with the ICT revolution and the emergence of the knowledge society, contributing to a new paradigm of knowledge production (Moravec, 2008) and leading to both opportunities and threats of disruptive business models and change.

Yu (2010) provided a review of disruptive innovation theory, and remarked that the topic had been extensively studied. Yu identified three major themes: the evolution and descriptive clarification of the theory; the predictive use of the theory; and an analysis of how to enable potential disruptive innovations. The third theme is the field of study in the current article. In 2014, Innosight, an innovation consulting company co-founded by Clayton Christensen and Marc W. Johnston, published the results of a large survey on disruptive change. In the survey, eighty-five percent of respondents believed that their organization needed to adapt because of disruptive change, but only a few were confident that their organization could do so in a five- to ten-year time span (Gaul, 2014; Innosight, 2014). Many organizations have similar starting points. Operating in the same industries with similar access to trained employees and other resources, and similar business opportunities, the question arises as to, why some organizations outcompete others in times of disruptive change.

Danneels remarked in 2002 that a disruptive market requires changes in organizational behaviour and search patterns. In their influential article, Christensen and Overdorff observed: “It’s no wonder that innovation is so difficult for established firms. They employ highly capable people – and then set them to work with processes and business models that doom them to failure” (Christensen and Overdorff, 2000, p. 66).
Henderson (2006) agreed that organizational competence is of key importance in explaining firms’ failure when facing disruptive innovation. Organizational competence should be understood in this context as embedded organizational routines. Henderson (2006) believed that it is difficult for established firms to effectively react to disruptive innovations and reshaped market preferences. Buescher and Viguerie (2014) confirmed the threat that when facing disruptions, firms often fail to understand quickly enough the speed, type, and scope of the changes taking place. Dobni (2008) added, by referencing an earlier study, that eighty-five percent of the organizations that try to innovate rate themselves poorly in it. Dobni (2008) concluded that it is important to abandon one’s established practices and to reallocate resources to foster innovation behaviours. He emphasized that it is not the organization but the employees, united by a proactive and market-driven culture, that are innovative.

Leonard-Barton argued as early as 1992 that a firm’s capabilities acquired prior to potentially disruptive changes may create ‘competency traps’. Routines, ingrained habits and ways of behaving, and organizational competencies all lure organizations into an illusory sense of security and control over potential waves of change that make alteration in the organizations’ operations difficult. Henderson (2006) developed the hypothesis that the dynamics of decision-making in the senior team are responsible for firms missing out on disruptive innovations. Leonard-Barton (1992) also argued that even those competencies that have previously been an organization’s most valuable source of competitive advantage may develop into competency traps. Doz and Kosonen (2010) followed Leonard-Barton’s argument by remarking that many companies fail because they keep doing what had been the right thing for a long time. Due to their poor flexibility with regard to their business model, they fail when facing disruptions. As a consequent requirement, firms nowadays need to transform their business models more rapidly, more often and more extensively. But business models tend to be naturally stable, since they result from organizations’ search for efficiency (Doz and Kosonen, 2010).

Christensen (2006) also pointed to the key role of organizational competencies during disruption when he remarked that incumbent leaders may not be able to develop or to follow disruptive innovations due to technological or capital requirements. Henderson (2006) agreed that the established processes of incumbents prevent them first from sensing and then from acting on disruptive change. Incumbent firms fail to react to disruptive innovations because they lack the market-related competencies necessary to respond quickly (Henderson, 2006). Kotter (2012) argued that organizational structure might be responsible for a delayed reaction since a hierarchy cannot handle the strategic challenges generated by increasing complexity and rapid change. He added that such hierarchies and efficiency-focused processes serve very well in daily business, but they have severe limitations in identifying the most important hazards and opportunities early enough and in reacting fast enough.

Kotter (2012) made an urgent recommendation for firms to speed up their efforts when facing disruptive forces, new challenges and opportunities: “the old ways of set-
ting and implementing strategy are failing us. We can’t keep up with the pace of change, let alone get ahead of it.” (Kotter, 2012, p. 46).

2. Agility

Several approaches have been proposed in literature as solutions for the above-mentioned shortcomings. Prange and Schlegelmilch (2010) proposed the development of an ‘innovation archetype’ as a combination of innovation strategies and operational elements (strategies, structures, cultures, capabilities, incentives and coordination systems) to foster a company’s innovation performance. Norris et al. (2013) argued that institutions have three main levers for reacting to a period of disruption: strategies, business models and emerging practices. Furthermore Doz and Kosonen (2010) provided a framework for strategic agility and corresponding leadership actions. They determined three main meta-capabilities that make an organization more agile: strategic sensitivity, which is the awareness of and attention to strategic developments; leadership unity, defined as the ability of the top decision-makers to make bold, fast decisions; and resource fluidity, the capability to reconfigure capabilities and redeploy resources rapidly. Buescher and Viguerie (2014) also developed three strategic paths to follow when facing disruptive change and observed that, irrespective of the path chosen, the key capabilities highlighted by Doz and Kosonen are important, specifically shifts in leadership focus, changes to resource allocation, and fast organizational speed.

Mukerjee (2014) concluded that agility, the ability to quickly respond and adapt to change, is an increasingly crucial factor when facing innovation upon innovation. Sambamurthy et al. (2003, p. 238) defined agility as “the ability to detect and seize market opportunities with speed and surprise”. Mukerjee (2014) and Sambamurthy et al. (2003) stated that agility depends on three interrelated capabilities of customer agility, partnering agility, and operational agility. Operational agility means the ability of a firm to achieve speed, accuracy, and cost efficiency, while addressing innovation opportunities quickly and competing effectively using the firm’s business processes. Customer agility means the ability to relate to customers in such a way that their valuable input for product innovation is harnessed. Partnering agility is an organization’s ability to make the best use of its partnerships with stakeholders (Sambamurthy, et al. 2003).

Caligiuri (2013) added cultural agility as a fourth capability: “the mega-competency that enables professionals to perform successfully in cross-cultural situations” (Caligiuri, 2013, p. 4). It enables the workforce to work effectively and successfully in cross-cultural and international environments with all the complex topics of the regulatory and legal, competitive and cultural environments, and with counterparts showing different behaviours, attitudes, and values (Caligiuri, 2013).

In order to achieve organizational agility, Kotter (2012) proposed to set up a second operating system, which consists of an agile, network structure and an adapted set of business processes. Due to its characteristics it should be able to continually assess the business, to identify disruptive change early, and to respond with great agility. He
added that many start-ups are organized as networks, while Louis Brennan, (2013) responded in a Harvard Business Review interaction with Kotter that the more-enduring Chinese companies have also been operating in a similar way for decades. Kotter (2012) gave more information on the second operating system by emphasizing that a level of individualism, creativity, and innovation could be achieved that not even the least bureaucratic hierarchy could provide. It requires the breakup of silo structures and of hierarchical layers for information and knowledge to be shared with greater freedom and speed. To facilitate such an operating system, Kotter (2012) proposed eight accelerators: processes that enable the strategy network to work.

3. Agility and resiliency

Gilbert, Eyring and Foster (2012) agreed that a two-track approach to transformation is best in a world characterized by disruptive change in order to achieve what they call ‘organizational resiliency’. Their approach consists of reshaping/reinventing the core model and discovering a future business model. It is similar to Kotter’s approach. Gilbert, Eyring and Foster (2012) stated that the objective of the ‘reshape’ form of transformation is to find the strongest competitive advantage your current model can sustain in the disrupted marketplace, while the objective of the ‘discover’ form of transformation is the discovery of a separate, disruptive business model with its own profit formula to develop innovations for future success.

McCann et al. explained that an adaptive capacity includes the important dimensions of agility and resiliency. “Organizations must build agility and resiliency to perform effectively in turbulent environments.” (McCann et al., 2009, p. 45). If a firm focuses on one dimension without investing in the other, it will result in an unstable business model, which will either be efficient but exposed to disruptive change, or else be agile but delicate and costly. McCann et al. define agility as, “the capacity for moving quickly, flexibly and decisively in anticipating, initiating and taking advantage of opportunities and avoiding any negative consequences of change” (McCann et al., 2009, p. 45). Resiliency has been defined as, “the capacity for resisting, absorbing and responding, even reinventing if required, in response to fast and/or disruptive change that cannot be avoided” (McCann et al., 2009, p. 45). Resiliency, as the robustness of the system, requires common values, purposes and shared beliefs. McCann et al. demonstrated with their results that both agility and resiliency have significant positive correlations with their performance measures. They showed that the turbulence of, e.g., disruptive change can be controlled or mitigated by building resiliency and agility (McCann et al., 2009).

In 2008, Raisch and Birkingshaw introduced the term ‘organizational ambidexterity’, meaning the ability of a firm to efficiently perform management of its business demands while at the same time adapting to changes. They emphasized the importance of senior executives in supporting ambidexterity. Building upon Raisch and Birkingshaw’s concept, Prange and Schlegelmilch (2010) distinguished four coordination designs permitting organizations to simultaneously engage in seemingly incompatible things.
They distinguished between structural ambidexterity: “Organizations may resolve the tension between exploration and exploitation by separating them in different parts of the firm” (Prange and Schlegelmilch, 2010, p. 48); contextual ambidexterity: “Ambidexterity also emerges when leaders, though not necessarily top managers, develop a supportive context” (Prange and Schlegelmilch, 2010, p. 48); punctuated ambidexterity: “Ambidexterity can also relate to business units, focusing on one type of innovation one day, and on a different set of innovations at another point in time” (Prange and Schlegelmilch, 2010, p. 48); and peripatric ambidexterity: “Another variant of ambidexterity is borrowed from genetics where the formation of a new species has often been tied to the idea of a founder who develops a new population” (Prange and Schlegelmilch, 2010, p. 48). Based upon those designs they developed eight innovation archetypes to choose from.

4. Leadership and talent management in times of disruptive change

In 1997, Christensen identified decision-making at the most senior levels as an explanation for failing to deal with disruptive change. Scharmer and Kaeufer (2014) focused on that leadership aspect. They argued that disruptive change leads to a form of complexity, which they called ‘emerging complexity’. It is characterized by the solution to the problem being unknown, the problem statement itself not being worked out, and confusion about the key stakeholders remaining. It is a situation of great uncertainty. They proposed following a creative U-process. Kaufmann (2014) identified ‘self-directed leadership’ as the key to find fresh ideas that are in alignment with current market needs. Yu (2010) observed that middle managers often vote against change and fresh ideas since they tend to defend their position of power and avoid taking responsibility for risky projects.

Schramm (2009) raised the question: when approaching an era of disruptive change, what impact do the new ways of doing business have on the sourcing of talent and on the management of employees? Coulson-Thomas (2013) remarked that change is also required in talent management. While in traditional talent management the need to recruit and develop ‘good people’ has been recognized for a long time, the notion of what is a ‘good’ talent in the face of disruptive change and upcoming challenges might need to be re-evaluated. What is the competence profile required to face disruptive change?

5. Individual competencies

Talent management has changed already. An analysis of the Chartered Institute of Personnel and Development (CIPD) has shown that more than fifty percent of UK-based businesses use ‘competency-based interviews’ when recruiting managers (Robinson et al. 2007). “Job skills and experience combined have less impact on success than having the right set of competencies” (Fleit, 2013). Fleit (2013) remarked that half of the performance of successful marketing managers can be explained by their competen-
cies, followed by motivation and job experience. Tynan and Lee added that, “Society at large is re-evaluating the types of skills and competencies that graduates need to possess in order to be adequately prepared for work and life in the knowledge age” (Tynan and Lee 2009, p 98.). Tynan et al. (2008) asked higher education institutions to react to these insights.

Such insights are not new: Baaken (2002) stated that employers of graduates from higher education institutions require more than just professional expertise. While previously the level of professional expertise might have been the most decisive factor for the success of a job application, HR managers nowadays ask candidates to possess strategic competencies, such as problem-solving ability, creativity, decisiveness and interpersonal communication ability. Mansfield (2004) added that there is an increasing demand for ‘multi-skilled workers’, who are able to adapt quickly to changing demands and changing work organizations.

Since business sectors are emphasizing the importance of competencies in talent management, the education sector has agreed to align higher education programmes with the needs of the labour market (Mulder et al., 2009). Teaching has evolved from a teacher-oriented lecture in which the participants are more or less passive learners, towards a more student-oriented activity in which participants are more active in the experience of learning (Kennedy, Lawton and Walker 2001). Norris (2013) remarked that the higher education sector is in a period of disruptive change. It has been developing from a factory model, which was characterized by a teacher focus, a focus on throughputs and outputs, seat time and little flexibility, towards an outcome-focused, learner-centric, just-in-time, personalized form of unbundled learning experiences. Christensen and Eyring (2011) recommended that higher education should use ICT technology as an enabler of disruptive innovation to transform their business models.

With the European Qualification Framework (EQF), a competence framework for the European Union has been provided that contains descriptors for learning outcomes (Brockmann, Clarke and Winch, 2009). In the EQF competence is defined as “the proven ability to use knowledge, skills and personal, social and/or methodological abilities, in work or study situations and in professional and personal development. In the context of the European Qualifications Framework, competence is described in terms of responsibility and autonomy” (European Qualifications Framework, 2014). However, Winterton (2009) remarked that in Europe there is no consensus for using a common competence definition or model. In contrast to the English National Qualification framework, which does apply a ‘narrow’ concept of competencies based on work activities and task-based skills, French, Dutch and German national competence systems instead have conceived of competence in the sense of a more broadly defined occupational capacity (Brockmann, Clarke and Winch, 2009). Winterton (2009) and Le Deist (2009) provide an overview of different competence frameworks in Europe.
6. **Research questions and research strategy**

The literature review highlighted the broad and still ongoing scientific discussion about disruptive change and disruptive innovation theory. To sum up, a number of insights have been revealed. First of all, there is broad evidence that agility is an increasingly crucial factor when facing periods of disruptive change. Moreover, it has been underlined that with regard to the concept of resiliency, two arguments apply. On the one hand, routines and engrained habits may create ‘competency traps’, on the other hand there is consensus that organizations require resiliency in addition to agility, sometimes also referred to as ambidexterity, in order to be successful. Finally, studies agree that the leadership approach has a key impact on the success of dealing with disruptive change, and that a new era of talent management is dawning.

Yu identified several research gaps in disruptive innovation literature, one of which will be addressed with the question: “How to improve the management education programmes to equip professional managers with the capabilities to initiate disruptive changes?” (Yu, 2010, p. 445). On the basis of the identified research gap, the current study should answer the following research questions:

1) Which strategic competencies should marketing managers possess in times of disruptive change in order to manage successfully?

2) Are marketing students, based on their strategic competence profile, prepared for the challenges of disruptive change?

The results contribute in several ways to the existing literature. First, to the best of my knowledge, the study is the first to collect insights on required individual strategic competencies in a disruptive change process. Second, in addition to the development of a desired ‘disruptive change competence profile’ the next generation of marketing managers and their competence profiles are examined in order to reveal potential shortcomings. Such insights might be used to realign higher education programmes in order to equip graduates with the capabilities required to manage successfully in times of disruptive change.

In the next step, the research methodology, containing the research strategy, the research design, data collection and data analysis, is described. Literature distinguishes quantitative and qualitative research. Both might be integrated into a mixed methods approach (Bryman, 2012; Creswell 2013). While quantitative research aims at deductively testing theories by measuring social variables based on numerical and statistical data, qualitative research aims at understanding subjective meanings held by actors, taking an interpretive, inductive approach. The quantitative approach is considered appropriate to analyse competence requirements and profiles, since competence frameworks and precise measurement instruments, providing quantitative data are already available. Bryman (2012) distinguishes longitudinal, case study, experimental, comparative and cross-sectional research designs. A cross-sectional design has been chosen for this study. The objective of the research design is to collect data “on more than one case […] at a single point in time in order to collect a body of quantiative or quantifiable data […] to detect patterns of association” (Bryman 2012, p. 58).
In the first stage of this research, literature has been reviewed to identify individual strategic competence requirements. Second, competence profiles of marketing students have been researched. The measurement took the form of a self-assessment with a questionnaire.

In its first step, the literature review aims to give a review of material that already exists on the topic in question. Literature on disruptive change and disruptive innovation has been reviewed to identify, collect and analyse the importance of individual competencies. The research objective is to observe the frequency of individual strategic competencies mentioned as beneficial. This requires an upfront definition of strategic competencies. Strategic competence definitions have been given in the literature, and competence categories are well developed. Such competence frameworks allow the easy classification of the strategic competences mentioned in scientific articles on disruptive change as being valuable for successful management.

The competence framework KODE of Erpenbeck and Heyse has been used, which relates to the German understanding of strategic competence. Strategic competencies are defined as abilities for self-organization of acting and thinking – in particular in changing situations – and as the ability to conform in a comprehensive sense. KODE is a system for the diagnosis and development of competencies. Its theoretical foundation is a theoretical model of self-organisation derived from synergetic, management studies from Drucker, Malik and Probst, and Fromm’s strengths-weaknesses paradox (Heyse, 2010). Erpenbeck and Heyse structure the strategic competencies into four basic areas: P, personal competence; A, activity and action competence; M, methods and professional competence; and S, socio-communicative competence (Heyse and Erpenbeck, 2009). Based on their empirical research, the four basic competence groups have been further subdivided into 64 strategic competencies, thereby building a comprehensive competence map used for coding purposes. After analysing the importance of strategic competences in the scientific literature, and for the diagnosis of the competence preferences of an individual person, in the current study a survey was used that contained a rank order questionnaire. In all studies, quality criteria for evaluating social research studies, reliability, validity and replicability, should be measured and reported (Bryman, 2012). The scientific quality of the diagnostic system KODE has been examined in a series of studies, and its reliability and validity have been verified (Heyse, 2010).

While many of the scientific articles on disruptive change focused on organizational competence, Dobni (2008) emphasized that it is not the organization but the employees, united by a proactive and market-driven culture, that are innovative. The studies have been examined with respect to the mentioned strategic competencies that employees should possess in order to support an organisation’s capability to manage successfully in times of disruptive change.

In each scientific article, the mentioned strategic competencies have been identified. Each has been categorized into one of the 64 strategic competencies, belonging to one of the four competence groups, P: personal competence, A: activity and action com-
petence, M: methods and professional competence and S: socio-communicative competence. The importance of the competence groups P, A, M and S has been determined for each article based on the frequency and emphasis with which strategic competencies were mentioned. Similar to the method of the questionnaire from Erpenbeck and Heyse, and based on the assessed importance, for each article a rank order has been assigned to the four strategic competence groups, with the most prominently mentioned competence group receiving a score of 4, the second most important group receiving a score of 3, the third most important group receiving a score of 2, and the least important competence group receiving a score of 1.

Table 1. Rank order of competence groups as mentioned in reviewed journal articles

<table>
<thead>
<tr>
<th></th>
<th>P</th>
<th>A</th>
<th>M</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buescher and Viguierie, 2014</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Dobni, 2008</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Doz and Kosonen, 2010</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Gilbert, 2012</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Hermann and Nadkarni, 2013</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Kagermann et al., 2013</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Kaufmann, 2014</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Kotter, 2012</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>McCann et al., 2009</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Mukerjee, 2014</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Pranger and Schlegelmilch, 2010</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Scharmer and Kaeufer, 2014</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Yu, 2010</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Own illustration based on Buescher and Viguierie, 2014; Dobni, 2008; Doz and Kosonen, 2010; Gilbert, 2012; Herrmann and Nadkarni, 2013; Kagermann et al., 2013; Kaufmann, 2014; Kotter, 2012; McCann et al., 2009; Mukerjee, 2014; Pranger and Schlegelmilch, 2010; Scharmer and Kaeufer, 2014; Yu, 2010

The results show that the strategic competencies that belong to competence groups P and A were mentioned particularly often in the articles. Such desirable strategic competencies are, for example, creativity, openness to change, willingness to innovate, drive, decision-making ability, self-motivation and personal responsibility, thus answering the first research question: “Which strategic competencies should marketing managers
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possess in order to successfully manage in times of disruptive change?”. The strong emphasis on the personal competence group might be attributed to the often mentioned desirable strong leadership skills and the need for charismatic leaders.

In the second step, the strategic competence requirements are compared to the self-assessed strategic competence profile of future marketing managers. The strategic competence survey of a test participant returns a score for each of the four competence groups, P, A, M and S between 12 points and 48 points with the sum of scores being 120. Twelve points means that a very low level of development of strategic competencies in that competence group is assumed, and 48 points means that an extremely high level of development of strategic competencies in that competence group is assumed. The results are somewhere in between 12 points and 48 points for each competence group. However, the score is not an accurate measure of the absolute strength of the development of strategic competencies in any particular group. A high point score only means that the respective participant has a preference for applying strategic competencies belonging to that group over strategic competencies from other groups with lower scores.

In order to be able to compare the strategic competence preferences extracted from literature and the self-assessed preferences of future marketing managers, the mean values from the literature analysis will be scaled by a factor of 12, since the questionnaire has 12 questions in which rank orders 1-4 can be assigned (Heyse and Erpenbeck, 2009). By this scaling, the point scores become comparable.

After scaling the mean values that reflect the importance of the strategic competencies of the competence groups for managing successfully in times of disruptive change, as mentioned in the articles, the results of the corresponding standard errors of the mean values for the competence group scores are the following:

<table>
<thead>
<tr>
<th>Competence Group</th>
<th>Mean Value</th>
<th>Standard Error of the Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>37.8</td>
<td>2.292</td>
</tr>
<tr>
<td>A</td>
<td>30.5</td>
<td>4.632</td>
</tr>
<tr>
<td>M</td>
<td>26.8</td>
<td>2.412</td>
</tr>
<tr>
<td>S</td>
<td>24.9</td>
<td>4.392</td>
</tr>
</tbody>
</table>

In order to achieve organizational agility, Kotter (2012) proposed setting up a second operating system, which consists of an agile, network-like structure. Employees prospering in such a structure and fostering the success of that company should have an appropriate strategic competence profile. Since the successful management of companies in times of disruptive change is rare, it is believed that such a strategic competence profile would be exceptional, and that there is a development gap between the desired
profile and the profile to be found in marketing students as future marketing managers. A highly developed personal competence (P) is desirable, hence:

**H1.** There is a difference in the P competence group score between what has emerged out of the literature analysis as being desirable for managing successfully in times of disruptive change, and what is measured in a group of future marketing managers.

A high mean value of the competence group score A has also been found in the literature research, and:

**H2.** There is a difference in the A competence value between what has emerged out of the literature analysis as being desirable for managing successfully in times of disruptive change, and what is measured in a group of future marketing managers.

### 7. Population and sample

Within this study the population consists of all students studying in the first two semesters in the master’s study programme in ‘International Marketing and Sales’ at the University of Applied Sciences in Münster, Germany. The overall objective is that graduates of the study programme will be capable of facing periods of disruptive change. Recommendations for the modification of that particular higher education programme should be given.

Thirty-one out of 37 students participated. The applied sampling procedure had the disadvantage that the results may not be transferable to a larger, more generic population of students in marketing-focused higher education programmes (Bryman, 2012). Due to the scientific, quality-checked strategic competence diagnosis system, no further pilot tests have been performed. The results provide strategic competence profiles of each student in a normal and in a situation perceived to be difficult. Since situations of disruptive change are perceived to be difficult, strategic competence self-assessment profiles in a situation in which difficulty is perceived have been taken for comparison.

### 8. Data analysis and interpretation

The basic statistics of the results of the self-assessment questionnaire are shown in the following table. The mean values of the measured scores on competence groups have been calculated.

<table>
<thead>
<tr>
<th></th>
<th>Mean value</th>
<th>Standard error</th>
<th>Standard error of the mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>31.65</td>
<td>3.96</td>
<td>.712</td>
</tr>
<tr>
<td>M</td>
<td>30.87</td>
<td>6.23</td>
<td>1.118</td>
</tr>
<tr>
<td>A</td>
<td>29.19</td>
<td>5.44</td>
<td>.976</td>
</tr>
<tr>
<td>S</td>
<td>28.29</td>
<td>5.76</td>
<td>1.035</td>
</tr>
</tbody>
</table>
To check the hypotheses, a null hypothesis significance test (NHST) was performed. An independent two-tailed sample t-test was done for the P- as well as for the A-competence group scores.

### Table 4. Two-tailed t-test for NHST of H1

<table>
<thead>
<tr>
<th></th>
<th>P_Literature</th>
<th>P_Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>37.85</td>
<td>31.65</td>
</tr>
<tr>
<td>Variance</td>
<td>68.31</td>
<td>15.70</td>
</tr>
<tr>
<td>Number</td>
<td>13</td>
<td>31</td>
</tr>
<tr>
<td>Hypothetical difference</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>P(T&lt;=t) two-tailed</td>
<td>0.022</td>
<td></td>
</tr>
<tr>
<td>Critical t-value in two-tailed t-test</td>
<td>2.14</td>
<td></td>
</tr>
</tbody>
</table>

The difference between the mean value of the P: personal competence group score deduced from the literature analysis (37.85) and the mean value of the P-competence group score measured in the self-assessment of marketing students at the University of Applied Sciences, Münster (31.65) is significant at the 0.05 significance level [35.7; 40.0], p<0.022. The null hypothesis was falsified and the alternative hypothesis $H1$ was accepted.

### Table 5. Two-tailed t-test for NHST of H2

<table>
<thead>
<tr>
<th></th>
<th>A_Literature</th>
<th>A_Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>30.46</td>
<td>29.19</td>
</tr>
<tr>
<td>Variance</td>
<td>278.77</td>
<td>29.56</td>
</tr>
<tr>
<td>Number</td>
<td>13</td>
<td>31</td>
</tr>
<tr>
<td>Hypothetical difference</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>P(T&lt;=t) two-tailed</td>
<td>0.793</td>
<td></td>
</tr>
<tr>
<td>Critical t-value in two-tailed t-test</td>
<td>2.16</td>
<td></td>
</tr>
</tbody>
</table>

The difference between the mean value of the A: activity and action competence group score deduced from the literature analysis (30.46) and the mean value of the A-competence group score measured in the self-assessment of marketing students at the University of Applied Sciences, Münster (29.19) is not significant at the 0.05 significance level [28.3; 32.62], p<0.793. The null hypothesis was verified and the alternative hypothesis $H1$ was rejected.
The hypotheses-testing of this research was fairly successful. The research suggests that the strategic competence profiles of students of the master’s study programme in ‘International Marketing and Sales’ do not fully cover the required competence profile demands extracted from literature for managing successfully in times of disruptive change. Thus, the second research question, “Are marketing students, based on their strategic competence profile, prepared for the challenges of disruptive change?” must be answered in the negative. While the A: activity and action competence is assumed to be well developed, students seem to over-emphasize the M: methods and professional competence and the S: socio-communicative competence over the P: personal competence. The result is not surprising, since higher education institutions tend to focus on developing the M: methods and professional competence. The results show that students are not well equipped when it comes to situations of disruptive change. In particular, strategic competencies such as creativity, openness to change, decision-making ability, self-motivation and personal responsibility require further development.

9. Conclusion

Christensen’s (1997) concept of disruptive innovation has had a great impact and several follow-up investigations have been inspired. The scientific discussion on disruptive change and disruptive innovations is ongoing. The organizational competencies of agility and resiliency have been identified as being of great importance for successful management in times of disruption. Such times also require a re-orientation of talent management in order to lead organisations and equip them well to face future challenges. This effort is the starting point for a body of research to better understand the individual strategic competencies required to successfully manage in times of disruptive change. The study offers initial insights that higher education programmes need to re-adjust in order to provide graduates with a desirable strategic competence profile.

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Short bio of author

Since 2010, Bert Kiel has been Professor of International Marketing and Sales at the University of Applied Sciences in Münster. After his PhD studies in physics he worked for 10 years as a consultant and manager on five continents.
Risk in the activities of non-commercial organizations
– a basis for discussion

The issues of risk in the activities of non-commercial organizations are relatively rarely discussed. The process of managing companies identified mostly with business sector has already been described quite well, while in the case of the broadly understood non-commercial organization sector, it is difficult to find deep references and discussions related to it. An attempt to start a discourse on this topic, in particular in Polish conditions, is the main purpose of this study, and its operationalization involves the presentation of not only the specific nature of functioning of non-commercial organizations and references to the conceptual category of risk, but also it is associated with the need for identification of dilemmas and dysfunctions connected with their activities and for noticing any naturally emerging risks within it.

1. Introduction

Contemporary conditions of functioning of the organizations bring many challenges which can both stimulate the process or limit it. Undoubtedly, however, it also means, in the process of adaptation to existing challenges, the necessity not only to accept new requirements but also the imperative to design organizational changes. Thinking forward in this respect is not related only to functioning of the field of business but also refers to non-commercial organizations activities. It also means the emergence of various kinds of risks continuously accompanying the conduct of business activities, on the one hand, but also the functioning of non-commercial organizations, on the other hand. Change became an immanent feature and, at the same time, a challenge relating to the management process, and the risk category is inscribed in the architecture of this process.
The issues of risk in the activities of non-commercial organizations are relatively rarely discussed in the subject literature. The process of managing companies identified mostly with the business sector has already been described quite well, while in the case of the broadly understood non-commercial organizations sector it is difficult to find deep references and discussions related to it.

Fundamental questions are raised then: shall we start analysing these issues at all, and if so, can the solutions worked out in the business sector (and on what scale) be transferred to the sector of non-commercial organizations and to what extent the specific character of these organizations determines the need for the application of specific solutions corresponding to separate formulas of the organizations activities classified into the group of non-commercial organizations?

An attempt to start a discourse on this topic, in particular in Polish conditions, is the main purpose of this study, and its operationalization involves the presentation of not only the specific nature of functioning of non-commercial organizations and references to the conceptual category of risk, but also it is associated with the need for identification of dilemmas and dysfunctions connected with their activities and for noticing any naturally emerging risks within it. In addition, their significance can also be viewed in the long term perspective (Teczke, et. al., 2014, pp. 63–67) referred to planning processes related to it (Reid, et. al., 2014, pp. 31–39).

2. Defining risk

Therefore the specific character of risk referred to the functioning of non-commercial organizations not only means the need to consider their specific nature, but also forces the application of a partially separate set of tools and the process of its implementation, as well as monitoring the phenomena related to it.

Considering non-commercial organizations and their management, the risk can be identified as a basic element of the environment in which they operate. It is commonly believed that the word ‘risk’ needs to be negatively associated, however, in unit management, risk is likely to occur also in the form of positive events. Risk is very widely classified in literature. The basic criteria include (Gołuchowski, 2011, p. 266):

1 For the purposes of this article it is assumed that the term: non-commercial organization (non-profit, without income, not operating for profit, non-governemental organization) is defined as the entity that conducts non-profit activities for achieving goals useful in terms of the society including both actions to the benefit of individual people or groups of people and to the whole society. The implementation of goals takes place through the provision of social services focused on creating conditions of life and development compliant with the needs and cultural and civilizational aspirations of the citizens. Running activities of non-profit nature means resigning from economic motivation and giving the priority to humanitarian motivation. This does not exclude the possibilities of conducting business activities, however, they constitute very seldom the only source of financing of an organization, quot. acc. to: Krzyżanowska M., Marketing of non-commercial organizations services, Wydawnictwo Wyższej Szkoły Przedsiębiorczości i Zarządzania im. L. Koźmińskiego, Warsaw 2000, p. 11.
• effect:
  – specific risk – it is closely connected with a given area of the organizations' activities;
  – systemic risk – the organization does not have any influence on it, as it results from the environmental conditions.
• alternatives:
  – pure risk – the only solution to the situation is the emergence of damage;
  – speculative risk – future uncertain events may cause losses or profits.
• technological progress:
  – static risk – independent of the development of technology, related to e.g. natural phenomena, i.e. storms, eruptions of volcanos;
  – dynamic risk – it results from the civilization progress.
• measurability of consequences:
  – financial risk – it can be determined, it makes it possible to determine its impact on the financial result;
  – non-financial risk – difficult to be measured directly.
• time:
  – strategic risk – it applies to a long period of time and to making long-term decisions;
  – operational risk – related to short-term activities.

Currently, the issue of risk is considered on a much greater scale. It is necessary to analyse this phenomenon and thus reduce it and protect oneself against it. This results in the growth in the importance of risk management. This notion means decision-making and executing activities which lead to achieving an acceptable level of risk by this entity (Jajuga, 2009, p. 15).

The notion of risk is very complex and may have numerous meanings. Therefore, a clear definition of risk is not simple, however, we may specify the criteria for using this notion. They include (Tarczyński and Mojsewicz, 2001, p. 12):
• the fact that the result achieved in the future is unknown but it is possible to identify future conditions;
• the familiarity with the probability of particular results to be implemented in future periods.

The ways of classifying risk presented above indicate only the sources and search areas of risk. Presenting the issue only in this perspective does not make it possible to precisely define a specific motif to undertake risks with which appropriate action is intertwined. Thus, it seems purposeful to separate the two following types of risk: risk out of choice and risk out of necessity. The former kind of risk happens to be also defined as motivated risk, the latter – as non-motivated. Such a division justifies mutual effects of the factors to undertake risks on each other which include voluntary choice of actions, the degree of control of the actions conditions and time.
The risk out of necessity is the case when the decisions which concern it are made and performed to guarantee the “survival of the entity” (organization). At the same time, the entities undertaking risks out of necessity operate in the designated conditions or by objective factors (e.g. natural conditions) and/or organizational – structural interdependencies (e.g. excessively advanced organizational hierarchism), most often separate from its own evaluation of its effects.

The risk out of choice is the case when the entity makes particular decisions by a conscious, voluntary choice of a specified manner of action resulting from the analysis of the advantage option. The development of non-commercial organizations is thus bound with the passage from the risk out of necessity to the risk out of choice that is based on active and continuous search for new development opportunities present both in the company and in the environment (namely the so-called active anticipation).

Owing to the area of analysis defined above, the most important division found in the subject literature seems to be the division into pure risk and speculative risk (Mowbray and Blanchard, 1961, pp. 6–7 and others). Pure risk is a risk subject to insurance, speculative risk applies to the projects which cannot be insured. Such approach is proposed by J. Teczke who emphasizes, at the same time, that such a division is characterized by substantial flexibility resulting from the fact that the research instruments may be adjusted to the technical – organizational conditions in which an organization operates (Teczke, 1996, p. 18). The very division into pure risk and speculative risk is to a significant extent dependent on the degree of insurance market development. Hence, substantial differences can result between assigning particular projects to pure risk and speculative risk e.g. in Poland and in other countries with developing insurance markets, and the countries that already have well-developed insurance markets. Considering the above opinion it should be stated that such a division of risk into pure and speculative proceeds to a large extent along the line of measurability of the phenomena burdened with risk. Pure risk is measurable to a greater extent than speculative risk because in many cases the principle of large numbers can be used to determine it. Pure risk is also determined as static risk (in theory and practice of the insurance companies it is often identified as a unity subject to insurance). Speculative risk is described as dynamic risk and it involves undertaking certain actions (often it involves the notion of management risk). Pure risk is thus placed beyond the area of influence of an entity to which it applies, as opposed to speculative risk, which is related to the possibility of being actively influenced in its nature. Description of problems related to the division into pure and speculative risk emphasizes that a consequence of pure risk may only be a loss or its absence, as opposed to speculative risk that leads inevitably to one of the three states: loss, no change or profit.

4. **Specific character of non-commercial organizations activities**

State systems have many descriptions relating to the existing social organizations within it. The most frequent include:
- non-governmental organizations (NGOs),
- public benefit organizations,
• third sector organizations (the third sector),
• not for gain organizations (NFGOs),
• charities, welfare,
• non-commercial organizations (not-for-profit),
• private voluntary organizations (PVO).

The term non-commercial organization (non-profit) is commonly defined as the entity that conducts non-profit activities for realizing goals useful in terms of the society including both actions to the benefit of individual people or groups of people and to the whole society. The implementation of goals takes place through the provision of social services focused on creating conditions for life and development compliant with the cultural and civilizational needs and aspirations of the citizens. Running activities of non-profit nature means resigning from economic motivation and giving the priority to humanitarian motivation. This does not exclude the possibilities of conducting business activities, however, they constitute very seldom the only source of financing of an organization (Krzyżanowska, 2000, p. 11).

When trying to define the notion of non-profit organizations, it is possible to assume a more general starting formula connected with the specification of a social organization that leads activities focused on two dimensions (Hausner, 2008, item 90 and the following):
• public benefit – implementing tasks targeted at satisfying the needs of people not related to them;
• mutual benefit – operating for the benefit of its members.

Assuming a borderline understood in this way, it should be acknowledged that the notion of a non-profit organization refers definitely to the first of these dimensions which, in fact, enables the correlation with some kind of superiority of the ideological function and affects the performed roles and tasks. Therefore, agreeing with the results of the research conducted in Johns Hopkins University (see also Wygnański, 2006, p. 60) and attempting their expansion, the definition of non-profit organizations should include the following attributes:
• these are organized formations,
• they do not constitute a part of the state structure,
• they do not divide resources and funds at their disposal among their members,
• their immanent feature is the value of self-governance,
• voluntary service constitutes a natural element of their activities,
• they follow the ideas of social values (social mission),
• their management process is oriented on the process dimension connected with socially useful goals.

The subject literature has presented a variety of classifications of non-profit organizations. They can be characterizing by taking into consideration the following criteria:
• object of activities,
• sources of financing,
management method,
• ownership form.

It is precisely presented in figure 1.

Figure 1. The classification of non-profit organizations-synthetic approach


The consequence of so established definition frames does not have to be, by any means, and even should not be, an element of diverging or ignoring the postulate of professional management which, especially due to the growing importance of these organizations, requires recurrent improvement and transfer of best practices into this area.

The formal name of a non-governmental organization appeared in Poland as of the effective date of the Act on public benefit activities and on voluntary service of 24 April 2003, in accordance with which non-governmental organizations are legal persons or units not having legal personality that were established on the basis of the provisions of the acts which are not units of the public sector on the basis of the provisions on public finance, acting so as not to achieve profit, including associations and foundations (see also Act of 24 April 2003 on the activities for public benefit and on voluntary service. Article 3 passage 2). According to the international statistics, the third (non-profit) sector is formed by the entities compliant with the following criteria (Handbook on non-profit institutions in the System of National Accounts, Statistics Division, Department of Economic and Social Affairs, 2003):

• membership in the non-public sector (private),
• permanent organizational structure,
• autonomy,
• non-profit character,
• optional and voluntary participation in the activities of the organization.
The main features of non-profit organizations also include the following:

- non-profit organizations concentrate their attention on the so-called values of higher standard as e.g.: the welfare of humankind, culture development, health protection, natural environment protection;
- they provide services for the poorest and marginalised social groups;
- they usually operate for a long period of time which enables them to pursue long-term social goals;
- they create innovative and non-standard ways of solving social problems;
- they enable the articulation of needs by different social groups, promote the involvement of local communities;
- they execute tasks resulting from state polity;
- they are particularly effective in the process of social changes by monitoring, control and mediation;
- they acknowledge their profit only as a tool for the implementation of their mission and statutory goals;
- business activities conducted by them are oriented on the maximum return on investment and not on the minimization of costs;
- they have simple and expressive organizational structure independent of public authorities;
- they are self-governing and voluntary.

With all the diversity present between a non-profit organization and a commercial company, it is also important to note the internal diversity within groups of those organisations which, after all, operate in very different areas of actions and achieve very different goals. Very often, their only common denominator is the generation of broadly understood social benefits.

5. The dilemmas in non-commercial organizations management

From the etymological point of view we can look at the development of management of non-profit organizations on the basis of an analogy related to the business area. Whereas the industrial revolution initiated radical changes in the second sector, the 1970s and 1980s is a period of dynamic growth in the numbers and development of non-profit organizations. The main drive for their actions at that time was satisfying the social needs and focusing on program activity. Initially, any tasks from the scope were executed by public administration. Changes were introduced no sooner than in the early 1980s, when the 3rd sector developed clearly. At that time the needs of citizens were handled by separate organizations, taking over these functions from state administration (Courtney, 2002, p. 26). They were interested only in social problems, thus it is not surprising that in the initial phase of development they did not pay particular attention to management efficiency and quality (Drucker, 1995, p. 119). Therefore, thinking, and rather the need to change the paradigm referring to the for-
mula of managing those organizational structures became natural. Intuition, experience, willingness, trial-and-error method and any other signs of exercises on a living organism did not withstand the test of time. It became obvious that there was the need for transition to a stage related to professional approach to the management process. In addition, funding of the third sector from public funds supported, on the one hand, organizations in their activities, on the other hand, however, forced the need to conduct detailed financial statements and analysis effectiveness. It involved the need for development of a new management model – strategic management (Courtney, 2002, p. 110). However, whereas, undoubtedly, the idea of strategic management has its great qualities, at the present stage of development of the non–profit organization sector in many industrialized countries does not seem a solution not so much optimal, but not entirely consistent with its specific character. Nonetheless, the postulate denoting transition to professionalization of management in the third sector was easier to conduct thanks to the already established and empirically verified theories on the ground of the sphere of business and partially of the public sector, and, in principle, the problem could come down to analyses and attempts to apply proven solutions in the non-profit organization sector. And it is nowhere else but in the word “could” where the first main dilemma is hidden. Despite the fact that the concept of benchmarking (though not necessarily used in such exact terminological formula from the beginning) has been operating and applied, more or less knowingly, for a few dozen years (and, in principle, for many centuries), the process of spreading proven solutions to new organizational forms runs by no means at an impressive pace – we may be even surprised by the fact of inertia of actions in this area, though probably there are several reasons for that.

The second dilemma refers to unequal development on a global scale of the non-profit organization sector. There was probably a correlation – the greater the level of country (society) democratization – the greater the space for formation of initiatives related to activities of the third sector. And this process, after all, often takes place in a prolonged time function and though it seems that its dynamics intensifies on a global scale (even now African countries fighting for changes in system), the result in the formula of creating democratic systems and the effect, in the form of developing civil initiatives, are, however, significantly shifted in time. This effect is strengthened by the third dilemma – cultural differences. Changes in the mental sphere last for the longest time and not always the effect of their occurrence is sure. If this aspect bears religious and customary issues, then in many cases changes remain a doubtful issue. After all, the fourth dilemma is diverse, acceptable and conditioned by many variables models of the development of non-profit organization sector. The adoption of a model vision in this respect is neither easy nor fast for implementation and often assumes an incremental form, which, over time, becomes clearer, creating components that, in consequence, enable passing to the indication of the fifth dilemma: civil society in full or limited formula.
6. Dysfunctions and the risk in non-commercial organisations functioning

The sector of non-governmental organizations experiences many development limitations and encounters real barriers, not only in Poland, but also in other countries. In many cases they are related to the situation concerning contact of functioning of three sectors and the roles and tasks assigned to them (see also Fudaliński, 2013, p. 39 and the following). These problems also result from differences of organizational cultures, legal barriers and relate to the nature of conducted activities (Wygnański, 2008, p. 7). The irregularities are also related to increasing commercialization with regard to the third sector in the country and abroad (table 1).

Table 1. Division of identified dysfunctions of non-governmental organizations in Poland

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>Factors related to implementation of activities at the contact organization – environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of competences and skills of organization management and ignorance of one’s rights and obligations</td>
<td>Failure to comply with the law, especially concerning taxes, business activities and settlements with donors</td>
</tr>
<tr>
<td>Using the reactions of compassion and solidarity of the society in order to get donations</td>
<td>Vague connections with sponsors, lack of transparency in relations</td>
</tr>
<tr>
<td>Criminal activity of those managing being intended to their own benefits (focus on profit)</td>
<td>Establishing non-profit organizations only to gain privileges offered by the legal system (state) to non-governmental organizations</td>
</tr>
<tr>
<td>Failure of an organization to comply with the provisions included in the Act, nepotism</td>
<td>Proceedings inconsistent with the principles of corporate social responsibility (CSR)</td>
</tr>
<tr>
<td>Payment of high remuneration to organization members</td>
<td>Excessive orientation of non-governmental organizations on commercialization</td>
</tr>
<tr>
<td>Corruption</td>
<td>Using free advertising and promotion in mass media without proper correlation with activities conducted at an appropriate level of professionalism</td>
</tr>
<tr>
<td>Failure to comply with the existing obligations related to preparing financial and substantive statements</td>
<td>Blurred boundaries between non-profit and business sectors, through rivalry with business units about financial means</td>
</tr>
<tr>
<td>Establishing non-governmental organizations in order to implement private initiatives and gain related benefits</td>
<td>Reversed structure of settlements and operating costs of an organization – their greater part is internal costs (e.g. wages), which results in lack of funds for implementation of activities aimed at external recipients</td>
</tr>
</tbody>
</table>

Source: prepared by the authors

Dysfunctions of activities of non-profit organizations in Poland result from irregularities occurring both inside an organization, and are associated with unethical relations with external environment. Problems that occur in the third sector are related mostly to lack of competences and ignorance of the law by its members, which contributes to growth in abuses. Failure of organizations to comply with obligations related to preparing annual financial statements and failure of its members to comply with the
provisions included in the Act also adversely affects the development of the third sector. An important problem of the organization's dysfunctions of the non-profit sector are also occurring signs of activities bearing the signs of corruption where the founders often operate only bearing in mind their own benefits. Blurred boundaries between sectors, competition for cash funds also adversely affect the development of non-governmental organizations in Poland.

Dysfunctions included in table 1 show the existing development gap referring to the third sector in Poland and well-developed countries. Often it would be enough to apply simple mechanisms based on benchmarking methodology in order to avoid emergence of some dysfunctions and anticipating actions, focused on appropriate preventive legal provisions preventing or reducing the probability of specified pathology. Undoubtedly their restriction may be stimulating for the dynamics of internationalization of activities of non-profit organizations and at the same time cause implementation of the broadly understood standards recognized as basic in countries, which in this respect already have much greater experience. At the same time it should be stated that non-profit profit organizations activities in well-developed countries also encounter numerous barriers and irregularities.

Sample dysfunctions of third sector organizations in the international dimension, looking at the example of Great Britain (Hayday, 2010; Gabrusewicz, 2008) include:

- non-profit organizations becoming similar to commercial companies, both in terms of management process and culture of work;
- large competition of social entities with business organizations, mainly about cash funds;
- merger of contracted organizations into consortiums to increase their liquidity; financial, where smaller units are excluded from cooperation system;
- instability and fragmentariness of the services system for the society, constant changes of contractors and subcontractors, which leads to depersonalizing support;
- disappearing of boundaries of the non-governmental sector and governmental sector.

The main dysfunctions present in the third sector in Great Britain include mainly excessive commercialization of social entities. Public services are ordered there to the non-profit organizations and business entities in the tender procedure. Therefore, non-governmental organizations, in order to acquire financial measures, must compete with business companies (Kaim, 2011, pp. 297–300). Therefore, the comparative analysis concerning differences in the scope of development of the non-profit organizations sector in Poland and Great Britain may seem interesting, taking account of basic criteria showing the level and formula of its development (table 2).
Table 2. Comparison of British and Polish model

<table>
<thead>
<tr>
<th>Properties</th>
<th>Great Britain</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applying the subsidiarity principle</td>
<td>The principle does not refer only to the possibility to obtain subvention, but regulates, above all, division of responsibilities between the public and the private sector with regard to providing social services.</td>
<td>In Poland this principle is applied to a smaller extent, but readiness for common action is also present.</td>
</tr>
<tr>
<td>Transparency of the organization’s functioning</td>
<td>There is high transparency in non-governmental organizations’ activities, an important element is efficient, reliable conduct of control and making reliable financial statements.</td>
<td>Not always transparency of the organization’s functioning is maintained, due to failure of the organization to keep reporting obligations; there is often no transparency in this respect.</td>
</tr>
<tr>
<td>Cooperation between sectors</td>
<td>High involvement of the state in helping non-profit organizations, trust between sectors is present.</td>
<td>The state to a smaller extent is involved in non-profit organizations activities, low trust between sectors is present; awareness in this scope is still being built.</td>
</tr>
<tr>
<td>Commercialization</td>
<td>Non-profit organizations to a large extent became similar to commercial companies, aiming at profit and rivalry for cash funds.</td>
<td>Non-governmental organizations more and more often aim at commercialization.</td>
</tr>
<tr>
<td>Professionalism and competencies of management</td>
<td>Larger experience and traditions taking account of the special character of non-profit organizations management</td>
<td>Poland is lacking in managing people with competence, there is frequent ignorance of basic canons of management process; awareness in the need of professionalization of the management process is slowly growing and is fragmentary; there is strong sense of implementation of the adopted mission, without taking into account professional management to a sufficient extent.</td>
</tr>
</tbody>
</table>


Although, as it is determined, sometimes excessive commercialization of the third sector in Great Britain is not a favourable phenomenon, nevertheless it is estimated that Polish non-profit organizations may be more exposed to commercialization than the British ones because of not very rich Polish society, which in addition, still does not have sufficiently well-developed philanthropic culture. It is also important that Great Britain has its high level of non-profit organizations activities thanks to proper cooperation with the public administration.
In this sense Poland should seek benchmarks in order to construct model solutions optimizing the process of the third sector development, but also avoid on the same principle making mistakes (table 3). From this point of view, you can optimize solutions stimulating the development not only in quantitative sense but, first of all, in qualitative sense.

Table 3. Specification of pathology of non-profit organizations in Poland and other countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Pathologies in the organizational field</th>
<th>Pathologies in the financial field</th>
<th>Pathologies in the social field</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>– not undertaking actions caused by the lack of structures and financial possibilities</td>
<td>– lack of appropriate, fully standardized financial statements</td>
<td>– decreasing popularity of voluntary service</td>
</tr>
<tr>
<td></td>
<td>– lack of proper equipment</td>
<td>– disproportions in received assistance</td>
<td>– low prestige of work</td>
</tr>
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<td></td>
<td>– aversion to improve the quality of provided services</td>
<td>– no revenue or its minimum level in the case of some organizations</td>
<td>– periodical (occasional) desire to help by the Poles (WOŚP) – lack in this respect of well-established, permanent patterns of behaviour</td>
</tr>
<tr>
<td></td>
<td>– activities in the mode of temporary contracts (contracts of employment are rare)</td>
<td>– disproportions in the size of budgets</td>
<td>– uncritical assessment of the representatives of organizations</td>
</tr>
<tr>
<td></td>
<td>– activities in areas that are subsidized, not in those that require assistance</td>
<td>– relatively large part of funds spent on administrative costs and wages (which sometimes means a way of negative financial drainage of organizations)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– lack of full respect of the Act on public benefit activities and voluntary service</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>– alienation of the third sector – activities on their own account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The United States</td>
<td>– too many court trials</td>
<td>– corruption</td>
<td>– treating activities for the benefit of non-profit organizations as sometimes an obligation, and not an expression of natural willingness</td>
</tr>
<tr>
<td></td>
<td>– too many legal regulations</td>
<td>– lack of proper financial reporting in private foundations</td>
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<tr>
<td></td>
<td>– using the law to exercise pressure</td>
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<tr>
<td></td>
<td>– sometimes incorrect measurement of results of activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries of the former USSR</td>
<td>– lack of appropriate structures</td>
<td>– shortage of financial measures to continue activities</td>
<td>– reluctance of citizens towards social activities caused by experiences from the previous political system,</td>
</tr>
<tr>
<td></td>
<td>– lack of qualifications, knowledge in the scope of running non-profit organizations</td>
<td>– using non-profit organizations for illegal financial flows</td>
<td>– lack of developed standards of conduct and cultural support in this respect</td>
</tr>
</tbody>
</table>
6. **The possibilities of limiting risk in non-commercial organizations**

Risk assessment in non-commercial organizations may come down to the use of uncomplicated techniques and methods. For instance, situational scenarios (scenario methods) consist, in a general outline, in building a multi-senario analysis of future environmental conditions with the uncertainty taken into consideration. The application of scenario methods involves the recognition of the variable directions of changes in the environment. Each factor that affects the organization at a given time may evolve in the future in different ways, both favourable and unfavourable. So this method is to inform the organizations about potential opportunities and hazards resulting from the future environment scenario by incorporating the strengths and weaknesses of a non-commercial organization into it. The mutual effects of these two layers of the scenario set a direction of organizations activities towards risk.

The active attitude of the organization will be related to striving for anticipating and overcoming risks, whereas the passive attitude will direct the actions of the organization towards reducing and avoiding risk. Thanks to the fact that a scenario allows forecasting the future in an optimistic, realistic or pessimistic way, it creates the time horizon for the activities the purpose of which may be the minimisation of risk. It is believed that “options: that are optimistic and pessimistic relate to the limits in the size of potential effects of the risk implementation” (Jedynak, 1999, p. 37). The most useful method – from the point of view of identification and risk assessment – is the scenario method of possible events and the scenario method of processes in the environment (see also Gierszewska and Romanowska, 1996, pp. 53–69).

Operational methods are applied in the case of “complex risks where other methods are not effective. The most commonly assumed strategy is the “strategy of games” consisting in taking into consideration various combinations of uncertain elements of the influence typical of extremely unfavourable conditions of all actions, the continuation of which is not subject to reversal, and the potential consequences pose a hazard for the survival of an organization. At the same time, the market does not permit a relatively quick change in strategy. This leads to a multi-dimensional decision-making situation in which the determination of the probability to obtain the specified effect is extremely difficult” (Teczke et al., 2001), and unnecessary in the case of functioning of the non-commercial organizations. Exemplary methods possible for use in risk evaluation are presented in the table below.
Table 4. The list of exemplary tools that can be used to evaluate risk

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<th>Strategic management tools</th>
<th>SWOT method</th>
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<td>Scenario technique</td>
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<td>Analytical-point methods of the assessment of the sector’s attractiveness</td>
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<td>The analysis of key success factors</td>
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<td>Profile analyses</td>
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<td>Inconsistencies assessment techniques</td>
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<td>Statistical techniques</td>
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<td>Other</td>
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<td>Financial statements tests</td>
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<td>Discriminatory methods</td>
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<td>Risk assessment techniques on financial markets</td>
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Risk assessment proceeds to a significant extent at the stage of particular functional areas of the non-commercial organizations. However, the results of this evaluation affect making particular decisions so they are usually transferred to subsequent management levels in order to determine the possibility of reducing risks.

Risk management (manipulation), including observation, control and evaluation of the effectiveness of activities of an organization towards risk, happens on the strategic level of the company and is executed in a centralized manner. An organization can adopt one of the following attitudes towards risk:

- avoid risks,
• aim at reducing or eliminating risks,
• transfer the risk to others,
• take the risk.

Risk avoidance is defined in the subject literature as passive attitude. It is, all in all, the most risky method to use. It leads, as a consequence, to the failure to achieve goals of an organization and constitutes an element that destructively affects its functioning. The other three attitudes mentioned above are defined as active attitudes. The drive to reduce or eliminate the risks means the attitude which is expressed in implementing the procedures and activities which can prevent or reduce risk and consist in: compensation, division of risks and prevention. Risk transfer takes place as a consequence of the transfer of risk to:
• an insurance company,
• entities different than an insurance company.

Taking risks (consciously) is an expression of the most active attitude towards the risks. This attitude is a result of the organization’s ability to handle risks. The ability of an organization to take risks expressed in the ability to start projects burdened with the risk is, on the one hand, the determinant of possibility to take risks (material, human and organizational), on the other hand it is related to the preparation of a company to function under the conditions characterized by a great degree of difficulties in achieving the set goals. In the second perspective this ability is identical with entrepreneurship. The ability to take risks is at the same time dependent on many factors among which it is possible to list, above all: the attitudes of the management staff, ownership form and the degree of connection with the market. Among the above mentioned factors the greatest role is played by the attitudes of the management staff which can be demonstrated by readiness to take risks or its lack.

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RISK IN THE ACTIVITIES OF NON-COMMERCIAL ORGANIZATIONS – A BASIS FOR DISCUSSION


Act of 24 April 2003 on the activities for public benefit and on voluntary service. Article 3 passage 2.


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Chapter 2
Management
Managing Disruptive Change by Partnering

Disruptive change marks essential external changes to a company’s or industries’ previous general framework. These changes arise with increasing speed compared to the past. The alteration of an economic system (from socialist to a social market economy like the states of former East Germany or Russia, China or changes of ethnic preferences to more liberal systems such as in South Africa or the Balkans), the global financial and economic crisis, the turnaround in energy policy, the current increase of academic students or the change towards more economic thinking are typical examples.

This chapter makes suggestions to increase the chances for a successful handling of disruptive change and emerging strengthened from it by engaging in business-cooperation. Therefore, a combination of change management and cooperation is used so that inter-organisational, intentional interdisciplinary teamwork, potential and alternatives for the cooperation partners are enabled. In addition, a better handling and utilisation of emerging opportunities resulting from disruptive change can be used to benefit the partners.

1 Introduction

The term ‘disruptive innovation’ or ‘disruptive technologies’ generally refers to products which completely oust previous product technologies and create new markets at the same moment. Compared to previously used technologies, disruptive technologies may be inferior concerning costs but prevail in the long run due to incontestable benefits. These attributes can relate to process innovations that are oftentimes prerequisites for new products and extended market opportunities. Unlike disruptive innovations, the term ‘sustaining innovation’ is used to merely describe improved but already existing technologies and related market conditions (Christiansen et al. 2008; Bula et al. 2011).
Concepts are needed which serve the purpose to prepare economic organisations concerned with unexpected changes of their micro and macro surroundings to actively shape and design, possibly even proactively triggering and driving the change. Currently literature is lacking concepts to conquer these challenges. This paper can be seen as a starting point to develop such concepts.

This essay uses strategies and measures in the present context as ‘chance management’ which puts an inter organisational view, as well as the knowledge and technology transfer in focus to furthermore promote the knowledge exchange and therefore meet the challenges and seizing the opportunity with disruptive change to enable benefits for corporations.

Therefore needed are

- A characterization of disruptive change characteristics concerning branches of trade/fields of activity,
- The identification and categorisation of potentially cooperative alternatives of action referring to (unpredictable respectively difficult to predict) changes as well as
- The deflection and definition of concepts and policy options based on these alternatives of actions.

2. Current state of science

Disruptive change puts pressure to act on many organisations especially with changes in the micro and macro environment (politically, economically, socially, technologically, ecologically, and legally). Disruptive change describes an “unpredictable” (Hughes/Cosier, 2001, p. 24) operational, competitive or contextual (Ramirez et al., 2008) fundamental change, which effects an organisation externally or internally within their current framework (Jumpertz, 2010). The relevant micro and macro environmental disruptive changes of economic sectors will be the focus of this paper.

In order for disruptive change to be value adding the organisation has to actively manage a transformation process (Jumpertz, 2010). A high degree of durability and agility are needed to create a successful reaction following the disruptive change (Ramirez et al., 2008). Previous research projects regarding the handling of disruptive change emphasise the external forces causing the change of the organization (Teczke et al., 2013). The standards of multiple industry branches are outreached by the disruptive technologies and innovations (e.g. mobile internet, e-mobility). The development of new markets or the transformation of existing markets (Christiansen/Overdorf, 2000; Leavy/Sterling, 2010).

In order to implement these actions the generation of new business models, products or business processes are needed (David/Dreischmeier, 2010). Therefore the plurality of published research projects explore the effects of disruptive technologies/ innovations in order to assist organisations with approaches to deal with the ‘destructive’ impacts as well as the significant opportunities that unfold (Christensen/Overdorf, 2000; Carayannopoulos, 2009; Huang, 2010; Numssen, 2012; Hüsing/Soppe, 2011;
Dhillon et al., 2001). These research projects categorise innovation for instance in “radical”, “architectural”, “modular”, and “incremental” but an explicit assignment which technologies describe disruptive change are missing (Henderson/Clark, 1990; Carayannopoulos, 2009). Moreover various forms of reactions towards disruptive technologies are categorised in “replaced” and “preserving” technologies (“disruptive technologies” and “sustaining technologies”) as well as “low-end” and “new-market disruptions” (Hüsing/Soppe, 2011).

Furthermore, research projects discovered that small companies (small and medium size enterprises and start-ups) handle disruptive change especially successful (Christensen/Overdorf, 2000), sometimes they even proactively cause and inspire the development of disruptive technologies themselves. Due to a lack of flexibility and adaptability bigger cooperation’s oftentimes see the opportunity proactively to generate disruptive change too late, in addition difficulties of adequate reactions and essential structural adaptations arise (Carayannopoulos, 2009). Thereby bigger, greater established corporations could be endangered (Hüsing/Soppe, 2011). Previous research predominantly refers from reactive up to active handling of disruptive change, and accordingly to a late reaction or an active contribution at an early stage to the change. However, the latter and as well as the possibility proactively to initiate a change in particular was only insufficiently covered in previous research projects.

In his article Jumpertz (2010) describes the need to reactively handle disruptive change for the composition of a transformation process through change management while taking into account the entire corporation. Christansen/Overdorf (2000) emphasise the appraisal of internally adequate organisational approaches to react as well as initiate disruptive change, which are a necessity for a collective analysis of resources, processes and values (so-called “RPV-Framework”) of a corporation. Thereby bigger, more established corporations in particular specialised in disruptive technologies with “ceding” (withdrawal from the business, leaving it to the competition) or “co-opting” (acting as a disrupter themselves with a development or acquisition of their own) can react to it (Christensen et al., 2004). The spiral approach applicable in all industries, developed by Briones (2012), implies strategic procedures that shall guarantee a balance between flexibility and monitoring of successful disruptive innovations. At each level of project progress, different tools of application are proposed for the development of radical or disruptive innovations.

3. Forms of Partnerships

The complex and multilayer essence of a partnership impedes its systematisation (Balling, 1998). Inter-company cooperation’s can clearly be differentiated by numerous criteria such as: duration, intensity, number of linkages, geographic location, focus of the cooperation, as well as enterprise function respectively value creation activities of the cooperation, these are the most common dimensions (Etter, 2004). In the following, some options for classification with their characteristics are being introduced.
Classification according to the quantity of partners and coordination structure

The number of partners and the resulting relationships can be used to classify partnerships. A distinction is made between

- Bilateral bonds (a) and networks (b) and
- Simple (c) and complex bonds/networks (d).

Bilateral bonds (a) are characterised by both partners cooperating and promptly reacting to the others’ behaviour. Informal agreements between the partners, technology agreements and patent-exchange-contracts are examples for bilateral bonds. The complexity and therefore also the relationship quality change if yet another partner joins the network (b). The connection between two single protagonists changes to a multi-player connection. Simple networks (c) are usually star-shaped and can only implement a small variety of available activities between the partners. A typical example for a simple network is the franchise-system: a key player looks for multiple partners to cooperate with and which will be centrally coordinated. Complex networks (d) are characterised by the large amount of the potential relationships that are actually put into practice and sub-networks with bi- or tri-lateral structures are being built if necessary. They can furthermore be identified by the large variety of partners (Kutschker, 1994).

The decision criterion most used to systematise partnerships is the partners’ position at their level of value creation and “value perception” (Glowik/Bruhs 2014, p. 81). This is because the criterion is easy to determine and has a high level of decisive influence on the target course of the cooperation (Balling, 1998). It distinguishes between:

- Horizontal cooperation focus
- Vertical cooperation focus
- Lateral cooperation focus (Zentes/Morschett, 2003).

Fig. 1. Classification of the partners according to their disposition in the value creation chain (Knorr, 2005, p. 65).
Hereby a horizontal cooperation constitutes the connection between partners that are at the same level in the economic process.

Affiliated companies that belong to consecutive levels in the value creation chain are called vertical cooperation. The aim of this cooperation is for each partner to focus on their strength of their specific skills along the value creation chain.

A lateral cooperation includes companies that are not at the same level of value creation, nor are they integrated in the value creation process (Friese, 1998). A horizontal cooperation can be founded to be vertically active concerning their objective target for instance, possibly in form of a manufacturing business (Balling, 1998).

A synergetic relationship, in terms of competing efforts, or a complementary relationship, in terms of supplementary efforts, between partners can exist. Therefore, even corporations that are competing with each other can collaborate with each other. Activities at the same level of value creation are connected with each other in order to strengthen ones specific skills and compensate existing weaknesses.

Assessing cooperation according to their geographical coverage regional, national and international forms of cooperation are to be found (Friese, 1998). In recent years, the focus was set especially on international cooperation. A change in the frame conditions, globalisation as well as new information- and communication technologies are the cause for their increased appearance (Zentes/Schramm-Klein, 2005; Jirjahn et al., 2005; Scheer et al., 2005).

4. Motives to engage in Partnerships during Disruptive Change

Generally, a primary objective can be found: the achievement of “joint competitive advantage” to manage change. That means a “win-win-situation” for both sides (Zentes/Swoboda, 1999). Connected to this are various other motives to form partnerships. The reasons could be changed in-house (endogenous) cost structures or external (ex-
ogenous) changes in the market and environment conditions (Zentes/Schramm-Klein, 2005). Company strategies and measures regarding the choice and embodiment of their cooperative arrangements are influenced by further adequate determinates to handle disruptive change (Mellewigt, 2003):

- Access to know-how and resources
- Market access
- Cost advantages
- Time advantage
- Risk minimization

Junkers study “Consistency as a selection criterion for successful cooperation – empirical evidence and methodology of a „Consistency Map” (Junker, 2014) interviewed 132 companies regarding their aim of a partnership. The study clearly shows that partnerships provide a proper solution to face the challenges of disruptive change. Partners often cooperate to join their competencies and characteristics in a synergetic or complementary way.

5. Change Management

Considering disruptive changes and necessary partnerships, elements of the change theory are being used. According to Rank/Scheinpflug (2008), holistic change management contains four core elements: Aim of the change management, depth of the change, content of the major point and change process. Change process resulting from disruptive change usually classifies as second-level change (radical change), which in comparison to first-level change (gradual change) is expected to cause extensive interference with intra-organisational strategies, processes, structures, behaviour patterns and corporate culture (Staehle, 1999; Vahs, 2007). Company-Cooperation can assist in moving change management caused by disruptive change to an inter-organisational level, in order to use knowledge exchange to (better) anticipate change activity and develop strategies together. This contemplation offers constructive external perspectives on this as well as interdisciplinary approaches in many times. Value chains as the basis of inter-organisational value systems (Porter, 2000) represent other precise actions to handle disruptive change. Business organizations aim at the maintenance of efficiency, which manifests itself in the fact that it is accepted by other organisations which cooperate with it. This general identification can be supplemented with the definition of Dawson (1969) “… a company may protect its existence for a long time if it meets the objectives of direct contractors, that is recipients, suppliers, employees, as well as development tendencies of the super-system, that is social expectations, legal requirements, etc.” (Dawson, 1969, p. 29). One may thus state that a business organization is efficient in the general sense as long as it meets expectations of these groups which have organizational power. For efficient functioning, contemporary business creates requirements and sanctions limiting the impact of all these actions that might weaken the organization itself. For the defence of its interests, an organization thus takes up the following actions:
identifies various impact groups, along with the analysis of internal functioning processes, leading to building the criteria of efficiency and determination of relation of its own links of power in the organization with other groups of impact,

diagnoses objectively or subjectively formulated criteria of efficiency, leading to the self-evaluation of the organization, and creating the possibility of actually executed sanctions against the organization,

builds the system of measures compensating the inefficiency organizational, allowing to restore the assumed level of efficiency.

The process of identification of impact groups characterizes both the existing internal relations and describes interactions between them, but also includes external factors of impact, such as social and legal standards, market. This part of activities performed by business leads to determination of a set of criteria of efficiency.

Diagnosis should permit interpretation and evaluation of the criteria of efficiency. For such an assessment it is necessary to determine all specific situational conditions and develop an operational set of criteria of efficiency. While at the stage of identification the formulated criteria have only the nature of general indications, in the process of diagnosing they should be transformed to the form enabling clear evaluation of the obtained results. The created assessments system additionally fulfills the task of stimulating members of its own organization (or in case of global companies – of its own organizations) and the local community.

Compensatory system allows to move in the set of passive or active operations. Passive activities mean adjustment to the criteria formulated by environment. Business environment decides which criteria will be formulated and which levels of fulfilling them will be satisfactory. Only very high attractiveness of the market, or extremely poor position of the organization, would lead to approval of passive activities. On the other end there are active operations, denoting that it is the organization, which in the most favourable manner establishes and freely changes a set of criteria and the levels of fulfilling them. In the extreme form, active operations are possible in case of extremely small market attractiveness or extremely strong position of a business organization.

Three categories can handle disruptive change in particular:
1. Reactive: (late) reaction to change
2. Active: (preciouses) active contribution
3. Proactive: self-initiated, created and shaped change

Whereas the latter category holds the most opportunities and highest potential not only to overcome but also to handle change to advantage.

6. Discussion

This article intends the development of holistic, embellished solution statements for a proactive handling regarding disruptive change by partnering. Existing solution statements such as change management are being expanded by an inter-organisational perspective. In this context, company-cooperation is the foundation of innovative and creative, customized solution statements that take the reactive, active and proactive
handling of disruptive change into account. Typical company value chains are expanded towards an inter-organisational value system. The novelty of this approach among others consists of company value systems as an instrument to reach the solution statement. Therefore, a simultaneous, formerly unused transfer of value chain concepts as a management approach to handle disruptive change and closely linked change management and partnering to exploit implied opportunities.

Discontinuation processes force organizations to use such solutions which will be less sensitive to the variability of the environment. The process of shaping efficiency presented the first part needs to be modified (Fig. 3).

Relationships in the destabilization model in the basic part are shaped by the discontinuation nature of the organization’s framework of actions. This basic perspective for formulating the possibilities of the organization’s functioning leads to the dominance of information processes for all systems of action. The flexibility of a business organization’s internal processes should be considered as the central element.

This approach combines and integrates existing and new models. Innovative potential for handling disruptive change has been established. It also demonstrates not only the relevance but also the impact of partners and partnerships in contextual Action Systems 1 and 2 in the framework of destabilization.

**Fig. 3.** The process of shaping efficiency and partner relations under destabilization conditions (adapted from Teczke, 2014, p. 70)
Research shows that standards for this problem are non-existent. Furthermore, software, exceeding the possibilities of hitherto risk- and change-management-programs that could increase above-mentioned potentials, is lacking. This paper carved out first solutions to handle the new subject matter of to overcome disruptive change by partnering.

7. Forecast and further research

Companies are currently lacking the demonstrations of approaches, which incorporate a reactive, active and proactive handling of disruptive change in the scope of a micro and macro environment and will furthermore be universally applicable. Moreover, the consideration of universities in former research projects, in terms of an inter-organisational university-company view, does not take place. Therefore, the transfer of inter-organisational university-company-value systems in change management as an additional basis of a possible solution for the challenge presented by disruptive change is non-existent. The present project aims to close the existing research gap.

Within this context, the Triple-Helix-Approach (e.g. Etzkowitz, 2008) should be mentioned with its focus on politics, science and economy interaction. The collaboration between universities and the industry, like the knowledge- and technology transfer among others, offers potential for a successful reactive, active and furthermore proactive handling of disruptive change (Baaken 2009a).

Holistic, modular avertable as well as practical solution statements for a proactive approach of disruptive change are missing. Thereby existing solution statements such as change management are being expanded through an inter-organisational perspective. In this context company-cooperation serve as a basis for ideal solutions that are specified for a certain organisation, to include the reactive, active and proactive handling of disruptive change in a micro- and macro environment. Classic company-value-chains are being enhanced towards an inter-organisational-value-system. The use of university-company-value systems as an instrument to reach a solution shows the novelty of this approach. Therefore, a formerly non-existent transfer of value-chain-concepts as a management approach is used to handle disruptive changes and associated change management activities to exploit opportunities resulting from implications.

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Borderless business – Bridging the gaps between fairly contrastive management concepts

For the management the ability to pursue two disparate aims at the same time is often a critical factor of success. Trade-offs between conflictive objectives are a typical phenomenon in decision-making processes. Solutions that combine the advantages of at first sight contradicting positions are the royal road. This article highlights some of those concepts bridging the gap. After discussing two perspectives of the topic from a theoretical point of view (make vs. buy, central vs. decentral) the text is supplying some practical examples.

1. Introduction

“To Be or not to Be: That is the question.” The famous citation from William Shakespeare’s tragedy Hamlet is a brilliant example of the contrariness a human being has to cope with. This article does not claim to discuss the fundamental contradictions of mankind. But trade-offs between conflictive objectives represent a typical phenomenon any management has to handle. In nearly every field of business such trade-offs are on the agenda, and it is the job of a manager to resolve such contradictions. Let us have a look at some demonstrative examples to underline this finding. Concerning business strategies Michael Porter introduced the two mutually exclusive strategies of cost leadership and differentiation. His recommendation was putting a clear focus on one strategy otherwise a company is pushed into a “stuck-in-the-middle position”, which will lead to notable disadvantages in its competitive situation (Porter 1980). Another example is the make-or-buy decision particularly analysed in the transaction-cost-theory (Williamson 1975 and 1985). Concerning business processes, the question is whether to organise processes centrally or decentrally or to draw the attention primarily to cost or to quality issues. Another conflict of goals is well known when processing orders.
Offering highly standardised products on the one hand or customised products on the other are the two extreme positions.

Over the past decades a trend has been recognisable to draw the attention to possibilities of how to remedy such conflictive relations and of how to apply solutions that help bridge the gaps between adverse positions. For example, Gilbert and Strebel enhanced the Porter strategies by applying their outpacing-strategy approach which proposed a combination of cost-leadership and differentiation (Gilbert and Strebel, 1994, pp. 239). In supply chain management postponement strategies standardised and customised parts are combined by defining the order-penetration point. The concept of ambidexterity describes the capability of an organization to be efficient and responsive at the same time (Chopra and Meindl, 2013, pp. 351). Eventually ambidexterity in innovation management has also been used for combining know-how exploitation as well as exploration (Hobus and Busch, 2011, pp. 189).

The purpose of this article is to highlight some selected concepts in business management which bridge the gaps between the above-mentioned conflictive objectives (“bridging-the-gap approaches”). After discussing two perspectives of the topic from a theoretical point of view in chapter two, some practical examples are presented in the third chapter.

2. Theoretical Background

2.1. Make vs. buy

In his article of 1937 “The Nature of the Firm”, Coase investigated the reasons why firms exist at all, since market-based governance via the price mechanisms supposed to be most efficient. He concluded that “the main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism” (Coase, 1937, p. 390). Building on this work, Williamson developed later the transaction cost economics. Thus, depending on the determinants asset specificity, uncertainty, and frequency of a given transaction, hierarchy (make) or market (buy) is the most efficient governance mode. Basically, market and hierarchy can be understood as two possible ways of organising economic transactions, whereby their favourability depends on the respective transaction costs. Within the boundaries of the firm the transactions are hierarchy-based governed by command. The employees are less incentivised, because they are rewarded on the basis of the inputs provided (e.g. time worked, skills or experience). In contrast, transactions on the market are governed by price. The contractors are more strongly motivated because they are compensated according to the output produced, thereby bearing the risk in case of poor performance. (Williamson, 1975, p. 82; Makadok and Coff, 2009, p. 298).

It was until the early 1990s that Williamson extended explicitly Coase’s dichotomous view of either market or hierarchy by considering additionally hybrid modes (ally) (Williamson, 1991). From a transaction cost perspective, hybrids display inter-
mediate values in all governance attributes mentioned. In concrete terms, the hybrid governance mode is characterized by “semi-strong incentives, intermediate degree of administrative apparatus, displays semi-strong adaptations of both kinds, and works out of semi-legalistic contract law regime” (Williamson, 1991, p. 281). Hybrid forms of organization use a combination of hierarchy – and market-based governance for transacting with only one exchange partner.

Hybrids need specific investments as a risky input in advance. These investments require a certain trust between the partners and are usually secured via contractual means or a financial contribution from both sides. (Bach et al., 2012, p. 105). One company, the so called truster, is relying on the activities of another partner, the trustee. The uncertainty involves the risk of failure or harm to the truster if the trustee does not behave as desired. Trust in cooperation is necessary since it is impossible to regulate all possible eventualities of social interactions in long term contracts. Trust can lead to a reduction in behavioural insecurity and system complexity because bureaucratic coordination, control efforts and negotiation time can be reduced through an open exchange of information. (Petry, 2006, pp. 88).

One possible variant of a hybrid mode is a value network. When firms ally they need to adopt collective strategies for value generation. For example, they are fostering their collective expertise through sharing information and knowledge. Another objective is the division of labour, so that each partner is responsible for his special portion of added value. The partners involved contribute specific core competencies and resources to the cooperation in order to optimise the generation of common values. The partners’ core competencies are ideally complementary to each other. As a result the cooperating companies form a value network to jointly realise value potentials resulting from interlinking value-added processes across companies (collaborative value advantages). They work in relatively stable cooperative relationships among legally autonomous but economically interlinked companies. (Bach et al., 2012, p. 106).

Figure 1. Value network
2.2. Central vs. decentral

Changing from an inter-organisational perspective to an intra-organisational one, the “best-of-both world solution” between central and decentral organizational forms, is also termed hybrid organisation. (Johnson and Leenders, 2006, pp. 331) Especially for multi-business firms one important question for designing their organisational structure is whether to operate business processes in a central or decentral organisational structure. A central organization means that one unit is running the business activities for all other units, e.g. a central accounting department. In a decentral organization the different business units do the business processes on their own.

The main advantages of centralisation are the more efficient allocation of resources, economies of scale and better expertise through know-how pooling (Dröge and Germain, 1989). Higher autonomy and control over business processes, the possibility to make decentral units accountable for performance (profit centre) and a higher motivation are the main arguments for decentralisation (Quinn, 1992). The centralisation of business processes is an appropriate solution for support processes not directly linked to the core business of a company. Here the mentioned benefits can be realised. In many cases decentralised solutions are more suitable for direct-value-adding processes which belong to the core business of a company. The shorter distance to the market and the customer is the main argument for this solution.

3. Bridging-the-gap concepts

3.1. Innovation: Open innovation

Companies are traditionally not tending to open their innovation processes to other players because innovation is the source of all successful future business and something like the “jewel in the crown” of the company. Firms are afraid that competitors might copy their new ideas, be the first on the market and entice their customers. Therefore the concept of closed innovation is widespread which seals the innovation process from external factors of influence. In recent years, the process of innovation has shifted from closed systems, internal within the firm, to open systems involving a range of players which are located upstream or downstream in the supply chain. The comprehensive exploitation of external capabilities by outsourcing the innovation process to specialised service providers is the extreme at the other end of the scale. More and more companies are discovering the benefits of integrating partners into their innovation activities. Literature refers to this approach as open innovation which is mostly based on the research findings of Henry Chesbrough. “Firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology” (Chesbrough, 2003).

Three types of open innovation can be distinguished (Lichtenthaler, 2011, pp. 76). Inbound or outside-in open innovation means that companies acquire external technologies to extend their internal knowledge base. For example, large pharmaceutical firms
put this approach into practice with regard to small biotechnology companies. The lead user approach recommends the integration of customers who demand requirements ahead of the market in the product development process (von Hippel, 1986). Forward sourcing is another approach in this area and means the early integration of suppliers into the product development process (Appelfeller and Buchholz, 2011, pp. 128). The second type of open innovation is *outbound* or *inside-out open innovation*. This means knowledge exploitation by actively commercialising technological developments. Firms have implemented this type of open innovation by out-licencing technology, by running technology-spin-offs or by founding joint ventures with partner companies. The combination of outbound and inbound innovation is called *coupled open innovation*.

### 3.2. Procurement: Commodity group management and Lead buying

For organizing the sourcing activities, theory and practice distinguishes between the classical solutions of a central sourcing unit and decentral sourcing activities in each business unit. The main factors of influence are the general strategic situation, the organisational structure of the company as a whole and the type of materials and services the company has to buy. The main advantage of the *central sourcing* approach is the inter-divisional and company-wide consolidation of demand with the objective to realise bundling and synergy potentials. Furthermore a company can achieve an increased transparency in the demand structure within its decentralized entities. Other advantages are standardisation potentials and a resulting decrease in variety, a batch size optimisation on the supplier’s side, the implementation of consistent purchasing processes, potentials to reduce safety stocks, and as an add-on often increased employee qualification. The downside is showing little flexibility regarding the demand of individual locations, long decision making processes due to long distances from the demanding location, a lack of location-specific knowledge, and finally the danger of conflicting objectives between the central purchasing unit and the decentralised performance-responsible entities. (Leenders and Johnson, 2000; Appelfeller and Buchholz, 2011, pp. 157).

On the other hand *decentral sourcing* organisations can offer the proximity to the decentralised organisational entity, an improved deployment of decentral know-how, shorter decision-making processes and the increased motivation in the decentralised purchasing entities. The disadvantages of this approach are the lack of bundling potential due to less bargaining power, inconsistent contractual conditions in the decentralised entities, the lack of know-how in pooling since a large scope of materials has to be managed, not clearly defined responsibilities and resulting inefficiencies in processing.

Two hybrid models are trying to combine the advantages of the two conflicting models, commodity group management on the one hand and lead buying on the other hand. With regard to *commodity group management*, a project team, the so called commodity group team, analyses and optimises all strategic sourcing activities of a certain material group within a pre-defined time frame. The main objective is to define those material groups with inter-divisional synergy potential and to develop a road map of
activities to secure the identified savings potential. A commodity group team consists of employees from all involved decentralised entities, such as purchasing, product development, quality management or manufacturing. A core team aligns the partial results obtained by the decentral teams, coordinates the collaboration and secures the overall realisation of possible synergies. For coordination a cross-functional steering entity is needed which is acting as a conciliator in case of conflicts. This approach is offering higher transparency with regard to company-wide demand in combination with less redundancy because the commodity group manager aligns and consolidates strategic sourcing activities. Besides that the decentral entities are still located close to manufacturing which increases flexibility. The downsides are increased overhead costs because of the additional project organisation and the increased coordination effort due to the need for alignment with the decentral units.

Whereas the commodity team model represents a project-based approach, the lead buying model is of enduring character and part of the primary organisation. Within the lead buying concept, a business unit is responsible for the sourcing activities of the whole organisation regarding a certain commodity group. A necessary precondition is the existence of an interdivisional demand for a certain commodity. A decentralised sourcing entity performs company-wide the strategic sourcing activities for the corresponding material or service. Usually the role of the lead buyer is adopted by the business unit with the highest demand or the biggest product- or market know-how concerning the commodity group. The lead buyer negotiates the composite demand and provides the framework contract for the whole company. Thus, all concerned business units benefit from the favourably negotiated terms and conditions. A “central entity”, the so-called sourcing centre, is needed for coordination and alignment as well as for supporting the decentral units, e.g. IT-support. By clearly allocating responsibilities for different commodity groups to all decentralised entities, possible feelings of jealousy can be avoided. The pros and cons of the lead buying model are similar to the commodity group management approach. Often commodity group management is used for the analysis of synergy potentials and is subsequently transformed into an ongoing lead buying approach in order to achieve the identified savings (Appelfeller and Buchholz, 2011, pp. 161).

3.3. Production: Concurrent sourcing and Concurrent exploitation

The decision to produce in-house or to purchase respectively certain goods or services on the intermediate market is generally one of the most crucial ones for corporate decision makers. In scholarly literature, this issue is discussed under keywords like make-or-buy, vertical integration, and boundaries of firms (Klein, 2005). In practice, the company’s options are not limited to the pure governance modes hierarchy (make) and market (buy/sell). This dichotomous view ignores the possible complexity of organisational structures. As it is known from a number of empirical studies (e.g. Heide, 2003; Jacobides and Billinger, 2006; Krzeminska, 2008) there also exist “plural forms” – where
two distinct control mechanisms are being operated simultaneously by the same firm (Bradach and Eccles, 1989).

Plural modes simultaneously use both pure market-based governance with (at least) one external actor and pure hierarchy-based governance with (at least) one internal actor for supplying or distributing the same good and service. Internal and external economic actors respectively are only governed by one mechanism, either price or command, whereas hybrids are characterized by the combined use of both governance mechanisms. The first empirical evidence for the use of plural modes was provided in the 1980’s by Michael Porter and Kathrin Harrigan as part of their research on competitive advantages and strategic flexibility. They recognized plural modes as a partial form of upstream and downstream vertical integration and termed it “tapered] integration” (Porter, 1980; Harrigan, 1984). A number of other research studies also considered this phenomenon and labelled it “partial vertical integration” (Perry, 1989), “plural governance” (Heide, 2003) or “mixed modes” (Jacobides and Billinger, 2006).

Basically, it is important to distinguish between plural modes on the input side (upstream) and on the output side (downstream): Concurrent sourcing is an upstream plural mode that simultaneously makes use of both in-house production and sourcing of goods or services from intermediate markets, i.e. make-and-buy (de Bie et al., 2014a, p.1). For example, the Danish toy manufacturer Lego receives plastic bricks from both Flextronics and from its own factory in the Czech Republic (Mols, 2010, p. 525). Other examples can be found in the German Agricultural Machinery and Chemical Industry (de Bie et al., 2014b, pp. 86). There are two arguments which are usually brought forward as determinants of concurrent sourcing: On the one hand, it allows the efficient handling of volume uncertainties. Concurrent sourcing enables firms to produce the optimal quantity in-house to exploit economies of scale in order to minimise production costs. On the other hand, concurrent sourcing facilitates the more efficient ordering and monitoring of suppliers based on information from in-house production. This in turn mitigates behavioural uncertainty problems in terms of cheating.

The counterpart of concurrent sourcing on the output side (downstream) is concurrent exploitation. Bach and Galvin defined concurrent exploitation as follows: “... some of the output of a node may be consumed internally and concurrently sold to external customers” (Bach and Galvin, 2008, p. 2). This means that a particular good or service is both consumed internally and concurrently sold to external customers on the intermediate market. For example, the German car manufacturer BMW produces four, six and eight-cylinder engines for their own purpose and sells these engines simultaneously on the market. BMW’s customers include competitors, such as Carbon Motors or Toyota, as well as customers that don’t belong to the car industry (Herz et al., 2011). Among the determinants of concurrent exploitation there are frequently the following aspects: Concurrent exploitation enables the management to use market-based incentives to prevent employees from shirking due to market access which provides ongoing information about price and performance. In addition, by interfacing with the market
at different stages of the value chain, managers become aware of their areas of competitive advantage and get feedback for intermediate products and services from customers. Furthermore concurrent exploitation enables differential growth in specific areas of the value chain.

3.4. Sales: Coopetition

“Business is cooperation when it comes to creating a pie and competition when it comes to dividing it up” (Brandenburger and Nalebuff, 2011, p. 4). Friend or foe, this strict separation between partners of the company on the one hand and competitors on the other hand is no longer valid. Often a company also cooperates with other players that are competitors at the same time.

*Competition* is defined as a “dynamic situation that occurs when several actors in a specific market struggle for scarce resources and/or produce and market very similar products or services that satisfy the same customer need” (Osarenkhoe, 2010, p. 203). In a competitive situation companies are acting vertically as well as horizontally independently. In the horizontal perspective the main goal is offering superior products in relation to the competitors and achieving an advantageous position in the industry. Concerning vertical relationships firms are trying to attain higher bargaining power than their suppliers and buyers with the aim to receive their preferential treatment. In the long run a dominant competitive position theoretically may lead to a monopolistic situation in which only the fittest thrive and survive. (Osarenkhoe, 2010, pp. 203).

*Cooperation* is a relationship in which organisations are interacting through the sharing of complementary resources and capabilities or leveraging these for the purpose of mutual benefits (Gnyawali et al., 2006). Some authors also differentiate the concept of collaboration as a formal type of working relationship between organisations in which they pursue a shared goal through the joint development of products, technologies or services (Ang, 2008). In both cases voluntary and mutual agreements developed informal or defined in formal contracts aimed at attaining the joint goals.

*Coopetition* means that companies are maintaining a cooperative and a competitive relationship with another company at one time. For this reason this phenomenon can also be classified as a hybrid approach. Two variants may occur. With this *complementary completion* every partner is contributing his special expertise to a value creating area which cannot be captured by the other partner. *Capacitive enlargement* means that a company is using the production capacity of a competitor because its own capacity is not sufficient for processing the orders to be filled. The automotive manufacturers Daimler and Renault e.g. plan to cooperate in manufacturing. Renault contributes its special expertise in the construction of small vehicles. In return, Daimler contributes support for the production of engines for the premium segment. Coopetitive relationships combine the need to innovate in new areas as a result of competition with the opportunity of access to new resources as a consequence of cooperation (Osarenkhoe, 2010). To be successful in a coopetition-relationship it is absolutely essential to clearly
differentiate the areas in which to cooperate and to compete. Firms should compete in activities close to the customer and cooperate in activities far from the customers. Coopetition is a mixture of value appropriation and value generation strategies. The critical success factors for the effective operation of a coopetitive relationship are a high degree of inter-organisational trust, commitment and loyalty. (Osarenkhoe, 2010, pp. 212).

3.4. Services: Shared services

Especially in terms of supporting activities companies often have to decide between the two possibilities of in-house production (make) and sourcing from the (intermediate) market (buy). The theoretical background concerning this question is the make-or-buy decision as already described in the second chapter.

Outsourcing means transferring or the contracting-out of any economic service from one’s own company to an external or internal service provider. Outsourcing decisions concerning supporting processes which are indirect value-adding activities are not as critical as decisions related to direct value-adding processes. Indirect value-adding processes are usually internal services which are not directly related to the company’s core business. By contrast, operational processes are directly related to the performance of the core business of the company. Thus, outsourcing decisions are to be very carefully considered, because there is the danger of losing one’s core competences. But, also for operational processes outsourcing is considered a possible alternative. The main advantages of outsourcing are the possibility of concentrating on core competencies for the company that outsources as well as for the service provider. Furthermore economies of scale and scope, the transformation of fixed into variable costs, and the higher cost transparency have to be taken into consideration. Downsides are being highly dependent on the service provider, problems in service-quality, loss of know-how, higher transaction costs, and demotivation within the staff for fear of losing their jobs. (Matiaske and Mellewigt, 2002, pp. 646).

Insourcing means that formerly externally sourced value-adding activities are re-integrated into the business process, i.e. former third-party activities are (again) performed by the company itself. Doing that for operational processes implies often a change in the business strategy of a company, e.g. a manufacturer of raw glass is integrating downstream in its value chain towards refining the glass and is offering special applications like cutting glass for spectacles (forward integration). For support processes we can often find the case of back sourcing. Since a firm is dissatisfied with the performance of the service provider, it plans to withdraw their outsourcing decision. Reasons can be difficulties with the service provider, a change in the firm’s own business model or the necessity of utilizing free capacity. (Matiaske and Mellewigt, 2002, pp. 646).

Apart from the transfer to a legally independent external service provider, it is also possible to centralise the support activities in an independent unit of the company and govern it as a profit center (internal outsourcing). Shared services as concentrated cor-
porate entities offer bundled service activities under their own result responsibility to mostly internal customers for their joint usage. Those entities operate economically and sometimes also legally autonomously within limits. This is an appropriate solution for tasks of a generic character which can be standardised to a high degree (transaction-based services). Those tasks are neither limited to business areas nor to locations, e.g. finance, HR, IT. As the service activities are repeatable for the benefits of different customers, scale effects are to be expected. Often shared service centers are located in low-cost countries so that the company profits from the lower wages in those countries. By using the market mechanism via transfer prices between the shared service center and the internal customer, the concept facilitates the combination of the advantages of outsourcing with those of offering inhouse-services. (Bach et al., 2012, pp. 297).

4. Conclusion

Being able to compromise is a basic necessity in everyday life, in politics and even in business. Only in rare cases is it possible to achieve the one-and-only solution without sustaining the loss of one’s own position. In nearly every management decision has to be solved a trade-off between two contradictory opinions. At best, a conflict of goals can be solved and the chosen solution offers advantages of both at first glance disparate options. The presented paper refers to this outcome as the “bridging-the-gap approach”. After explaining the two basic theoretical approaches to areas of conflicts such as make or buy and central or decentral, the article exemplifies some concrete cases of everyday management challenges.

All in all, it is an important human capability and thereby also a management capability to deal with such conflicting areas. Authority in combination with the ability to find compromises is a good mixture for being a successful manager. “Paralyzed ways, up or down, in or out, you can never use the Milky Way” (The No Colour Twins 2015).

References


Short bio of author

Wolfgang Buchholz studied business administration at the Justus Liebig University in Gießen. He did his PhD on the topic of time-to-market management at the chair of Organisation, HR and Strategic Management, also at the Justus Liebig University. Afterwards he worked for some years for different companies in the chemical industry and as a management consultant. Since 2002 he has been a professor of Organisational Management and Logistics at the University of Applied Sciences in Münster. His main teaching and research topics are Supply management, Value networks, Business process management and Innovation management. In 2012 he became a board member at the Institute of Process Management and Logistics (IPL) and is responsible for the research activities of this Institute.
Determinants of designing corporate governance systems in Central Eastern Europe

The aim of the paper is to present a survey and preliminary assessment of determinants of designing corporate governance systems in the countries belonging to the broadly defined Central Eastern Europe (CEE) – Albania, Bosnia and Herzegovina, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, FYR Macedonia, Hungary, Kosovo, Latvia, Lithuania, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine. The process of building and implementation of corporate governance is also described and assessed from the contemporary perspective.

1. Introduction

Corporate governance has become a topical issue in Central Eastern Europe since the beginning of reforms in the early 1990s. It must be emphasized that in the early period of reforms 1990–1996, the number of theoretical considerations on corporate governance was inadequate to the demands of policy making (Frydman and Rapaczyński, 1992, 1993, 1994; Frydman et al., 1993, 1993a).1 More publications appeared later, since 1996, when the development of corporate governance, at least in more advanced reforming countries were consolidated (Pistor, 2000; Pistor et al., 2000; Fox and Heller, 2006; McGee, 2008; Mesjasz 2011). It can be concluded that designing and building corporate governance in the East was a kind of learning by doing process.

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Central Eastern Europe (CEE) – Albania, Bosnia and Herzegovina, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, FYR Macedonia, Hungary, Kosovo, Latvia, Lithuania, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine. The process of building and implementation of corporate governance is described and assessed from the contemporary perspective. The paper also aims at explaining whether experience stemming from reforms of centrally planned economies has produced new universal insights for practice and theory of corporate governance worldwide, both in the established market economies and in other emerging markets.

2. Designing corporate governance in CEE: Learning by doing

Development of corporate governance in Central Eastern Europe undoubtedly constituted one of most important elements of reforms. While much attention has been paid to macroeconomic changes – “shock therapy” and restructuring of companies including privatization, the fact that reforms required to build corporate governance systems in the East almost from scratch is not too often exposed as an achievement, or perhaps, a failure of reforms.

Leaving apart the discussions on definitions – (Cadbury, 1992; Shleifer and Vishny, 1997; Tirole, 2001; OECD, 2004; Clarke, 2004, 2007), it may be assumed that corporate governance can be described with the following characteristics: the prevailing concept of the firm, the board system, the salient stakeholders able to exert influence on managerial decision-making, the importance of stock markets in the national economy, the presence or absence of an external market for corporate control, the ownership structure, the extent to which executive compensation is dependent on corporate performance, and the time horizon of economic relationships. Coming out of these characteristics four types of systems of corporate governance can be distinguished: the Anglo-Saxon, the Germanic, the Latin and the Japanese (Weimer and Pape, 1999).

The choice of a corporate governance system (model) at a country level was determined in Central Eastern Europe by a set of economic, political, cultural and historic factors, which had several specific elements – speed and scope of return to market economy. In addition, two decisive factors determining implementation of corporate governance should be exposed: absence of theoretical foundations of building corporate governance resulting from absence of any far-reaching deepened studies of possible return to the market from experiments with centrally planned economy, and insufficiently developed theory of corporate governance in developed market economy.

Designing corporate governance systems at the level of companies and at the country level in Central Eastern Europe had two objectives. Firstly, helping to implement immediate changes in economy associated with the initiation of reforms at macro and micro levels, and secondly, leading towards creating and efficient stable systems of corporate governance. In most general terms, development of corporate governance in Central Eastern Europe can be divided into two stages. The first – embodying the pre-reform period (political revolutions), and first reforms including privatization and establishing
the initial forms of corporate governance. The second – completion of basic reforms, consolidation of market economy including establishing stable mechanisms of corporate governance – transforming a transition economy into creating an emerging market.

The fundamental question of economic policy during transition was what kind of corporate governance system had to be developed under the specific country conditions – a two-tier, “controlled” system like in Germany and Japan, a one-tier, “market-based” (the Anglo-American model), an ‘implicit rules-based’ (like in Italy), a ‘mixture of a capital market-based system and a bank-based system’ (Dutch case), or perhaps, it was necessary and possible to elaborate a unique “country-oriented” system.

It also had turned out that a predictable phenomenon occurred – corruption and overtaking of resources in an illicit way. It has become an important issue both for theory and policy of developing corporate governance. Analyzing privatization and the cases of illicit behavior Peev stated that the term “primitive accumulation” could be relevant both for studying the reforms and development of corporate governance in Central Eastern Europe (Peev, 2002, p. 7).

The links between theory and practice can be illustrated with a short overview of state-or-the-art of knowledge in that field in the period immediately before and after beginning of reforms (1989–1996). Classical problems resulting from separation of ownership and control described by Berle and Means (1932) were already well-known in the world economic theory and practice. They were described in several writings in which the agency theory was developed (Jensen and Meckling, 1976; Fama and Jensen, 1983, 1983a; Grossman and Hart, 1983). The role of contractual theory of the firm in corporate governance (Hart, 1995) was also known in the first stage of transition, although no deepened applications of that approach were made to study development of corporate governance in CEE.

The most difficult challenges facing corporate governance in the East were emerging in privatization and mass privatization, which had to be done in an unprecedented scale, with very limited local experience and capital. The discussion on those topics was conducted in the first half of the 1990s, running parallel to the process itself (Frydman and Rapaczynski 1992; Frydman et al., 1993, 1993a), (Frydman et al., 1993b). Attempts to apply advanced theoretical concepts to study privatization and building corporate governance in Central Eastern Europe were not too numerous in the beginning of reforms (Frydman and Rapaczyński, 1993).

The above collection includes predominantly the works related to the mainstream economics. Other theories of corporate governance had been proposed already before beginning of the reforms and in their first period, e.g. theories of governance based upon transaction costs theory (Williamson, 1996) or stakeholder theory (Donaldson, and Preston, 1993). Another influential theoretical concept of corporate governance, stewardship theory was proposed in the second period of reforms, (after 1996) (Davis et al., 1997). This set includes but examples and it is an open question how to identify the scope of mutual influence between them and experience from both stages of reforms.
Each group of the countries faced various obstacles in implementing corporate governance. Undoubtedly the most difficult situation occurred in the pioneering countries where the reforms were begun in the early 1990s – Czechoslovakia (Czech Republic and Slovakia since 1993), Hungary and Poland. It was somehow compensated by the fact that contrary to the former Soviet Republics (with an exception of the Baltic States), those countries had experienced market economy before the Second World War. Nonetheless, the first reforming countries became a kind of training field for privatization, restructuring and building corporate governance systems and mechanisms. The others, for example, the majority of the former Soviet Republics had to build market and corporate governance from nothing, almost without tradition and without any possibility to use existing legal systems.

The above considerations show that building corporate governance in the post-communist East was a specific case of social engineering conducted in an intellectual vacuum. There were some benchmarks which could be taken from developed market economies but many concepts, e.g. privatization in such scale and the so-called mass privatization demanded the learning by doing approach. It may be then concluded that the choice of corporate governance systems in Central Eastern Europe was a typical learning by doing process with insufficient intellectual foundations, especially in the first stage of reforms – until the mid-1990s or perhaps even until the end of 1990s.

3. Main determinants of building corporate governance systems in CEE

3.1. Economic determinants

In the discussion about determinants of corporate governance, the term “economic” may have several meanings, beginning from political economy and ending with economic theories, e.g. theory of the firm. In this paper the adjective “economic” reflects the factors stemming from economic phenomena at macro and micro level. Those determinants had an impact at the company level where the following factors had to be taken into account: (1) restructuring; (2) privatization and its consequences affecting ownership, and mechanisms of control (3) increase in effectiveness and competitiveness; (4) creating mechanisms of financial allocation and control within and without companies; (5) development and implementation of corporate finance and accounting systems.

Complexity of the context of reforms can be reduced to the following economic factors: (1) the impact of external environment – international markets, globalization; (2) extensive factors – the level of economic development, standards of living, etc.; (3) economic institutional infrastructure – ownership, institutions supporting the market; (4) relations between the public and private sectors; (5) effectiveness at the macro- and micro-levels; (6) patterns of change – scope and speed.

The main assumption of designing and implementation of corporate governance in the reforming countries was that under the state ownership and control the companies were inherently ineffective and their entrepreneurship was limited. Such situation
could be changed thanks to reduction of the role of the state through privatization and deregulation, introduction of the entrepreneurial capitalism through establishment of new private firms, search for efficient forms of private ownership and control – building effective corporate governance with the use of existing patterns. For designing and implementing corporate governance systems, the last measure was most important.

Bearing in mind solely economic factors, the reforming policy makers had to make a choice of systems which could improve effectiveness of companies. The reforming countries began to search for benchmarks and methods, and the speed of implementation has become their main problem.

The economic concepts how to build corporate governance, and what should be the target system were stemming from the following sources: (1) analyses of efficiency of systems existing in developed countries – Anglo-Saxon model vs. continental model; (2) dominant economic theories – liberalism and the impact of Anglo-Saxon, predominantly US concept of market economy; (3) ownership and control – patterns of their separation and their interdependence; (4) higher efficiency of private-owned/private controlled companies vs. lower efficiency of state-owned/state controlled companies.

3.2. Political determinants

Political factors directly and indirectly affected the process of building corporate governance in Central Eastern Europe. In a universal sense development of corporate governance aimed at embedding into a new system of democratic political governance an effective market-oriented system of corporate governance. Since building market economy was based upon a paradox – creating a spontaneous system in an engineered way, thus building corporate governance was also a part of social engineering. Political analysis of that process concerns already mentioned two stages of development of corporate governance – designing and implementation of new systems of corporate governance, and functioning of the system in its desired/designed shape and its constant improvements.

Although the choice of corporate governance systems was predominantly resulting from economic assumptions, political factors played a significant role in that stage of implementation of those systems. Political factors derived from fundamental political assumptions of the economic reforms: implementation of the market, limitation the role of the state, re-stating of the fundamental role of private property, creating of governance system allowing for efficient functioning of the all of the market mechanisms, dominance of liberal economic ideology and Anglo-Saxon model of market economy.

The influence of the Anglo-Saxon liberal economic ideas reflected in differently interpreted Washington Consensus was sometimes regarded as a disadvantage of the reforms and the source of decrease in standards of living immediately after the beginning of the reforms (Peev, 2002). Leaving apart assessment of correctness of such assertions, it is necessary to emphasize an important political and psychological factor
facilitating implementation of liberal approach in reforms. All actors participating in reforms passively and actively were impressed by low effectiveness of state-run and state-controlled economic activities at macro and micro levels. Therefore suggestions of maintaining any role of the state in the economy would have been regarded as maintaining the relicts of the communism.

The group of stakeholders who were interested in the process of building new systems of corporate governance in the onset of reforms included: (1) domestic reforming political actors – members of democratic political movements (2) politicians in democratic states supporting the transition in the East; (3) foreign institutions – public (international and national), private (international, national) supporting the reforms; (4) potential foreign investors; (5) expecting restitution former owners of industrial property lost during the communist era; (6) individuals involved in the political processes on economic motivations – employees, small entrepreneurs, pro-market intellectuals.

Later in the first stage, and in the second stage of building corporate governance, new stakeholders emerged – local people who began to link their interests with development of market economy – entrepreneurs, small local investors expecting gains from their individual investment and from possible forms of mass privatization, employees of privatized companies expecting an increase in effectiveness and subsequent increase in salaries as well as potential direct gains from privatization. New foreign actors also appeared – big corporations and SMEs, who began to treat countries of Central Eastern Europe as a natural region of expansion. It must be reminded that in the initial period of reforms all activities were affected by limited number of competent and skilled people. That is why education and training became one of most important areas of broadly defined Western assistance to the East (Wedel, 2001).

In all stages of building corporate governance a threat of corruption existed and influenced the process of initiating and building. There were some specific groups of players in that process, especially the members of the political and economic bureaucracy of the previous regime, who wanted to gain access to the privatized state property due to their knowledge of the industries and legal as well as illegal connections – the so-called “nomenklatura” composed of the people from the past regime, and also some former members of opposition also joined the ranks of those making gains on the reforms.

Taking into account the characteristics of systems of corporate governance in the first stage of its development, the political decision concerned the following issues: (1) choice of prevailing concept of the firm harmonizing existing legal, economic and historical tradition as well as the future system of political governance; (2) board structure; (3) importance of stock markets in the national economy; (4) presence or absence of an external market for corporate control; (5) selection of the preferred ownership structure; (7) elaboration of corporate governance relevant to privatization, including specificity of “mass (voucher) privatization”; (8) role of various stakeholders in the process of building corporate governance systems.
The outcome of those discussions were reflected in the concepts of stock market and systems of corporate governance chosen in the reforming countries. In the second stage of development of corporate governance, when the systems were introduced and more stable, the main political challenges concerned implementation of local experiences from the learning by doing process: (1) introduction of universal norms of good governance proposed by international institutions, e.g. OECD, World Bank, EBRD; (2) implementation of norms and rules from other countries – developed market economies and other emerging markets; (3) making the systems more effective and less prone to abuses and illicit behavior; (4) extending the norms to other types of companies, e.g. state-owned (partially and fully); (5) inclusion into the systems of corporate governance the US experience after the affairs of Enron etc. and the recommendations resulting from the Sarbanes-Oxley Act of 2001.

3.3. Historic and cultural determinants

The role of history and culture in development of corporate governance has been widely discussed in professional literature, e.g. (Turnbull, 2000; Monks and Minow, 2004; Clarke, 2007; Morck, 2007). In the case of Central Eastern Europe the historic and cultural factors played a significant role, not only because of a very weak tradition of market economy in the region but first and foremost because of the revolutionary circumstances and speed of its implementation. Analysis of the impact of culture upon corporate governance would require studies of each specific case. As supporting instruments the typology of cultures by Hofstede (http://www.geert-hofstede.com) and Corruption Perception Index (Transparency International) are applied.

The tradition of the market economy is associated with indigenous concepts, industrial tradition, indigenous brands recognized on domestic and international markets, etc. With a few exceptions, e.g. the Czech Republic, to some extent Hungary and Poland, this factor, was not too important in the region in the reform process and in building corporate governance systems.

When the similar factors are analyzed for countries of the former Yugoslavia (without Slovenia – mentioned above), three specific features can be added. First, even weaker tradition of the market economy, with perhaps exception of Croatia and Serbia. Second, the impact of a specific way of tradition of self-governed socialist economy in Yugoslavia with the so-called self-governing socialist “mixed-economy” with “self-managed”, “socially-owned” company as the basic unit (Medjad, 2004).

Under the influence of the historic and cultural factors, the process of developing corporate governance systems in the CEE countries has some specific features: (1) absence of specific tradition of corporate governance – no demands for building specific systems but rather how to copy the benchmark solution (a single existing system) or how to blend existing systems; (2) reliance on foreign assistance – advice and even material and institutional support; (3) vulnerability to corruption, especially in the early period of reforms; (4) tendency for corruption as the heritage of weak or non-existing states and also as the heritage of the communism.
3.4. Legal determinants

Building legal infrastructure of the market economy was undoubtedly one of biggest challenges of reforms in the post-communist East. It was especially important for corporate governance due to its non-existence in centrally planned economy. Due to the strong impact of history, the status of the legal context of corporate governance was a consequence of historic and to some extent cultural factors since the beginning of the 20th Century. In consequence of the historic determinants, in the countries of Central Eastern Europe absent was not only a “memory of the market” in social consciousness but also absent was a set of laws, which regulated economic activities in the periods when they were more or less successful and developed, or undeveloped, market economies.

The relations between the old legal systems and legal systems built during the reforms would require a separate study. A preliminary survey of changes of law in the reforming countries allows to identify several common features. First and foremost, all of the countries of the region had a tradition of continental, civil law of a different origin. In the pre-Second World War period, majority followed French, German and Swiss patterns when building their commercial law. Incidentally, most of them also regained independence after the First World War in 1918 and when creating their commercial law they followed those three countries. Secondly, even if some regulations from the pre-1939/1940 period could be restored, it had to be remembered that the market of the 1930s was not the market of the 1990s and corporate governance was the best example of irrelevance of the old regulations to the reality of the 1990s.

Similarly as in the case of historic and cultural determinants, the legal status of the countries of the region was not similar. The countries which became members of the EU had legal tradition of free market, which during the communist rule, was completely abandoned as in the case of Bulgaria and Czechoslovakia, or partly abandoned, as in the case of Poland. It especially concerns the civil codes and various regulations concerning functioning of companies – legal form, accounting, corporate finance.

In the countries, which emerged after the collapse of the former Yugoslavia the legal environment was similar in the beginning of reforms but soon become differentiated. The commercial regulations from the Yugoslav era become irrelevant and had to be replaced by other laws although the civil code remained in force in some countries, e.g. in Serbia. The situation in the post-Soviet countries Belarus, Moldowa and Ukraina, similarly as of Albania was even more difficult since those countries did not even have possibility to use even partly the regulations from the period of the communism, so they had to write their commercial regulations almost from scratch, with foreign assistance.

Potential membership and cooperation with the European Union was another important legal determinant which influenced design and implementation of corporate governance during the reforms. The EU law includes several documents on corporate governance – directives, regulations and recommendations. Changes of corporate governance in the new member states of the European Union require further separate considerations.
4. Conclusions

Description and preliminary analysis of the process of designing and implementation of systems and codes of corporate governance allows to conclude that after 20 years the countries of Central Eastern Europe were able to finish successfully the learning by doing process. Of course, it is in different stages in the countries of the region but it may be stated that it is no longer a transition corporate governance but rather corporate governance in the emerging markets, with all strengths and weaknesses common for all those markets worldwide. A specific feature of implementation of corporate governance in the East was its imitational character and absence of significant efforts to develop indigenous systems of corporate governance.

The last remarks and conclusions concern broader theoretical questions. It is known from the paper that the reforming East followed the patterns of corporate governance from the developed markets. A question is usually asked – what are, if any, the theoretical lessons which the rest of the world can draw from the process of developing corporate governance in the post-communist countries of the East?

Since the research presented in the paper was focused on designing corporate governance systems in Central Eastern Europe the conclusions can only relate to that area. Development of systems of corporate governance shows that any unique theoretical approach is not relevant. Dynamics of the choice of the systems shows that understanding of that process can be deepened solely with the use of heterogeneous approach mixing neoclassical theories with institutional approaches. Processes described in the paper once again confirm the need to apply synthetic approaches, e.g. contractual approach with elements of other theories.

References


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RYSZARD BOROWIECKI, BARBARA SIUTA-TOKARSKA

Enterprise Management in a Critical Situation. An Analysis of the Research Findings of Enterprises in Poland

The publication undertakes theoretical deliberations on the problem of the occurrence of critical situations in an enterprise and the crisis itself. It presents the findings of the research concerning the functioning of enterprises in Poland during the global economic crisis and managing enterprise during a crisis.

1. Introduction

The contemporary economy is an arena of dynamic and turbulent changes, often unforecasted and unpredictable. The changes penetrate various areas of human activity and create newer and newer social and economic challenges, and thus significantly change the face of modern countries and their societies. The consequences of these changes concern not only the whole economies, but also individual enterprises, their groups or the whole sector. Therefore, the contemporary times are an excellent illustration of the thought formulated in 5th century B.C. by Heraclitus of Ephesus (“There is nothing permanent except change”) and the use of this thought over 50 years ago in Peter Drucker’s message saying that “..only change is a constant”.

The changes that have occurred in the world economy, and are related directly or indirectly to the globalization processes and the progressing impact of the new economy on the surrounding reality, have caused the collapse of the hitherto prevailing paradigms of enterprise functioning. That is why, the survival and their development primarily require the possession of capabilities and flexibility in the adaptation to the changing economic reality, and thus the search for new, effective sources of competitive advantage and an ability to meet the occurring challenges, which more and more often have a dimension of various crises, both inside and outside an enterprise, and which
often enough co-occur jointly. Therefore, in the behaviour of contemporary enterprises special weight is attached to undertaking ventures adapting enterprise activity, in the context of their management, to the requirements of the market economy, as well as the condition, structure, complexity and dynamics of their environment.

2. Crisis – the essence of the issue

The word “krísis” comes from Greek and means a decisive moment, a turning point, a period of breakthrough (Słownik, 1991), but it is also defined as “a situation which is unfavourable for somebody or something” (Słownik 1988). So-called critical states occurring in nature and related to crisis, concern all levels of the world organizations, starting from inanimate nature to animate nature alongside artificial objects, being an effect of man’s activities in the environment. Thus, it means a lot of various states in which objects and entities are, in which the process of the destruction of their functioning takes place (Wróblewski, 2010).

A critical situation is defined in different ways, but we can assume that it is “a system situation characterized by the culmination of internal and/or external threats, causing the loss of the state of normality and creating a possibility of the disturbance of the basic system qualities, e.g. stability, balance, controllability, effectiveness, etc. (Nowak, 2007).

Alongside the occurring critical situation, the situation of the enterprise changes and what takes place is losing the internal balance by the enterprise (the disturbance of the processes inside the enterprise) or the external balance (in the relations of the enterprise and its environment), or both at the same time (Wróblewski, 2010).

It should be emphasized that critical situations are an expression of changes occurring in the surrounding reality and are its immanent quality, which arises from the fundamental laws and phenomena, such as (Wróblewski, 2010):

• the phenomena, processes, or things occurring in the environment of human existence are related, influence each other and bring about specific consequences which may be assessed as positive, negative or neutral;
• considering the principle of the growth of entropy, we can indicate that all produced goods become worn, and the subsequent internal processes in conjunction with time contribute to their lesser and lesser effectiveness up to the dying out of the activities. As a result, changes take place, which, in contact with the environment influencing the object of the analysis, mark their lifecycle;
• in the real world, the intervention of man is visible, and his activities submitting the world to him are a kind of counter-balance for the occurring tendencies for an increase in entropy, among others, by regulating the lifecycle of objects to maintain high effectiveness of their operation.

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1 It should be emphasized that in the Greek etymology, the notion does not have a pejorative character, as the verb krínein means to separate, sieve, resolve, decide, think, whereas the noun coming from it, krisis is related to choice, resolution.
It is indicated that the full development cycle of a critical situation in an enterprise includes three basic phases (Wróblewski, 2010):

• the pre-crisis phase in which the first warning signals concerning the crisis may occur and usually do occur,
• the crisis phase, in case of intervention related to the introduction of a change, and
• the post-crisis phase, which finishes either with overcoming the crisis or its further deepening.

Fig. 1 presents individual phases of the critical situation in the enterprise.

**Figure 1. A crisis in an enterprise as a phase process**

![Diagram of crisis phases](image)


As it is presented in Fig. 1, crisis is the culmination phase of a critical situation. It means that contrary to the common understanding of those notions, they are not identical but related, and the notion of critical situation is in a sense superior over the crisis, and the crisis itself is a part, a component of an unfavourable state in the analyzed critical situation, one of its phases.

The literature indicates some specific features of crisis, such as, for example (Gil-liland & James, 1993):

• the presence of both a threat and an opportunity, whereby as a threat the crisis leads to “decompensation” of the organization, being a manifestation of its inefficiency, whereas treated as an opportunity it may contribute to its development,
• its complexity referring to a necessity to recognize a crisis as subject to specific difficulties already in its very description, due to the overlapping of numerous factors during its formation;
the lack of panacea and so-called fast solutions (including a necessity of many-aspect approach to its causes, an analysis of effects);

the presence of so-called “grains” for growth and change, which refer to the lack of balance accompanying the crisis, in which we can point out the critical moment being a strong factor which motivates to act;

a necessity to make a choice and take a decision, with the occurring lack or excess of contradictory information (information chaos);

versatility and idiosyncrasy, being two contradictory qualities in the reality of crisis. Versatility is understood as the universality of the states of imbalance, as well as risk occurring in a crisis, whereas idiosyncrasy means its exceptionality, among others via various intensification of the occurring risk, an individual approach to solving it, considering its causes, symptoms, duration, the stage of the organization’s development during the occurrence of the crisis and other criteria.

In this context, we can also indicate specific types of crisis. Table 1 compares selected classifications of crises.

Table 1. Typology of crises according to selected criteria

<table>
<thead>
<tr>
<th>Subjective criterion</th>
<th>Objective criterion</th>
<th>Spatial criterion</th>
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<tr>
<td>Crisis:</td>
<td></td>
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<tr>
<td>– internal,</td>
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<tr>
<td>– external,</td>
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<td></td>
<td>crises:</td>
<td>crises:</td>
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<td></td>
<td>– political/of power</td>
<td>– local,</td>
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<td></td>
<td>– economic</td>
<td>– regional,</td>
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<td></td>
<td>– social/of social</td>
<td>– domestic,</td>
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<td></td>
<td>groups in the</td>
<td>– international,</td>
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<td></td>
<td>enterprise,</td>
<td>– global,</td>
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<td></td>
<td>– cultural,</td>
<td>– in a specific</td>
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<td></td>
<td>– religious,</td>
<td>area of enterprise,</td>
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<td></td>
<td>– ecological.</td>
<td>– in the whole</td>
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<td></td>
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<td>enterprise,</td>
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<td></td>
<td></td>
<td>– in the whole</td>
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<td></td>
<td></td>
<td>capital group.</td>
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<tr>
<th>Criterion of duration</th>
<th>Criterion of frequency</th>
<th>Criterion of the symptoms of threat</th>
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<tbody>
<tr>
<td>Crises:</td>
<td>Crises:</td>
<td>Crises:</td>
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<tr>
<td>– incidental,</td>
<td>– one-time,</td>
<td>– predictable,</td>
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<tr>
<td>– short-term (up to 1</td>
<td>– occasional,</td>
<td>– unpredictable,</td>
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<tr>
<td>year)</td>
<td>– repetitive,</td>
<td>– expected,</td>
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<tr>
<td>– mid-term (1–3 years)</td>
<td>– cyclic.</td>
<td>– unexpected.</td>
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<td>– long-term (more than</td>
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<td>3 years)</td>
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<tr>
<td>– permanent</td>
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<table>
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<tr>
<th>Criterion of the plane of interaction in the enterprise</th>
<th>Criterion of the causes of the crisis</th>
<th>Criterion of the symptoms of the crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>the crisis:</td>
<td>– exogenous causes of crisis, such as: recession, the crisis of macro-environment, sectoral crisis, crisis of demand, competitiveness, fortuitous</td>
<td>– symptoms concerning the sphere of finance, such as crisis of: effectiveness, profitability, liquidity, debt, overinvestment, crisis of market value, or the crisis of “infection”,</td>
</tr>
<tr>
<td>– of strategy,</td>
<td>– endogenous causes of crisis, such as: resource-based crisis, crisis of strategy, management, personnel, of innovativeness.</td>
<td>– symptoms concerning the extra-financial sphere, such as the crisis of: management, personnel, production, logistics, marketing, medial, resource-based.</td>
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<tr>
<td>– of performance,</td>
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<td></td>
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<td>– of liquidity,</td>
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<td>– bankruptcy, collapse</td>
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Source: Author’s own study on the basis of (Nowak, 2007, Zelek, 2003).
In the literature of the subject, some authors indicate the occurrence of a dependence between a crisis in the enterprise, and the enterprise lifecycle, that is, passing from the stage of its establishment, through growth to maturity, and finally, to the stage of its decline. In this context, also specific periods are indicated, which can be observed during the occurrence of a crisis, with the division into basically from 4 to 5 periods.

**Figure 2.** The division of crises according to selected authors

![Periodization of crisis](image)

*Source: Author's own illustrated on the basis of: (Fink, 1986; Mitroff, 1994, Zhihong & Haiyan, 2009).*

In the context of the presented complexity and multi-dimensionality of crisis, a question arises: how to manage an enterprise in a critical situation and what consequences does it bring for the enterprise?

### 3. Enterprise management in a critical situation

In most general terms, management can be defined as a set of logically arranged actions aiming at the accomplishment of a specific goal referring to the interest/need of a given object of management which we should understand as: an individual, a group of people, business, an organization, a community, a state or even a group of states, and others (Wielka Encyklopedia, 2005).

In practice, management has always existed, but for centuries it had mainly intuitive character, and it refers to every area of human activity, it concerns all its spheres, namely the private (personal, family) one, as well as the social, professional, business, political, military one. Management is a process progressing in alternate sequences, manifested in specific actions in this process, namely:

- planning, related to the choice of goals and the way of their accomplishment, as well as specifying the applied tasks and dates of their execution;
• organizing, related to the allocation and provision of resources which are necessary for the implementation of planned activities in the way guaranteeing the efficiency and effectiveness of management;
• leading, that is managing and motivating to cooperation during the implementation of task assignment;
• supervising, which consists in the permanent observation of the progress made, as well as taking corrective decisions.

The biggest manifestation of a crisis in scale of the state and the society is the time of war. Then, permanent management not only takes place but has to take place, which refers, among others, to planning the tactics of military actions, their organization, their proper management and supervision. With proper mobility and uniformity of undertaken actions and mobility, it is possible to succeed through overcoming the crisis.

Also in an enterprise, crisis management is necessary. By facing the occurring dynamic changes in the environment of the enterprise, but also inside the enterprise, we can assume that it is also necessary to meet the challenge which is the management of a crisis situation. In such a special period in the enterprise, such management is understood as adequate reaction, consisting in possibly early recognition of a hidden critical situation, as well as in planning and undertaking protective actions or the ones diminishing acute crises (Leksykon Zarządzania, 2004). It means not only overcoming the crisis but also undertaking preventive actions, averting future crises, as well as creating bases for the further functioning and development of the enterprise.

Fig. 3 presents the connection between basic activities in the management process indicated before and the specificity of critical situation management.

**Figure 3.** The connection between the management process and its phases in a critical situation

![Diagram](source: own illustrated on the basis of Majchrzak, 2013.)

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Efficiency means the execution of a task in a correct way and refers to the relation between expenditure and results, whereas effectiveness is related to bringing actions to an end, which means the execution of the assigned task to ensure in consequence the accomplishment of a goal.
We can claim that managing enterprise in a critical situation is related to the entirety of activities of the following character:

- diagnostic, including the diagnosis of the causes of possible critical situations,
- planning, connected with the system of actions related to prevention and escalation,
- related to the introduction of changes within the framework of anti-crisis actions, of short-term and strategic character,
- related to restoring balance in the enterprise functioning, as well as the implementation of post-crisis activities.

Moreover, we can assume that (Siuta-Tokarska, 2011):

- enterprises should systematically monitor the environment for early detection of possible threats coming from the internal and external environment,
- management in critical situations should be individualized, as there is no universal management in crisis (every crisis is different and may be caused by different reasons),
- mobility and cooperation of all the enterprise employees to overcome the crisis is necessary,
- it is also purposeful to prepare at least a few plans of action and anti-crisis procedures, adequate to the existing situation.

Among the fundamental ventures of management in the conditions of the critical situation we can also indicate the needs to (Wróblewski, 2010):

- design and implement the early warning system, including the recognition of critical situations, as well as the assessment of threats and opportunities arising from it;
- assess external and internal factors which determine the enterprise developmental potential and its economic standing, the financial one included, and defining the organization’s strengths and weaknesses;
- identify the causes of the critical situation;
- measure the intensification of the critical situation symptoms and assess the financial threat;
- analyze the progression, duration and results for the enterprise due to the occurrence of the critical situation, and draw up the scenarios of further development of that situation;
- develop the strategy of critical situation management, define actions, including the assignment of Public Relations people and tasks, allocate resources, monitor threats;
- define methods which can be applied to get out of the critical situation;
- apply anti-crisis actions of temporary and strategic character;
- introduce development activities after the crisis is over.

Fig. 4 presents a diagram of management in a critical situation in an enterprise, considering individual layers of this process.
4. The findings of the research into the management of enterprises in Poland in a critical situation

In recent years, the world economy, including economies of its individual regions and countries, were subject to shocks caused by the global economic crisis which started in 2007 in USA. They resulted, among others, in changes in so-called TEA indicator\(^3\), a decrease in the number of newly-established businesses, or an increase in the number of firms declaring bankruptcy (Entrepreneurship..., 2012). The changes which took place concerned also Poland, the SME and the large enterprise sector included, and were manifested, among others, in a decline of the dynamics of active enterprises and the reduction of the number of people employed in them. In terms of finance, distinct worsening was also observed, expressed, among others, in a decrease in profitability and financial liquidity. The number of entities which did not settle their liabilities timely was

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\(^3\) TEA – Total Entrepreneurial Activity – an index measuring the overall activity in undertaking economic ventures.
relatively big (according to the data for 2013, in Poland only 23% of invoices were paid timely (Przedsiębiorczość..., 2013). It is also worth mentioning that in accordance with the data published in the report „Barometr Płatności na Świecie 2013” (“The World Barometer of Payments 2013”) – in Poland, starting from 2008, the situation worsened considerably in comparison with the previous years, and delays in payments were characteristic for the smallest entities (Przedsiębiorczość..., 2013). What is more, so-called Index of Enterprise Liabilities in July 2009 reached the lowest value which was 81.5. Then it went up, reaching 87.5 in July 2011. Unfortunately, in the following years, the index value was trending downwards, reaching the level of 82.2 in April 2013, which was an expression of worsening moods in economy (Przedsiębiorczość, 2013).

An analysis of the above data clearly shows the economic slowdown in Poland, caused by unfavourable changes in the period of the global economic crisis. They resulted in the worsening of the basic measures, considered in the assessment of entrepreneurship and the financial situation of business entities in Poland.

In the face of such changes in the enterprise environment, usually a natural need for their adaptation to the environment occurs, or at least a need for the reaction to the progressing changes. Therefore, the accumulation of negative external conditionings is a specific critical situation for numerous business entities.

Thus, it is worth performing a deepened analysis concerning the preparation of entrepreneurs for a critical situation in their enterprises and undertaking actions, preventive measures and other ventures, considering various criteria of analysis.

**Findings of the research into enterprises by their size classes**

Based on the research presented in the publication „Procesy inwestycyjne i strategie przedsiębiorstw w czasach kryzysu”/“Investment Processes and Strategies of Enterprises in the Times of the Crisis (Procesy inwestycyjne..., 2010) in micro and a considerable part of small enterprises in Poland, it has been proved that the impact of the crisis on their activity was not significant, but in the majority of those enterprises no developed strategies or procedures in critical situations were observed.

It may prove the lack of preparation and not undertaking preventive measures, as well as the lack of a well-thought-out scenario of actions, which confirms focusing attention of these economic entities’ owners practically only on the financial aims of the enterprise, instead of on building permanent competitive advantage (building relations with suppliers and workers included). Moreover, the research showed that alongside the growth of enterprise size class, also the attitude of entrepreneurs changed, manifested in better understanding of a need and preparation to managing a critical situation. Partly, it is a consequence of the style and the mode of management in those enterprises.

In medium-sized enterprises, and particularly among exporting SMEs, the awareness of the impact of the economic crisis on enterprise functioning was bigger than in other enterprises of that sector (which can be explained as an effect of their functioning within the area of the domestic market and overseas markets). These enterprises were rela-
tively better prepared for critical situations, and demonstrated bigger inclination to establish covenants regulating the enterprise functioning and the principles of its development.

According to the research conducted among medium-sized and large enterprises in Poland, showed in the presentation “Strategie inwestycyjne przedsiębiorstw w czasie spowolnienia gospodarczego”/“Enterprise Investment Strategies during the Economic Slow-down” (Strategie inwestycyjne..., 2009), a considerable impact of the global crisis on the functioning of those enterprises was found out, manifested in the occurrence of serious problems of the economic and financial nature. Among frequently indicated actions, undertaken or planned in those enterprises, the following were distinguished: limitation of the production, reduction of sales, layoffs, reduction of investment activities scale, as well as the reduction of the expenditure on marketing, advertising, training. A significant influence of the crisis on large enterprises is also proven by the data concerning the number of business entities which declared bankruptcy, exactly among enterprises of this size class.

However, a large part of enterprises indicated the crisis as a chance for enterprise development, noticing opportunities to raise sales, revenues, develop new forms of activity or increase the area of operations, or even employ new workforce. It should be observed that the findings of the research into large enterprises’ functioning during the economic crisis are quite varied and undoubtedly reflect the scale of their connections with the world economy (the more connected activity with foreign markets, the bigger difficulties), as well as a smaller opportunity for flexible activities in comparison, e.g., with the SME sector enterprises.

A little different situation concerned enterprises from so-called “list of 500”, namely of the largest enterprises in Poland. While in 2007 external factors were indicated as the most frequent causes of crises in those enterprises, in 2010 internal factors were considered the major driving cause, whereas external factors were regarded as such to a lesser degree. The authors of the study „Zarządzanie sytuacją kryzysową w polskich przedsiębiorstwach”/“Critical Situation Management in Polish Enterprises” (Raport z badań: Zarządzanie sytuacją..., 2007; Raport z badań: Zarządzanie sytuacją..., 2010) claim that it can be related to difficulties of enterprises, arising from the economic slowdown and problems of the chilled economy. Around 75% of those entities had a plan of operating activities and the plan of managing communication in critical situations, which should be assessed positively.

The crisis versus the age of an enterprise

What results from the study „Młodzi przedsiębiorcy w Polsce”/“Young Entrepreneurs in Poland” (Pruszanowski et. al., 2009) is that considering the age of enterprise functioning on the market, the enterprises which are in the age of 2–5 years of their

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4 See: reports of the Euler Hermes group concerning business entities in Poland which declared bankruptcy.
functioning on the market are most exposed to negative consequences of a crisis. It is also confirmed by the data concerning entities which stopped their activity on the market and were crossed out from the register.

Among the fundamental causes determining significant risk for enterprise activity when confronted with a crisis (exactly in this age of an enterprise on the market), we can indicate insufficient knowledge and the lack of adequate experience of the owners of young enterprises in coping with the development of their enterprise, as well as the failure to adjust the support from the state for this group of entrepreneurs.

The way of managing an enterprise: ownership, family and through hired managers

What results from I. Steinerowska-Streb’s research (Steinerowska-Streb, 2011) into the identification of selected regularities in the reactions to the economic recession in Poland during the global economic crisis is that we can indicate certain differences in management, including decisions taken, in enterprises managed by their owners or their families, or in enterprises managed by hired managers. The differences concern the employment policy in an enterprise – related to each other and important from the point of view of the national economy. In enterprises managed by their owners and members of their family, certain regularity was observed, manifested in a smaller inclination to changes in the employment level during the recession (on average, about 40% of the surveyed entities in the years 2008–2010) than it was the case in enterprises managed by managers (on average, about 30% of the respondents). Moreover, higher percentage of businesses in which no change was made in the level of remunerations in the years 2008–2010 concerned enterprises managed by their owners and families (about 71% on average) in comparison with firms managed by managers (about 65% on average). In addition, enterprises with ownership and family management demonstrated higher percentage of entities making a regular cost analysis for their optimization, which may prove that jobs for employees are selected more carefully, also in the periods of high economic activeness. A bigger inclination to search for savings outside the human factor (employees) in enterprises managed by the owners may also arise from less formalized organizational structures of those entities and the existence of specific personal bonds and better “union” among the people working in the enterprise.

On the other hand, on the basis of O. Martyniuk’s research (Martyniuk, 2013) into family firms in Poland during the occurrence of the global economic crisis, we can draw the following conclusions:

• in family firms in Poland a lower inclination to take risk in comparison with non-family firms was visible,
• they conducted more careful investment policy and they preferred conservative strategies of financing the activity,
• close relations with the environment and specific internal relations in the enterprise (family members are workers, too) are the reason for which during a crisis...
employees are more involved in combating the occurred problems in the firm and are more prone to have their remunerations lowered to regain the state of internal balance in the enterprise in comparison with non-family enterprises.

**Initiatives to introduce changes versus management levels in an enterprise**

The research into management in enterprises in Poland during the crisis proved (Strategie firm w kryzysie..., 2009) that changes in the majority of the studied enterprises were introduced with the use of so-called top-down method, by top management which supervised their implementation (58% of enterprises), in one-third of the surveyed organizations the changes were introduced by means of the participative method (consisting in the creation of teams whose tasks is to develop the concept of changes and their implementation with the use of employees on various levels), whereas in substantial minority (7% of the surveyed enterprises) they were introduced with the bottom-up method (employees used their initiative to introduce changes). On that basis, we can indicate a relatively high level of the identification of workers with the implemented changes, which should be assessed positively.

**Selected effects and changes of the impact of the global economic crisis in enterprises**

What results from the research presented in the report „Strategie firm w kryzysie” /„Strategies of Firms in the Crisis” (Strategie firm..., 2009) is that the global economic crisis had both a positive and a negative impact on the activity of enterprises in Poland. Among the positive effects, the following were distinguished:

- a decrease in the number of competitive entities and an increase in sales (75% of the respondents),
- acquisitions of other enterprises (25%),
- development of new forms of activity (16.8%),
- the fall of the prices of semi-finished products and other goods (15%).

On the other hands, negative effects include:

- the lack of or the inhibition of investment in the enterprise and with regard to employees, e.g. training (92%),
- pessimistic moods (63%),
- reduction of orders (58%),
- a necessity to negotiate contracts and prices (39%),
- planned redundancies (28%).

To sum up the above findings of the empirical research, we can conclude that the activities undertaken among enterprises in Poland during the global economic crisis were of both reactive and proactive character.
Table 2 compares kinds of actions in the context of a critical situation in an enterprise, considering the aspects concerning management and the scope and type of conducted activity.

### Table 2. Changes introduced in enterprises during a crisis

<table>
<thead>
<tr>
<th>The area of “defect” in a crisis situation</th>
<th>Reactive activities</th>
<th>Proactive activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>the area concerning the sphere of enterprise management</td>
<td>- cost reduction, - restructuring of finance, - redundancies, - sales of assets and ownership, - changes in the organizational structure, - reduction of central administration, - change of management staff.</td>
<td>- investment in new products, - investment in new capital, - consolidations, mergers, - concluding alliances, - acquisition of other firms, - implementation of new management concepts.</td>
</tr>
<tr>
<td>the area concerning the scope and the kind of conducted economic activity</td>
<td>- reduction of assortment, - limitation or lack of investment, - resignation from some kinds of the core activity or auxiliary activity, - sales of plants, branches, - limitation of the range of activity, related to the exit from some markets, - downsizing (the enterprise decrease)</td>
<td>- redefinition of activity, - concentration on a few market, - introduction of cost strategy, - introduction of diversification.</td>
</tr>
</tbody>
</table>


5. Conclusions

During the global economic crisis which started in 2007 in USA, enterprises in Poland revealed varied ways of reacting to the negative external conditionings. The way of managing those enterprises significantly depended on:

- the size of the enterprise,
- the period of its functioning on the economic market, and
- the kind of ownership (family and non-family).

In the light of the presented results, we can claim that alongside the growth of the enterprise size class, there occurred better understanding of the problem and preparation, including proper management, to critical situations.

In micro, small and medium-sized enterprises, critical situations whose source was inside the enterprise (endogenous causes), were more uncommon in comparison with exogenous causes, which was undoubtedly related to their relatively simple organizational structure and the consequent ability to react quickly (Grądzki & Zakrzewska-Bielawska, 2009; Zelek, 2002). On the other hand, in large enterprises, greater frequency of critical situations referred to internal factors.
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Strategie firm w kryzysie. Raport poświęcony zmianom strategii zarządzania w polskich przedsiębiorstwach w okresie kryzysu gospodarczego w 2009 roku, (2009), 4Results: Warszawa.


Short bio of authors

Prof. Ryszard Borowiecki, PhD, Doctor Honoris Causa multi is a professor at Department of Management at Cracow University of Economics and Częstochowa University of Technology. He is an author, a co-author or a scientific editor of over 550 scientific works published both in Poland and abroad. The publications concern various areas of economic sciences, they face the development of broadly understood management sciences and managerial practice.

In the years 2002 – 2008, he was the Rector of Cracow University of Economics. Since 2003, he has been the Vice-President of the Committee of Management and Organisation Theory of the Polish Academy of Sciences, and since 2011 a member of the Central Commission for Degrees and Titles.
Barbara Siuta-Tokarska, PhD, is an employee of Department of Economics and Organisation of Enterprises at Cracow University of Economics. The area of her research interests concentrates around the subject matter of small and medium-sized enterprises, innovative and investment activity of enterprises, as well as the issues concerning management. Together with Professor R. Borowiecki, she is a co-author of two books on small and medium-sized enterprises and challenges and dilemmas related to the transformation of Poland’s economy. Moreover, she is an author of about 90 scientific publications, including 60 without co-authorship, in professional journals, research bulletins and books being post-conference publications, both in Poland and abroad.
1. Introduction

Supply of insurance services dedicated to companies has been changing its form over the years. It is manifested by the development of insurance services which, unlike classic insurance, do not refer to direct consequences of fortuitous event but to the so-called remote damage. Undoubtedly, loss of income due to the impossibility to carry out operations is such a damage, what until recently was the so-called non-insurable risk, hence was on the assumption own cost incurred by the company affected by the fortuitous event. Currently, this type of damage can already be insured which however does not translate into full knowledge of their availability and mere conditions of the insurance.

The keynote of the paper is statement that the use of business interruption insurance by companies may significantly stabilize their operations understood as ability to survive and develop. There are two essential parts distinguished in the text. The first one presents the mechanism of functioning of business interruption insurance. While the other one embraces results of empirical studies of availability of discussed services in the light of their supply by the insurance companies registered in Poland as well as the conditions for providing these services by selected leading companies.
2. **Business interruption insurance as a tool for stabilization of business operations**

In the literature status of insurance in managing an enterprise is understood in two ways. In the first approach, insurance is regarded as an element of risk management, while in the other one as an activity complementary to risk management. For instance T.J. Paradine (1/1995) believes that risk management is responsible for proactive actions, taking steps to prevent incidents which could result in loss, having arrangement which will make money available to prevent financial crisis. Risk management may be defined as the optimal use of resources to minimize risk. Insurance rather protects company from the financial consequences of loss.

Yet the process of managing risk of inability to continue business operations is an integrated process which may include such steps as (Paradine 1/1995):

- identify critical risk (risk profiling),
- analyse and prioritize risks,
- develop contingency plan,
- evaluate anticipated losses,
- decide whether to retain risk (bear cost yourself) or transfer risk (insure).

Traditional insurance services referred mostly to losses which were typically direct consequences of damage, e.g. the most popular among companies insurance of property against fire and other fortuitous events allows to recover the enterprise assets to the condition before the damage.

Traditional insurance did not however include to a sufficient degree the so called indirect consequences of losses. Business interruption insurance addresses the gap in terms of insurance protection.

The scale of losses incurred by the companies as part of sustaining their operations is represented by the example related to the consequences of the Kathrina hurricane which hit South Florida in 2005. In the area affected by the hurricane the insurance covered in total 25 bn USD company damages, 9 bn USD of which concerned direct consequences of inability to continue operations (Kumar, Guin 2009).

Image 1 presents, of course in general, the results of an unfavourable fortuitous event on the income and operational costs.

As it can be seen, these effects ultimately impact deterioration of company financial results.

Business interruption insurance refers to these damages but as a specific extension of classic property insurance against fire and other fortuitous events or as an insurance against all risks.

Therefore, damage to property, which primarily generates losses in company property, is the foundation for using this insurance (Business Interruption…., 2012).
Figure 1. General scheme of effects of a negative fortuitous event on company income and costs

Business interruption insurance aims at covering two basic loss categories affecting companies (Business Interruption…, 2012):

• loss of company gross profit due to the unfavourable fortuitous event,
• increased costs of operations which the company will not repeat in the course of its regular functioning, but which it must incur in order to restore and maintain the income level in the compensation period.

Hence, as it can be seen compensation paid to a company affected by a fortuitous event in reference to the business interruption insurance includes the loss categories which are not entirely excluded in traditional insurance.

3. Methodology of empirical studies

3.1. Goals and object of research

Empirical studies carried out by the authors concern availability and range of services offered in relation to business interruption insurance on the insurance market in Poland. In their studies the authors adopt perspective of clients, i.e. enterprises.

Among the objectives of the research there are:

• Objective one– discovering the current availability of services in terms of business interruption insurance on the insurance market in Poland,
• Objective two – learning conditions for providing service of business interruption by leading insurance companies present on the Polish market,
• Objective three – identification of restrictions connected to use of the studied services of business interruption service by the companies interested in these services.
In relation to such formulated objectives of empirical studies the following research questions have been identified:

- Question one – What is the current state of availability of business interruption services offered currently by insurance companies in Poland?
- Question two – What are the key conditions for provision of business interruption services specified by the leading insurance companies operating in Poland?
- Question three – Are there any significant restrictions related to the use of business interruption services included in the content of general insurance conditions, and if so what are they?

The procedure for empirical studies subject to implementation of the listed objectives and to obtaining answers to the fundamental questions included the following steps:

- initial identification of a sample of insurance companies present in Poland which are the subject of empirical studies,
- analysis of source data from reports of Financial Supervision Authority aimed at specifying degree of popularity of business interruption services as a component of market offer of insurance companies operating in Poland,
- identifying, on the basis of data included in the reports of Financial Supervision Authority, target group of leading insurance companies the offer of which will be subject to detailed studies in terms of business interruption insurance,
- analysis of content of general conditions of business interruption insurance of the studied insurance companies and applying.

3.2. Characteristics of a sample of the studied insurance companies

All insurance companies with the status of a joint stock company registered in Poland or a mutual insurance company were selected for the initial studies (especially aimed at objective one of the studies and research question one). Therefore, foreign departments of insurance companies were excluded. Table 1 presents data about these companies including earned insurance premium gross what is a counterpart of income in traditional understanding of financial economy of companies. This amount allows to determine position of an insurance company on the market, and in case of the present text it seems the best variable allowing to establish which of the insurance companies can be regarded as leading.
Table 1. Insurance premium earned by the studied insurance companies

<table>
<thead>
<tr>
<th>Specification</th>
<th>Premium earned on own deductible in 2013 (K PLN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TUIR ALLIANZ POLSKA S.A.</td>
<td>1 477 761</td>
</tr>
<tr>
<td>AVIVA TU OGÓLNICH S.A.</td>
<td>330 321</td>
</tr>
<tr>
<td>AXA TUIR S.A.</td>
<td>106 977</td>
</tr>
<tr>
<td>BENEFIA TU S.A. Vienna Insurance Group</td>
<td>194 492</td>
</tr>
<tr>
<td>BRE UBEZPIECZENIA TUIR S.A.</td>
<td>127 042</td>
</tr>
<tr>
<td>BZ WBK-AVIVA TU OGÓLNICH S.A.</td>
<td>124 942</td>
</tr>
<tr>
<td>COMPENSA TU S.A. Vienna Insurance Group</td>
<td>763 949</td>
</tr>
<tr>
<td>CONCORDIA POLSKA TUW</td>
<td>200 610</td>
</tr>
<tr>
<td>TUW-CUPRUM</td>
<td>56 134</td>
</tr>
<tr>
<td>D.A.S. TU OCHRONY PRAWNEJ S.A.</td>
<td>7 334</td>
</tr>
<tr>
<td>STU ERGO HESTIA SA</td>
<td>2 449 170</td>
</tr>
<tr>
<td>TU EULER HERMES S.A.</td>
<td>81 078</td>
</tr>
<tr>
<td>TU EUROPA S.A.</td>
<td>438 689</td>
</tr>
<tr>
<td>GENERALI T.U. S.A.</td>
<td>500 924</td>
</tr>
<tr>
<td>GOTHRAER TU S.A.</td>
<td>384 822</td>
</tr>
<tr>
<td>TU INTER POLSKA S.A.</td>
<td>101 727</td>
</tr>
<tr>
<td>INTERRISK S.A. Vienna Insurance Group</td>
<td>731 330</td>
</tr>
<tr>
<td>KUKE S.A.</td>
<td>24 116</td>
</tr>
<tr>
<td>LINK4 TU S.A.</td>
<td>350 891</td>
</tr>
<tr>
<td>MTU Moje Towarzystwo Ubezpieczeń S.A.</td>
<td>703 583</td>
</tr>
<tr>
<td>TUIR PARTNER S.A.</td>
<td>2 758</td>
</tr>
<tr>
<td>T.U.W. POCZTOWE</td>
<td>25 267</td>
</tr>
<tr>
<td>PTR S.A.</td>
<td>269 857</td>
</tr>
<tr>
<td>PZU SA</td>
<td>8 108 036</td>
</tr>
<tr>
<td>SIGNAL IDUNA POLSKA TU S.A.</td>
<td>43 159</td>
</tr>
<tr>
<td>TUW SKOK</td>
<td>171 137</td>
</tr>
<tr>
<td>TUW TUW</td>
<td>399 227</td>
</tr>
<tr>
<td>TUZ TUW</td>
<td>172 058</td>
</tr>
<tr>
<td>UNIQA TU S.A.</td>
<td>682 769</td>
</tr>
<tr>
<td>TUIR WARTA S.A.</td>
<td>3 080 973</td>
</tr>
<tr>
<td>TU ZDROWIE S.A.</td>
<td>26 393</td>
</tr>
</tbody>
</table>

*Source: Own illustration based on Informacje… (2013)*
The following companies were regarded as the leading ones (in bold): PZU, Warta, Ergo Hestia and Allianz Polska. Total market share of these four insurance companies (estimated on the basis of earned premium) amounted to 68.3% in 2013. Thus, offers of these companies are subject to detailed studies.

4. Results of empirical studies

4.1. Availability of business interruption insurance services in the studied insurance companies

Recognition of availability of business interruption insurance services among the studied companies is connected with a risk because it can be demonstrated only for the given moment because these companies can modify their market offer to some extent. In the light of the above, it was decided that for identification of scope of activities of insurance companies formula based on the authorization to carry out this activity in the so called insurance groups will be applied (see Table 2).

Table 2. Direct activities carried out by the studied insurance companies (as of end of 2013)

<table>
<thead>
<tr>
<th>Specification</th>
<th>Insurance groups</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>TUiR ALLIANZ POLSKA S.A.</td>
<td>x</td>
</tr>
<tr>
<td>AVIVA TU OGÓLNYCH S.A.</td>
<td>x</td>
</tr>
<tr>
<td>AXA TUiR S.A.</td>
<td>x</td>
</tr>
<tr>
<td>BENEFIA TU S.A. Vienna Insurance Group</td>
<td>x</td>
</tr>
<tr>
<td>BRE UBEZPIECZENIA TUiR S.A.</td>
<td>x</td>
</tr>
<tr>
<td>BZ WBK-AVIVA TU OGÓLNYCH S.A.</td>
<td>x</td>
</tr>
<tr>
<td>COMPENSA TU S.A. Vienna Insurance Group</td>
<td>x</td>
</tr>
<tr>
<td>CONCORDIA POLSKA TUW</td>
<td>x</td>
</tr>
<tr>
<td>TUiW-CUPRUM</td>
<td>x</td>
</tr>
<tr>
<td>D.A.S. TU OCHRONY PRAWNEJ S.A.</td>
<td></td>
</tr>
<tr>
<td>STU ERGO HESTIA SA</td>
<td>x</td>
</tr>
<tr>
<td>TU EULER HERMES S.A.</td>
<td>x</td>
</tr>
<tr>
<td>TU EUROPA S.A.</td>
<td>x</td>
</tr>
<tr>
<td>GENERALI T.U. S.A.</td>
<td>x</td>
</tr>
<tr>
<td>GOTHÄER TU S.A.</td>
<td>x</td>
</tr>
<tr>
<td>TU INTER POLSKA S.A.</td>
<td>x</td>
</tr>
<tr>
<td>INTERRISK S.A. Vienna Insurance Group</td>
<td>x</td>
</tr>
<tr>
<td>Specification</td>
<td>1</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>KUKE S.A.</td>
<td></td>
</tr>
<tr>
<td>LINK4 TU S.A.</td>
<td>x</td>
</tr>
<tr>
<td>MTU Moje Towarzystwo</td>
<td>x</td>
</tr>
<tr>
<td>Ubezpieczeń S.A.</td>
<td></td>
</tr>
<tr>
<td>TUJR PARTNER S.A.</td>
<td>x</td>
</tr>
<tr>
<td>T.U.W. POCZTOWE</td>
<td>x</td>
</tr>
<tr>
<td>PTR S.A.</td>
<td></td>
</tr>
<tr>
<td>PZU SA</td>
<td>x</td>
</tr>
<tr>
<td>SIGNAL IDUNA POLSKA TU S.A.</td>
<td>x</td>
</tr>
<tr>
<td>TUW SKOK</td>
<td>x</td>
</tr>
<tr>
<td>TUW TUW</td>
<td>x</td>
</tr>
<tr>
<td>TUZ TUW</td>
<td>x</td>
</tr>
<tr>
<td>UNIQA TU S.A.</td>
<td>x</td>
</tr>
<tr>
<td>TUJR WARTA S.A.</td>
<td>x</td>
</tr>
<tr>
<td>TU ZDROWIE S.A.</td>
<td>x</td>
</tr>
</tbody>
</table>

Source: Own illustration based on Informacje… (2013)

Business interruption insurance is located in 16th group of insurances (called insurances covering various financial risks) (Groups of Department II …, 2013). Twenty four insurance companies carried out activities of this group at the end of 2013. Thus hypothetically, these companies may offer business interruption insurance. In-depth studies related to analysis of market offer content given on websites of these companies proved that 10 companies (marked in grey) offer business interruption insurance. On such grounds it can be concluded that companies interested in services of business interruption insurance can choose from offers of 10 companies. Such a possibility is unfortunately limited only to companies of large size class. The offer of business interruption insurance so far does not include small and medium enterprises.

4.2. Terms and conditions for provision of business interruption insurance services by the studied insurance companies

In the course of studying terms for provision of business interruption insurance services by the studied insurance companies three main explanatory variables were distinguished. These are:

- offered scope of insurance (this variable informs about types of risks covered in the given terms of insurance; the broader the scope, the higher the quality of insurance cover),
• insurance coverage of additional costs (costs which do not exist in regular operation and need to be incurred in crisis situations),

• period when the insurance company is liable for damages (the variable informs how long an insurance company is prone to pay compensation to a company that is its client; the longer the period, the better insurance protection).

Results of studies including evaluation of the given variables in selected insurance companies are discussed below.

### 4.2.1. Scope of business interruption insurance in the studied insurance companies

Table 3 presents comparison of solutions applied by the studied insurance companies related to the scope of business interruption insurance.

**Table 3. Scope of business interruption insurance in the studied insurance companies**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Allianz Polska</th>
<th>Ergo Hestia</th>
<th>PZU</th>
<th>Warta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject of insurance</td>
<td>Lost gross profit consisting of operational profit and fixed costs in the period of maximum compensation period</td>
<td>Loss of gross profit by the insured in the compensation period</td>
<td>Estimated gross profit obtained in the maximum compensation period</td>
<td>Damage of loss of estimated gross profit by the policy holder in the compensation period</td>
</tr>
<tr>
<td>Base of gross profit</td>
<td>Business activity carried out in the location of insurance</td>
<td>Business activity carried out by the policy holder</td>
<td>Business activity carried out by the policy holder given in the agreement or disclosed in an adequate register</td>
<td>Business activity carried out by the policy holder</td>
</tr>
<tr>
<td>Grounds for entailing insurer’s liability</td>
<td>Property damage in the location of insurance</td>
<td>Damage of property covered by the insurance</td>
<td>Total: - property damage - accident is covered by the property insurance agreement</td>
<td>Property damage due to various fortuitous events</td>
</tr>
<tr>
<td>Scope of costs covered by estimated profit gross</td>
<td>Fixed costs incurring of which would be legally required</td>
<td>All fixed costs (the amount of which is not lowered after the interruptions)</td>
<td>All kinds of fixed costs (apart from those excluded in the agreement)</td>
<td>Insured fixed costs</td>
</tr>
<tr>
<td>Location of insurance</td>
<td>Location of business activity, given in the insurance agreement</td>
<td>Location stated in the agreement. In case of operating in another location income obtained from this activity is included in estimation of the lost gross profit</td>
<td>Locations stated in the agreement where the insured runs business operations</td>
<td>Location of business activity indicated by the policy holder</td>
</tr>
</tbody>
</table>

*Source: Own illustration based on the general terms and conditions for insurance of the studied insurance companies*
With regard to insurance there are certain differences. Namely, they concern the subject of insurance which in case of Allianz Polska and PZU, by assumption, refers to the maximum compensation period. While in case in Ergo Hestia and Warta it refers only to the compensation period. Moreover, for Allianz Polska the scope is limited only to the damages related to activities of the insured company in the location of insurance. Such a restriction does not exist in other insurance companies. Further differences between the insurance companies are visible in understanding the location of insurance, the most flexible solution being offered by Warta.

4.2.2. Insurance coverage of additional costs

Circumstances of arising property damage in company activities not infrequently result in necessity to incur additional costs (when compared to standard ones), indispensable for restoring ability to continue business operations. In this respect it is of great importance if and to what extent insurance companies are prone to cover this kind of costs. Research results in relation to this issue are presented in Table 4.

<table>
<thead>
<tr>
<th>Allianz Polska</th>
<th>Ergo Hestia</th>
<th>PZU</th>
<th>Warta</th>
</tr>
</thead>
<tbody>
<tr>
<td>- These costs must be related to preventing the occurrence of profit damage risk or limiting the size of the loss</td>
<td>- These costs must be indispensable and justifiable and must impact avoiding or limiting turnover drop in the compensation period</td>
<td>- These costs may be insured to the amount established by the product of gross profit indicator and the value of turnover drop disappeared thanks to incurring these costs</td>
<td>- These costs must be indispensable and justifiable and must impact avoiding or limiting turnover drop in the compensation period</td>
</tr>
<tr>
<td>- The circumstances must justify incurring these costs</td>
<td>- The amount of these costs is limited</td>
<td>- Above the indicated borderline these costs may be insured for additional premium</td>
<td>- The amount of these costs is limited</td>
</tr>
<tr>
<td>- Payment of compensation covering these costs is only possible within the limits of the sum insured</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Own illustration based on the general terms and conditions for insurance of the studied insurance companies

Basically, each of the studied insurance companies covers the type of costs which the companies are justified to incur. Moreover, the amount of the mentioned costs, which the insurance companies are prone to cover, is restricted in different ways. Only PZU allows, by additional premium, to increase the initial limit estimated for additional costs.

4.2.3. Period of liability of insurance companies for damages

Another studied crucial variable is the scope of time when the insurance company is prone to be liable for damages in operations of insured company. It is considerable in the context of time that a company which experienced a fortuitous event needs to re-
store manufacturing and trading efficiency. Table 5 demonstrates how insurance companies approach the issue of period of liability.

Table 5. Period of liability of the studied insurance companies for damages

<table>
<thead>
<tr>
<th>Allianz Polska</th>
<th>Ergo Hestia</th>
<th>PZU</th>
<th>Warta</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Insurance covers damages incurred by the policy holder in the maximum period of compensation - Policy holder specifies the length of the maximum compensation period - This length may range from 3 to 24 months</td>
<td>- Insurer is liable for damages of the policy holder within the limits of maximum compensation period, however until the date when the damage ceased to impact performance results - Policy holder specifies the length of the maximum compensation period and it is not restricted by the insurer</td>
<td>- Insurance covers damages incurred by the policy holder in the maximum period of compensation - Policy holder specifies the length of the maximum compensation period - This length is not limited</td>
<td>- Insurance covers damages incurred by the policy holder in the maximum period of compensation - Length of the maximum compensation period should not be shorter than 12 months</td>
</tr>
</tbody>
</table>

Source: Own illustration based on the general terms and conditions for insurance of the studied insurance companies

Some of the studied insurance companies limit the maximum compensation period, what is carried out in different ways. For instance Allianz Polska specifies both the lower and top limit where the period is required to fit. While in case of Warta only the lower limit is indicated. Therefore it is a solution which meets the need of companies to the greatest extent.

3.3. Restrictions related to the use of business interruption insurance services offered by the studied insurance companies

Restrictions in the use of business interruption insurance service result from the provisions included by the studied companies in their general terms and conditions of insurance which lead to incomplete application of the principle of completeness of insurance coverage. Conceptualization of the subject of studies in this respect allowed authors to distinguish two vital variables:

- exclusion of liability of insurance company by limiting the scope of insurance,
- limiting the amount of compensation by lowering it in specified cases.

Below are the results of research on the mentioned variables in the studied insurance companies.

3.3.1. Exclusion of liability for damages among the studied insurance companies

As a consequence of these exclusions insurer in certain cases disposes of the formal and material liability for damages which simultaneously become own cost of the companies – clients. Research results concern liability exclusions in business interruption insurance offered by the studied insurance companies are presented in Table 6.
Table 6. Exclusion of liability in the business interruption offer of the studied insurance companies

<table>
<thead>
<tr>
<th>Exclusion</th>
<th>Allianz Polska</th>
<th>Ergo Hestia</th>
<th>PZU</th>
<th>Warta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of profit obtained from non-operational activities</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Increased value of financial losses resulting from the lack of sufficient funds for restoration of assets of the policy holder</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Claims for damages of third parties</td>
<td>x</td>
<td>-</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Costs of severance pay for employees made redundant</td>
<td>x</td>
<td>-</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Losses resulting from property damages outside the place of insurance</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Losses resulting from external damages due to not listed unnamed risks</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Losses arising after expiry of the maximum compensation period</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Losses resulting from a wilful act or gross negligence of the policy holder</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Losses resulting from delay of the policy holder in engaging in business activities</td>
<td>-</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Losses were related to the change of activity profile of the policy holder in the compensation period</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>x</td>
</tr>
</tbody>
</table>

Source: Own illustration based on the general terms and conditions for insurance of the studied insurance companies

As it can be noticed in Table 6, Warta offers the most restrictive system of exclusions avoiding thus liability for all not identified by the Authors cases of exclusions. Allianz makes use of the smallest number of exclusions. From the point of view of interests of companies using business interruption insurance the offer devoid of the insurance coverage exclusions to the greatest extent is of course the most attractive.

3.3.2. Restrictions of the amount of compensation in the studied insurance companies

In case of damages in the form of loss of gross profit by companies, finally it is the amount of the received compensation that decides about usefulness of insurance services. Therefore, all restrictions to the amount of compensation introduced by the insurance companies can be a priori regarded as unfavourable for the companies – clients.

Results of research on types of restrictions of the amount of compensation applied by the studied insurance companies are included in Table 7.
Table 7. Types of restrictions of the amount of compensation in the studied insurance companies

<table>
<thead>
<tr>
<th>Restrictions of the amount of compensation</th>
<th>Allianz Polska</th>
<th>Ergo Hestia</th>
<th>PZU</th>
<th>Warta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each compensation is lowered by the value of franchise deductible</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>In case of underinsurance compensation is proportionally decreased</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Compensation can be proportionally less by uninsured fixed costs</td>
<td>-</td>
<td>x</td>
<td>-</td>
<td>x</td>
</tr>
<tr>
<td>Compensation cannot exceed the value of damage regardless of the number of concluded insurance agreements</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

*Source: Own illustration based on the general terms and conditions for insurance of the studied insurance companies*

On the basis of research carried out by the Authors it can be concluded that the studied companies are characterized by a high degree of similarity in terms of restrictions of amount of compensations they apply. In total 4 such restrictions were identified. Ergo Hestia and Warta use all of them. Allianz Polska and PZU do not practise any of them.

4. Discussion of research results and summary

The text analyzes business interruption insurance as a potentially efficient tool for restriction risk of companies and for stabilizing their activities.

With reference to the present state of availability of business interruption insurance services for companies operating in Poland the following conclusions can be drawn:

- From among 31 insurance companies registered in Poland and offering property insurance only 10 offer business interruption insurance. The second number indicates that enterprises interested in the research insurance can choose from the offer of the indicated companies, still it is difficult to regard this insurance as particularly popular.
- It is worth noting that the offer of the studied insurance is addressed exclusively to the companies of large size. It appears that entities from the insurance market decided, at least for now, that small and medium enterprises give little prospects. It is contrary to the tendency in the countries of Western Europe where small and medium enterprises have been increasingly using business interruption insurance already since 1990’s (Jęksa Z., 1999).

When it comes to the terms of providing business interruption insurance service in Poland, partial similarities and partial differences in the offer of 4 studied leading insurance companies were noted as a result of research. Key dimensions where these regularities were observed were:
• offered scope of insurance,
• insurance coverage of additional costs,
• period of liability of insurance company for damages.

Noted differences allow to conclude that in case of business interruption insurance decision processes carried out in companies, including on the one hand selection of optimal insurance protection and on the other one selecting an insurance company, should take into account the listed aspects.

Additionally, thanks to the carried out research existing restrictions in use of business interruption insurance services were identified. They mostly concern restrictions of liability for damages applied in the studied insurance companies as well as restrictions in the amount of compensations. Similarly to the above, research findings of the Authors can be used in practical decision processes in companies interested in business interruption insurance.

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The role of city managers in managing networks in public space

In the paper the authors show the city, a specific territorial unit, as a network that may and should be managed for the joint success of all the stakeholders involved. Furthermore the authors highlight the city as a complex system of network relations. In the following part the role of networks of cooperation in city development is highlighted. In the final part of the paper the idea of city manager is introduced – along with the different models of managing places, including especially city centre management schemes as a model of growing popularity in recent years.

1. Introduction

The cities and other territorial units are a space, in which distinctive allocation of public and private goods occurs. Its distinctiveness is a result of territorial unit’s history and functions and the economic, social and cultural role of the mentioned factors in local development. Certain institutional arrangements prevailing in territorial units are created by local social groups. These arrangements express the rules that regulate the occurrence of local exchange, resulting from competition and cooperation mechanisms. The city as an administrative unit is an institutional emanation of the entity managing social (public) resources and participating in creating rules of cooperation for all entities operating within the territorial unit. From the ownership perspective, these entities are public entities (controlled by central or local self-government), enterprises, associations, religious groups etc. Every one of them satisfies a complex set of needs from different target groups, including residents, entrepreneurs, employees or tourists.

The development of territorial units (including cities) may occur, above all, through value creation for the above mentioned clients. Such value creation results from activi-
ties of diverse entities offering their goods and services. The mentioned entities include, while creating their strategies, the location factor as one of the key success factors. Its value results from the value of goods and services and the value of entities offering goods and services. These strategies are therefore a set of adjustment processes complying the existence of other entities in the city’s space. Due to the mentioned, conditions are created for the emergence of relations characteristic for networks, where the bringing together and exchange of resources occur. The administrative representation of social control is a kind of a gatekeeper establishing rules of participation in the network. At the same time, the administration should play the role of network coordinator or conductor. Managing a network implies fulfillment of a series of requirements, including, among others, management knowledge, skills and competences present not only in the central point of the network but also in entities belonging to the network. This is one of the key success and efficiency requirements for a network. The flow of information and learning mechanism (increasing the value of the network and entities involved in it – so called “learning region” concept) (Ewa Łaźniewska, Marian Gorynia, 2012, p. 107) play an important role in this processes. It seems that in the near future the management knowledge associated with coordination of exchange processes in network structures will be part of the key success factors and at the same time they will be a competitive advantage factor not only for (administrative) territorial units (like cities) but also for the networks oriented mainly on achievement of economical goals.

2. **The city as a complex system of network relations**

The concept of network in exchange processes has a long evolutionary tradition developed on the basis of sociology from which it was adapted to economics. Apart from other theories related to the network theory, like the social exchange theory, rational choice theory or the game theory, Richard M. Emerson is regarded as the creator of this trend in sociology. His concept was primarily based on behavioral approach including relations of both individual and collective actors in exchange processes, underlining the form of relations between them (Jonathan H. Turner, 2008, p. 325). According to this author, the exchange relations that shape the network structures are subject to the use of power (obtaining and possessing advantage) and balancing (pursuance in case of unbalanced relations). The resources that are possessed by the actors and the power specify the structural characteristics and appoint place of the actors in the network. Similarly as in the fundamental exchange mechanisms, valuable resources possessed by the actors are the basis of network operation. Simultaneously, Emerson indirectly points out on issues developed in other theories (e.g. transaction cost theory) including information asymmetry, communication problems between actors, or power and dominance in the network. The connection of resources and power reminds the Demsetz’s theory of property rights (developed in the same time), as one of the key trends in the New Institutional Economics, or the game theory. While analyzing mainly relations between actors Emerson suggested a set of social forms creating a network like: unilateral mo-
nopoly, division of labour, stratification, social circles (p. 328). Further studies of network systems were continued for example by Karen Cook, Edward J. Lawler czy Lindę D. Molm. The mentioned authors broadened Emerson's concept by issues related to centrality in the network, social capital based on trust, engagement of actors in network operations, conflicts and conflict solving as well as rewards and punishments in motivating the participants of the network. With regard to the mentioned above the significance of social networks for economic activity goes beyond the sociologists' scope of interest entering the fields of economics and scientific management (Wojciech Czakon, 2012, p. 15).

From the management perspective, a network is an organizational form with certain characteristic features, of which the lack of hierarchy is the one attracting the most attention. The perspective of organizational form is aimed at defining the new object within scientific management and therefore at understanding its unique features and its impact on such key management issues like: development and prevalence, value creation, gaining competitive advantage, efficiency, learning or innovativeness. The network refers to a specific way of cooperation coordination through establishment of relations leading to a specific type of organization and control, that use market, bureaucratic and relation mechanisms. In this sense the network involves many organizations driven by individual and collective. Based on the achievements of Emerson and his successors there has been criticism regarding the classical assumptions in strategic management claiming that no enterprise is perfect in terms of its resources. Because of the fact that it is impossible to hierarchically control all the resources necessary for value creation, the managers are forced to seek access to the necessary resources through various forms of ownership rights transfer. Every organization operates surrounded by other entities with which it creates ties, being a basis for exchange of resources and creation of collective values. The distinguishing competences of the organization are created through interactions with partners. The form of cooperation and attitude towards others are distinguishers and not peripheral features (Wojciech Czakon, 2012 p. 26).

The territorial space, including a city or a region, is defined by a certain institutional system. Within this system, both individual and collective entities operate. The ownership of resources and their ownership rights differ between entities. In order to achieve certain goals, e.g. goals of residents, different network relations are established, with different levels of complexity, goals and operation effectiveness. It seems that the city space that forces the necessity of coexistence of many entities, creates a very complex system of network relations. A characteristic element of these network is the involvement of public entities representing common value and managing not only social resources but also influencing the operation of other entities to a large extent. Because of this fact, these entities assume a central position in the network creating repeatedly a unilateral monopoly structure. The institutional order created and evolving in many democratic countries is based on creation of a balance between the entities in the network. Therefore in practice, many institutions exist that limit the dominant position of
public entities not only referring to collective entities but also individual entities participating in legitimacy of its power in the system of elections (theory of public choice). This however does not exempt them from liability for execution of a broad spectrum of goals related to operation of all the entities functioning in the certain area or related to the area in social, culture, legal or economic context (e.g. the identity resulting from the place of birth or feeling of belonging). The specific interdependence of resources between entities forming territorial networks contributes to creation of value, that is a mix of values created by these entities within individual strategies of these entities. Touristic products are an example of such values delivered by the cities and regions. The mechanism of common value creation refers to the concept of system products – a concept that has recently been gaining much popularity. The system features of contemporary products and services results from the fact, that their consumer-perceived value depends on the fact that these products exist within a certain expanded system of products and/or services and within a network of its users (Leszek Żabiński, red., 2009, p. 16). The essence of system products, or at least part of them, is the fact these products are also network products. From the final customer point of view, these products may be purchased as part of a package with other separate products – forming together (through a final producer/service provider – so called coordinator) a system product.

3. Networks of cooperation in city development – a European aspect

The public sphere is a dominant area of management in territorial units. Nowadays, public management goes beyond a narrow subject-object approach in favor of problem solving and process coordination, while using both public and private resources. The social development is being created in three levels: operational level of social value creation, strategic level of building the potential to create value, normative level of shaping the capacity of social system’s independent existence (by contribution to the development of a larger social whole) (Frąckiewicz-Wronka Aldona, 2009, p. 28).

According to Porter regions, cities and clusters play a key role in understanding of the new competitiveness, where integration of regions-countries with other economies covering many geographical levels is an important factor helping to improve the competitiveness. (Ewa Łaźniewska, Marian Gorynia, 2012, p. 16). This direction of thinking has been supported institutionally by the EU countries and became a basis for execution of a set of actions within so called sustainable development strategy. The integration of development actions based on the exchange and diffusion of physical and intellectual resources resulted from a necessity of comparative advantage creation relative to the global exchange participants. It is combined with management decentralization processes not only in the commercial sphere but also in the public sphere (e.g. participatory budgeting). Along with the neoliberal wave and the change of traditional exchange structures a concept of “new regionalism” has been created. This concept dominated in the 1990’s referring to the studies on regional development aimed at policy making. The basing assumptions for the concept were:
• Region became a melting pot of economic development and wealth creation
• Region should become a crucial area (target) for the economic policies

The key driving force fuelling the comparative advantage in the global economy lies increasingly on the aspects of the regional business environment, knowledge, relations and motivation, i.e. resources that the remote rivals are not able to copy or meet (Gorynia, 21). Referring to the most popular theoretical trends related idea of regional competitiveness M. Łaniewska cites (after Martin) a list of factors influencing the regions development. They have both endogenous and exogenous sources. They include:
• comparative advantages requiring the satisfaction of buyers’ needs in a better way comparing to the competitors (export theory)
• accumulation of physical and human resources as well as ability to use them (theory of endogenous growth, the Schumpeter new growth theory, culture theory, cluster theory)
• operation strategies and creation of conditions for development based on social structures and institutional environment as well as historically conditioned evolution (institutional theory, evolution theory, culture theory, cluster theory (Gorynia, 23).

The regional competitiveness concept has been synthesized as a pyramid connecting the resource, process and institutional approaches. Apart from the pyramid model, another model, a “competitiveness hat model” was created by Cambridge Econometrics and ECORYS-NEI company, as well as a economic competitiveness model – so called Porter’s diamond model. Furthermore it is worth to underline the actions taken by international institutions aimed at measuring the economic competitiveness level of countries and regions. The most renowned is the one used in the reports of the World Economic Forum including few hundred detailed factors. A similar indicator was created by the International Institute for Management Development in Lausanne, in a form of a model including 8 indicators, that has been reduced to 4 indicators in 2001. The most important thing is that, apart from the two factors like economic situation and infrastructure the remaining two refer to governing efficiency and management efficiency. It seems that from the micro- and meso-economical perspective these two indicators are the best to reflect the management quality and development potential. Nowadays all over the world there are tens of indices assessing country and region competitiveness.

One of the key decisive factors influencing the development is the human capital and related intellectual resources shaping the innovativeness and entrepreneurship. Referring to the concepts of knowledge based organization and knowledge based economy and related idea of higher adaptation capacity, the concept of the learning region has occurred due to the American author R. Florida. According to Florida a learning region is a warehouse of knowledge and ideas providing appropriate environment and infrastructure allowing the flow of knowledge. Defining a region as a learning one means that the actors of the system are engaged in a territorial learning process that allows the development of knowledge, skills and other competences necessary for creating inno-
vation and maintaining competitive position of the region (Gorynia, 110). Peter Ache defines the learning region as a model, in which actors are related in elastic structures, ideas emerging within one region are analyzed in an interdisciplinary fashion and the network is not related to commercial entities, but includes social and political actors as well. According to Arthur Benz and Dietrich Furst a learning region should meet new challenges and adjust its programmes, institutions and public goods allocation in order to improve the productivity of resources. Lumir Kulhanek’s approach should be pointed as well. This author indicates that a decisive role in regional development depends on the human capital and support of network processes (building trust based on intensive relations in the network, its coordination and cooperation) in the regions and between the regions.

The learning regions develop the management structures based on relations of interdependence, networking, decentralized decision-taking process, flexibility, stakeholder-orientation. Apart from the existence of social capital based on mutual trust, an important factor allowing the idea of knowledge acceleration are the skills and organizational competences existing among entities participating in networks of cooperation on various levels. This requires working out of behavior patterns, routines allowing better adaptation and possibility of action coordinating. Increasingly this is executed by the scientific sector and entities providing professional services for business – creating platforms and frameworks for cooperation. Among examples of such actions one may indicate spin out and spin off models, as well as centres of technology transfer or entrepreneurship incubators.

4. City managers – idea, roles and adaptation models

The term city manager reflects the use of business perspective in managing a community. Depending upon the history and the legal system of a certain country the prevalence of this term varies. In the US city manager is a key element in one of the two most popular forms of local government: so-called “council-manager form of government”. “Originally known as the city manager plan, the council-manager form of government is composed of an elected governing board (i.e., the council) and a professional manager hired by the council. The council also selects, from among its members, a mayor to serve as a ceremonial figurehead for the city” (Carter, p. 4). According to the International City/County Management Association (ICMA) in a council-manager form of government a city manager “is appointed by and can be terminated by a majority of the council; has direct responsibility for policy formulation; prepares, presents, and administers the council-approved budget; and has full authority to hire and remove most department heads” (Carter, p. 4). Originally, at the turn of the 19th and 20th centuries, the scientific management has been an inspiration to underline the need to pursue city management efficiency through the use of business administration principles and separation of governing form politics. The role of a city-manager resembled the role of CEO’s in corporations allowing city council to focus on politics and policy making.
The concept started to become popular after 1918 and by 1972 “council-manager form overtook the mayor-council form as the most prevalent form” (Carter, p. 5). Although there has also been some political reasons, like “disproportionate strength of minority interests” (Carter, p.8), one must underline that business perspective and efficiency-orientation were a substantial reason to popularize the city-manager form of government in the US.

In the late 20th century, the idea of applying business know-how to managing specific places in the public space evolved into what we call today Town Centre Management (TCM). Nevertheless the term itself was created in 1980 by Spriddell, its first definition was published more than a decade later in 1991 (Coca-Stefaniak, 2014, p. 368). In this definition I. Wells stated that town centre management was “a comprehensive response to competitive pressures, which involves development, management and promotion of both public and private areas within town centres, for the benefit of all concerned” (I. Wells, after: Coca-Stefaniak, 2014, p. 368). The definition reflects that a town centre (as well as a high street alone, a district or a whole city) is a network of different stakeholders and efficient management should lead to satisfaction of all of them. However town centre management focuses on selected areas within the city, the know-how and competences of town centre managers are universal and may be an important lesson for all involved in managing public spaces (including whole municipalities). A broad review of town centre management definitions was presented by Coca-Stefaniak et al. (2009, pp. 74–80). Among the presented definitions it is worth to mention Guy (1993 after Coca-Stefaniak et al., 2009, p. 75), who pointed that TCM “implies a co-operative rather than confrontal relationship with the private sector”. TCM as a specific method allowing coordination of co-operation within the network should result in higher efficiency of all the stakeholders involved. The importance of co-operation between stakeholders is furthermore reflected in Warnaby et al’s definition (1998, after Coca-Stefaniak et al., 2009, p. 75) suggesting that TCM initiatives should be established and executed by a mix of stakeholders including not only public and private but also the voluntary sector. The fundamental significance of co-operation between various public space users and necessity of network management may be found in Whyatt’s perspective of the town centre manager’s role, which is “gathering and sharing market information, enabling stakeholders to work together in the strategic planning process, setting up formal and informal communication and social networks between partners, training the town’s stakeholder employees to implement the regeneration strategy and maintain a marketing orientation, and evaluating success, in order to both motivate all involved and to assess progress (2004, after: Coca-Stefaniak et al., 2009, p. 75). One must underline that TCM was initially a reactive concept that originated as a consequence of a significant retail transformation in the European cities in the 2nd half of the past century. The establishment of shopping centre or mall located outside the city caused outflow of consumers from the highstreets and town centres that had traditionally attracted customers. The fall of the footfall in the city centres was originally the main reason for the
retailers to look for new opportunities resulting from co-operation. The efficient management of the city centre involved creation of a specific network allowing the increase of the competitiveness of the local retailers. This was possible due to a strong customer orientation and efficient management.

The town centre management model has been developed not only in the UK, but also in North America, Belgium, France, Germany, Italy, Norway, Spain and Sweden (Coca-Stefaniak et al., 2009, p. 75, Coca-Stefaniak, 2014, p. 368). Analyzing the selected European definitions Coca-Stefaniak et al. (2009, p. 75) point out the difference between defining TCM in the UK and France, Italy and Spain. In the latter three countries town centre management’s main purpose is to foster co-operation of local retail and service businesses and their commercial success. In the UK the main goal of TCM models is “building of competitive advantage for town and city centres (e.g. through better quality of life for residents, diversity in the retail and leisure offer, attractions for visitors etc.)” (Coca-Stefaniak et al., 2009, p. 75).

Traditionally municipalities including cities have been administered or managed by the local governments. In places where a TCM scheme is implemented, a new body is created that focuses on managing a certain area within the city according to the goals set. As the TCM model has been developed in many countries for more than two decades many different forms of TCM schemes have been implemented so far.

As examples show in the UK local government is the entity giving most momentum during establishment of a new TCM scheme. Later ad-hoc partnership may manage the scheme, until “last stage, maturity, will see the creation of a formal partnership where the influence of the private sector may predominate” (Coca-Stefaniak et al., 2009, p. 76). On the contrary the Spanish and Italian TCM schemes frequently start from the co-operation of local retailers, and in Sweden they often start from “a strong formal public-private partnership” (Coca-Stefaniak et al., 2009, p. 76).

Across North America and Europe there is a variety of town centre management models. The models of co-operation vary in terms of funding (public or private; voluntary or obligatory) and level of formality. There are numerous other models targeted at efficient management and improvement of local areas, like “Business Improvement Districts, Community Business Centres, Neighbourhood Renewal Schemes, Suburban Centre Improvement Schemes, Mainstreet Programmes, Market Town Initiatives, Business Area Improvement schemes and Trade Improvement Zones” (Coca-Stefaniak et al., 2009, p. 79). The common part of the mentioned models is their goal i.e. improvement of a certain place. Cities are traditionally managed or administered by the local authorities. The growing popularity of various place management initiatives reflects the eagerness of the local stakeholders to assure local development. In some cases it may be business focused (i.e. higher footfall and sales of local retailers as a goal) but it may also bring other socio-economic benefits to the local society. Furthermore this trend reflects the eagerness of achieving an effective target-oriented local management that would meet expectations of local stakeholders. The know-how of business-management may
be of great importance in this aspect. One must remember that the above mentioned schemes are developed simultaneously with traditional local government (or local administration) in operation. Not as competition, but rather a new, more modern and effective solution to the traditional local government administration. Therefore a city manager or a city center manager is a goal-oriented professional (or a team of professionals) with own funds and instruments “improving” the place. In the case of the mentioned BID’s (i.e. Business Improvement Districts) – the BID’s are allowed to levy a local tax, allowing later to finance the local development. The above-mentioned ideas explicitly exceed simple administration and bureaucratic approach drawing heavily on strategic management and marketing. The awareness that marketing may be a useful instrument for the city administration was not widespread two decades ago, even in the free-market democratic countries. For example in the year 1989 a set of telephone interviews conducted with representatives of local administration in Western Germany by H. Meffert revealed that marketing was usually perceived as useless for city administration purposes. Furthermore many responses have shown incomprehension of the term marketing (Szromnik, 2010, p. 90). Today there are even professional organizations in German-speaking countries like BCSD – Bundesvereinigung City- und Stadtmarketing Deutschland in Germany or Stadtmarketing Austria in Austria – an explicit evidence of the understanding of the role of marketing and business instruments in city management. In Poland the use of marketing by the city administration has been growing in the recent years. The representatives of local governments in the Poland’s big cities clearly understand the need to treat all stakeholder groups as partners and clients in order to secure the future prosperity of the city. This perspective is also clearly visible in academic publications. However so-far the town centre management models have not been applied in Poland successfully, although there had been some single attempts.

References

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Development of international distribution systems 
and evaluation of countries from a logistics point of view

International trade is an essential factor in economic growth and has enormous potential to foster or hinder sustainable development. The core approach of the presented model in this article consists of an integrated supply chain perspective. Companies, scientists and interested parties can use the model to build up different distribution scenarios. To give an illustrated view the model has exemplarily been calculated to compare structuring options for the German export to Nigeria or Japan.


1. Introduction
Success in national and international competition is defined by the competitive advantages of business activities (Zentes et al. 2004, p. 217). Systematic study of all company activities and their interdependencies is necessary to throw light on the causes and potential of these competitive advantages. Among the primary activities in the value
The chain is distribution logistics and can therefore generate benefits directly, due to the fact that it is closely related to the customers (Porter 2010, pp. 70–85).

While international trade and international production are treated in great detail in the literature, only marginal mention is made of the logistics behind them (Schary & Skjøtt-Larsen 2001, p. 378). There is no difference in the basic problems and goals of companies with respect to international logistics, it is true, but there are particular frameworks that lead to a greater complexity and higher risks on the country-specific level of logistic processes (Flaherty 1996, p. 281; Stock & Lambert 2001, p. 376; Schieck 2008, p. 70; Pföhl 2010, p. 337). In general international distribution logistics is characterized by a high degree of complexity since companies mostly accept national boundaries and organize their planning on a county-specific basis (Mayer et al. 2009, p. 33; Bretzke 2010, p. 164). For this planning process the present article provides a procedural model and applies it to two countries.

2. Setting up the optimal distribution strategy

As performance indicator, the service level represents the key or crucial value for the assessment of a distribution system. It shows the value or the share of orders that are delivered within an agreed or planned time frame (Wildemann, 2010, p. 237).

The methodological approach presented in this article, proceeds successively starting with the delivery service strategy. The first step is the definition of the process chain based on individual company specific ideas or based on reference models (Poluha, 2010, p. 219). After defining the process chains in a third step, the internal and external circumstances are being examined. The internal conditions are for example existing logistical structures and cost restrictions which can be optimized in the planning phase. As far as external transport or country-specific conditions are concerned, companies can only act in compliance and have to adapt to the prevailing situations (Kummer, 2010, p. 84). According to the definition of the processes and the investigation of the framing conditions, companies have different alternatives to organize the supply of the target market under the restriction of the defined service level. The evaluation of the different options occurs under the examination of the different characteristics of the resources that can be adopted when setting up a distribution system. Under consideration of the objective, the presented approach enables a standardized comparison of the different distribution system alternatives which ensures a setup at the total cost minimum under consideration of the required service level. The following sections of this article are built up analogously to the steps of the hierarchical approach that is displayed in figure 1.

The following sections of this article are built up analogously to the steps of the hierarchical approach which is displayed in figure 1. Therefore section 3 deals with the examination of the corporate and country-specific conditions as well as with the configuration possibilities differentiated between processing, transportation and warehousing. Finally Section 4 examines two structuring options for designing a cost optimal distribution system. Based on these options a standardized performance measurement mod-
el is developed in order to evaluate the different possibilities and consequently enable companies to plan their distribution system purposively under total cost consideration.

**Figure. 1.** Procedural model for the setup of the optimal distribution strategy.

3. **Corporate and country-specific conditions and definition of criteria for decisions**

3.1. **Processing**

On the one hand processing is concerned with company-internal processes and on the other hand it interacts with external actors. As borders are crossed, companies have to operate with custom authorities. In order to be able to compare countries, this model assumes that customs duty has already been paid on the goods and the product is free for transport. However, the import regulations and processes in the target country play a decisive role which has an effect on expenditures as well as lead times. (Organisation for Economic Co-operation and Development, 2003, pp. 4–5; Lewis, 2009, pp. 6–7) Due to these basic conditions, customs represents a significant part of the lead time while importing and has to be integrated into the model approach as a central evaluation parameter.

3.2. **Transport**

Depending on the respective processes and distribution structures the evaluation of transport options has to be done in advance as part of the planning process. Since
a direct comparable abstraction of specific variables cannot be achieved, detailed knowledge of the conditions, prices and terms is indispensable for the planning and evaluation of the respective transport options. (Klatt, 1997, p. 1209; Pfohl, 2001, p. 338; Wildemann, 2010, p. 214).

Ocean shipping is, when transport weights are measured, the most significant carrier with a share of 80% of international goods transport. The advantage of ocean transport lies mainly in the vast quantity of goods that can be transported over great distances (Kummer, 2010, pp. 91–92). The internationally significant operating mode of liner shipping is mainly deployed in container traffic. The providers of line shipping services face an anonymous transport market on the demand side. (Böhme, 1997, p. 544)

Along with ocean shipping, airfreight makes up more than one third of the transport volume based on the value of the goods; however this still accounts only for 3% of the worldwide movements of goods. (Crabtree/Edgar/Hoang, 2011) As means of transport, airfreight only uses 15 % “freight-only“ aircrafts, since the joint transport of passengers and freight offers the advantage of more flight routes. (International Air Transport Association – IATA, 2010, p. 3).

For rail transport, trends show that the use of carriers in modern logistical concepts is restricted to regular block train between well developed handling centres. In international context, the complexity increases noticeably due to technical specifications and case specific applications and their organization. (Kummer, 2010, p. 131).

It is established that there are only few states where road transport is not the dominant mode of inland transport. The supply-side of transport services can be described as “atomized” in most countries since it is dominated by a large number of small and medium sized companies. Road freight transport requires, aside from vehicles and the various actors, on the infrastructural level roads and transhipment facilities. (Aberle, 2009, p. 162–167).

Even the cep-services face an anonymous transport market on the demand side. In contrast to liner services, in form of airfreight and container shipping, a door-to-door carriage is provided. This is why the consideration of specific ports or airports is not necessary. The integration of these service providers is covered by calculated lead time factors for the whole value chain.

3.3. Warehousing

The number of warehouses depends for example on the geographical size of the distribution area, the customer’s expected response time, the value of the goods stored, the lead time and the respective transport costs (Ihde, 2001, p. 44). The basic decision for warehousing in a new distribution region depends primarily on the expected supply service. However, bundling effects that can be realized by temporal decoupling of supply from transport can also lead to warehousing (Bretzke, 2010, pp. 172–182).

In addition to warehousing costs, the geographical location plays a part in the planning process. During the strategic planning phase it is possible to establish the
point where minimal transport costs are achieved. The geographical sales area of a product, the sales quantity as well as the transport costs together determines the location of the site (Gudehus, 2005, p. 386). Detailed location factors and local conditions are being excluded in early planning stages and postponed to later concrete planning and implementation processes since they are very hard to parameterize (Schieck, 2008, p. 348; Bretzke, 2010, p. 163).

4. Development of the optimal distribution structure

4.1. Examination of structuring options

Previous analyses of the distribution logistic configuration were carried out on the basis individual systems and modes of transport. In this context the specific characteristics of the means of transportation were pointed out. Beside this, several systems could be excluded from further investigations so that the concentration of the evaluation model is set on road freight transport, containerized line shipping services, air-freight, cep-services, warehousing and customs. The isolated consideration of individual systems is not leading to the desired results. This is caused by the frame conditions and the characteristics of the different transport modes which requires the planning and implementation of a complex transport chain in most cases.

In general carriers are substitutable in the context of international transport logistics. In the model restrictions can be made. The process elements transhipment and customs clearance are supposed to be considered in the model as process module customs clearance. For the parcel service the consideration of carriers, transition points and customs clearance procedures can be dropped because it is a door-to-door service where all elements are integrated. The further forwarding of sea freight into the interior is done, after the release of customs, in the model exclusively through road haulage. Furthermore the model is supposed to contain the possibility to hold inventory in the target country for a direct distribution whereby the entire demand area is combined in one distribution area. Therefore the entire demand can be distributed from one warehouse location in the target country. The supply of the warehouse happens through replenishment processes that can be evaluated temporarily separated from delivery time of customer orders.

After the definition of the single process elements they can be combined to a transport chain. Thereby five action alternatives arise for the development of the distribution system. The alternatives 1 and 2 represent distribution systems with warehousing in the target country whereby the delivery of customer orders can be served directly from the domestic inventory. For the alternatives 3, 4 and 5 there is no warehousing in the target country planned.
The objective of the model is the optimization of the distribution costs under withholding the delivery time that is defined in the delivery service. For the evaluation of the action alternatives time- and cost related aspects have to be defined in order to being able to solve the problem sufficiently. The practical application of the model is calculated for German companies who export to Nigeria in comparison to the export to Japan. Table I summarizes the respective parameters for the goods to be transported.

**Table 1. Overview of company specific input parameters**

<table>
<thead>
<tr>
<th>description</th>
<th>value</th>
<th>unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>weight of one pallet</td>
<td>300</td>
<td>kg</td>
</tr>
<tr>
<td>volume of one pallet</td>
<td>1,15</td>
<td>m³</td>
</tr>
<tr>
<td>price/value of one pallet</td>
<td>Variable</td>
<td>€</td>
</tr>
<tr>
<td>total demand of products on pallets</td>
<td>104</td>
<td>pallets</td>
</tr>
<tr>
<td>volume of a 20 ft container</td>
<td>33</td>
<td>m³</td>
</tr>
<tr>
<td>maximum load of a 20 ft container</td>
<td>21.700</td>
<td>kg</td>
</tr>
<tr>
<td>capital commitment rate</td>
<td>12</td>
<td>%</td>
</tr>
</tbody>
</table>

*Source: Dirksen/Vallée/Winkelhaus, 2013, p. 7*
In the case two structuring should be eligible. These are option 1, delivery of stored products from a warehouse in the country whereas the replenishment is done via sea freight transports, and structuring option 5. Within option 5 the customer delivery process is handled via air freight under usage of a cep-service provider which is integrating the complete supply chain from the exporting country to the final customer. In order to standardize the model and therefore to enable a transport mode comparison, the calculation is based on an imaginary demand of the products. Due to the fact, that the infrastructural situation of a country as well as the location of potential customers are important for setting up the optimal distribution system, these factors have to be integrated in the model. There from, the geographic allocation of demand will be calculated in analogy to the geographic distribution of the ten largest cities in combination with a country specific detour factor (Dircksen, 2012, p. 137; Helders, 2010).

4.2. Determination of total time

After the definition of time and cost related evaluation aspects the defined action alternatives can be assessed. According to the objectives, the decision model is supposed to help finding alternatives that can maintain the required delivery service under the condition of optimal design of total costs. When custom-built products are delivered the estimation of the possible delivery time considering specific costs of transport variants are in focus. Thereby the delivery time is agreed with the customer in the order costing – and hence before the agreement of the delivery contract. The decision model therefore is assigned to determine the total throughput times from the origin to the target country for the alternatives of international logistics chains that can be offered with the according total costs. The relevance of country specific optimization turns out differently when there is inventory allowed in the distribution processes. The planning scenario then expands by the action alternative 1. The advantage of storing inventory in the target country is that the customer related delivery time is reduced.

Table 2. Replenishment time from Germany to Nigeria and Japan

<table>
<thead>
<tr>
<th>Description</th>
<th>Nigeria</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liner shipping</td>
<td>22</td>
<td>40</td>
</tr>
<tr>
<td>Customs</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Road port to warehouse</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total time (replenishment)</strong></td>
<td><strong>30</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>

4.3. Determination of total costs

According to the objectives, the decision model is supposed to help finding alternatives that can maintain the required delivery service under the condition of an optimal design of total costs. Due to long lead times for the transport mode sea freight, inventories in the target country can reduce the demand related delivery times. Furthermore, through the temporal decoupling of the replenishment processes, bundling effects can be achieved. The costs for inventory are moving opposed, whereby these can be decreased by ordering smaller replenishment lots. Moreover, longer cycle time causes higher costs for the in-transit inventory during the replenishment processes. Because of the optimization of the total system the transport costs have to be considered next to the storage and inventory costs. The following figure three shows the allocation of the total distribution costs for the total demand of 104 pallets in the target market under comparison of the two considered supply chain alternatives. The value in euro per pallet is used as a variable. This parameter has been detected as the most important variable which has increased by steps of 500 € per pallet in order to illustrated the effect of capital commitment costs in setting up the optimum distribution system.

Table 3. Calculation of the delivery time – Nigeria and Japan

<table>
<thead>
<tr>
<th>description</th>
<th>Nigeria</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road warehouse to customer</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>cep-service</td>
<td>8</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Dirksen/Vallée/Winkelhaus, 2013, p. 17

Table 4. Calculation of the delivery time – Nigeria and Japan

<table>
<thead>
<tr>
<th></th>
<th>Sea freight</th>
<th>CEP-service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nigeria</td>
<td>Japan</td>
</tr>
<tr>
<td>Sea freight</td>
<td>24,000 €</td>
<td>15,400 €</td>
</tr>
<tr>
<td>CEP-service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road seaport to warehouse</td>
<td>7,980 €</td>
<td>7,112 €</td>
</tr>
<tr>
<td>Road warehouse to customer</td>
<td>2,399 €</td>
<td>3,196 €</td>
</tr>
<tr>
<td>Warehouse</td>
<td>29,380 €</td>
<td>21,795 €</td>
</tr>
<tr>
<td>In-transit inventories repl.</td>
<td>46,159 €</td>
<td>64,622 €</td>
</tr>
<tr>
<td>In-transit inventories delivery</td>
<td>1,666 €</td>
<td>1,538 €</td>
</tr>
<tr>
<td>Total costs</td>
<td>111,584 €</td>
<td>113,664 €</td>
</tr>
</tbody>
</table>

Source: Dirksen/Vallée/Winkelhaus, 2013, p. 17
The main question in the case studies has been the change of total delivery costs by the product value. In practice the product value can vary and is depicted in the model through the variable. In the variation there are changes in transport costs for sea freight, because rising inventory costs result in an increased transport frequency – depicted in the model through the number of containers. Furthermore, capital lockup increases in total within the examination period due to the increase of the sales value of the pallet. Comparing the transport modes sea for the delivery to the target markets, it results in low total costs via sea freight when the sales unit has a low value. Those however rise with the increase of the sales price. Therefore at a certain value the transport costs of the alternative sea freight exceed the total costs of cep-service. At this value it would make sense to change the mode of transport to supply the market.

**Figure 3.** Development of the total distribution costs for sea freight and cep-services under dependency of an increasing product value.

Source: Dircksen/Vallée/Winkelhaus, 2013, p. 17

In addition, the decision model enables the comparison of transport costs in different target countries when there is an identical value of the sales unit. The diagram shows the total costs for each carrier in both target countries. Here it shows that costs for sea freight are almost identical for both target countries whereas there are marginally decreasing transport costs when the sales value is increasing for the case study Nigeria which can be explained by the ratio of transport – to inventory costs. Moreover the total costs for air freight for Japan are distinctly lower than those for Nigeria whereby the break-even point for Japan, when comparing the carriers according to the sales value, is much lower.
5. Conclusion

The article aims at improving the systematic evaluation of countries and transport scenarios. To achieve this aim, external parameters of the destination countries are integrated through defined measurement parameters. Furthermore, discretionary rankings and statistics of public organizations, such as the World Bank, have been integrated into the analysis frame. The result is an adaptable model for companies to compare delivery scenarios and countries.

The practical applicability of the research work has been examined within the framework of two case studies. By comparing German exports to the countries Nigeria and Japan, it has been demonstrated that the structural configuration of a logistic system can depend on the product value. In a direct comparison the boundary value for the alternation from the sea freight delivery scenario to a direct supply of the market via cep-service lies considerably lower for Japan than the boundary value for Nigeria. The reasons for this are high storage costs as well as the long replenishment times of the inventory. These facts cause that the scenario using the cheaper sea freight transport mode is getting unfavourable when the product value is increasing (compare figure 3). This is based on the capital commitment costs which directly depend on the transport time for the different structuring options. An adaptation of the logistical system can only take place if the delivery time does not exceed the customer requirements.

The developed model illustrates a possible new evaluation method which allows a clearly distinguished cross-country comparison that is superior to a qualitative evaluation by questionnaires like it is common today. Country specifics like the land surface and the quantity as well as the spatial distribution of road infrastructure are covered by the new approach. Moreover, the model offers a high degree of flexibility since the methodology allows the estimation of variable factors. Through the addition of respectively process-relevant costs, as asked in the total cost mentality, meaningful results can be achieved, which far exceed the isolated consideration of single transport carriers. This was especially depicted by the case study analyses with actual market prices.

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Short bio of author

Dr. Michael Dircksen has completed a diploma in Business Administration and M.Sc. in Logistics. His Ph.D. thesis had the focus on logistical export processes from Germany into the major petroleum exporting countries. In his academic career at Münster University of Applied Sciences he was able to collect practical experience in Germany, Ecuador, Japan, Nigeria and Saudi Arabia. He presented his research work at several international congresses for example at the Picard Conference of the World Customs Organization (WCO) and the United States (UN) in Geneva or at the 7th International Congress on Logistics and SCM System of the Korean Society of Supply Chain Management (KSCM) in Seoul. At the moment he works as a team leader at a 4PL logistics provider and as a lecturer for transport logistics and production management at several universities.
The globalisation of the procurement of external goods and the internationalisation of in-house manufacturing networks were intensified in the last couple of years in order to increase competitiveness. Alongside the expansion of the international presence, businesses especially aimed for the exploitation of labour cost advantages, e.g. in the BRIC states. This globalisation results in significantly longer and more complex supply chains.

With decisions about procurement or production transfers, the criteria of cost, quality, time and flexibility must be considered. Here, the Total Landed Costs (TLC) are an approach for making the decision. The TLC combine the material, production, transport and storage costs, as well as potential customs duties and administration costs. However, static aspects dominate the decision making. The dynamics of freight and wage costs as well as the sales volumes are often insufficiently addressed. This also applies to indirect costs. These result from long, cross-border supply chains, and also from the associated risk of long transport routes as well as increasing complexity of logistics planning and management.

This paper focuses primarily on the motives of international production transfers. Additionally, it will be shown which cost factors should be considered for the assessment. In light of the planning and management of long-distance supply chains, the necessity for standardisation will be discussed. Finally, the necessity for the development of a process model for decision making will be presented.
1. **Motivation and development of international production transfers**

Today’s markets are characterised by accelerated technical progress and a growing pressure to compete, which is caused by globalisation and the change from a sellers’ market to a buyers’ market (Davis/Spekman, 2004, p. 10; Pfohl, 2010, p. 53). Alongside a higher dynamic of market requirements, this leads to a high cost pressure. Businesses react to these challenges with the globalisation of their procurement and sales markets (Davis/Spekman, 2004, pp. 109 ff.). This comprises of both the external procurement of raw materials, components and merchandise, as well as the internal procurement within an in-house manufacturing network. Therefore, the term “international production transfer” refers to both the cross-border transfer of production capacities to the companies’ own production sites (captive offshoring) as well as to external suppliers (offshore outsourcing).

The target regions for production transfer of German companies are especially the new EU member states in Eastern Europe (55 %), China (30 %) and other Asian countries (25 %). This applies especially to companies in the electrical industry, the automotive industry (including suppliers) as well as the apparel industry (Zanker et al., 2013, pp. 7 ff.).

The internationalisation of a logistics network is facilitated by an increasing homogeneity of countries regarding infrastructure, distribution channels and consumer behaviour (Porter, 1989, pp. 17 ff.). The elimination of foreign trade tariffs through the foundation of regional economic communities, the production of simpler and more compact products with lower transport costs, as well as the facilitated coordination of distributed supply chain activities through modern information and communication systems are significant for this.

There are many different driving forces to transfer production from one country to another. Resource, production and marketing oriented motives can be distinguished. **Resource-oriented motives** are the proximity to procurement markets, the access to knowledge and to capital via government subsidies (Dülfer/Jöstingmeier, 2008, pp. 123 ff.). However, financial factors such as reduced taxes and charges such as subsidies are a significant motive for a transfer only for every tenth business (Zanker et al., 2013, pp. 9 f.).

**Production-oriented motives** are above all labour cost benefits, so that production is transferred from high-wage locations (e.g. Central Europe, USA) to low-wage locations (e.g. Eastern Europe, Asia). Staff cost reduction is the dominant motive for a transfer for three quarters of German businesses (Zanker et al., 2013, pp. 9 f.). This strategy was combined many times with single sourcing concepts in the past (a product, which is available worldwide, is manufactured in only one factory), in order to achieve economies of scale, to save preproduction costs and to reduce capital investments. However, in the recent past, the classic low-wage locations in the so-called “emerging markets” resulted in significant wage increases. This is demonstrated by the wage increase development in China, a classical target country for the transfer of production capacities: the local real wages are growing at an approximate annual rate of twelve percent.
This rapid labour cost development has significantly reduced the profits of European businesses in China: In 2012, only 64 percent of the companies generated a positive operative result (Ebit) in their business in China (n.a., 2013). Numerous companies move to neighbouring countries with low wages, such as Vietnam, or they transfer their production back to Europe, in order to save on freight costs in the local sales markets and to minimise the risk of long supply chains (Kaufmann, 2013).

Alongside the regional shifts due to labour cost development, other factors such as a rise in oil prices, a shift in geographical demand and delivery risks of long supply chains come into focus. Increasing oil prices and the resulting transport costs for procurement and sales especially compensate for the production advantages of the low-cost locations, which result in long delivery routes to the procurement and sales markets (e.g. production in China for the European market). Thus, the advantages of a proximity to the target market (or key customers), such as low logistics costs (freight, customs duties) and shorter delivery times are increasingly important to many businesses. For about a third of the transferred businesses in Germany, these marketing-oriented reasons are the deciding factor for a transfer (Zanker et al., 2013, pp. 9).

The production transfer in the regions of the sales markets are referred to as regionalisation. With large, multi-national businesses, a regionalisation trend can be seen: the percentage distribution of the production volume to the global regions largely corresponds with the regional distribution of sales (Simchi-Levi et al., 2012, p. 22). Regionalisation in low wage countries can lead to the production for the US market being transferred to Mexico, for example, as opposed to an Eastern European country or Portugal. However, cost advantages in sales can be compensated by cost disadvantages in procurement if a timely regionalisation of the suppliers does not occur. Thus, it is necessary to consider a total cost perspective in order to make economically sensible solutions for production transfers. The TLC need to be considered here, which will be discussed in the following chapter. Additionally, the topics of delivery times, delivery risks (e.g. bottlenecks through strikes or natural disasters) and environmental aspects (e.g. reduction of CO₂ emissions) need to be highlighted. Demand shifts between the regions need to be analysed continuously, in order to continuously optimise the production network with regard to the dynamic market needs.

In (economic) life, the truism “Reality is the murder of a beautiful theory by a gang of ugly facts” often applies. A significant part of the production transfer is not crowned with sustainable success, so that there are more and more transfers back to the country of origin (re-shoring). According to current research results, approximately every fourth transfer of German businesses is revised within the time period of three to five years (Zanker et al., 2013, pp. 8 ff.). On one hand, this is due to insufficient consideration of the dynamic elements of the TLC, such as wage and freight costs. On the other hand, the challenges for procurement, due to manufacturing in low wage countries, is often underestimated, especially with regard to the coordination and controlling costs.
of long supply chains and risks connected to quality and delivery capacity (Zanker et al., 2013, p. 2).

2. Total Landed Costs as profitability criteria

“True-cost pricing” is important for making any transfer decision. Both **investments** and **one-off expenditures** as well as the long-term operative costs of the availability of the products on the market (TLC) need to be considered for this (Meyer, 2008a, p. 41). Alongside investments in land, buildings and machines, investments also include knowledge or patents. One-off expenditures occur especially for the production start-up in new locations (e.g. employee training, additional overseas bonuses for existing employees from the headquarters (expatriates), higher costs due to commission and reworking). With substituting production transfers, severance payments and contractual penalties for an early termination of the contract should also be considered (Meyer, 2008a, p. 94).

The TLC in focus include the material, production, transport, storage and administration costs, as well as the potential customs duties (Figure 1). They represent the long-term operative costs for the availability of the products on the market, and can be used for the assessment of strategic production transfers. The TLC are largely determined through the market development, factor costs, productivity and economies of scale, as well as external factors (Meyer, 2008a, pp. 40 ff.). These are explained below.

**Figure 1. Total Landed Cost investigation**

![Diagram of Total Landed Cost investigation](source: Own representation in connection with Meyer, 2008a, p. 40; Meyer, 2008b, p. 130)

The **market development** is an important driving force for the decision for an international production transfer. Especially within the framework of regionalisation, shifts in demand between regions should be analysed continuously. To be in the right
place at the right time with a functional production site requires an accurate prognosis and continuous investigations. For example, regarding a production transfer, a bicycle manufacturer has to consider that due to a growing economic power, bicycles can be replaced by motorbikes. Saturation effects can take place. Alongside the development of the total market, local preferences for particular product features must also be considered, as well as the competitive situation, in order to be able to carry out successful on-site market development.

The manufacturing costs of the products significantly depend on the local labour and material costs (factor costs)\(^1\). Production-oriented transfers to overseas especially are based mostly on labour cost advantages, and represent the dominant motive for German businesses with 71 % of the results (Zanker et al., 2013, p. 9). However, the emphasis is often placed on the simple labourers, whereas the high wage differentiation for specialist and management staff remains unnoticed. The employees need to be able to execute the manufacturing and logistics processes in a reliable manner. Alongside the wages and non-wage labour costs, the varying annual working hours need to be observed when establishing the effective cost per hour worked.\(^2\) Despite the partly rapidly rising wages (China Statistical Yearbook, 2013) following the dynamic economic development in recent years, countries such as China will probably require even longer to reach the level of the modern industrial countries (OECD Economic Outlook, 2014, p.7 ff.). For the decision of a production transfer, however, this is a significant influencing factor.

Alongside the factor costs, the material costs represent a further influencing factor, which need to be taken into account especially with resource-driven transfers, since the goal is coming close to the procurement market. Even with standardised primary products, major price differences can prevail, which can be attributed to the natural availability of resources, government regulations, taxations etc. The prices also depend on the awareness for the business (Meyer, 2008a, pp. 59 ff.; Meyer, 2008b, pp. 329 ff.). If simple, standardised primary products can already be obtained from local suppliers in advance, this presents bigger challenges for complex, product-specific products. Products with an especially large share of know-how are often procured from established suppliers around the world, where a local procurement of complex components makes a transfer appealing in the long term in the first place (see Mallon/Dannenberg, 2011, p. 24).

As a further influencing factor, productivity can be defined differently from a social and economic perspective. However, the deciding factor for a production transfer is not the added value per person or per working hour, which is adjusted depending on the purchasing power, but the potential productivity at the new production location. A new factory with new technology and professional knowledge often cannot be compared to

\(^1\) Capital costs are not considered here.

\(^2\) In 2012, a worker in Germany worked 1393 hours a year on average, in the Czech Republic it was 1784 hours and in Mexico, it was even 2226 hours (OECD Factbook, 2014, p. 143).
local factories. The productivity at the new location is often determined by the availability of qualified employees, as well as the infrastructure of the location (e.g. electricity), amongst other things (Meyer, 2008, pp. 61 ff.).

Through the specialisation of production locations to manufacturing less products or variants, **economies of scale**\(^3\) can be achieved. In its strongest form, this can lead to a “world factory”\(^4\). However, in comparison to local production, this can lead to higher transport and storage costs, as well as potential customs duties. Even an adaptation to local requirements is limited by this (Meyer, 2008a, pp. 67 ff., 170 ff.). Alongside the economies of scale, economies of scope should also be considered, which can arise on interfaces to other functions of the business (e.g. the development department) (Meyer, 2008a, p. 67 ff.).

**External factors** such as subsidies and taxes, customs duties and non-tariff obstacles to trade, as well as rate conversion effects and other external risks can have a significant influence on the production transfer. The relevance of these factors is, however, strongly dependent on the industry and the eligible countries, so that they are not decisive in all cases. For example, in the automotive industry, suppliers have been predominantly set up on the initiative of the OEMs production and assembly facilities (following customers) for meeting local content quotas – not considering whether a supply from existing plants would also be profitable (Kinkel/Zanker, 2007, p. 15).

Die TLC are strongly dependent on the concrete design of the supply chain. Hereafter, it should be demonstrated which planning problems exist with establishing the supply chain, which is determined before the actual production transfer.

### 3. Planning and management problems of longer supply chains

In the following example, the planning and management problems are considered for a substituting production transfer. Materials are produced in China and delivered to Germany, amongst other things. Greater procurement distances to the native country lead to an abundance of new planning and management problems, since the supply chains become significantly longer and therefore, more need for action can arise, as well as options for action. In a particular case, the available solutions for individual problems are not naturally independent of one another, and need to be planned simultaneously.

In a logistics network, the structure and procurement of the production and supply region, the locations as well as the demand for transportation must be considered. Multiple transport processes are the norm; main and subsequent journeys need to be planned and assessed. When planning the **transport chain**, the mode of transport\(^5\) needs to be chosen, transfer points need to be defined, just to name two examples (Pfohl,

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\(^3\) Learning curve effects, the usage of greater production means, less set-up processes, automation etc.

\(^4\) Production of all global customer requirements at only one location.

\(^5\) Road freight goods, rail freight goods, air transport goods, inland and maritime transport as well as piping systems
Since transportation aids such as pallets are often not used due to reasons of weight and volume, it is important to develop intelligent handling processes and to make a choice between in-house processing or the usage of service providers. Moreover, it must be defined where possible consolidation points could arise. Consolidation could occur at the manufacturer, but also in a hub in the country of manufacturing or in the harbour. Network planning needs to take place here, which once again is strongly dependent on the amount of transportation available.

A further planning problem manifests itself during the decision about the transfer location of the goods, and about who is responsible for which transport step, or where the passing of risk should take place. The incoterm to be used needs to be defined (Faust, 2013, p. 52). During the planning, local particularities must also be observed – thus, Chinese manufacturers, for example, prefer the use of “familiar” service providers for the transport from the production location to the nearest harbour.

With long transport chains, deviations to the plan naturally occur more often, so that corrective action needs to be taken. However, this management can only work if the current location of the goods is known at any time; thus, the necessary transparency must be created using efficient IT solutions (so-called tracking and tracing). The choice of process-supporting IT solutions alone is a complex planning problem.

Furthermore, it is required that the goods produced need to be of a high quality. With a production transfer to foreign countries, quality assessments are needed. Here, questions arise on who will carry out the assessments, where they will be carried out, which random sample and which procedure will be used. Of course, it is not adequate to test the goods once they are in Germany, since logistics costs have already been incurred if the quality is poor, and valuable time for a possible reaction has already elapsed.

Long transport chains with a change of the mode of transport lead to new challenges to the transport packaging. On one hand, the goods need to be protected (mould, corrosion etc.). On the other hand, handling processes need to be supported efficiently (ten Hompel et al., 2007, pp. 6 ff.). Therefore, during maritime transport, for example, solid wooden crates must be used for heavy products. Depending on the country of procurement, these require use of gas and degassing in the country of origin for...
the protection against pest infestation. At this point, it is necessary to specify where this will be done, by whom and at which point in time, since the containers can no longer be opened. With products made uncoated metal, the appropriate corrosion protection must be ensured. In general, standard packaging should be defined in order to reduce variety. Requirements for optimal container storage, suitability for storage and transportation possibilities should also be considered, as well as possibly the direct supply of assembly lines, or the delivery to the POS. Thereby, cost savings are achieved and the delivery times are improved (Faust, 2013, pp. 222 f.).

Storage also represents a planning problem of long supply chains. To secure the delivery capability, safety stock is often available due to the long restocking times. This attempts to reduce risks to quality and delivery capacity. This leads to high inventories with overall higher costs (Mallon/Dannenberg, 2011, p. 24). The pressure to establish uniform storage processes is growing; container, IT and process standards should be introduced.

Alongside international transport chains, the number of participating agents, such as modes of transport, institutions etc. are growing, as well as the volume of data and information (Schiek, 2008, p. 73). Following an investigation, 46 documents in a total of 360 versions are needed for a simple international delivery (Pfohl, 2010, p. 339). The design of the information flow represents a deciding factor during the planning of long supply chains. In order to cover the administrative complexity, and to reduce the time and costs, the exchange of data, for example, can be standardised with an introduction of the EDIFACT standard, as well as the various information systems can be coordinated (Pfohl, 2010, pp. 328 ff.). Alongside the information flows, the value flows also need to be planned, which are mainly determined by the terms of payment. Here, tax-related issues are just as important as the necessary deposits, exchange rate protection and administrative costs for the payments (letters of credit, etc.).

Here, China-to-Europe transports due to a substituting production transfer have been taken into account. However, this only represents only one perspective on the assessment of international production transfers. In practise, with international production transfers, the successes of cost reduction often do not meet expectations. How can international production transfers be specifically and fully assessed? In the next section, the investigation of the TLC will be explained in more detail.

4. Investigating the Total Landed Cost

International production transfers require the correct assessment and consolidation of all influencing factors for a comprehensive view of the TLC. However, many businesses make methodical mistakes (Kinkel/Buhmann, 2009, p. 36).

The entire network must be registered and assessed with an appropriate degree of detail in a process model in order to make a comprehensive decision based on the TLC.

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10 From Oiling to VCI paper to VCI bags – there are many different possibilities.
With the continuation of the production network, the TLC in its previous structures\(^{11}\) will be compared to the TLC of the transfer scenario. This possible savings potential needs to be compared to the investments and one-time expenditures, which will not be discussed further in this article (Figure 1). Overall, the complexity of the production networks in a global context has not been considered much in research (Schuh et al., 2012, p. 388).

The different supply chains needed can be specified by the network structure (delivery points, production sites, reception points) and the delivery requirements, segmented by product range, service and shipping requirements (Gudehus, 2010, p. 936). In order to ensure the standardised manifestations for a simpler TLC investigation, tested process elements must be used. This can be understood in the sense of building blocks for a toolbox (VDA 5010, 2008, p. 4). Depending on the network structure and the delivery requirements, an appropriate supply chain should be defined with the elements from chapter 3. The goal is to efficiently develop consistent process chains with standardised elements (standardised supply chains), since excessive detail and differentiation at this time often result in inadequate time and resource requirements. According to the Pareto principle, important aspects come into focus and unimportant aspects are ignored (Czuchra, 2010, p. 5). Existing reference models\(^{12}\) can support this as a template. International production transfers are considered from various levels of detail, where appropriate modelling methods, which coordinate with one another are used (Arnold et al., 2008, p. 462).

Alongside the complexity of the network, the situation is worsened with the fact that a production transfer is subject to a long-term planning period, and that influencing factors can significantly change over a period of time. The growth of wages in China shown at the beginning is a good example for the influence of factor cost changes to the production costs. Transport costs are also dependent on the freight volume and the delivery sizes, alongside the growth of oil prices. In contrast, the market development can reach from stochastic fluctuations to systematic changes (Gudehus, 2010, pp. 558 ff.). These exemplary accomplishments stress that production transfers are affected by a long-term planning period. A static view assumes unvarying parameter values – often, these are long-term average values in order to reach a future orientation. With a dynamic view, changes over time are also considered.

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\(^{11}\) Identification and assessment of optimisation potentials, which have not been utilised yet in previous locations should also be considered.

\(^{12}\) As an example, the Buy-Ship-Pay model from the UN/CEFACT describes the main processes and the process participants of international supply chains: "(...) it can be utilized as a reference model." (UNECE, 2014). This model has the same origin as the International Supply Chain Reference Model (ISCRM). In order to describe and visualise the process, one can rely on the standard process models such as the Supply Chain Operations Reference Model (SCOR-Modell), whereas the process chain method can be used as an addition to the detailed modelling (Hellingrath et al., 2004, p. 197; Arnold et al., 2008, p. 462).
The potential changes of the influencing factors are also filled with uncertainties. For example an accurate forecast of the wage and transport cost development is not possible. In this way, freight tariffs are dependent on the demand and requirements, which can only be calculated in advance to a limited extent (Gudehus, 2010, p. 926). Often, many values can only be roughly calculated, or within fluctuation margins (Buhmann/Schön, 2009, p. 279). This could be assessed using economic feasibility calculations with stochastic parameters, but it represents a huge complexity for many businesses (Meyer, 2008b, p. 117). The scenario technique as a practical alternative aims for the development of potential future scenarios, which can often only adequately investigate a part of the effects due to the high number of influencing factors. Thus, a clear expulsion of the assumptions made is important (Meyer, 2008b, pp. 119; 126). Alongside a realistic scenario, Kinkel recommends that both a pessimistic and an optimistic scenario need to be analysed in order to be able to cover an adequate bandwidth of decision making uncertainty (Kinkel, 2008, p. 8). On this basis, so-called “what-if” planning scenarios should be analysed and assessed in order to show the influence of a single influencing factor, and the flexibility and sensitivity of the solution (Kinkel, 2008, p. 8; Schulte, 2012, p. 543).

The selected aspects network, long-term planning period and uncertainties illustrated the complexity of the strategic decision of international production transfers. The control of these aspects represents a central success factor. The assessment can reach from a scenario analysis or a simple simulation procedure based on a spreadsheet calculation to the complex simulation and optimisation procedure. However, the application of complex systems bears the risk that assessment errors can remain undetected. Therefore, transparency is important for the decision making process (Meyer, 2008b, pp. 121 f.). The effects of individual influencing factors need to be represented and tested for plausibility. The decision making support should not be regarded as “black box”, but they need to be understood by the decision maker in order to have sufficient trust with strategic decisions of this kind. Formulas used, processes, assumptions etc. need to be checked and compared to the reality (Gudehus, 2010, p. 933). The use of IT-supported calculation tools bears the dangers of false results, especially if these do not correspond to the requirements. The use of commercial tools needs to be analysed in more detail.

Alongside the high complexity of the decisions themselves, another aggregating factor is the fact that production transfers for businesses are mostly a relatively rare result. Experiences and specialist knowledge are mostly only available in a rudimentary form. Small and medium-sized businesses in particular are often unable to afford the costs for complex analyses (Meyer, 2008b, pp. 124 f.). Moreover, the decisions must of-

\(^{13}\) Schuh et al. give an overview of the process of Operations Research for the creation of a production network. Due to the high complexity, the usability of this is questioned (Schuh et al., 2012, p. 390).

\(^{14}\) For more information on the principles to be considered with IT-supported calculation tools for the development and programming, Gudehus, 2010, p. 87 ff.
ten be made in a relatively short period of time (Schuh et al., 2010, pp. 387 ff.). The consequences are methodical weaknesses during the assessment, with partly fatal results.

5. Conclusion and outlook

The authors consider the development of a procedure model, which takes the TLC into account over the entire decision making process, as important. The entire assessment process must be divided into defined individual tasks. The specification of the individual tasks, the order and goals of which, as well as the methods and tools used for processing should be an integral component of the procedure model (Ebel, 2012, pp. 89 ff.; Pernice, 2010, pp. 47 ff.). It should be understood as a recommendation with a normative character in order to control the complexity. The level of detail should be consistently refined with consideration to a growing number of influencing factors, where the options to be considered are becoming increasingly limited. Businesses need to aim for an adequate cost/benefit ratio, which is currently often lost in practise (Meyer, 2008b, p. 131). The analysis focuses on the relevant influencing factors in individual cases and significant process steps within the usage of standardised process chains. A high level of accuracy with individual problems does not make sense; a cross-functional, consistent result is more desirable. Adequate estimates should be made and reconsidered regularly (Kinkel/Buhmann, 2009, p. 42). A model of this kind should be developed so that businesses receive optimal support for decision making with regard to optimizing their manufacturing and logistics network.

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Hybrid Value Creation as a strategic response to Disruptive Change. 
The case of Amazon’s Kindle

In today’s environment, firms are facing the problem of disruptive change but often fail to respond to this challenge effectively. Recent research has highlighted innovation as a means to address these disruptions. Although hybrid value creation with product service systems can help to respond to disruptive change, it has been neglected in research so far. As a first contribution, this paper applies a case study analysis, the introduction of the Kindle e-reader, and confirms that the introduction of a product-service system helped to react to disruptive change successfully. Findings suggest that firms should focus on awareness of their competences, business environment and customers in order to be able to successfully introduce product-service systems and confront disruptive change.

1. Introduction

Firms all over the world are facing more frequent operational disturbances and severe international competition (Alpaslan and Mitroff, 2004; Selsky and McCann, 2008). Not only does the fast-paced competitive environment threaten a firm’s survival, but also external shocks like the current economic crises confront managers with the question of how to stay competitive (McGrath and McMillan, 2009; Kotter, 2012). The problem of disruptive change has already been well documented in literature, concerned with solutions how to possibly overcome it. Researchers have been demanding innovations from firms asking them to step out of their comfort zone in order to create something new and thereby confront the changes, which they were presented with (Christensen and Overdorf, 2000; Sambamurthy and Bharadwaj and Grover, 2003; Henderson, 2006). Overall, when “a disruptive change appears on the horizon, manag-
ers need to assemble the capabilities to confront that change before it affects the mainstream business” (Christensen and Overdorf, 2000, p. 66). Interestingly, none of these researchers have mentioned the strategy of product-service systems as means to react to disruptive change. Product-service systems are an innovative strategy, which creates competitive advantage, as it does not only offer a product or a service, but seamlessly integrates these two in order to offer a complete solution to the customer (Tuli et al., 2007; Backhaus et al., 2010). This paper intends to bridge the gap between product-service systems and disruptive change by making use of a case study analysis and thereby allowing for both to merge. The case that will be analysed is the Amazon Kindle, as it was identified as a product-service system that was introduced to confront a disruptive change in Amazon’s core market. After the case study analysis, conclusions will be drawn and managerial implications will be given. Furthermore, an outlook will be presented to introduce further research questions.

2. Disruptive change

2.1. Definition

A disruptive change is mostly brought upon firms by new, quickly emerging, disruptive technologies that threaten to undermine an existing market (Christensen and Overdorf, 2000; McCann et. al., 2009; Buescher and Viguerie, 2014). Disruptive technologies, as defined by Christensen (2013, p. XV) are “innovations that result in worse product performance, at least in the near term”. In general, these disruptive innovations are characterized by having other features as the existing products and thereby enable new markets to emerge (Lattuch et. al, 2013). Since disruptive technologies are revolutionary in nature this topic currently remains challenging for both practitioners and research scholars.

2.2. The problem of disruptive change

The problem of disruptive change, as defined by other researchers, is that managers of highly reputable firms do not seem to be able to deal with the appearance of disruptive change in their industry (Christensen and Overdorf, 2000; Henderson, 2006; Gaul, 2014). Although these firms are usually highly sensitive to changes in their environment, identify disruptive change and have the resources to counteract them (Christensen and Overdorf, 2000), large firms often lack the agility and the resiliency to confront and react to the disruptive change (McCann et al., 2009). Despite the authors findings one could also imagine that especially large firms foster disruptive change. They often possess the resources for disruptive research and development and push disruptive change by themselves.

However, disruptive change in an industry requires managers to think in different ways compared to expectations they are used to (Christensen and Overdorf, 2000). Clearly, they have to get out of their traditional habits in terms of effectively addressing
the disruptive technology that threatens to displace their products and services. Christensen and Oversdorf (2000) content that it is important for the firm to allow for new organizational spaces in which the newly needed capabilities can be developed. Overall, there are three possible ways for management to address disruptive innovations: (a) they can create new organizational structures within their existing corporate boundaries, (b) spin out an independent organization or (c) acquire a different organization (Christensen, 2013). However, Christensen and Raynr (2003, p. 55) introduced the thought that some managers might reasonably omit from competing against a disruptive technology, as they are “satisfying their most important customers and investing where profits are most attractive”. As such, research needs to consider different behaviors of practitioners in the way they respond to disruptive change based on individual intentions, experience and objectives.

3. Hybrid value creation with product-service systems

3.1. Definition

Hybrid value creation becomes apparent in product-service systems (PSS). This is defined as an individual, seamless and innovative integration of a product and a service, which offers additional value to the customer (Roegner et al., 2001; Tuli et al., 2007; Velamuri 2013). It ranges from an individual integration of a product and a service for a customer to a complete take-over of parts of the customer’s value chain (Fleig et al., 2012). This new way of combining service and product may have different impact on firms’ business model (Zott et al., 2011). Clearly, hybrid value creation with product-service systems affects the business model towards new value propositions.

3.2. The strategy of product-service systems

Companies pursue the strategy of a PSS for different reasons: (a) substantial revenue can be generated, (b) a competitive advantage can be achieved, (c) companies can offer the same or a better economic function of their offering while simultaneously reducing the quantity of material to produce it (Oliva and Kallenberg, 2003). But not only can companies outcompete their rivals with the adoption of a PSS by creating a hard to imitate additional value for their customers. They can also generate new offerings and solutions for previously unknown demands (Möslein and Kölling, 2007).

In order to benefit from these advantages, companies have to create sufficient internal conditions, establish a service-oriented company culture and systematically follow up on the needs and demands of their customers while creating services (Backhaus et al., 2010). Additionally, they have to execute customer-oriented measures and take actions to build up trust to reduce possible information defects and uncertainties that could exist when the customer wants to purchase the offering (Backhaus et al., 2010). Overall, the company has to undergo a process from a transactional relationship with their customers to a relational approach (Oliva and Kallenberg, 2003; Backhaus et al., 2010; Velamuri, 2013).
4. **Research question**

Researchers have been demanding innovations as means to overcome disruptive change in their industries. A product-service system represents one possibility of such an innovation. Hence, this paper will try to answer the question if the introduction of a product-service system is a possibility to successfully confront disruptive change.

5. **Research design**

Since this is the first study to analyse the impact of a product-service system as means to react to disruptive change, an explorative qualitative research method was applied (Yin, 2009). The use of qualitative research is advantageous over a quantitative approach since it allows for the identification and consideration of underlying patterns, interactions and context-specific factors (Velamuri et al., 2010).

Overall, the following definition of the term case study serves as an explanation for the application of this methodology:

“The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions; why they were taken, how they were implemented, and with what result” (Schramm, 1971, p. 5).

5.1. **Case selection**

In the research on product-service systems and disruptive change, the unsuccessful examples are plentiful (Christensen, 2013) but lessons drawn from these examples are not generating any advantages for answering the research question. Due to the constraints of this paper, one first successful case was chosen to serve as an example of how to connect the theory of PSS to that of disruptive change. A successful case in this paper is defined as leading to a (a) competitive advantage, (b) leading to increased customer loyalty, (c) increased revenue and (d) economically viable environmental benefits (Velamuri et al., 2010). A disruptive change in this paper is defined as being introduced by a revolutionary innovation that is initially inferior to the existing technology but has the possibility to undermine the existing technology in the long run (Christensen and Overdorff, 2000; Adner, 2002; McCann et. al., 2009).

5.2. **Data analysis**

The case was evaluated and critically reflected on the four aspects that define a successful PSS and the definition of what identifies the offering as a PSS. Furthermore, the disruptive event was identified as a revolutionary innovation, which created an entirely new market. To assist in the generation of the case, secondary research in the form of a thorough literature review and an observation of articles and blog entries on the specific instance was applied.
6. The Amazon Kindle

6.1. The disruptive change

The first time an e-book technology appeared, Sony introduced it on the Japanese market in 2004 (Slywotzky and Weber, 2011). E-readers can be regarded as a disruptive change appearing on the horizon of Amazon's core business, which is selling traditional hardcover books via an online channel. Jeff Bezos identified the e-reader as a “machine that could destroy my business” and was among the first to purchase 30 e-readers from Sony (Slywotzky and Weber, 2011, p. 106). Amazon set out to work on their own e-reader, taking the most value adding features of the Sony e-reader, but improving their e-reader in terms of customer attractiveness and usability (Slywotzky and Weber, 2011). By reassembling the Sony e-reader and adding distinctive features, such as the online library of Amazon, they invented a new generation of e-readers, the Kindle. In 2007, Amazon sold their first Kindle to the U.S. market and it was immediately sold out (Slywotzky and Weber, 2011). Amazon anticipated the disruptive change that the technology of the e-reader brought to Amazon's core market. As a response, Amazon even accelerated the speed of change by inventing a PSS that introduced a whole new era to the e-reader market and allowed for the e-reader business to take off.

6.2. The Amazon Kindle as a product-service system

The success story of the Amazon Kindle can mainly be attributed to the invention of the Kindle as a product-service system. The Kindle seamlessly integrates the hardware with the library and software and thereby created a competitive advantage with a well thought through product that Sony failed to achieve.

When Jeff Bezos first identified the technology of the e-reader as a potential threat to his existing business, he used a business model, which allowed Amazon to exploit the disruptive change for its own advantage:

Although Amazon had no competencies in creating a technological device, it was already a service company with a large customer base and was able to consider the world from a customer’s perspective (Slywotzky and Weber, 2011). Additionally, they were already in contact with the largest publishing houses in the U.S. market (Slywotzky, 2011), which they then used to acquire the rights on the e-books. Amazon realized that the tangible side of the offering could not be developed in-house. To be able to produce the hardware, Amazon went into a partnership with E-Ink, who has already designed the screen for the Sony e-reader and set up a new business unit in Silicon Valley, namely Lab126 (Slywotzky and Weber, 2011). After Lab126, in cooperation with E-Ink, designed the Kindle, the hardware was seamlessly integrated with the software that allowed the reader to access around one million e-books (Slywotzky, 2011). In this way, Amazon developed an e-reader that did not only allow the customer to read digital books on a handheld device but connected this with a backstory (Slywotzky and Weber, 2011) that made the Kindle an international success.
7. Conclusion of the Kindle Case

Although the story of the Sony e-reader is not one of shining success, the technology of the e-reader itself can be regarded as a disruptive change for the entire hardcover book market and in Amazon’s business environment. The advancement of a digital reader and e-books that consumers were able to download almost instantly onto their devices, represents a disruptive technology that incorporated the possibility to threaten Amazon’s core business. As seen from the development of the e-reader market, the e-reader technology was ready to displace the mainstream technology, the printing of hardcover books (Nielsen Market Research, 2014).

Although Sony is a major player in the electronics business, Amazon had the decisive advantage that they were able to look at things from a customer perspective and already incorporated the service mentality in their business operations. From this case study, one might draw the conclusion that Amazon successfully reacted to the possible threat of the e-reader technology by designing a better offering, not simply copying the Sony e-reader but introducing to the market a product-service system that offered a complete solution to the customer. But what should also be noted is that Amazon benefitted from a well thought through strategy. They demonstrated that they were able to successfully manage the transition to a product-service system provider and did not commit the “worst possible approach” (Christensen and Overdorf, 2000, p.66) when facing a disruptive change, which is radically adjusting their business as a whole. Instead, their manager, Jeff Bezos identified Amazon’s lack of ability to address the change on its own and went into partnerships with E-Ink and the publishing houses. Furthermore, Amazon developed hardware-producing capabilities through their spinout, Lab126. This was a smart move, as it allowed the Kindle project to run on its own, without the need to compete for resources in the mainstream organization (Christensen, 2013). Concluding, Jeff Bezos did exactly what theory demanded when he identified the Sony e-reader as a machine that could destroy his business: he assembled the capabilities to confront the change before it was able to affect his mainstream business. By developing an own e-reader, Amazon prepared itself for the possible collapse of the printed book market.

8. Managerial implications

Inventing and producing the Amazon Kindle might appear as a calculated risk. Research has introduced the idea that it might be reasonable for managers to anticipate the constraints of their existing organizational competencies (Henderson, 2006) and therefore refrain from competing against a disruptive technology (Christensen and Raynr, 2003).

However, if a firm decides to react to disruptive change in their industry, possible managerial implications can be derived from the case study analysis:

For firms to be able to confront a disruptive technology, they should constantly observe the environment in which the business operates, as this might allow for
a more timely reaction. Furthermore, managers should not be entrenched by their existing business as this might reduce the probability of a reasonable response. They should try to constantly seek possibilities for their firm to grow, apart from their existing business and be open-minded. Another aspect is a business model that allows innovation and change. In the case study, the firm has benefitted from such a business model and was flexible to react quickly to the possible threat introduced by the disruptive technology. The case study also stresses the important management quality of being well aware of your business core competencies. When faced with disruptive change, it might be beneficial to analyse the current competencies and allow for deficits to be taken over by a partner. A spinout can be created that enables the current business to go on undisrupted. By using the existing core competencies the firm already has one side of the product-service system accounted for. A possible way of mastering the second part is finding a partner that compensates for your firms weakness by developing the missing component. In the case study, the firm might have benefitted a lot from their existing core competence, which already was in the service business. Researchers have shown that it is easier for a service provider to successfully market a product-service system (Windahl and Lakemond, 2006). For firms that are traditionally in the product business, care has to be taken to successfully change from a transactional to a relational approach. They should set up the right internal conditions to allow for change and acceptance of the new business model and establish a service-oriented, customer-focused company culture.

9. Outlook

The objective of this research paper was to make a first approach towards answering the problem of disruptive change with hybrid value creation through a product-service system. The example gives a first hint that it might be reasonable to react to disruptive change by introducing a product-service system. Further research could be done by considering more cases and identifying common patterns and strategies. Also, it might be beneficial to do research from a quantitative perspective, possibly investigating the question if a product-service system contributes positively to the emergence of a disruptive technology and if it can, in general, accelerate its establishment on the market. Another possible research question could be concerned with the usefulness of partnerships as means to compensate the possible lack of capabilities in successfully confronting disruptive change.

References


**Short bio of authors**

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Determinants of operations of contemporary companies are characterized by high complexity, including uncertainty and instability, resulting from, among others, intensification of contradictory tendencies occurring both in the environment and as part of the organization. This situation justifies a discussion to be undertaken about the adequacy of application of basic management paradigms. The conducted analysis indicates grounds for use of the postmodernist paradigm and determines characteristics distinguishing organizations managed according to this paradigm.

1. **The essence of a paradigm**

According to Kuhn, a paradigm is “a commonly regarded scientific achievement which in some periods delivers to the scientific community model problems and solutions (Kuhn, 1968, p. 12).” It may be assumed that it is a kind of a reference system that gives meaning to a given science and which determines the methods, scope of problems and patterns and solutions associated with the science. Therefore, the adoption of a new paradigm often requires a change of perception on how a given science is viewed, a change of principles, which so far were the practice in a given science, as well as a change in the view of perceiving the system of the given science and its environment.

The process of changing a paradigm commences when under the existing paradigm, anomalies are detected, usually consisting in a different behaviour than determined by the paradigm of the analysed system. After examining the scope of the anomalies and transforming the theory in such a way so that these anomalies find justification therein, the new theory and the new event assimilate. A strong resistance against changing the

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1 This article is based on: (Łyszczarz, 2012)
paradigm is often expressed in the scientific community, which, on the one hand, may be assessed positively, as it counteracts too hasty rejections of the previous paradigm, on the other hand, however, it contributes to the delay in acceptance of the new one. These factors cause that a change of the paradigm is usually a long-term process.

Exploring the paradigm of a given discipline should be thus the starting point when analysing problematic situations appearing in a given discipline, as well as, when making attempts to solve them. However, in reality, this is not an easy task, which is caused, above all, by the ambiguity in the notion of a paradigm.

Ambiguity and discrepancy in the notion of a paradigm are related not only with different interpretations made by individual authors, but also because the same entities use this concept in various meanings. This also applies to the propagator of the paradigm concept, T. S. Kuhn that by aiming at clarifying the notion of the paradigm provides its wide and narrow meaning.

In the broad meaning, a paradigm is “a set of characteristic beliefs and prejudices” (Kuhn, 1968, p. 33) of a group of researchers. This is not a clear definition due to the terms used therein – “opinion” and “prejudice”, these are not precise and may referred to various analyses carried out in a given scientific discipline.

For the interpretation of a paradigm an important thing is also the definition of a scientific group, community or society whose members share common beliefs. Specify various levels of analysis may be listed: A general level of sciences (in this case some megaparadigm of science can be consider), a science discipline level (e.g. a social sciences paradigm), as well as its specialized disciplines level (e.g. a management sciences paradigm, and as parts of it, different subparadigms may be specified), which proves a certain hierarchy of paradigms.

From the analyses conducted by prof. L. Krzyżanowski it seems that T. S. Kuhn the term scientific community refers “to a small group [of people], rather without the inclusion of the whole scientific discipline, but specialty or, maybe, an academic school” (Krzyżanowski, 1994, p. 236) such an interpretation of the range of a paradigm does not exclude a greater quantity of paradigms within a given discipline, therefore it may justify the approach of multiparadigms.

In the field of management sciences the interpretation of the ambiguity in the notion of a paradigm is expresses in the process of searching for research bases of the phenomena in the field of organization and management, apart from the notion of the paradigm, such terms can be encountered: trends, perspectives, sources of inspirations, theories, philosophical approaches.

A paradigm is understood relatively widely by Burrel and Morgan, they claim that a paradigm determines ontological, epistemological, methodological assumptions of a given field, as well as, assumptions concerning human beings as subjects of cognition (Burrel, Morgan, 1979). Paradigms differ thus in the diversity of the configurations of values that the mentioned parameters assume. As a result, the parameters, above all, ontology and epistemology, may be useful for comparative analysis of paradigms.
2. **Basic paradigm parameters**

Ontology determines the object of cognition. In the case of a prudent discipline, organization may be considered as such an object, but also its administration. Important from this point of view, is the identification of what belongs to organization and what is not, namely to determine the boundaries of organization. The same thing applies to management. Among many definitions of organization, a Praxeological definition is distinguished, which assumes that organization is such an arrangement of parts towards themselves and towards the entirety made from the parts that these parts contribute to the success of the whole (Zieleniewski, 1981). Praxeologists stress the material aspect (an organized thing), functional (organization) and attributive aspect (an organized feature) of organization. According to these aspects an object of analysis may be a thing, an activity or a feature. It can be assumed that organization understood as an organized thing is the subject of more specific/physical tests and more stable than the other characterized by dynamics (functional aspect), as well as, abstractness (organization). The determination of the boundaries of the researched object, even in a material perspective, may cause difficulties, for example, owing to the fact that organization includes people who belong both to a given organization and to its environment. This also applies to some organizational forms as e.g. network organization, strategic alliances or virtual organizations. Additionally, a normally high variability of the mentioned organizational forms significantly hinders the identification of whether and to what extent a given component is part of the object of interest of the organization.

Epistemology, focuses on terms of scientific cognition. In social sciences a division has been adopted of objective epistemology (a positivistic, naturalistic, fundamentalist), and subjective epistemology (humanistic, interpretatistic, non-fundamentalist).

Objective epistemology, assumes a separation of the entity from the researched object, independence of the researched object from the researcher. It assumes that the world exists independently from our knowledge about it. On the other hand, subjective epistemology considers a relative perception of the researched object, as well as, intervention of the researcher into the studied system.

Objective epistemology, in social sciences means an attempt to use the theories created in science. This was related to accepting the assumption about the unity of the world, naturalism, therefore an assumption that the subject of research in social sciences has the same nature as the researched object in natural sciences. However, many social sciences representatives\(^2\) undermine this assumption, stating that in human society certain phenomena occur that do not occur in nature, and are the product of culture, as values meanings, symbols (antinaturalism).

In addition, according to subjective approaches (antinaturalism, antipositivism), certain theories, concepts, doctrines, information appear that affect the manner in which people think, their motivations, intentions, reasons and, as a consequence, also their actions (Szlachta, 2004, p. 1229), which causes a change in the examined object. Hence, the researched entity affects the behaviour of the researched object.

The classifications of paradigms of management sciences found in literature can be divided into two groups. The first one is formed by those theories, approaches and trends, which assume objective cognition principles and those that are based on subjectivity. The first group includes the classic approach (for instance Taylorism, Fordism, based to a significant extent on analytical, Cartesian and mechanist method of perception of the world), as well as, a modernist approach (under which, above all, system trend, including the concepts of complex systems, deterministic chaos) (Hatch, 2002, Sułkowski, 2005). On the other hand, the second includes interpretative – symbolic as well as postmodernist approach (as above).

Table 1. Modernist and postmodernist paradigm – comparative analysis

<table>
<thead>
<tr>
<th>modernizm</th>
<th>postmodernizm</th>
</tr>
</thead>
<tbody>
<tr>
<td>objective epistemology (positivism) – organization of an object with measurable parameters</td>
<td>subjective epistemology, e.g. anti-positivism, idealism, relative knowledge about the studied matter</td>
</tr>
<tr>
<td>objectivity – belief in the existence of a world independent from our knowledge about it – possibility to separate the object from the study subject; objective epistemology (positivism) – organization of an object with measurable parameters</td>
<td>subjectivity – entity interferes with the study subject – impossible to perceive reality objectively (constructivism, epistemological relativism); subjective epistemology, e.g. anti-positivism, idealism, relative knowledge about the studied matter</td>
</tr>
<tr>
<td>development of uniform terminology</td>
<td>sensitivity to language, diversified, individualized interpretations, associations with a given term</td>
</tr>
<tr>
<td>based on knowledge as the means of predicting and control, priority of science – is to lead to confidence</td>
<td>growth in the importance of intuition, aesthetic impressions, associations</td>
</tr>
<tr>
<td>development of one meta-theory</td>
<td>many theories, analogies, metaphors, inspirations, questioning past meanings through seeking and testing conflicts, diversity of perception of a given problem, deeper look at the problem, capturing conflicts, fostering creativity, development of science</td>
</tr>
<tr>
<td>more totalitarian nature</td>
<td>more democratic character</td>
</tr>
<tr>
<td>myth of progress</td>
<td>it is not possible to build a vision of the future desired by all, because people see it differently</td>
</tr>
<tr>
<td>rationalism</td>
<td>underlining the importance of intuition, associations, considering many interpretations of given factors inside and outside the organization useful in decision-making</td>
</tr>
<tr>
<td>reductionism – exists only this, to what empirical data can be found and what can be translated into mathematical generalizations and reduction</td>
<td>something that cannot be measured and is not felt sensually is not necessarily inexistent and has no impact on behaviour of a given phenomenon</td>
</tr>
<tr>
<td>aims to create common scientific language</td>
<td>impossible development of a common scientific language owing to subjectivity of assigning meanings to particular notions; assumes different interpretations of notions by various people, our mind interprets the notions on the basis of the knowledge of cases, experience, but our understanding of the notions may sometimes change, because our knowledge of a given phenomenon changes</td>
</tr>
<tr>
<td>quantitative, statistical methods, based on measurable data</td>
<td>also intuitive methods, plays on words,</td>
</tr>
<tr>
<td>scholarism</td>
<td>scepticism</td>
</tr>
</tbody>
</table>

*Source: author’s own study on the basis of source materials quoted in the study*
The modernist paradigm is based on positivism as well as, especially, on neo-positivism of the so-called Vienna Circle, and the basic components of positivism are (Anzenbacher, 2003):

- empiricism, assuming that any cognition can be brought down to sensual impressions, and the whole mental and physical reality consists of sensual impressions
- materialism, rejecting everything which is not sensually tangible
- scientism, denoting faith in science, understood as close natural knowledge, based on facts. Consequently the positivists were rejecting what was metaphysical, not offering a possibility of physical experience. Therefore, what was not sensually noticeable and measurable for positivists could not have been an object of studies.

Neo-positivists of the Vienna Circle uncritically assumed empiricism and scientism as the starting point of research. They aimed at creating a generalized science theory, with the addition that they assumed that natural sciences are the only sciences, and consequently as part of any other “sciences”, it would be important to apply only the methods typical for natural sciences, and thus all problems, regardless of the field, would have a natural character (naturalism). This also applied to management, which, as a science, was developing almost simultaneously with a positivist and neo-positivist concept. Precursors of organization and management sciences were predominantly engineers and in their research used the methods applied in natural sciences and based on natural knowledge, especially physics, including the analytical, Cartesian approach. Continuing the positivist approach, they rejected metaphysics and metaphysical notions beyond the area of science.

Neo-positivists also looked for verifiable scientific knowledge, which, in their opinion, could be achieved only based on measurable parameters (and those to be experienced sensually and the non-measurable ones were rejected), allowing logical – mathematical generalizations (reductionism). The neo-positivists also assume a possibility of an objective description of reality and cause-effect dependencies present in it, using a uniform terminology, one dictionary of science whose construction was postulated by them.

The enthusiasts of a modernist concept assume possibility of identification of cause-effect dependence, and on this basis, the possibility of predicting the future, thanks to which the applied theories can also be verified. However, taking account of the fact that the organizational systems include people, whose behaviours as the so-called great systems (particularly complex probabilistic systems) are hardly predictable,
then one may consider any possible predictions concerning behaviour of an organization as considerably more uncertain. Certain problems are also created by the very determination of cause-effect relation in the event, when we are dealing with plurality of interactions among particular parts of systems, which results in the fact that even in the systems deemed as determined, there are unexpected phenomena (deterministic chaos). This can prove limited adequacy of application of system methods (and thus modernist approach) for solving problems of an organization.

The postmodernist approach is often regarded as post-industrial, post-Ford or post-capitalist. It may be assumed that emergence of postmodernism was a reaction to obvious failure of modernism that aspired to the name of a concept enabling explanation of any phenomena. The very notion of postmodernism may raise doubts about its sense, because the direct translation means “time after modernity”, hence it refers to the future. Use of this term may be interpreted as a statement that what the modernist concept contains is no longer valid, that is “after modernism”.

It can be assumed that one of the basic characteristics of postmodernist approach is return to symbols, meanings and intuition intended for their interpretation. It is implied by postmodernists based on a constructivist philosophy, whose main representatives are: G. A. Kelly as well as K. E. Weick. The first of them is the author of a fundamental work concerning psychological theory of personal constructs, in which he assumes, among other things, that the reality is available to a person only through its subjective construction, with the addition that the process of constructing is also significantly affected by subjective anticipation, prediction of events (Kelly, 1955). The expected events do not however, have an objective nature, but are again built by a given entity (replication).

From the point of view of organizational research, the socio-constructivist theory of an organization is a significant method prepared by K. Weick (Weick, 1979), also called as a theory of establishment. According to him, using such definitions as “organization” or “environment”, determining what they include (organization, environment are created as a result of a conducted analysis), we create a phenomenon, which we intend to analyse, we create a language, terminology applied to their description, that is: materialize, reify a given phenomenon. This type of approach is also represented by the theory of social constructing of reality (Berger, Luckmann, 1966) assuming that the existing solutions and social systems are the outcome of solutions, agreements accepted by the members of societies and evolving historically, with regard to perception of objects and interpretation of their meanings, and this results in specific patterns of behaviours, which are then perceived as existing regardless of their interpretation (they are objectified).

In his work, K. Weick formulates the conclusions concerning rationality, orientation on purpose and competence of organization with regard to problem-solving. He claims, namely, that organizations do not operate and do not make decisions in a reasonable manner, but at a given time there are more contradictory reasons in an organization (Weick, 1979).
In the post-modernist approach, in the process of cognition, language gains crucial importance in the meaning of terms used for description of the object of research or the observed phenomena. The terms are defined as ideas created as a result of disregarding (removal of detailed features in order to determine significant features), that is forming ideas by thought-separation from particular cases. Thus, understanding of a given notion depends on the knowledge of particular cases and experiences, which a given person has in connection with given phenomena. Since experience of particular people, especially coming from different cultural areas, may significantly vary and, apart from this, with passing time and appearance of new experiences of a given person, the image of the phenomenon, which the term is supposed to reflect, also changes, different people interpret and perceive the observed phenomena differently. Thus, it may be concluded that postmodernism is characterized by cognitive relativism, resulting from the fact that a person interferes with the object of cognition, particular people interpret the examined phenomena differently, the possibility to reach an objective is truth discredited. Postmodernists state that we can never be sure that our perception of the world and interpretation of the phenomena are authentic. For postmodernists, the truth actually does not exist, there are, on the other hand, our variable ideas about ourselves and the observed phenomena. Usurping the right to learn the objective truth by modernists as well as their adopted assumption that their research methods based on the laws of nature are the only real ones, are a symptom of dogmatism for postmodernists. The postmodernists assume diversity of the ways of perception of the world, diversity of the applied (also contradictory) research methods, which enable a more multifaceted description of reality (epistemological and methodological pluralism). They reject the assumption that sensual perception is the only way leading to cognition, they assume that intuition or aesthetic experience may often have greater cognitive quality. Adoption of the assumption on various possible methods of perception of specific phenomena as well as the right of each person for individual interpretation is a symptom of a more democratic treatment of a human being, as compared with the previous concepts, makes sensitive to opinions of others, is a more humanistic approach and, apart from this, continuously questioning the existing theories, in a dialectic manner, seeking the assumptions underlying them (deconstruction) helps in getting rid of dogmatism in thinking, increases tendency for use of various, even contradictory, perspectives and concepts, increases ability to function in the conditions of feeling conflict, forces self-reflection, criticism, allows distancing to the existing opinions and theories (also own), increases openness to new views, in a way teaches humility towards science, increases uncertainty and stress, but on the other hand, contributes to increase in flexibility of thinking, and, as a consequence, also creativity. To sum up, it can be stated that the basic characteristics of postmodernist approach are: both cognitive and cultural rela-

Postmodernists state that modernist claims to rationality and determining the only truth legitimizes the power of managers and is in conflict with the democratic principles of functioning of societies.
tivism (perception and interpretation of phenomena vary depending on cultural conditions), fragmentariness of perception of reality, entangling in language (it is impossible to go beyond the language that determines basic cognitive schemes, creating the identity of individuals and specifying the structure of the entity and object of cognition, (Sułkowski, 2005), puts emphasis on ethical problems, democracy, power, tolerating various cultures, criticism, self-reflection.

The postmodernist approach, in a strict sense of this notion, may be identified with criticism, deconstruction, based only on subjective epistemology, extreme rejection of empiricism. In the broad meaning, postmodernism does not reject other research perspectives, but accepts that they are not ideal not sufficient to examine the phenomena. The diversity typical of postmodernism may also apply to the employed perspectives and research theories. Such a situation occurs in management, when, at making e.g. location decisions, not only economic, but also e.g. aesthetic considerations are taken into account. In such a situation postmodernism is characterized by pluralism of the employed perspectives, complementary or in conflict towards one another, and may be named a humanistic approach.

3. **Conditions of functioning of contemporary organizations**

The discussions of both theoreticians and practitioners of management concerning the conditions of functioning of companies emphasize a changing nature of the environment of an organization from a stable one to the one characterized by abrupt and strong changes within both further and closer environment of an organization. Attention is above all paid to the following phenomena:

- globalization of sectors and global competition
- exacerbation of competitive fight, what results in, among other things, growth in pressure on innovativeness of enterprises and innovative cycle shortening
- functioning of companies in conditions of aporic tendencies, both in the environment and as part of organization's environment,
- growth in complexity, including dynamics and uncertainty of environment.

Such factors as:

- short time for taking decisions under conditions of instability of the environment,
- growing quantity of information that must be collected, filtered according to the importance for the organization, processed and analyzed
- bigger and bigger uncertainty of information describing the problem situation
- shorter and shorter time of validity of obtained information, resulting from increasing instability of the environment makes it difficult to make well-thought-out decisions.

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6 As stated by the representatives of the so-called Edinburgh school of sociology of knowledge (Bloor, Barnes) the criteria of rationality and truth, the method of perception of reality are determined culturally and socially, scientific theories are reflections of social ideologies, we live condemned to cognitive and moral relativism (Sułkowski, 2005)
decisions, creates a problem of rationality of decision-making and means growth in the importance of the decisions made intuitively.

The dynamics of economic processes, increasing with time, results in smaller and smaller amount of time for reaction, but on the other hand, owing to growing complexity, the time needed for reaction is growing, thus a paradox occurs consisting in the fact that owing to growing complexity it would be best to have more time as compared with previous periods for making decisions with regard to reaction, but this growing complexity, meaning also faster dynamics, results in the fact that the response time should be far shorter than in more stable conditions of the markets (Bleicher, 1990).

Intensification of competitive fight, its transfer from the local to the world level as well as strong innovative pressure requires increase in creativity and knowledge of an organization.

As a result, another paradox appears – on one hand it is required to demonstrate knowledge of employees, which in fast changing conditions of the environment is also undergoing rapid outdating and, on the other hand, disposal of expert knowledge is an obstacle for creativity. Fast absorption and use of knowledge causes acceleration of changes in an organization and its environment, which, in turn, results in outdating of knowledge. A kind of paradox is that science creates the conditions making itself less useful as a means of predicting and control – in the society based on knowledge changes occur so rapidly that the acquired knowledge becomes an obstacle in achieving creativity and flexibility (Morrison, Ricks, Roth, 1991). In addition, searching for creative solutions is based, among other things, on bisociation,\(^7\) which requires openness to new ideas, views, perspectives. The requirement of this openness and understanding other cultures, sensitivity to specific conditions of regional markets results also from a tendency of increasing territorial range of functioning of particular companies, until reaching functioning on the global scale. Continuous pressure on supplementation of knowledge and creativity may cause excessive stress of employees and their discouragement to act and even professional burn-out. It requires from managers, but also from co-workers, to employ considerable sensitivity to situation of others, understanding their situation, empathy.

At the same time, apart from innovative pressure, intensification of competitive fight requires provision of appropriate organization effectiveness, which may result in striving for maximization of the experience effect and synergy effect, which, in turn, leads to increase in competency approach in management and vertical disintegration of activities, and this means growth in the number of entities, both cooperating with a given company and operating within the whole chain of creating values. Effective cooperation requires understanding of not only interests, but also views, prospects, systems of values of the partners of cooperation, which is particularly reflected in the case of entities from different cultural regions.

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\(^7\) Bisociation is understood here as podejmowanie associations, overlapping methods, notions, pomysły from Państwo dwa różne domains, as a result of which a new quality may appear.
Thus, another organizational aporia appears: on one hand, pursuit of creative and innovative activities, whose effectiveness carries high risk with it and may cause temporary drops of effectiveness and, on the other hand, simultaneous pursuit of high effectiveness, which is more related to perfection of implementation of operational activities.

The conducted analysis indicates significant importance in management of both soft, non-measurable factors, often difficult to see, having special importance in the case of management, under the conditions of aporia and needs of creativity and these “hard”, measurable factors, used mainly to ensure effectiveness.

The conducted analysis of the features of management paradigms, recognized as basic, may be helpful in determining a management philosophy, which may be useful in the presented conditions of company’s operations.

4. Assessment of suitability of analyzed approaches

The conducted analysis makes it possible to state that in the specified environmental conditions, the postmodernist approach may turn out to be more useful than the modernist approach (table 2).

Table 2. Assessment of suitability of the modernist and postmodernist approach in contemporary environment conditions of companies [“-” – low; “0” – medium; “+” – high)

<table>
<thead>
<tr>
<th>Environment conditions</th>
<th>Challenges towards the organization</th>
<th>Assessment of the modernist approach</th>
<th>Assessment of the post-modernist approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>globalization and regional-</td>
<td>openness to diversity, understanding of various cultures</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>alization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>exacerbation of competitive</td>
<td>efficiency</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>fight (efficiency aspect)</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>exacerbation of competitive</td>
<td>innovation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>fight (innovative aspect)</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>growth in complexity</td>
<td>dealing with limited rationality of decision-making situations</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>presence of aporic tendencies</td>
<td>dealing with aporic situations</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: author’s own study

The modernist approach, based on a conviction of the possibility of predicting, planning and control, aimed at order and stability, using measurable parameters, may turn out to be highly effective for maintaining effectiveness in operating activities of
companies. On the other hand, requirements of creativity\(^8\), decision-making in the described conditions of complexity, functioning on many various markets, understanding and sensitivity towards other entities both in the environment and as part of an organization as well as dealing with aporic situations may be met more easily in the event of using the postmodernist approach. Taking account of the assumption that one of aporic situations of the contemporary organizations is aporia of effectiveness and creativity, the statement, which accepts the postmodernist approach, parallel use of both perspectives and methods connected to them appears justified, what is shown in Tab. 2.\(^9\).

5. **Characteristics of postmodernist management**

Adoption of the assumption on growing suitability of the postmodernist approach in contemporary organizations implies a discussion concerning operationalization of this approach in the practice of business operations, which means first of all:

<table>
<thead>
<tr>
<th>Parameter management</th>
<th>Desired parameter states</th>
</tr>
</thead>
<tbody>
<tr>
<td>deciding</td>
<td>team-based, taking into consideration views of many stakeholders, use of metaphors to describe problematic situations and intuitive methods of searching for solutions, use of storytelling as a tool of sharing, especially tacit, knowledge, seeking discrepancies and growth in the importance of the dialectical approach when searching for solutions; eclecticism in designing new solutions, increasing importance of symbols</td>
</tr>
<tr>
<td>management style</td>
<td>democratic, management authority based on charisma,</td>
</tr>
<tr>
<td>communication</td>
<td>network, based on IT techniques, reference to stakeholders’ emotions and system of values, increased importance of storytelling concepts,</td>
</tr>
<tr>
<td>organizational structures</td>
<td>flattened, less hierarchy-based, less formalized, organic, increased importance of teamwork, decentralization, network structures</td>
</tr>
<tr>
<td>control</td>
<td>growth in the importance of esthetical, non-functional and non-price-based criteria, increased importance of self-control</td>
</tr>
<tr>
<td>human resources</td>
<td>tolerating mistakes, increased importance of using many, even contradictory perspectives as well as the ability to cope with contradictions, emphasizing the importance of auto/criticism, increased importance of rather generalists (universalists) than specialists</td>
</tr>
</tbody>
</table>

*Source: prepared by the author*

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8 Classification of the deterministic chaos theory to the modernist approach as well as seeking system analogies, which is a feature of a general systems theory raises a possibility of creative modernist approach.

9 Such an approach can also be called eclectic (multi-pragmatic or paradigmatic pluralism).
growth in the importance of application of qualitative methods, metaphors, to the
description of problematic situations,
development of conditions for increasing creativity and innovation of the organi-
zation, which is favourable for creation of interdisciplinary teams both for the anal-
ysis of problematic situations and search for solutions, which, in turn, means the
use of a more democratic management style
increase in the use of the so-called tacit knowledge and sharing it, which may be
achieved both as a result of team-based decision making and the use of storytelling
type concepts,
use of intuitive, association-based methods of searching for solutions, as this means
increased usability of invention techniques,
growth in the importance of charisma-based leadership authority relations,
active approach to the problem of presence of contradictory tendencies, both in the
environment and in the organization, which means their identification and dealing
with them respectively early, especially as a result of applying the dialectical
method (Łyszczarz, 2011)
presence of contradictory tendencies, as well as subjectivity in the perception of re-
ality requires cultural competences, which are of special importance in the case of
organizations functioning on the global scale. These competences include not only
understanding of other cultures and awareness of one’s own culture, but also ability
to function in a diverse cultural environment,
reference to symbols, meanings, linguistic aspects, and even archetypes and emo-
tions both in the design process of new solutions (what, among others, is related
to smaller importance of functional aspects or price aspects in the offer assessment
process) as well as in communication processes inside and outside the organization,
taking into consideration opinions and views of all stakeholders, as this means
tightening bonds with external entities (network organizations) as well as intra-or-
ganizational decentralisation, flat structures, their greater flexibility (organic struc-
tures), reducing the degree of formalization and bureaucracy,
employing rather creative generalists, universalists, rather than specialists; tolerat-
ing experimentation and mistakes made by employees
less formalized control processes, taking account of quality, esthetic, emotional as-
pects to a greater extent.

6. Conclusion
Conducted analysis shows that current conditions for the functioning of the or-
ganization are marked by great uncertainty, dynamics, appearing contradictory, aporic
tendencies both in organizations and in environment, which in the situation of inten-
sifying the competitive struggle and the increased pressure on innovation, requires, on
one hand, increase in effectiveness, and on the other, increase in the creativity of the
organization. Creativity is supported by criticism towards existing solutions, concepts,
views, by avoiding the limited, unilateral way of perception of reality. The modernist paradigm is more conducive to achieving organizational efficiency, while postmodernist paradigm – to creativity, dealing with uncertainty, contradictory tendencies, diversity. Taking into account, that postmodernism does not reject absolutely any concept, namely it does not reject fully the modernist approach, indicates a dominant importance of the postmodernist perspective in organizations.

Using the postmodernism in organizations requires proper adapting of management system, which means first of all growth in the importance of using of metaphores, narrative and intuitive, but also dialectical methods, using interdisciplinary teams both for the analysis of problematic situation and the search for solutions. Management style should be more democratic, based on charisma, and the very organization should aspire to be more decentralized, less formalized and less hierarchized.

Requirements are changing towards employees - a significance of the specialized knowledge is becoming less important than the ability to function in the conditions of the contradiction, diversities and uncertainties.

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Chapter 3

Education and Society
A Comparison of the State of University-Business Cooperation in Germany and Poland

With the creation of the Europe 2020, the EU’s growth strategy for the coming decade, and the higher education modernisation agenda, Europe is embracing the need to create a more connected and functioning relationship between government, business and higher education institutions (HEIs) in order to increase employment, productivity and social cohesion (European Commission, 2011).

A study was conducted in 2011 for the European Commission to analyse University-Business Cooperation (UBC) in 33 countries by Münster University of Applied Sciences in partner cooperation with Cracow University of Economics.

This chapter presents the compared analyses of the state of UBC in Germany and Poland from the perspective of HEI managers and researchers in both countries. Applying a UBC-ecosystem of different factors and action levels, the biggest differences of both countries are shown, addressed and commented to offer opportunities for improvements.

1. Introduction

Over the last few decades, there has been a dramatic shift in the focus of HEIs and policy makers towards the HEI’s so-called ‘third mission’. Through this, HEIs have had their roles focussed to a greater extent on the need to contribute to society in a more meaningful way through knowledge and technology creation, transfer and exchange (Etzkowitz & Leydesdorff, 2000). In recent years, the focus has been extended to recognise all the ways in which HEIs can contribute to society including lifelong learning (LLL), entrepreneurship or exchanges of workers with business as means to reach the
third mission. Owing to this, the holistic extraction of value via UBC has become more important for the viability and relevance of HEIs as the benefits of closer and better cooperation between HEIs and business and the benefits for the students have been increasingly recognised.

If University-Business Cooperation (UBC) is understood as interaction between higher education institutions (HEIs) and business for mutual benefit, then fostering UBC and extracting its value can help society face a number of issues. These issues include universities with the problem of decreasing public funds (Carayol, 2003), help businesses to gain and maintain their competitive advantage in today’s dynamic international markets, contribute to the economic development on regional and national level (OECD, 2002) as well as meet the demands of the labour market to provide more relevant knowledge and skills and greater job prospects of students (Bozeman & Boardman, 2013).

Additionally, there are substantial indirect outcomes of UBC including support in the creation of a knowledge economy (Etzkowitz & Leydesdorff, 2000), support for local business (Davey et al., 2011), creation of jobs (Davey et al., 2011), stimulation of economic growth and increased living standards whilst reducing hindrances to good living (Etzkowitz & Leydesdorff, 2000). In this context, UBC creates mutual benefit for all parties involved, and wider, to society.

However, cultural difference between HEIs and industrialists, including differing priorities between research institutions and business, make the process of UBC itself complex (Belkhodja & Landry, 2005). For instance, research institutions are, contrary to result-/market-oriented businesses, more process-oriented and primarily focused on new knowledge (Plewa et al., 2006). These different types of research objectives, coupled with differences in organisational cultures (Plewa et al., 2006) relate to different behaviour exhibited by researchers and business people. This, in turn, has a significant impact on successful UBC. These issues have proven to be very complex, with a deep-rooted misunderstanding between the two not being sufficiently and adequately addressed (Cyert & Goodman, 1997).

However, despite the illustrated prominence of UBC, there exists still very little analysis on the extent of UBC within European HEIs, including the types of mechanisms that exist for UBC or the barriers and drivers influencing it. Although in the UK it has got more attention (Wilson, 2012; Witty, 2013), in the German and Polish settings, UBC is still under-researched area. Therefore, a strategic approach is needed in order to assess and extract value from the university environment most effectively benefiting all relevant stakeholders in the ecosystem.

This chapter will explore the development of UBC in Germany and Poland, shining a spotlight on the various factors influencing UBC, as well as providing a comparison of the two countries. Being s focus of this book, a German-Polish comparison is designed to compare the development of UBC in two neighbouring countries, and provide insights into how this development might have occurred.
2. University-Business Cooperation in Germany and Poland

2.1. Germany

Germany has a broad range of public HEIs differing in its transfer and partnership activities. The public research infrastructure in Germany can be subdivided into three groups: traditional universities, universities of applied sciences, and non-university research.

Scientists at traditional universities as well as in universities of applied sciences, which make up 70 percent of the national research volume, spend most of their time in teaching duties and only little time on research (Beise & Stahl, 1999).

Germany’s public research infrastructure evolved in a complex environment characterised by the traditional perception of science as a value in itself and by the demand from industry, by the inertia of public institutions and tensions between federal and state responsibility for education and research. Universities have a long tradition of research and science reaching back to the middle ages. Universities of social and natural science are known mostly for teaching and basic research without aiming at any commercialization and partnership activities to industry. In contrast, technical universities have a long tradition of industry-related research. They were formed during the last century to enhance inventions and technical applications of scientific findings but have subsequently focused on basic research (Keck, 1993).

Universities of applied sciences have a special role in Germany. Often, they are specialised in the same technical fields as local businesses and are supposed to support small and medium sized firms through consultancy and the supply of graduates. They focus mainly on teaching, however also conduct research but on a much smaller scale than universities. They are now widespread within Germany and have gained a reputation for down-to-earth research and applicable engineering know-how, compensating the shortcomings of universities that are oriented towards basic research.

Both types of universities nowadays are pushed by politics and society to foster UBC to make science results available and to gain third party money from industry (Kliewe et al., 2013).

But in Germany the separation of pure and applied science was traditionally institutionalised in universities of technical and natural sciences. But it was not until the integration of the Fraunhofer-Society (and a number of other major research organisations such as the Max Planck Society or Leibniz Society) as the third pillar of the German public research system, that the division between basic and applied research was officially carried out in the non-academic public research sector as well. Those organisations are however closely linked to universities due to their research tasks often based on PhD candidates.

2.2. Poland

During the last 25 years the Polish landscape of innovation development has changed dramatically. Poland had and has to overcome this disruptive change and is facing deep transitions. Today it is heading towards a more entrepreneurial way (Pniewska
et al., 2014). Since 1990, after Poland joined the emerging economies Polish companies had to face competition with those from the developed countries. Their success was depending on whether they could hold its own with suitable commitment against strong competitors in Europe. But starting to face those challenges many Polish companies immediately lost the free market competition.

The situation was characterised by three key impact factors:

1. One of very few competitive advantages of the Polish economy was its relatively cheap workforce, yet it was also less qualified.
2. A second weighting disadvantage was identified in the low-level technology only available in the country. High technology though is mainly developed in University-Business Cooperation and the Science-Business Partnerships. (Teczke, 2010)
3. Operations of former society and economy was based on central political control and surveillance, which caused a lot of distrust from the very beginning of each encounter (Jasinski, 2010)

In order to become more competitive an increased focus on (higher) education and – particularly – in developing UBC and Science-Business Partnerships is required. However, Polish universities were never truly used to facilitating the cooperation with industry, but focused more on basic research and theoretical education. Additionally, like other emerging economies, companies have less funds for R&D at their disposal (Pniewska et al., 2014). Therefore, today’s task is to start building trust and mutual commitment (Plewa et al., 2006; Plewa, 2010) in cooperation, partnerships and alliances.

3. Methodology

The survey was created during a project completed with the EC in a fifteen and a half month study on the cooperation between HEIs and public and private organisations in Europe. The main components of the project were in-depth qualitative interviews with 11 recognised UBC experts as well as a major quantitative survey. The survey was translated into 22 languages and sent to all registered European HEIs (numbering over 3,000) in 33 countries during March 2011.

A total sample of 6,280 academics and HEI management was achieved making the study the largest study into cooperation between HEIs and business yet completed in Europe.

Questions were posed to two groups within HEIs. These groups were asked about their perception of UBC:

1. Individual academics were asked to respond on behalf of themselves.
2. HEI management (HEI managers and university professionals working with industry) were asked to respond on behalf of their HEI.

The basis of the analysis was taken from the European sample of 6280 responses. Within that sample, 461 academic responses were received from Polish academics, of which 57.4% were male and 42.6% female, as well as from 240 responses from German
academics, of which 73.9% were male and 26.1% female. In addition to the academic responses, university managers were also surveyed with 159 and 281 responses from Poland and Germany respectively.

Kruskal-Wallis tests were undertaken for all pairs of items measured in Germany and Poland in order to identify which of the differences between the countries are statistically significant.

4. Results
Results are structured into three primary areas of enquiry, the extent of overall UBC, the factors influencing collaboration as well as the mechanisms supporting UBC in both Germany and Poland.

4.1. Extent of collaboration
The following results present the responses received from university management in respect to the perceived development of eight types of cooperation recognised between university and business (Davey et al. 2011).

Figure 1. Extent of UBC perceived by university management in Germany and Poland

There is a high degree of diversity in the development of the different types of UBC in Germany, with ‘collaboration in R&D’ (7.2), ‘mobility of students’ (6.7) and ‘commercialisation of R&D results’ (6.7) being the most developed types, exhibiting a focus on
research-related UBC. ‘Mobility of academics’ (4.6), ‘governance’ (4.7) and ‘curriculum development and delivery’ (4.9) are, on the other hand, the least developed forms.

In comparison to Poland, Kruskal-Wallis test shows that German HEI management report a significantly higher extent of development in ‘collaboration in R&D’, ‘mobility of students’, ‘commercialisation of R&D results’ and ‘entrepreneurship’. ‘Curriculum development and delivery’ is higher in Poland, which also has as the highest forms of cooperation ‘student mobility’ and lifelong learning’, showing how Polish universities have a focus on education-related UBC.

4.2. Factors influencing the extent of UBC

The extent to which a number of factors affect cooperation with business in Germany and Poland will now be outlined. These factors have been found to significantly influence cooperation within the European context (Davey et al. 2011) and include barriers, drivers and perceived benefits received from UBC.

4.2.1. Barriers hindering UBC

Barriers are those obstacles that restrict or inhibit the ability of academics or HEIs to engage in UBC. The following figure explains the extent of relevance of barriers to UBC by both German and Polish university managers and stated as averages.

Figure 2. UBC barriers perceived by university management in Germany and Poland
Within the German context, university management perceived the major UBC barriers as ‘business lack awareness of university research activities/offerings’, ‘bureaucracy within or external to the HEI’ and ‘lack of financial resources of the business’.

It can be observed that in Poland, with ‘lack of HEI funding’, ‘lack of financial resources of the business’ and ‘lack of external funding’ to be three of the top four barriers, showing how funding is perceived to be major issues hindering Polish UBC.

Overall, Germany university management perceived a lower level of barriers than their Polish counterparts for all barriers analysed. The Kruskal-Wallis tests show that all differences are statistically significant except those related with confidentiality of results, different communication and different time horizons.

4.2.2. UBC Drivers

*Drivers* are those factors that encourage academics or HEIs to engage in UBC. Drivers of UBC were assessed by both German and Polish university managers and stated as averages.

**Figure 3.** UBC drivers perceived by university management in Germany and Poland
German university management were relatively positive in respect to drivers for UBC with so-called ‘relationship drivers’ such as ‘existence of mutual trust’, ‘existence of mutual commitment’ and ‘having a shared goal’ being nominated as the biggest drivers. The drivers for universities to collaborate with business in Poland were not so obvious. With no driver being rated as high, Polish universities management still rated ‘relationship drivers’ as the biggest drivers, however all drivers except ‘commercial orientation of the university’ were rated lower than in Germany. Comparatively, Kruskal-Wallis test show how the differences of all drivers analysed are statistically significant.

4.2.3. Perceived UBC benefits

It is the perceived positive outcome (financial and non-financial) from undertaking UBC for the different stakeholders groups that can potentially participate in UBC. This perception can be a reason to increase or decrease their participation or the involvement of other groups. For example, if academics perceive their own benefits to be low, that might cause a low participation in UBC and if they perceive that benefits for students are high, they might undertake actions that contribute to students’ involvement in UBC. Results are presented below from both German and Polish academics.

Figure 4. UBC benefits perceived by academics in Germany and Poland

German academics perceived a somewhat positive situation regarding the benefits received from UBC, although the ability of UBC to increase the academics’ standing at the university and increase their chance of promotion were related substantially lower.
They especially recognised the benefits for students and business for UBC at lesser benefit for the university and themselves.

Rating all UBC benefits lower than their German academic colleagues, except for ‘UBC activities increase my chance of promotion’, Polish academics perceived much lower benefits from UBC. They too recognised the largest benefits go to students and business followed by the university and finally themselves.

4.3. UBC supporting mechanisms

The UBC supporting mechanisms constitute the ‘action-level’, where all stakeholders need to focus their efforts when they want to influence the extent of UBC. The specific role and importance of supporting mechanisms at HEIs has long been recognised in both practice and literature supporting both academic and student entrepreneurship (Baldini et al. 2006). They are often recognised in multiple ways including (i) in a variety of different names (e.g. interventions, enablers), (ii) captured in a model (e.g. ecosystem, regional innovation system) or (iii) known as individual elements (e.g. activities, infrastructure).

4.3.1. Strategies

Strategies are the drafting and implementation of cross-functional decisions by a HEI that will enable it to achieve its long-term objectives with respect to UBC. The primary responsibility for the creation of UBC strategies is for HEI management as a strategic instrument is usually created by decisions made at a HEI board level. The following figure highlights the perceived extent of development of UBC strategies in German and Polish universities, assessed by university managers.

In terms of the strategic mechanisms supporting UBC, ‘paper’ strategies, such as top management commitment and having a mission/vision and UBC strategy, were the most developed strategies. Despite this, there is room for development of ‘implementation strategies’ in terms of providing incentives and including UBC in the assessment of academics’. Polish university managers also rated ‘paper’ strategies as the most developed form of UBC strategies.

Comparatively, German university management assessed all mechanisms higher than Polish managers and the Kruskal-Wallis test show that all the differences between them are statistically significant except the inclusion of UBC in academics work performance.
4.3.2. Structures

UBC structures are elements created as a result of top-level strategic decisions within (or related to) a HEI that are ‘enablers’ of UBC and include the creation or development of institutions, positions, methods and policies and programmes. They are put in place in order to promote, develop or implement UBC with a mid to long-term focus and can be created within the HEI or as a bridge between the HEI and business. Structures and approaches usually involve significant investment and can be funded by the HEI, the government, business or a combination of these sources. The following figure depicts the perceived extent of development of UBC structures and approaches in German and Polish universities, assessed by university managers.
Career offices and alumni networks are the most developed UBC structures in Germany, reveling a focus on those structures related with students. Overall, there is a medium level of development of all structured analysed.

Matching the focus on education-related UBC types, Polish universities have the highest level of development of UBC structures for alumni network and career offices as well; however rate nearly all other structures as low.

When comparing the results of both countries, the Kruskal-Wallis tests show significant differences for the presence of recruiting industry professionals into the knowledge transfer area, board member or vice-rector positions for UBC, alumni network and agencies (internal and external) dedicated to UBC.

4.3.3. Operational Activities

Operational activities are actions of a practical and immediate nature undertaken by HEIs, governments, regional agencies, HEIs and business to create and support UBC. Operational activities are usually the cheaper to implement of all the supporting mechanisms, require a lower commitment from HEI management and its scope and volume can be measured. The perceived extent of development of UBC activities in Germany and Polish universities, as assessed by university managers, is depicted in the following figure.
A focus on student-related UBC activities was identified by university managers in Germany, with entrepreneurship activities and activities fostering student’s collaboration with business as the most developed activities. Contrary, the least developed ones are related with academics interactions with business. A similar trend can be observed in Poland with student-focussed activities the most developed, whilst the least developed are academic-focussed activities.

Comparatively, German university managers again rate the development of UBC activities higher than Polish managers for all activities presented. However, in this case only four of the items are rated significantly higher from Germany (entrepreneurship education to students, networking sessions or meetings for academics to meet people from business, collaboration activities facilitating academics interactions with business and collaboration activities facilitating students interactions with business).

5. Discussion and conclusions

5.1. Germany

Potentially reflecting the high respect for research in Germany as well as research and development (R&D), expenditure (2.8% of GDP in 2011 according to the OECD, well above the European average of 1.9%), German universities perceive a high development of collaboration in R&D between universities and business. German HEI managers and academics both recognise lower barriers and higher drivers for UBC than
their European equivalents. However, this is not reinforced through the development of structures and approaches or the level of benefits for academics or HEIs. In other words, Germany HEIs are missing an opportunity to institutionalise UBC and thus this provides some clear areas of improvement for German HEIs.

5.1.1. Collaboration in, and Commercialisation of R&D are the most developed forms of UBC
The most developed types of UBC in Germany are: (1) Collaboration in research and development (R&D), (2) Mobility of students, and (3) Commercialisation of R&D results with the least developed type being: Mobility of academics. In respect to the European average, the three most developed types of cooperation mentioned above are the only types of cooperation above the European average.

5.1.2. Barriers to UBC are lower in Germany but bureaucracy is a substantial problem
The primary barriers to UBC in Germany are: (1) ‘business lack awareness of university research activities/off erings’, (2) ‘bureaucracy within or external to the HEI’ and (3) ‘lack of financial resources of the business’. However, compared to the European average, all types of barriers including Relational barriers, business barriers and funding barriers (the lowest type of barriers) are perceived by German HEI managers to be lesser barriers to UBC than their European counterparts. German academics primarily perceive the level of UBC barriers similarly to the HEI managers except for one area: bureaucracy. ‘Bureaucracy within or external to the HEI’ is the highest rated barrier by academics and therefore needs to be addressed to further increase German UBC.

5.1.3. Relationships drive cooperation in Germany
Germany HEI management and academics alike name relationships as the drivers of UBC in Germany. As in Europe generally, relationships drivers such as (1) ‘existence of mutual trust’, (2) ‘existence of mutual commitment’ and (3) ‘having a shared goal’ were nominated as the biggest drivers of UBC. This suggests that greater effort to bring academics together with business, with space for relationship building, could be a focus for further improvement of cooperation. Furthermore, both HEI managers and academics also perceive higher drivers generally for UBC than their European counterparts.

5.1.4. Academics perceive low personal benefits
German academics perceive the primary winners from UBC to be: (1) businesses, (2) students, (3) the HEI (though significantly less), and lastly (4) personal benefits, with a very low amount of academics stating that UBC increases their changes of promotion. These results imply that academics need to receive (or perceive) greater personal benefits from their HEI in order to increase UBC activity. HEI managers state that
HEIs receive benefit the least from UBC coming after (1) students, (2) business and (3) society implying the need for governments to provide higher incentives to HEIs for UBC (or disincentives not to).

5.1.5. UBC supporting mechanisms are developed to a similar level to the European Union average

UBC strategies are highly developed in Germany especially documented strategies. Despite being above the European Union (EU) average, there is still some room for improvement in respect to implementation strategies especially to provide incentives and include UBC in the assessment of academics’ work performance. Both role-based approaches and internal/external agencies dedicated to UBC are developed to a similar level in Germany with both also similar to the European average. The comparatively lower rating of ‘business people on the HEI board’ provides an obvious area of improvement. UBC activities are the only supporting mechanisms developed more in Germany, with all activities developed significantly more than the EU average.

5.2. Poland

5.2.1. Student mobility and Lifelong learning are the most developed forms of UBC

The most developed types of UBC in Poland are: (1) Mobility of students, (2) Lifelong learning (LLL), and (3) Curriculum development and delivery with the least developed type being: Commercialisation of R&D results. Unusually for a European country, neither Collaboration in R&D nor Commercialisation of R&D results appears in the top three developed types. Furthermore, HEI managers assess their HEIs as the lowest of all European nations in respect to both of these types of collaboration. These results highlight that Collaboration in R&D and Commercialisation of R&D results need greater focus and development in Polish HEIs.

5.2.2. Funding barriers to UBC need to be reduced in Poland

Polish HEI managers perceive ‘funding barriers’ as the highest with ‘lack of HEI funding’, ‘lack of financial resources of the business’ and ‘lack of external funding’ to be three of the top four barriers. Polish academics perceive all barriers to UBC, including ‘funding barriers’, ‘relationship barriers’ and ‘usability of results’, relatively equally and all slightly above the European average.

5.2.3. Relationships drive cooperation in Poland

As in Europe generally, ‘relationship drivers’ such as (1) ‘prior relation with the business partner’, (2) ‘existence of mutual trust’ and (3) ‘having a shared goal’ were nominated as the biggest drivers of UBC. Overall, both HEI managers and academics perceive the extent of UBC drivers to be well below the EU average with academics rating
them the lowest of all European academics. Relationships between academic and business managers need to be fostered and supported to a greater degree and from this and increased Collaboration in R&D is likely to be one of the results. Furthermore, both HEI managers and academics perceive Poland to be the least favourable environment in Europe when barriers are compared with drivers.

5.2.4. Academics perceive lesser benefits, especially personal benefits from UBC

Polish academics perceive the primary winners from UBC to be: (i) students, (ii) businesses followed by (iii) benefits to the HEI, and (iv) personal benefits. These results imply that academics need to receive greater personal benefits from their HEI in terms of chances of promotion in order to increase UBC activity. HEI management state that HEIs benefit the least from UBC after (i) students, (ii) HEIs, and (iii) business and society with all benefits from UBC perceived lower that the EU average.

5.2.5. Perceived followers in UBC supporting mechanisms

Consistent with the results described until now, in respect to the UBC supporting mechanisms, both HEI managers and academics perceive those in Poland to be below the European average. In respect to UBC strategies, the two lowest developed strategies tellingly are the ‘provision of incentives for academics’ and the dedication of resources’ for UBC whilst ‘a top-level management committed to UBC’ as well as strategies for UBC and ‘a vision/mission incorporating UBC’ are well below the European average. The development of structures and approaches are characterised by a low development of ‘roles-based approaches’ with most structures and approaches lowly developed.

UBC activities are the most developed forms of support for UBC. With activities being the easiest and least-cost form of support, it is evident that there is a lack of commitment to UBC in Poland.

Adding to the negative UBC results for Poland is the fact that Polish academics perceive their HEI UBC strategies, including ‘implementation strategies’, at a low level and the least developed in Europe.

5.3. Comparison between the two countries

Comparatively, the main findings of this paper are the following:

• Poland is generally lagging behind Germany in respect to the development of UBC, although this can be explain largely by the fact that German universities started carrying out UBC activities earlier in time and that the German technical universities and universities of applied sciences generally operate in a very close connection with business.

• Most types of UBC are less developed in Poland than in Germany (all except curriculum development and delivery) and in half of the cases this differences are significant,
Both countries differ in the approach when interacting with business, since German universities have a focus on research-related UBC, whilst Polish universities have a focus on education-related UBC,

Polish university managers and academics are negative towards their UBC environment. They rate barriers comparatively higher (specially those regarding funding) and drivers comparatively lower than German university managers. The differences in the reported development of all drivers and most barriers are statistically significant between the two countries,

Polish university managers and academics do not seem to perceive important reasons for undertaking cooperation with business,

Both German and Polish academics perceive benefits for students and business higher than for the university and for themselves,

All UBC supporting mechanisms are more developed in Germany than in Poland, with many differences being statistically significant

All UBC strategies are further developed in Germany and in the majority of them these differences are statistically significant,

All UBC structures (except career offices) are more developed in Germany, some of them with significant differences in development, although both countries focus on those structures related to students

UBC operational activities are also more developed in Germany, and again those involving students are in both countries more developed than those involving academics.

6. Limitations and Further research

While this research contributes to more and extensive knowledge in UBC in Poland and Germany, its results should be briefly interpreted in view of its limitations. Those limitations are mainly based on the sampling methodology.

Firstly, respondents not involved in UBC may have been less willing to answer the questionnaire. The topic is besides their interest and also potentially they would have to admit more negative answers on the questions themselves. A non-response analysis showed that the results are clearly influenced by this.

Secondly, a limited sample size was achieved for the samples due to availability of a contact database, in spite of this, that the final figures are comparatively large. Whereas this is coherent with previous research, in which the requirement of corresponding responses led to small and imbalanced samples suitable for use despite large potential samples at the beginning of the fieldwork (Medlin et al., 2005).

Thirdly, the sample itself was based on the willingness and disposition of first layer target persons to forward it to other potential respondents in the university. In addition, this could have caused an imbalance due to selection process of those second layer target persons.
Further research could be focussed on how historic events have affected UBC development in both Germany and Poland. Also future research on the different mechanisms in place which are unique to each of the countries could provide better insights as could a discussion on the role of universities of applied sciences and technical universities (polytechnics, universities of technology) as well as the traditional universities in UBC for the sake of the economies of both countries.

What has been seen in this and other studies is also the role of intermediaries (regional development agencies, associations, etc.) and the regional strengths and weaknesses in a country, therefore this could be an option to develop this further. Finally, in order to explore both countries to a more detailed levels, and due to the fact that each of the two countries have a number of different regions that are characterised by economic, cultural and social differences, a set of regional analyses could be undertaken.

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**Short bio of authors**

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1. Introduction

The aim of this study is to identify broadly understood opportunities, conditions and means of international expansion for educational institutions of higher education, i.e., those circumstances and strategies that are associated with the internationalization of the university. The intention of the author is, therefore, to identify the main problems and specific issues that will accompany decisions of the strategic orientation of universities beyond Poland, along with those about expanding the market for their own educational offer abroad. This thematic profile of this study, along with a selection of specific issues under consideration stems from the observation of the state of the market for educational services of higher education in Poland, which is a state of transformation, reorientation of the curriculum and research development opportunities in terms of obstacles for development, existing constraints and increasing competition in the domestic “academic market”.

By raising the question of the internationalization strategy of universities, the author is aware of the complexity and multi-dimensionality of the discussed issues, which depend on the type of formulation as well as the organizational and legal formula of the university, the resources that can be involved in the preparation and implementation of such strategies, the author’s own experience and knowledge, and the local regulations, procedures and social standards of the destination country.

2. The abroad as an opportunity for universities’ development

Development of the university, understood in this case as a positive, upward trend in its basic measures of activity in the field of higher education relevant to the functions of its structural units and resource aspects of its operation can be properly considered from the perspective of a variety of areas and specific parameters. It is certainly a multi-
faceted category, and to be fully penetrated or measured, it requires a broad perspective and determining the fields of measurement. For the purposes of researching the issue of university development based on access to foreign resources – resources of service-generating factors for today’s higher education institutions, it is proposed to consider their development not only in terms of the territory, but also in functional, organizational, infrastructural, intellectual, educational, scientific, research, marketing and staffing terms.

In each of the ten areas mentioned, one can look for – diagnose, analyze and quantify – the relevant processes and phenomena in their perspective changes (Wierzbicki 2012). In this way, one can identify trends and dynamics of the changes taking place in the universities themselves, resulting from internal and external, domestic and foreign resources, as well as actions undertaken and projects intended and unintended, operational and strategic, long-term and short-term, independent and stimulated (forced), quantitative and qualitative, whether permanent or ad-hoc (long- and short-term) (Wójcicka 2010).

The territorial development of the university as the mainstream of these considerations can apply to different areas of changes in spatial measures of the university market – the scope and impact of the deployment of its own organizational units (Maliszewski 2008). It does not necessarily mean it has to enter a foreign market of university education, and may concern shaping the expanded area of influence of regional, macro-regional or national networking based on the concept of offering educational services and other benefits appropriate to universities (Kobylarek 2005). Increasing the spatial range of activities of the university is a concept relatively well-known and practiced, especially by private colleges. The relevant structural and functional solutions are referenced in the domestic legal system of higher education. Unfortunately, this cannot be said about the foreign orientation of the university, which is already taking place and is confirmed in practice, but still has not been comprehensively covered in a consistent and unambiguous legal control system.

The search for development opportunities for universities outside Poland as a result of strategic analyses should assume and take into account two obvious facts – the abroad and the foreign market of higher education are, on the one hand, and unmistakable opportunity, offering new possibilities and specific additional resources, but on the other hand, posing a number of obvious difficulties and barriers which are a source of danger to the implemented strategy development (Marszałek 2010).

The potential risk of foreign market entry by “external” universities, are of particular importance, which is related to new and often different and unexpected operating conditions, socio-cultural environment, legal and institutional system, along with economic, conceptual and curriculum differences. A new, less known market corresponds to new people, their language, behavior and habits, new contacts – their form, process and organization, new experiences – and corresponding feelings, sensations and effects, new ideas, and relevant circumstances of their creation, promotion and reception, a new
culture of people and organizations, new legal norms and customs, new institutions and procedures, new programs, plans and concepts (Kowalski-Kozyr 2005).

The awareness of existing threats, their precise and complex identification, along with preparing ways and means of addressing, limiting or eliminating them allows universities to aim at taking advantage of the opportunities offered by new markets and operating environments, associated with:

- acquisition of new prospective students,
- the possibility to make full use of infrastructure,
- increasing pay for one’s academic staff,
- purchasing new property or taking over property,
- verification of programs and concepts of education in new cultural environments,
- promotion of one’s institutional brand together with promoting one’s country, language and culture.

The list of potential benefits of higher education due to entering a new territory—a foreign market—is probably richer and more diverse. Consequently, this kind of decision generates direct financial benefits, an increased income from school fees, licensing, provision of involved fixed assets, provision of related services and derivatives, and a variety of supplementary feeds, including grants, subsidies, or donations.

The strategic orientation of universities abroad may result from a negative assessment of development opportunities in the current domestic market, especially in conditions of unfavorable demographic trends, increasing internal competition, increasing demands for involved scientific and teaching personnel, restrictive regulations regarding universities, the outflow of young people to study abroad, but also a decrease in demand “for education” on the part of the economy. These are just some of the factors stimulating foreign national orientation of higher education institutions. Another group of determinants includes the conscious and deliberate policy of the educational authorities of the host country towards foreign institutions of higher education (Stromquist 2007).

3. Main factors in stimulating the foreign expansion of universities

The entrance to a foreign university education market as a result of an income statement in the broad sense is one of the most important strategic decisions of institutions’ management—one having many consequences for the entire academic community, but also a decision depends on many factors and circumstances. Among them, a special role is played by general external factors which are independent of the universities concerned, who are forced to take them into account, since to a large extent, they determine the success of the entire project—the duration, the number of barriers to be overcome, the need to involve advisory and support institution, the effort to be put into the project and the total amount of funds involved in its implementation (total expenditure).
An important initial, or original, factor is the geographical distance between the seat of the university, its location in the origin country and its planned location abroad. In this case, in terms of geographical distance that separates two respective cities is expressed as an appropriate measure of distance in communication, time, distance, economic distance, and even distance “as the crow flies”. The distance between two locations (domestic and foreign) has a significant impact on logistics – efficiency, security of goods shipped, and communication, organizational and technical arrangements. As a result, it determines the amount of costs, including the cost of communications and the cost of transportation of material goods and people. Short distances between locations affects the degree of knowledge of the new local conditions of university activities, the so important circumstances as the knowledge of the people, institutions, and existing standards.

The proximity to the planned location of the university abroad is another important factor to facilitate the implementation of the project, namely, the cultural and linguistic proximity of both countries. Similarity or even total compatibility of cultural backgrounds is a great facility for the necessary overcoming of social, political and organizational barriers that accompany such a project, especially in the initial phase of its implementation. A common or similar language, the same or convertible currency, comparable terms and cost of living, belonging to the same economic, political or military organizations, a common religion and moral rules are other pre-determinants of success for a strategy of internationalization of higher education. At the same time, together with the geographical distance factor, it is the first and primary zone specifying the direction of expansion into foreign markets for universities.

The group of primary factors, largely determining the choice of country, region and city locations for a university branch, subsidiary or independent school, should include formal and legal ones, i.e. the laws governing higher education system in the destination country. As for the legal terms of approval for foreign educational institution, unambiguous clarification of their rights and obligations, in particular the statutory rules, structures and operating conditions (material conditions and infrastructure, conceptual programming, personnel and payroll, finances and taxes). From the point of view of legal conditions for university activities in the foreign market, there are three possible conceptual solutions:

- the university operates abroad on the basis of its own national policies, standards and programs that do not include local solutions in this regard. It is fully guided by and based on the model of education carried over from its own country. Such a model solution is possible if the law on higher education and the education system in force in the host country allows it. For universities entering the market of another country, such a solution is much easier and straightforward in implementation;
- the university operates abroad based on blended legal solutions. Its concepts of organization, conditions, scope and requirements of education stem from a necessary,
limited to a certain minimum, modification of its own national solutions, so that they correspond to necessary conditions set by local law. In practice, this is the most commonly used approach;

- the university operates abroad in full, thorough compliance with local laws and relevant program and organizational, material and financial requirements that apply in the host country. The institution established abroad thus accepts local conditions and procedures, customs, academic methods and forms of education, methods of examination, promotion and evaluation of lecturing staff etc.

Extending the territorial scope of the educational activities of higher education with regard to a particular region of the world, continent and country may be determined by the possibility of receiving public or private aid from national institutions or institutions of the destination country (and international organizations). Financial, material, organizational or legal form of support for the project, especially in the situation of the venture as one associated with increased risk significantly changes the relationship between projected expenditures and results, thereby further stimulating the appropriate decision-making by the management of the university.

The internationalization of the university in a variety of institutional forms may be dependent on the attitude of the local community towards “alien” institutions of higher education. In fact, it is about negation or full acceptance of the foreign university’s educational activities in the local community, or about positive or negative attitude towards it. Hostility, resentment or prejudice to outside initiatives in their own educational system may result from different circumstances and experiences, mainly historical and political in character. They may be related to concerns of educating according to unacceptable education standards, measures and methods, to suspicion of promoting other systems of values, ideas and behaviors. General social acceptance of foreign universities in the country, in different environments and at different levels of decision-making, creates positive conditions for the final success of such initiatives.

The expansion of universities abroad as a strategic development decision has the chance of a positive verification, but only with a proper assessment of the capacity of the foreign education market and the prospects for change. An institution abroad – a university or only its organizational unit – requires a sufficient number of candidates who meet the set criteria for the preparation of know-how and language proficiency, who are furthermore able to fulfill the necessary legal, organizational, material and financial requirements. Limited in terms of quantity and structure, the market for potential students recognized in the long term, including a broad geographical scope, questions the desirability of the development of the university’s strategic options based on international expansion.

An important, though probably not a primary, factor in choosing a strategy assuming development of the university on the basis of its entry into foreign markets are formal and political linkages between the relevant pairs of countries – the home country
of the university and the country of intended expansion. Membership of the countries concerned in the same socio-economic and political structures, which means, in practice, their subordination to the same educational policies and unified laws governing the activities of higher education institutions, is without a doubt a circumstance conducive to making and implementing many common institutional projects, based on the free functioning of universities throughout the community. The creation of a broad transnational educational space encourages universities to accepting additional challenges of internationalization (Kwiek 2010, Boguski 2009).

Among the general factors determining the success of universities in foreign markets, a special role in economic practice is played by socio-economic institutions and companies that employ graduates and thus verify their acquired knowledge and skills. Acceptance or lack of vocational training acquired in schools of various types, including foreign universities operating in the country, are the best proof of the validity of the concept and educational conditions, preparation of the teachers, the involved resources, and methods of teaching. The actual verifier of academic training is, therefore, practice, hence opinions of entrepreneurs and managers of graduates of different universities and the universities themselves are so important (Bryła 2012). High grades of education in foreign universities, higher education institutions from different countries and specific cities create favorable environments for new initiatives in the university market. At this point, a significant influence of truths and assertions should be employed – such as stereotypes in the evaluation of professional qualifications gained in different countries against one’s own country.

4. **Internal determinants of university internationalization**

Establishing university operation abroad as the main manifestation of university institutionalization is a complex and multi-agency decision-making process, not only dependent on external factors of a general nature, but also on important internal factors. Identification of the structure of this process and the impact of various entities, groups and university decision-making centers on the final shape, form and scope of its expansion into a foreign educational market requires consideration of, primarily, the basic layout of each university personnel structure contributing to the category of the “academic community”. This term is often used for mapping entire structural-functional higher education institutions, in particular to emphasize the unity of the people, objectives, measures and operational programs of scientific and educational activities, which can be explained by a model of the academic quadrangle. Consisting of four main groups of people involved in the implementation of the statutory tasks of the university, this integrated organizational, legal and functional structure affects the main directions of development of the university, in its place, role and image in the broad social environment – proximal as well as distal.

The academic quadrangle is a whole that involves mutual relationships, is integrated by a common drive towards the implementation of established objectives:
• management of the university (management link),
• staff (executive link),
• students (link input, the educated),
• graduates (output, external link).

All four above, human parts of the university in the educational process of transferring knowledge and skills, stay in certain formal and informal relationships, participating in university decision-making procedures, shaping its identity and image (Rocki 2009). The activity of this structural system, mutual support and cooperation in achieving objectives, coordination of operation and aspirations, open and friendly relations, consistent orientation towards the objectives of the public, but also for the purpose of the group, the final results, all depend on the activities of the university and the satisfaction of the society (Leja, Ed. 2008).

The development of the university, based on both domestic and foreign resources, has a decisive influence the entire academic community, with particular emphasis on single and collective bodies of higher education management. The management prepares strategic and tactical plans for the development of institutions and monitors their current implementation. It initiates and approves plans for cooperation with foreign countries, decides about employees’ and students’ traveling and stimulates organization of research. The activity of the university management, organizational efficiency of the university administration, agreed procedures and mechanisms of decision-making define the scope, form and effects of orientation to the rest of the world (Dworak, Jaworski, Ed. 2011).

Opening to the abroad, contacts and cooperation, joint scientific and educational efforts, student exchanges initiated are developed by the staff, especially lecturing staff. Many years of research programs executed in cooperation with foreign research centers are the result of individuals and teams (chairs, departments, institutes) and personal contacts. On their basis, other forms of cooperation are born at a higher level of resources and institutional commitments, with further areas of university activities. Coordination and supervision, organization and financing of projects and programs are the responsibilities of the school management (Leja 2006).

There is no university without students. It is this community that is the object and purpose of the statutory activities of the university. Students and student organizations of various types perform a wide range of international cooperation activities, organizational cooperation, tourism, arts and sports. Student exchange programs are oriented at students, along with internships and training. Thousands of students participating in such projects involving universities and foreign companies are the best communication link between organizations, stimulating interest in the further development of mutual scientific cooperation.

A generally unappreciated link inside the university as an academic community of different individuals and groups are graduates (Werner 2011). Increasingly, universities
and their organizational units seek out and track the fate and career of their graduates for marketing purposes using specific persons and their scientific, business, social or political careers. Graduation undoubtedly changes the formal status of a student, but it does not mean a total break of personal and emotional ties. Graduates identify the university in their environment, often participating in its ongoing activities as advisors, reviewers, donors and participants of various forms of post-graduate education. A special role in the development of various forms of internationalization of the university belongs to graduating students who perform professional tasks identified in the area of international cooperation (Singer, Hughey 2002). As diplomatic service employees, politicians, entrepreneurs – exporters, financiers or employees of international organizations, they are identified not only with their country of origin, their town, but also the university that prepared them for the work of a special nature – work abroad and to the rest of the world, with the participation of the abroad (Rissmeyer 2010).

5. **Stages and forms of internationalization of universities**

The development of international co-operation will always require a high financial commitment of the university. Capital resources for such purposes will come from its own resources, but also noteworthy external sources of financing of such projects, both domestic and foreign. The penetration of foreign funding of universities strategy should thus be included in the order of the following centers and national institutions: universities interested in expanding educational market of the country (joint implementation projects), a voluntary association of local or regional universities (from the same city or region), ministries of education and cooperation with foreign ministries, organizations and scientific – research institutes, innovation and scientific progress – technical, both public and private. Great help in collecting funds for educational projects abroad may also be local authorities and the university town of the region. They will also be the beneficiary of the benefits arising from the extension of the educational offer local universities and the influx of foreign students, academics, technology and new organizational, social and cultural rights.

Contacts between a university with a foreign education market and its operators can be organized into different groups according to the type of their initiation, intensification and development phases, degree and extent of involvement of the parties, the continuation and periodicity, manifestations of interaction, as well as the results of the interactions with their scope of formalization, durability and institutional forms. Based on the analysis and comparison of known cases of domestic universities establishing relationships with higher education organizations abroad and the arising forms thereof, the specific characteristics and associated procedures shaping the entire relationships can be divided into three sets of relations and mutual activities, namely:

- the preliminaries of a spontaneous and accidental character,
- activities organized and formalized in the form of cooperation agreements,
- investment activities and the accompanying capital commitment of universities abroad.
The first stage of the development of the university’s relations with the abroad is dominated by the type information exchange and therefore two-way communication, involving data and promotional offers for cooperation in science and teaching undertaken at the initiative of school authorities, individual employees and their groups, but also by student organizations and corporations of graduates. In some cases, initiating the exchange of information with foreign higher education entities is associated with the involvement of external institutions – ministries, scientific and research organizations, NGOs, and political and economic organizations. Initial contacts, correspondence and indirect partner identification may lead to organizing studies, “recognized” visits, arrivals or departures of individuals and groups (staff and students).

Intensification of information contacts between foreign partners is associated with repetitive contacts involves personal representatives of the respective universities forming a new phase of mutual cooperation and exchange – the stage of making contacts based on agreed projects and bilateral agreements varies in time ranges, from short term to multi-annual contracts (even without specified duration). The phase of contractual cooperation continued in the long term can extend the typical forms of cooperation of employees and students, including multiple organizational units, diversifying specific items of cooperation and their manifestations by strengthening business and personal relationships between institutions and human resources (Bagnino, Yami, Le Roy, Czakon 2008). As a result, pre-planned research and education initiatives emerge, for the benefit of both parties involved and all participating units (Wissema 2009). Permanent forms of contractual co-operation and at the same time its results are the shared learning projects, exchanges of student internships, summer schools of language and culture of the partner country, internships in foreign companies or “double” diplomas of higher education. In the environment of the staff these include exchanges of experience, joint conferences and relevant publications, international research grants and guest lectures. International cooperation of universities based on contracts is today the basic form and stage of internationalization of the university.

The pioneering nature of the process of the development of relations of cooperation of universities with the abroad is typical of these forms of international engagement, which are based on the cross-border movement of capital – investments in commitment on own resources in projects located abroad, especially financial ones. Due to the continuous displacement of people, material resources, financial or educational concepts and ideas various forms of institutional academic operators are created – from joint educational programs, faculties and departments, to self-contained, fully-fledged universities of the developed functions and complex structures. The establishment of such centers of university education undoubtedly requires a substantial commitment of “forces and means” outside the country, however, in a long period, this produces the greatest effects – the total amount of benefits to the initiators, owners and managers of such organizations (Hammel 1991). It should be noted here that with increasing the value of foreign investments in the education market also increases the level of business
risk accompanying such initiatives. It results from the far greater barriers to exit from the sector – stop the activities abroad or liquidate a center, program or just an organizational unit (Prawelska-Skrzypek 2012).

6. Strategies of capital commitment of the university abroad – the institutional aspect

University contacts with foreign partners – operators of local labor markets and education markets – are not permanent, perennial, stable forms of co-operation until they are accompanied by capital flows – money, technologies, goods know-how, or people. Only in such cases one can assume that a university treats a foreign education market with proper attention and long-term investment plans, rather than ad hoc and experimentally as one of many attempts carried out at “no cost” (Wiśniewski 2012).

The flow of financial resources – property, technologies and human resources is a prerequisite for the construction of network of collaborators – partners, institutions working in accordance with their own objectives, according to agreed standards and programs, ultimately forming stable foundations for independent scientific and teaching activities in a foreign market. The stream of investment funds sent abroad is generally diverse in terms of volume and corresponding development strategies and stabilizing the organization’s own position in the international environment (Pluta-Olearnik 2013).

Based on the experience of some of the Poland’s “sales –oriented” higher education organizations, in the preliminary step to penetrate foreign markets (one can call it a “recruitment orientation” of the university in the country), a satisfactory institutional solution is to create a network of recruitment multi-agents. These are usually persons or competent bodies of local and regional labor markets, which seek candidates for studying abroad on a commercial basis. The term “multi-agent” suggests that it is a person or company professionally engaged in the business of “headhunting”, contracted and working according to procedures for consideration of both employees and potential students for different organizations. They cooperate with many universities, agencies and civil society organizations in the country and abroad, acting on their behalf, but on their own. They offers for studying abroad are mutually competitive, although in varying amounts paid by customers. This largely determines the effectiveness of the multi-agents for individual academic centers (Dietl, Sapijaszka 2006).

Incomparably better results are achieved if the university to creates their own network of agents operating overseas for recruitment on an exclusive basis. They offer studying abroad at only one school in whose name they operate on the market of high school graduates and graduates some lower-ranking universities, promoting, signing preliminary contracts, negotiating terms and scopes of studying at that university – their client. Such a system of penetrating foreign markets of higher education services has one important drawback – it is much more expensive in the creation and operation, effective but more capital-intensive.
A more advanced form of organizing the distribution network of university educational services oriented internationally is a network of information and recruitment points. Located abroad, they are a permanent organizational and material form, providing legal and personal presence on the market and offering a diverse range of informational, promotional activities along with media in the local social, educational, political and economic environment of respective cities (Markowski, Drzazga 2008). As a formally registered entity, such a center operates according to local regulations. It has its own premises, staff and technical equipment. Its work is permanent and systematic. Only large universities with recognized brands and significant financial wealth in some countries create their own networks of such centers.

Moving educational know-how in the simplest technical and organizational variant is performed by e-learning centers, created by universities at home, with the institution’s own funds. This type of higher education internationalization strategy takes into account educational cooperation with a partner and supports the concept of education, faculty or specialist programs, directed by own achievements, knowledge and experience. Lectures and seminars transferred abroad through a network of telecommunications as a form of active cooperation with a partner center when partnering foreign university educational project, although not physically moving teachers and teaching aids abroad (Nazarko, Kuźmicz, Urban 2009). Online lectures, office hours and exams are accepted by the foreign university and their scope, content and methods are mutually agreed upon (Pluta – Olearnik 2006). Visualization of the university – the faculty, staff, conditions for teaching, behavior and relations between professors and students are an excellent marketing tool of proven effectiveness in shaping the marketing image of the university (Pluta – Olearnik 2012).

The next step in the expansion of the university abroad is to create a common, basic organizational unit, that is, in the light of the Polish law on higher education – a faculty. As a bilateral unit, such a faculty operates within the typical structure of the university and its attributes, and its hallmark is a two-part name, for example, “Polish – Dutch Department of...”. Typically, the first component is related to the country of the location of the school, and the other indicates the home country of the foreign university, the co-founder, and its proper educational offer. An existing international department at the university means not only an integrated, combined didactic program, but also foreign lecturers, research and development projects, and an extensive exchange of students, lecturers and support staff. It also means study visits, internships and professional practice. Rules of organization and functioning of the international department are set out in the relevant bilateral agreements between universities.

An example of a developed, institutionalized cooperation between universities and foreign entities of higher education market are distinct, separate joint venture schools. It is not so much a department, but many departments established of an institution of higher education created on the basis of a bilateral agreement. A foreign university with a rich potential of “knowledge and relationships” creates, with the participation of
a foreign partner – a local university, a third agent with educational functions – a joint venture university (Leja 2006). Such an entity operating abroad, under local regulations, has its own brand (Antonowicz, Krawczyk-Radwan 2011). It is an institution of higher education with “double roots”. It was created by two entities, two bodies, in order to operate for the benefit and interest of the country and the target region executing its all relevant functions and tasks.

The adoption, by a university, of activities abroad, assuming an offer for its own proven and prestigious scientific and teaching practices, requires a significant commitment of organizational, human, and financial and material standards, and also requires time. In such conditions, often the best and only solution is a complete takeover of a university as an operating, or acquisition of its resources, along with the brand, functional programs, and market structures. This form of internationalization of higher education can take place in the case of transferring:

- a very good university with a recognizable brand and market position (small risk, very large financial resources involved),
- a good university with stable perspectives, however requiring small corrections in its resources and structures (small risk, small contribution necessary),
- an average, typical university, guaranteeing the continuity of operation in a long term, provided partial restructuring and modernization take place (average risk, average contribution necessary),
- a poor university (in terms of resources) with an unsure future, requiring significant conceptual and material changes, including marketing (high risk, large contribution necessary).

A university entrance to a foreign educational services market through the acquisition of a foreign university is undoubtedly a fast and complex strategy. Such an entity already operates on the basis of the available service-generating factors, has its own market and educational and its own scientific and research know-how, as a rule – a recognizable brand – and a network of national links. Capital commitment as a consequence of the planned organization, material and functional restructuring depends on the strategic vision for the development and functioning of the “new university” – from the target formula, to market position and international relations (Ratajczak, 2004).

The acquisition of a foreign university as a strategic decision requires addressing a number of additional issues about difficult, multifaceted aspects, including its independence and separate property, stability of employment and social security of the academic staff, respecting the rights acquired by individuals and groups, internal structure and compliance to national and departmental authorities, respecting traditions and social norms, etc.

The most advanced strategy of internationalization of higher education is the strategy to create a new school abroad “from scratch”. Thus, it involves both ensuring the necessary material conditions – technical, personal and organizational – but also shaping the space and inter-institutional relations, branding, preparation and imple-
mentation of a specific educational program, along with recruitment and marketing campaigns. Establishing an independent university abroad involves a complex decision making process and making appropriate investments. Taking into account the fact that operation in a foreign cultural environment, social, economic and formal environment makes it necessary to use the assistance of local agencies, the media, administration, law firms and a variety of service companies. The high cost of the project is undoubtedly compensated by numerous benefits, including independent decision-making, an established profile of education, competencies required of teachers, an established communication system and university management, as well as a development strategy of the parent university consistent with its brand strategy in the foreign market.

7. Concluding remarks

Orientation universities abroad, in varying degrees and forms of organization and functioning, is usually a great challenge to its administrative and management structures. It entails the need to know, adapt and function in a new environment – social, cultural and legal – which is not always friendly and open to “alien” institutions and initiatives. Entry strategy in a foreign education market, thus involves the need to involve substantial “forces and resources”, and in practice, the use of all opportunities and ways to support projects from external institutions.

A particularly difficult moment is to overcome the mental barriers of the interested parties – the students and their families. Starting a periodic, and so much more, complete education at a foreign university is an understandably difficult decision and is conditioned many circumstances. On the part of the university, there is the need to properly prepare the information and marketing campaigns, using the contacts possessed and in cooperation with local partner universities, personal friends of the university, including graduates living in the target country, as well as gaining a broad support of existing overseas diplomatic and consular centers of culture and language, along with social organizations and associations (also representing the local diaspora).

The development of international forms of co-operation will always require a high financial commitment from the university. Capital resources for such purposes will come from its own resources, but it is also noteworthy that external sources of financing of such projects, both domestic and foreign, will emerge. The knowledge of foreign funding of universities should thus be mined in the following centers and national institutions: universities interested in expanding the educational market of their country (joint implementation projects), voluntary, local or regional associations of universities (from the same city or region), ministries of education and of cooperation with foreign entities, organizations and research institutes, innovation and technologies organizations, both public and private owned. A great help in collecting funds for educational projects abroad may also come from local authorities and the authorities of the regional campus town. They will also become beneficiaries of profits arising from the extension of the educational offer of the local universities and the
influx of foreign students, academics, technologies and new organizational, social and cultural solutions.

In conclusion, it should be emphasized that the foreign success of a university is a function of preparation, knowledge and partnerships, with broad involvement of financial, material and social capital.

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INTERNATIONALIZATION STRATEGY OF UNIVERSITIES – CONDITIONS AND INSTITUTIONAL FORMS


Short bio of author

Prof. dr hab. Andrzej Szromnik is a full professor of economics from Poland. He is a lecturer in the Cracow University of Economics (CUE in Poland), head of the Department of Trade and Market Institutions in CUE and a lecturer in the Bronisław Markiewicz State Higher School of Technology and Economics in Jarosław (Poland). In the years 2002–2008 prof. Szromnik was the CUE’s vice-rector. He is author, co-author or editor of more than 300 publications, supervisor of more than a dozen Ph.D. dissertations from Ph.D. Students from Poland and abroad. Prof. Szromnik’s scope of scientific and research interests includes: place marketing, domestic and foreign trade, foreign investments, marketing in fair and insurance companies. retail management.
1. Initial comments
The article contains a discussion concerning the establishment of management science from the general perspective and its Polish organizational thought, to form background on the basis of which to discuss contemporary requirements for managers from the contemporary perspective. A modular approach to improvement of knowledge transfer from theory to practice has been formulated.

2. Theory and practice in management sciences
Management as science, created at the turn of the 19th and 20th century, ignored in its initial period of development, the tension between praxis and logos, and its extremely quickly achieved maturity and effectiveness, obtained in the period of creating, are a result of reductions made on the object of research. Management schools which were created and widely elaborated on in the subject literature, apart from the methodological differences, are also often characterized by different relation to the meaning of practice and theory for the development of management. Variability, complexity, individuality of the empirical world, with which the mind has to cope is not the only problem of management, but is one of the basic problems of both ancient and contemporary philosophy.

Changes as a source of conflicts makes it impossible to solve them by use of classic methods of liquidation, destruction, fight or subordination. Solution of dynamic situations must be performed during the process of dialectic development in which contra-

1 Article based on paper made by authors and published in: Challenges and Opportunities of Global Business in” The New Millennium: Contemporary Issues and Future Trends”, edited by Erdener Kaynak, Talaha D., Harcar, IMDA 2011, pp. 532–536
dictions form a new system. In the case of unions taking place between the theory and practice, the dilemma of result appears. The enthusiasts of the primacy of theoretical considerations over practical applications preached that only a clean theory and general theoretical considerations are the main condition of development of scientific discipline. The enthusiasts of practical approach regarded that the source of development of science organization and management may be only such theoretical discussions that are found are or may be found in empirical verification. The theory and practice in learning management cannot be divided; they are mutually binding and are, by opposition, a source of mutual inspirations.

The above presented process of changes in perception of the role of practice and theory in learning management seems to be a necessary initial condition for proper determination of the manager teaching process.

The classic school of scientific management, attributable to the first half of the 20th century, started the development of this discipline, being the foundation of subsequent schools, streams and concepts. The following three trends developed within the classic school: engineering – associating attention to organization and executive processes (production and service-oriented) in various branches of economy, universal – focused on organization of management processes both in economy and in broadly understood administration and humanist – pursuing the human factor in the organization [Z. Martyniak, 2002, p. 6].

The research issues in the classic school of management included three basic areas, namely: organization of production, management of corporations and institutions and the universal methodological concepts (Stabryła, 2011, p. 8). The scope of basic research in the distinguished areas has been presented in table 1.

The practice of management was based on three main orientations: product, excellence of processes and products as well as constant change and ability to introduce it. Their implementation was made by creation of organizational systems, implementing Fayol principles of management and methods of improvement of work processes, derived from the cycle of organized actions of H. Le Chatelier and the elementary analysis of F. W. Taylor. Their important distinguishing mark was universality, simplicity and communicativeness, thanks to which they rapidly found application in economic practice. A classic example of this is the system of Ch. Bedaux, integrating three organizational functions: improvement, standardization and evaluation of work. The basic mechanisms of development of the management instruments of the time were adaptation, divergence and parallelism (Czekaj, Błaszczyk, 2010, p. 471). A special confirmation of this may be the classic methods of planning and control of work processes (schedules, Gantt charts, ). It is also worth emphasizing that a number of methods of organization and management created in the classic school resulted from methodological generalization of practical experiences.
Table 1. Scope of basic research in the classic school of management

<table>
<thead>
<tr>
<th>Organization of production</th>
<th>Management of corporations and institutions</th>
<th>Universal methodological concepts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work division and specialization</td>
<td>Organizational structures</td>
<td>Concepts of the cycle of organized actions</td>
</tr>
<tr>
<td>Work harmonization</td>
<td>Principles of management</td>
<td>Principles of team work organization</td>
</tr>
<tr>
<td>Test of working methods</td>
<td>Analysis of management functions</td>
<td>Praxeological analysis of operations</td>
</tr>
<tr>
<td>Measurement and standardization of work</td>
<td>Payroll systems</td>
<td>Praxeological perception of economics and organizing</td>
</tr>
<tr>
<td>Evaluation of work</td>
<td>Office work organization</td>
<td></td>
</tr>
<tr>
<td>Production control and planning</td>
<td>Humanization of work</td>
<td></td>
</tr>
<tr>
<td>Test of productivity of manufacturing factors</td>
<td>Psychometric tests</td>
<td></td>
</tr>
<tr>
<td>Analysis of working movements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ergonomic tests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determination of required standards of production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical operation of work process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tests of work efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Application of a production belt and automation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statistical quality control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization of material economy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


3. Optics of contemporary management science

The shape of contemporary management science derives from its development running at the same time in two directions: differentiation and integration. Development by differentiations is created by a constantly deepening process of work division. On the other hand, integration is an expression of aiming at synthesis of divided knowledge, a result of what may be complex, interdisciplinary solving more and more complex problems of the contemporary organization. In consequence there are present both new trends and cross-sectional management concepts, at the sources of which lie three main orientations, being extension of the idea of the classic school: market, pro-quality orientation and focus on changes.

The contemporary cognitive and methodological perspectives in the management science set out towards close integration of organizational, marketing, financial and social communication research [A. Stabryła, 2011, p. 7]. At the same time, there are being looked for possibilities of quantification of economic phenomena, algorythmisation of the research procedure, application of the system approach and use of modelling methods, functional analysis and optimization techniques. It is represented in the areas and range of research, undertaken by science on management (table 2).
Table 2. Scope of basic research in contemporary management

<table>
<thead>
<tr>
<th>Organization of production</th>
<th>Management of corporations and institutions</th>
<th>Universal methodological concepts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Optimization of production-technical decisions</td>
<td>• Research on communication of social groups</td>
<td>• Systematics of organizational techniques and methods, approaches</td>
</tr>
<tr>
<td>• Value analysis</td>
<td>• Information-communication processes</td>
<td>• Methodology of the management process</td>
</tr>
<tr>
<td>• Computerization of processes</td>
<td>• Designing management systems</td>
<td>• Models of economic systems and organizational solutions</td>
</tr>
<tr>
<td>• Quality control of goods</td>
<td>• Improvement of organizational structures</td>
<td>• Strategic approach in management</td>
</tr>
<tr>
<td>• Test of processes and product reliability</td>
<td>• Behavioural aspects of the management process</td>
<td>• Theories and methodologies of business development</td>
</tr>
<tr>
<td>• Flexible production systems</td>
<td>• Controlling</td>
<td>• Risk measurement</td>
</tr>
<tr>
<td>• Just in Time, Kanban System</td>
<td>• Marketing research and CRM</td>
<td>• Artificial intelligence</td>
</tr>
<tr>
<td>• Robotization</td>
<td>• Managerial cost accounts</td>
<td>• Self-organization</td>
</tr>
<tr>
<td>• Total Quality Management</td>
<td>• Strategic Scorecard</td>
<td>• Process approach</td>
</tr>
<tr>
<td>• Normative quality management systems</td>
<td>• Benchmarking and Lean Management</td>
<td>• Generative analysis</td>
</tr>
<tr>
<td>• Environmental management systems</td>
<td>• Workflow systems</td>
<td></td>
</tr>
<tr>
<td>• Professional safety and hygiene management systems</td>
<td>• Network and virtual company</td>
<td></td>
</tr>
<tr>
<td>• Reengineering and restructuring</td>
<td>• Knowledge-based economy</td>
<td></td>
</tr>
<tr>
<td>• Systems for supporting production management MRP, ERP</td>
<td>• Intellectual capital management</td>
<td></td>
</tr>
<tr>
<td>• Japanese methods in production management</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Within the structure of contemporary management streams, worth paying attention to first of all is the renaissance of the concept of company as a learning organisation, having high adaptation capacity as well as preferring development of individual employees’ skills and system thinking methods. An important role is played by a social strategy of the company focused on shaping long-term bonds with employees, exposing the role of corporate supervision and model of common responsibility for effective operations of the company, the model integrated with efficiency-oriented organizational behaviours. In contemporary management science, one can note the dynamic growth of knowledge and intellectual capital management. A particular role in this respect is played by effective information resources management. Development of market orientation is also supported by the process approach oriented at the organization models establishing high level of added value both in manufacturing, service, as well as in information processes.

Economization of the companies’ and institutions’ operations is aided by IT systems and means of data communication. A particular role focused on automation of processes is fulfilled by the latest generation of workflow systems.

It is also worth pointing to the challenges of contemporary management related first of all to virtualization of business operations, development of network organizations. On the one hand they relate to modelling modern organizational structures (network, orbital structures) and on the other, to design of new, effective methods of the organization management. (Czekaj J, Teczke J., 2010).
It seems that the noticeable integration process of some concepts, e.g. process management, quality and knowledge, or such methods as reengineering, benchmarking and balanced scorecard will determine the main direction of further development of management instruments.

4. Contemporary manager – the role and tasks

A contemporary manager in the opinion of many company owners should have extraordinary skills of achieving recurrent success, preferably without sustaining any costs is expected. This is supposed to make people aware how different expectations towards manager’s job in the organization are and consequently how various and rich knowledge he/she must have.

The general characteristics describing the manager’s work come down to the following set:
• conceptual character of work consisting in marking out goals, directions and methods of operation,
• very high level of risk and uncertainty of undertaken activities,
• responsibility for efficiency of management, entrusted property and subordinate employees,
• selection, creation, processing and gathering dynamic set of information,
• performing functions of management at different levels of management,
• diverse work rhythm,
• variability of tasks, methods and operation conditions,
• lack of easily noticeable and measurable work results, both in terms of planning and implementation

When pursuing such diverse tasks, a manager is continuously forced to reach beyond his/her own system of values and possessed knowledge in a quest for the changing social world. Not only in a limited extent may the manager use the traditional behaviour patterns prepared by the predecessors, but even his/her own experience very quickly becomes out-dated. Experience is a very important element of the manager’s education. Empirical knowledge as the knowledge acquired by observation according to its apologists is a source of all human cognition, according to its critics, only a thought allows grasping and arranging the obtained experience. This is at the same time a second part of the education process of managers, originating from the theory, rational cognition. Theory, namely system of basic, well-justified statements relating to a strictly specified area of reality, fulfils the functions of: explaining, predicting and systematizing knowledge. The theories are developed as a result of a mind that categorising activates what is unchanged, disassembles into parts things which are complex, simplifies and reduces, classifies and relativists, since things which are variable, ambiguous and intrinsic are at the same time unattainable for it. Therefore the manager uses what he/she experienced and understood.
The ability of proper use of intellectual potential is dependent to a significant extent on the currently performed manager’s role, which is defined as all expectations towards the owner of the specified position (an equivalent from a dynamic point of view will be a status) in the social system i.e. organization, group, etc. The expectations towards the role include rights, privileges, responsibilities and behaviours of the owner of the specified social position in relation to other parties, which occupy other positions. The expectations towards the roles acting as an obligation in relation to the owner of the role increase the possibility of predicting the human behaviour, what in consequence facilitates recognition of mutual interactions (Sarbin, Alle, 1969).

5. Managers knowledge in the theory and practice

The presented arguments with sustainable importance of theory and practice for the development of management force formulation of such suggestions for the process of education that would include this equivalence. If the manager’s education is to be perceived as the whole of activities and processes ensuring achieving mental development and obtaining qualifications that ensure performance of management functions, then implementation of this process takes place both in connection with the history of the management development and its future speculations. A manager’s education has first of all prospective dimensions.

The prospective dimension includes hypotheses, speculations, forecasts which still have not been proved in a scientific manner, but which already arouse scientific interest and attempts are undertaken to verify them.

The expectations for the constructed teaching process for managers in prospective aspects should take account of the roles carried out by the manager and also conceptual and pragmatic character of the necessary knowledge which the manager should have.

The above discussions can be included in a modular approach of enrichment of the manager’s knowledge (Fig. 1).

Particular modules should allow achievement of different levels of managerial knowledge. The result of the “Learning” module should be the transfer of knowledge both in the universal and specialized scope. The result of the “Coaching” module should be the build-up of intellectual capital. The result of the “Consulting” module should be the acquisition of business capital. And finally the result of the “Test” module should be the acquisition of social capital. In the opinion of the authors, such an approach creates proper basis for the use of gathered knowledge.
6. Final remarks

The considerations included in the article are only an initial, in the opinion of the authors, discussion concept of a response of the management theory to the requirements of contemporary times. Recognizing the primacy of knowledge and the increasing role of intellectual capital, one should formulate new relations of theory and practice of management permitting mutual penetration and approval. Part of the discussion refers to the development of knowledge transfer from the individual manager’s knowledge obtained during trainings, to the knowledge of social capital created in formalized groups and informal networks of global society.
References

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Michał Teczke, adjunct, PhD in economics in area of management, works in Department of Management and Organization Methods at the Cracow University of Economic. His major interests are: motivation systems, c2c and c2b relations and e-commerce.
Development of Knowledge Intensive Business Services in the context of business tourism changes in Krakow in a period of economic destabilisation

The aim of the study is to examine knowledge intensive business services (KIBS) in the context of the development of business tourism in Krakow. KIBS are a key factor in promoting and introducing innovation in the local and regional economy, hence the special focus on this sector. The role of innovation transferred by KIBS to tourism is still a very real and important aspect of this sector’s development in a turbulent period. The presence of KIBS in Krakow was analysed and a comparison conducted of changes effected in the meetings industry in the period of destabilisation as a source of sustainable development in the medium term.

1. Introduction

Business tourism, like other service markets, is constantly seeking new, innovative solutions enabling it to operate in a more efficient and competitive manner. One of the main sources of innovation are knowledge intensive business services (KIBS). Their contribution to innovation in local/regional firms has been confirmed in the literature. This aspect is significant in the time of destabilisation of the economy, because it could be seen as a source of overcoming problems by enterprises on this market. Monitoring the changes in the economy of the city (in this case in tourism and KIBS) could be assessed as very important.

Krakow, as the most popular tourist city in Poland and the leader in tourism trends in recent years, is a very interesting case for study. The presence of KIBS on the local and metropolitan markets is significant for Krakow’s economy and stimulates innovation in services.
Close examination of the literature in the subject area of this paper reveals that knowledge intensive business services have not been a major subject of research, though there is an increasing number of publications on knowledge and cooperation in tourism. For that reason the authors’ intention in this article was to identify the changes in the KIBS sector in Krakow that could stimulate the development of tourism enterprises in destabilisation time. At the same time, research was conducted into the changes on the business tourism market, with a focus on the number of events hosted by the city of Krakow and comparison of both groups of activities (MICE events and KIBS firms). To this end, in the empirical part of the paper, its authors conduct an analysis based on secondary data from a study of MICE tourism in Krakow and official statistical data from the Central Statistical Office. Aside from the literature review, which plays the most important part in identifying the relations between KIBS and the development of the business event market in Krakow, the authors also included an analysis of annual changes on the Krakow tourism and KIBS markets, and a calculation of the compound annual growth rates of these segments. The results of these investigations are important to academics because they reveal how the emerging business tourism market is evolving and maturing in Krakow. For tourism enterprises the information they provide could offer examples of good practices to emulate in order to improve competitiveness.

2. Review of the literature

2.1. KIBS and their role on the market

In the academic literature, the focus has shifted from the traditional pragmatic, business, profit-oriented approach to the current knowledge-driven approach. This is the reason for the rise in importance of knowledge-intensive business services, including their role in boosting innovation and market development.

The literature provides a number of generic definitions of KIBS. One of the earliest was that by Miles, Kastrinos, Flanagan, Bilderbeek & Den Hertog (Miles et al., 1995), who identified three principal characteristics of KIBS: they rely heavily on professional knowledge; they either are themselves primary sources of information and knowledge or they use knowledge to produce intermediate services for their clients’ production processes; and they are of competitive importance and supplied primarily to business. This profile facilitated the formulation of the following definition: they are services that involve economic activities which are intended to result in the creation, accumulation or dissemination of knowledge (Miles, 1995). Den Hertog (2000) defined KIBS companies as private companies or organizations that rely heavily on professional knowledge, i.e. knowledge or expertise related to a specific (technical) discipline or (technical) functional domain to supply intermediate products and services that are knowledge based. Toivonen defined KIBS businesses very generically as expert companies that provide services to other companies and organizations (Toivonen, 2006).
Innovation in knowledge-intensive services indicates strong collaborative patterns and interaction between provider and user, known as co-creation (OECD, 2006). However, more research is needed in the globalized ICT-enhanced service industry context of the twenty-first century, which has complex patterns of interaction and production.

The literature on innovation in tourism is not as rich as that on innovation in other sectors because for years tourism, and services more generally, have been treated as less innovative (Pires et al., 2008) or even non-innovative (Nordin, 2003). However, there are some significant papers on innovations in tourism (Liburd and Hjalager, 2012; Zach, 2012; Moscardo, 2008; Weirmair and Peters, 2002; OECD, 2006; Ottenbacher, 2005; Hall C., 2008; Weidenfeld, 2010). Innovation in tourism, to be desirable, has to be profitable for the company, increase the value of the tourism product, and improve the tourist’s experience (Weiermair, 2006) – what could be seen as key factor in the destabilisation times.

Tourism stakeholders should act strategically as ‘future makers’ rather than ‘future takers’ (Ellyard, 2006). This requires them to ask not “What will the future be?”, but rather “What should the future be?” and “How can we meet that future?”. Recent publications (Dwyer L, 2008) have argued that a key element of a successful tourism industry is the ability to recognize and deal with change across a wide range of key global trends and understand the way these trends interact. The ability to meet needs demands innovation, and in this area enterprises could use KIBS.

2.2. Business tourism as part of the tourism market

Inbound tourism has become one of the world’s major trade categories. Globally, tourism ranks fourth as an export category (after fuels, chemicals and food). Total worldwide export income generated by inbound tourism, including passenger transport, exceeded US$ 1.2 trillion in 2011, or US$ 3.4 billion a day on average. Tourism exports account for as much as 30% of the world’s exports of commercial services and 6% of overall exports of goods and services (UNWTO, 2012b). Moreover, estimates indicate that the volume of international tourism will continue to grow, reaching 1.8 billion tourist arrivals by the year 2030 (UNWTO, 2012a). One of the most profitable branches of tourism is business tourism. Its importance is further underscored by the fact that in UNWTO statistics, business tourism is listed as a separate category from that of leisure, recreation and holidays. The World Tourism Organization estimates that business tourists accounted for 15% of the world tourism market in 2011, and daily expenditures of business tourists in most countries are about 50% higher than spending by tourists travelling for leisure. According to recent estimates by the NBTA Foundation, in 2010 the business travel market was worth $896 billion and was expected to continue to grow in subsequent years.

Business tourism is often defined in the literature as the journeys made by employees and other persons in the course of their work, including participation in meetings, conferences and exhibitions (Medlik, 1995; Davidson and Cope, 2003). That is why it
is often associated with the “meeting industry”, or known as MICE tourism (an acronym for Meetings, Incentives, Conferences/Conventions, and Exhibitions/Events). It is a relatively young, but one of the fastest growing segments of tourism (Rogers, 2008; Weber and Ladkin, 2003, Opperman, 1996), and a multi-billion-dollar-a-year industry (Beaulieu and Love, 2004). Opperman (1996) indicated that MICE is regarded as one of the most buoyant sectors of the tourism industry. It is viewed as the least responsive to price fluctuations, and helps to reduce “peak–trough” seasonal patterns. In recognition of the importance of the MICE industry, researchers have published numerous convention- and meeting-related articles in both scholarly journals and trade publications (Lee and Back, 2005). The importance of the MICE industry has been further underscored by the creation of an international magazine, the Journal of Convention and Exhibition Management, in 1998 (now titled Journal of Convention & Event Tourism), which gathers scientific articles fully devoted to the MICE sector (Yoo and Weber, 2005).

Among the best-known and valued reports showing the number of organized meetings of associations in any given country are the publications of the International Congress and Convention Association (ICCA) and the Union of International Associations (UIA). These two organizations collate meetings industry statistics on an annual basis. The ICCA creates its ranking on the basis of data collected on association meetings, divided into two categories: international governmental associations, and international non-governmental organizations/associations which simultaneously meet the following three criteria: are held cyclically, attract a minimum of 50 participants, and extend to a minimum of three countries. The UIA’s “International Meeting Statistics” arranges its ranking on the basis of data gathered on international meetings which fulfill all of the following four criteria: duration of a minimum of three days, attracting a minimum of 300 participants, participants originate from a minimum of five countries, and a minimum of 40% of the participants come from abroad. Both rankings have an impact on the success of destinations and are often a significant decisional factor for congress organizers.

3. Results

3.1. Methodology

The research was based on the conceptual model presented on Figure 1. As mentioned before, KIBS companies impact on the innovativeness of the city and regional economy in the destabilisation period. The tourism sector is a key element of Krakow’s economy, serving over eight million tourists every year. For the purposes of this study the most important part of this sector was business tourism (the meeting industry). At this stage of the research the size and the changes in both dependent elements of this model – KIBS providers and business tourism – were analyzed. The authors deliberately juxtaposed data on supply of KIBS services (represented by number of firms) with
numbers of events organized by the meeting industry (representing the demand side of the tourist market, i.e. the number of entities organizing such meetings). The reason for this was partly the availability of data, and secondly the fact that numbers of events are an indicator of the actual dynamic of the market (served by the various entities on the business tourism market) and generate a given level of demand for KIBS services.

Research into MICE tourism in Krakow was conducted in the city in the years 2009–2011 by a team of experts from the Tourism Department of Cracow University of Economics (Berbeka et al., 2011; Borodako et al., 2014).

Figure 1. Conceptual model of KIBS providers’ relations to tourism

The analysis of KIBS companies was conducted on the basis of annual data for the city of Krakow. We analyzed the year-on-year changes in numbers of KIBS companies and compared different types of KIBS. In addition, the maximum and minimum changes were calculated in order to reveal the years of slow development and shrinkage in this segment. The bought data come from the period 2001–Q3 2012.

3.2. Business tourism (MICE tourism) in Krakow in the years 2008–2011

The number of each type of meeting organized in Krakow in the years 2008–2011 is presented in Table 1. A total of 8,304 MICE sector meetings were organized in Krakow venues participating in the research in 2011, of which 590 were of an international character (i.e. with participants from at least three countries) (Berbeka et al., 2011).
Table 1. Numbers of meetings organized in the venues under study in the years 2008–2011, and changes

<table>
<thead>
<tr>
<th>Year</th>
<th>Congresses</th>
<th>Change [%]</th>
<th>Corporate events</th>
<th>Change [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2883</td>
<td></td>
<td>5514</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>2665</td>
<td>92%</td>
<td>5741</td>
<td>104%</td>
</tr>
<tr>
<td>2010</td>
<td>1422</td>
<td>53%</td>
<td>5195</td>
<td>90%</td>
</tr>
<tr>
<td>2011</td>
<td>1582</td>
<td>111%</td>
<td>6471</td>
<td>125%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade fairs</th>
<th>Change [%]</th>
<th>Total</th>
<th>Change [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>369</td>
<td></td>
<td>8766</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>566</td>
<td>153%</td>
<td>8972</td>
<td>102%</td>
</tr>
<tr>
<td>2010</td>
<td>396</td>
<td>70%</td>
<td>7013</td>
<td>78%</td>
</tr>
<tr>
<td>2011</td>
<td>251</td>
<td>63%</td>
<td>8304</td>
<td>118%</td>
</tr>
</tbody>
</table>

Source: Authors’ own elaboration on the basis on: Berbeka et al., 2011

The most significant change in the structure of MICE meetings in Krakow in 2011 was the increase of corporate events, which saw more than 1,25-fold growth in comparison to previous years. This is a very important signal for the city: Krakow has become a significant corporate (i.e. incentive travel) destination in this part of Europe. It could also be an argument in favour of stepping up mutual relations with the KIBS sector. Also worthy of note is the rise in the number of congresses (in 2011). This is of significance inasmuch as these congresses, owing to their scale, require both adequate organizational support, provided at least in part by KIBS-sector businesses, and sufficient infrastructural resources to be in place. In the coming years further growth in numbers of this type of event may be expected in view of improvements in the city’s conference and congress base (ICE Kraków Congress Center and Expo Center were opened in 2014), and the steady development of its KIBS resources.

3.3. Knowledge-Intensive Business Services in Krakow over the last decade

The changes in business tourism (MICE tourism) are due to many factors on the local and global markets. The impact of specific factors is very difficult to measure, but some of them can be identified. One such factor is the conditions created for companies to develop their own innovative approaches to market, competitor, client, and destabilisation period’s challenges. As argued in the early part of this paper, many studies (Pardos et al., 2007; Alonso and Chamorro, 2000) confirm that one of the key ways in which enterprises (especially SMEs) can boost their innovation and development is by cooperating with firms offering knowledge-intensive business services. The presence of such businesses on the local and metropolitan market has an influence on its economy and stimulates progress in services. The impact of meetings is connected with the standing of tourism companies that are supported by KIBS firms. For that reason the study was conducted using data on KIBS commissioned from the Central Statistical Office.
Table 2. Numbers of KIBS companies in Krakow, y/y changes (2001–2012).

<table>
<thead>
<tr>
<th>Years</th>
<th>IT and programming services</th>
<th>Changes [%]</th>
<th>Legal services</th>
<th>Changes [%]</th>
<th>Accounting and tax advisory services</th>
<th>Changes [%]</th>
<th>Management advisory and PR services</th>
<th>Changes [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>602</td>
<td></td>
<td>760</td>
<td></td>
<td>74</td>
<td></td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>665</td>
<td>110%</td>
<td>825</td>
<td>109%</td>
<td>173</td>
<td>234%</td>
<td>507</td>
<td>268%</td>
</tr>
<tr>
<td>2003</td>
<td>732</td>
<td>110%</td>
<td>855</td>
<td>104%</td>
<td>225</td>
<td>130%</td>
<td>1398</td>
<td>276%</td>
</tr>
<tr>
<td>2004</td>
<td>413</td>
<td>56%</td>
<td>918</td>
<td>107%</td>
<td>227</td>
<td>101%</td>
<td>1477</td>
<td>106%</td>
</tr>
<tr>
<td>2005</td>
<td>561</td>
<td>136%</td>
<td>1034</td>
<td>113%</td>
<td>241</td>
<td>106%</td>
<td>1571</td>
<td>106%</td>
</tr>
<tr>
<td>2006</td>
<td>710</td>
<td>127%</td>
<td>1128</td>
<td>109%</td>
<td>258</td>
<td>107%</td>
<td>1697</td>
<td>108%</td>
</tr>
<tr>
<td>2007</td>
<td>788</td>
<td>111%</td>
<td>1226</td>
<td>109%</td>
<td>281</td>
<td>109%</td>
<td>1771</td>
<td>104%</td>
</tr>
<tr>
<td>2008</td>
<td>1070</td>
<td>136%</td>
<td>1330</td>
<td>108%</td>
<td>236</td>
<td>84%</td>
<td>1812</td>
<td>102%</td>
</tr>
<tr>
<td>2009</td>
<td>1967</td>
<td>184%</td>
<td>1418</td>
<td>107%</td>
<td>1474</td>
<td>625%</td>
<td>1867</td>
<td>103%</td>
</tr>
<tr>
<td>2010</td>
<td>2284</td>
<td>116%</td>
<td>1695</td>
<td>120%</td>
<td>1591</td>
<td>108%</td>
<td>1992</td>
<td>107%</td>
</tr>
<tr>
<td>2011</td>
<td>2544</td>
<td>111%</td>
<td>1870</td>
<td>110%</td>
<td>1635</td>
<td>103%</td>
<td>2087</td>
<td>105%</td>
</tr>
<tr>
<td>2012</td>
<td>2780</td>
<td>109%</td>
<td>1968</td>
<td>105%</td>
<td>1710</td>
<td>105%</td>
<td>2212</td>
<td>106%</td>
</tr>
<tr>
<td>max.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>min.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>median</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years</th>
<th>Architectural activities</th>
<th>Changes [%]</th>
<th>Technical testing and analysis</th>
<th>Changes [%]</th>
<th>Advertising</th>
<th>Changes [%]</th>
<th>Engineering activities</th>
<th>Changes [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2823</td>
<td></td>
<td>184</td>
<td></td>
<td>1026</td>
<td></td>
<td>1444</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>2934</td>
<td>104%</td>
<td>202</td>
<td>110%</td>
<td>1103</td>
<td>108%</td>
<td>1716</td>
<td>119%</td>
</tr>
<tr>
<td>2003</td>
<td>2930</td>
<td>100%</td>
<td>207</td>
<td>102%</td>
<td>1215</td>
<td>110%</td>
<td>2028</td>
<td>118%</td>
</tr>
<tr>
<td>2004</td>
<td>2922</td>
<td>100%</td>
<td>217</td>
<td>105%</td>
<td>1267</td>
<td>104%</td>
<td>2064</td>
<td>102%</td>
</tr>
<tr>
<td>2005</td>
<td>2957</td>
<td>101%</td>
<td>211</td>
<td>97%</td>
<td>1342</td>
<td>106%</td>
<td>1988</td>
<td>96%</td>
</tr>
<tr>
<td>2006</td>
<td>2983</td>
<td>101%</td>
<td>216</td>
<td>102%</td>
<td>1473</td>
<td>110%</td>
<td>1886</td>
<td>95%</td>
</tr>
<tr>
<td>2007</td>
<td>3034</td>
<td>102%</td>
<td>223</td>
<td>103%</td>
<td>1524</td>
<td>103%</td>
<td>1769</td>
<td>94%</td>
</tr>
<tr>
<td>2008</td>
<td>3086</td>
<td>102%</td>
<td>230</td>
<td>103%</td>
<td>1590</td>
<td>104%</td>
<td>1712</td>
<td>97%</td>
</tr>
<tr>
<td>2009</td>
<td>3195</td>
<td>104%</td>
<td>258</td>
<td>112%</td>
<td>1709</td>
<td>107%</td>
<td>261</td>
<td>15%</td>
</tr>
<tr>
<td>2010</td>
<td>3436</td>
<td>108%</td>
<td>296</td>
<td>115%</td>
<td>1867</td>
<td>109%</td>
<td>356</td>
<td>136%</td>
</tr>
<tr>
<td>2011</td>
<td>3465</td>
<td>101%</td>
<td>281</td>
<td>95%</td>
<td>1975</td>
<td>106%</td>
<td>434</td>
<td>122%</td>
</tr>
<tr>
<td>2012</td>
<td>3515</td>
<td>101%</td>
<td>282</td>
<td>100%</td>
<td>2057</td>
<td>104%</td>
<td>477</td>
<td>110%</td>
</tr>
<tr>
<td>max.</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>min.</td>
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<td></td>
</tr>
<tr>
<td>median</td>
<td></td>
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</tr>
</tbody>
</table>
We identified twelve types of KIBS in the Polish Statistical Classification of Economic Activities. They are listed in Table 2. According to these data, the highest year-on-year changes in numbers of companies offering KIBS services in the last decade were well over 100%. The highest increment was noted in the case of Accounting and tax advisory services, where numbers of companies increased by 625% year to year, though this could be partly the result of the switch to a new system of classification of economic activity. The second-highest increase was observed in Recruitment services (389% in 2003). We also observed decreases in the numbers of companies of various types in the period under study. The biggest decline was in Engineering services. In second place with regard to sharpest decline were IT and programming services, where numbers fell to a value of just 56%. If we look at the median value for the changes year to year, the highest increase occurred in Recruitment services, while the largest decrease was reported for Market services. Two types of services saw decreases in five or more years in the analyzed period. Of great interest is the bad condition of Market research companies, a segment which saw an overall declining trend in numbers. In 2001 433 firms in Krakow offered this kind of services, while in 2012 (October) there were only 338 firms. Second from bottom in terms of attractiveness were Engineering services, but in this situation the decreases came only until 2008, until the change in business classification (which partly explains the last big decline).
Table 3. Comparison of growth in the MICE sector and KIBS subsectors in Krakow in 2008–2011

<table>
<thead>
<tr>
<th>Factor</th>
<th>MICE</th>
<th>KIBS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compound annual growth rate</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Source: Authors’ own elaboration*

We studied numbers of KIBS companies in Krakow and the changes in this respect. A comparison was performed of the compound annual growth rate of four areas of the market: MICE events, market KIBS, enterprise KIBS and technical KIBS. We observed very high growth in the case of enterprise KIBS companies, which deliver knowledge in areas strictly connected with business functioning. In the same period we observed growth of over 4% in MICE events, which may have been connected with the increase in activity among organizers of such events. In this case, meeting industry companies voiced their demand for market consultancy and enterprise services. We may assume, however, that the increase of over 11% in the case of technical services is connected with services for other sectors of Krakow’s economy. Naturally, the expansion of the two former segments (market and enterprise KIBS) was also due not only to the tourism industry in Krakow, but was generated in part by other industries.

In all, Krakow may be assessed as an attractive city for KIBS firms, which could be a key source of innovation in tourism.

### 4. Conclusion

Because the data gathered came from studies of MICE tourism and the CSO, it was difficult to measure direct correlations between the two issues. Conclusions from the literature are that KIBS improve innovation above all at local and regional level. From this we could deduce that they can influence business tourism companies, especially in the destabilisation period. In conclusion, both markets (MICE and KIBS) can be said to have noted development in recent years (despite the global economic crisis, but without the outlook on the last years political crisis in Europe). KIBS suppliers saw significant dynamic development, which may indicate a high level of competition and the need to find new market niches, including in the meetings industry. The situation on this market may also lead to a greater degree of specialization among KIBS in the meeting industry and other branches of tourism (in Krakow).

Future research in this area could focus on the direct relationships between the various groups of KIBS companies (market, firm and technical) and both sides of the meeting industry market – demand-side actors (organizers) and supply-side entities – host venues for various kinds of meetings (congresses, conferences, incentive trips, fairs and trade shows, etc.). It would also be very interesting to see the results of similar studies from other European cities where tourism also plays an important role in the local economy.
Acknowledgment: Project financed with a National Science Center grant pursuant to decision DEC-2011/01/D/HS4/03983.

References
Short bio of authors

Krzysztof Borodako
Krzysztof Borodako has been an academic at the Department of Tourism since 2006. He is an expert in projects in the field of foresight and meeting industry. In 2009–2011 he led a team of experts examining business tourism in Krakow, and in 2011–2014 he was the project manager assessing the impact of the meetings industry on the economy of Krakow.

Jadwiga Berbeka
After graduating (International Relationship at Cracow University of Economics), Jadwiga Berbeka started working at Cracow University of Economics, where she received a PhD and post PhD. The main areas of her scientific interest are business tourism, consumer behavior in tourism and adventure tourism.

Michał Rudnicki
In 2007 Rudnicki graduated from the Cracow University of Economics in studies related to tourism. Two years later, he joined the Department of Tourism as an assistant. He has actively conducted numerous scientific studies related to tourism. He is a member of several research teams and the author of numerous scientific articles related to the tourism market.
Clusters support economic growth by providing an environment conducive to innovation and entrepreneurship in given activities. It is widely accepted, that cluster is an effective tool, stimulating development of entities linked within its structure and thereby contributing to economic grow. Nevertheless, there are certain barriers that could constrain the future development of the clusters. One aspect of this is an insufficient supply of risk capital to support the creation and development of innovative SMEs, which is a problem in Poland in general and that also appears to affect the Lubelskie Voivodeship. Another aspect appears to be a lack of a generalised entrepreneurial culture in the local scientific community and the existence of barriers to movement between research and industry. This paper focuses on the cluster concept development in Lublin Voivodeship. In the first place on the base of the interviews (IDI) with cluster coordinators author verified the list of active clusters in region. Then, based on the coordinators’ opinions he analyzed the main barriers to development of clusters in the Voivodeship.

1. Introduction

Clusters are becoming an increasingly popular concept in the last years, what is reflected in a growing number of clusters’ support policies and initiatives on EU, national and regional level (Asheim, Moodysson & Tödtling, 2011). The goals and activities of a particular cluster are set accordingly to its industry field, specialization and resources of the region in which this cluster is located.

Cluster concept development in Lubelskie Voivodeship started to develop rapidly during the last decade with more and more clusters and cluster initiatives emerging ev-
ery year. However in the period 2007–2014 a number of unsuccessful cluster initiatives could be observed. The paper discusses the characteristic features of cluster structures in Lubelszczyzna and main barriers to development. Specification of the problems encountered put attention on existing imperfections that have to be taken into consideration in order to enable an improvement of conditions for clusters development in the region.

The paper is structured as follows. The next section clarifies the main information about location and area of the Lubelskie Region. The third section explores the theoretical foundations on clusters definition. The fourth section presents the review of clusters in Lubelskie, including main data about each structure. and the last offers a conclusion.

2. Economic structure of Lubelskie Voivodeship

The Region is located in Eastern Poland, between the Vistula and the Bug rivers. Lubelskie Region is bordered by Subcarpathian Voivodeship to the south, Świętokrzyskie Voivodeship to the south-west, Masovian Voivodeship to the west and north, Podlaskie Voivodeship along a short boundary to the north. Eastern border with Belarus and Ukraine is also the external border of the European Union. It is the third largest region in Poland by size. It covers an area of 25 122 km², which represents 8% of the country.

Lubelskie Voivodeship is characterized by exceptionally favourable conditions for development of the food industry, due to the agricultural nature and a very high level of specialization in industrial crops as well as fruit and vegetables. The strengths of the region include:

- Convenient location at Pan-European Corridor East-West, which provides access to foreign markets, especially Ukraine and Belarus;
- Relatively low labor costs (87.9% of the national average) under simultaneous access to skilled labor in the cities of the region;
- High research potential, due to the important role of the regional research organizations;
- Industrial traditions, particularly in the area of machinery, transport, chemical and food industries;
- Suitability for
- A significant number of farms and the relatively high proportion of agricultural production of selected products in the country (Thlon i in. 2014).

In 2012 Lublin Voivodeship made a contribution of 3.8% to the GDP of Poland. Calculated per capita, it amounted to PLN 28211 PLN. In comparison with the whole country the structure of employment in the region is characterised by a relatively low share of the service sector (50.9%) whereas a share of the agricultural and industrial sectors is respectively 27.6% and 21.5%. Unemployment in Lubelskie Voivodeship: in the records of the employment offices there were 140 945 unemployed at the end of March 2013. The share of unemployed in the economically active population was higher than
the national by 0.7 percent point and amounted to 14.1%. Number of economic entities: at the end of 2012 registered were 166 thousand business entities, which is 2.4% more than in 2011.

The voivodship’s strategic sectors mentioned in the strategy of regional development include above all: industry (the manufacture of food products, the manufacture of furniture and manufacturing, the manufacture of machinery and equipment, the manufacture of non-metallic mineral products, automobile industry, the manufacture of wood and wooden products, chemical industry), construction, market services (an important element of institutional business surroundings is the banking sector reinforced by financial institutions like credit and guarantee funds, leasing companies, credit unions), network services (especially electricity and gas supply), tourism, non-market services, agriculture (one of the most important branches of the economy of Lublin voivodship), education, R&D and the development of information society (knowledge-based economy).

The Lubelskie Voivodeship is strongly tied to agriculture. Agri-food industry is one of the most important and fastest growing sectors of the economy in Lubelskie Province. Regions plays an important role, because it is a typical agricultural region, with excellent soil and climate conditions leading to the development of the sector. At the same time it is a region with high development potential in agri-food sector: high value and dynamic of the production growth of the food industry, high level of employment in the sector, the apparent specialization of the province in such industries as fruit, vegetable, meat and milling (compared to others regions in Poland). This is supported by a good resource base, particularly fruits, vegetables, cereals, meat and milk.

3. Clusters definition

The concept of clusters has in recent years gained enormous popularity to the extent that policy-makers, practitioners and academics alike are increasingly referring to it. However, many different cluster definitions exist and the economic impact of clusters on competitiveness and innovation is far from being clear. According to Porter (1998) clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions—such as universities, trade associations that provide specialized training, education, information, research, and technical support. On the other hand Cortright (2006) indicated that cluster is a set of businesses, in the same or related field and located near one another, which are linked by service or supplier relationships, common customers and supporting institutions or other relationships. They com-
pete with one another but also complement one another. Overall, however, they draw productive advantage from their mutual proximity and connections.

In more general terms, clusters can be defined as a group of entities, related economic actors, and institutions that are located near each other and have reached a sufficient scale to develop specialised expertise, services, resources, suppliers and skills. A common element of most cluster definitions is the aspect of a concentration of one or more sectors within a given region as well as the emphasis on networking and cooperation between companies and institutions (European Commission, 2008).

Porter (2011) presents the concept of competitive advantage. He illustrates with support of competitive diamond the idea of the competitive advantage. The competitive diamond explains how a nation and a cluster achieve a competitive advantage. Clusters are driven by competition in three ways:

• it increases the productivity of single firms,
• it accelerates the innovation process,
• it stimulates the process of new business formations increasing the overall strength of the cluster.

This concept is presented on Figure 1.

**Figure 1. Competitive diamond**

![Competitive Diamond Diagram](source)

*Source: own illustration on the base Porter’s (2011)*
The points of the diamond are described as follows (Porters 2011):

- **Factor Conditions** – a country creates its own important factors such as skilled resources and technological base. Factor conditions describe all inputs or infrastructure used for the production process such as human capital, physical capital, physical infrastructure, administration, information technology, and research.

- **Demand Conditions** – when the market for a particular product is larger locally than in foreign markets, the local firms devote more attention to that product than do foreign firms, leading to a competitive advantage when the local firms begin exporting the product. A more demanding local market leads to national advantage. A strong, trend-setting local market helps local firms anticipate global trends.

- **Related and Supporting Industries** – when local supporting industries and suppliers are competitive, home country companies will potentially get more cost efficient and receive more innovative parts and products. This will potentially lead to greater competitiveness for national firms. For instance, the polish food-agri sector benefits from a highly competent pool of related businesses and industries, which has strengthened the competitiveness of the polish food-agri sector world-wide.

- **Firm Strategy, Structure, and Rivalry** – the conditions in a country that determine how companies are established, are organized and are managed, and that determine the characteristics of domestic competition.

Here, cultural aspects play an important role. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently. This will provide advantages and disadvantages for particular industries. Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies. Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

Porters Diamond has been used in various ways. Organizations may use the model to identify the extent to which they can build on home-based advantages to create competitive advantage in relation to others on a global front. On national level, governments can (and should) consider the policies that they should follow to establish national advantages, which enable industries in their country to develop a strong competitive position globally. Governments can foster such advantages by ensuring high expectations of product performance, safety or environmental standards, or encouraging vertical co-operation between suppliers and buyers on a domestic level etc.

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1 The ownership structure of a company can affect risk perception as well and, thus, be one of the major determinants of corporate demand for insurance. For more details see: (Strupczewski 2013).
Government choice of policies can influence each of the four determinants. Successful government policies work in those industries where underlying determinants of national advantage are present and reinforced by government actions. Government can raise the odds of gaining competitive advantage but lacks the power to create advantages on its own.

Increase of competitiveness described by Porter based on strong local market. If the market is demanding consumer and good production conditions, there are many entities seeking to meet demand based on the conditions for development. Competing with each other, these entities improve their structure and strategies, while entering into relationships with other entities. They may be local governments, research centers, banks, etc. The whole structure has the property that the local competition requires constant improvement and growth. Over time – searching for expansion opportunities outside of the leading manufacturers are beginning to compete in global markets, improving the competitiveness of the whole economy.


On the base of desk research by the end of September 2014 the creation of 33 cluster initiatives was recorded in the Lubelskie Voivodeship (Hołub-Iwan 2012; Thlon & Marciniak 2013). The majority of them are located in Lublin.

List of clusters is as follows (in no particular order):
1. Organic Food Valley Cluster;
2. Lublin Eco-Energy Cluster;
3. Lublin Egg Cluster;
4. Sails Lublin – Regional Cluster in Lublin;
5. Lubelski Cebularz – Regional Cluster in Lublin;
6. Printing Lublin – Regional Cluster in Lublin;
7. Automotive Lublin – Regional Cluster in Lublin;
8. Lublin Cosmetics – Regional Cluster in Lublin;
9. Hairdressing Lublin – Regional Cluster in Lublin;
10. Education Cluster Lublin;
11. Lublin Wood – Regional Cluster in Lublin;
12. Restaurateurs and Hoteliers Cluster;
13. Cluster Cultures of Lublin;
14. Cluster Services for Business;
15. East ICT Cluster;
16. Association of Lublin ICT Cluster;
17. Association „Lublin Food Industry Cluster“;
18. Medical Cluster MedCluster;
19. East Metalworking Cluster;
20. Lublin Aviation Cluster;
22. East Poland Furniture Industry Cluster;
23. Local Tourist Organization ‘Land of Loess Gorges’;
25. Lublin Hops Cluster;
26. Age of Gryczok!
27. Cauliflower – broccoli cluster;

In addition, companies from the province of Lublin are also involved in the activities of trans-regional clusters such as:
29. Association of Entrepreneurs Group Aviation „Aviation Valley“;
30. Eastern Cluster of Information Technology;
31. EduKlaster – New Media in Education;
32. Alternative ICT Cluster;
33. East Construction Cluster.

Based on telephone interviews with representatives of the various clusters author found that some of these cluster structures have ceased activities, including:
1. Agritourism Association „Land Lubartowska“;
2. Age of Gryczok!
3. Cauliflower – broccoli cluster;
4. Printing Lublin – Regional Cluster in Lublin;
5. Lublin Cosmetics – Regional Cluster in Lublin;
6. Hairdressing Lublin – Regional Cluster in Lublin;
7. Education Cluster Lublin
8. Lublin Aviation Cluster;

The breakdown of cluster initiatives in the Lubelskie Voivodeship by lines of business shows a typically agricultural character of the region and the region’s quite effective use of its economic potential (PARP 2011). Most of the identified cluster structures operating in agro food industry, other industries are: eco – energy, yacht industry, automotive industry, wood and furniture, construction – metal, ICT, culture – services – education, medical, aviation, tourism and photographs. The Tables presented below contain synthetic information concerning an identified cluster structures in different business lines.
Table 1. Active clusters in Lubelskie Voivodeship

<table>
<thead>
<tr>
<th>The name of cluster</th>
<th>Industries</th>
<th>Date of origin</th>
<th>The number of members</th>
<th>Objectives of the cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic Food Valley Cluster</td>
<td>food-agri</td>
<td>2010</td>
<td>19</td>
<td>interregional cooperation in the field of development and promotion of organic food products.</td>
</tr>
<tr>
<td>Lublin Eco-Energy Cluster</td>
<td>eco-energy</td>
<td>2008</td>
<td>42</td>
<td>supporting all activities related to the sustainable use of renewable energy sources on the basis of the potential of the province of Lublin through the development and implementation of technological innovation, production and process and popularize renewable energy sources in the region.</td>
</tr>
<tr>
<td>Lublin Egg Cluster</td>
<td>food-agri</td>
<td>2014</td>
<td>7</td>
<td>establish sustained co-operation between entrepreneurs operating in the egg industry, business environment institutions and research units – development, efforts to improve the conditions for the production of eggs, as well as support the development of research in the sciences related to the production of eggs.</td>
</tr>
<tr>
<td>Sails Lublin – Regional Cluster in Lublin</td>
<td>yacht industry, education</td>
<td>2008</td>
<td>11</td>
<td>cultivating tradition of sailing and yacht building, supporting the development of business in the boating industry and water sports, the integration of of the business community active in the boating industry and water sports</td>
</tr>
<tr>
<td>Lubelski Cebularz – Regional Cluster in Lublin</td>
<td>food-agri</td>
<td>2007</td>
<td>34</td>
<td>promotion of “lubelski cebularz’ as a regional product, social attitudes, professional ethics and members of the community ties, measures to provide information on the quality and characteristics, including the benefits of cereals and cereal products derived from their processing in the bread, conducting and supporting efforts to promote the consumption of products made according to traditional recipes</td>
</tr>
<tr>
<td>Automotive Lublin – Regional Cluster in Lublin</td>
<td>automotive</td>
<td>2008</td>
<td>16</td>
<td>representation of entities operating in the Lublin automotive market, continuously improve the quality of services provided</td>
</tr>
<tr>
<td>Lublin Wood – Regional Cluster in Lublin</td>
<td>wood, construction</td>
<td>2007</td>
<td>59</td>
<td>define areas of mutual cooperation between entrepreneurs operating within the cluster by building awareness of bio-building as an innovative form of solving the housing problems of the province of Lublin and the implementation of projects that will contribute to the promotion of the Lublin region, as the leader of the implementation of innovative environmental solutions</td>
</tr>
<tr>
<td>Restaurateurs and Hoteliers Cluster</td>
<td>food-agri</td>
<td>2006</td>
<td>74</td>
<td>improving the competitiveness and strengthen of economic potential of the industry operating in the Lublin region, the organization of events promoting indigenous regional products, culture and tourism</td>
</tr>
<tr>
<td>Cluster Cultures of Lublin</td>
<td>culture</td>
<td>2006</td>
<td>117</td>
<td>strengthening potential of cultural and tourist communities in the region</td>
</tr>
<tr>
<td>The name of the cluster</td>
<td>Industries</td>
<td>Date of origin</td>
<td>The number of members</td>
<td>Objectives of the cluster</td>
</tr>
<tr>
<td>------------------------</td>
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<td>--------------------------</td>
</tr>
<tr>
<td>Cluster Services for Business</td>
<td>service</td>
<td>2011</td>
<td>14</td>
<td>increase the quality of services and increase business competitiveness and innovation. Construction of an innovative network of cooperating institutions to improve the socio-economic attractiveness of the entire region of Eastern Poland.</td>
</tr>
<tr>
<td>East ICT Cluster</td>
<td>ICT</td>
<td>2007</td>
<td>110</td>
<td>integration and development of the business community (especially SMEs), from, telecommunication, electronic and media industry; collaboration between companies, schools and research units in the field of R&amp;D and innovation</td>
</tr>
<tr>
<td>Association of Lublin ICT Cluster</td>
<td>ICT</td>
<td>2008</td>
<td>45</td>
<td>activities aimed at disseminating information about the latest technologies, to promote the implementation of innovative technologies; carrying out activities for the benefit of standardization and normalization of implemented technical solutions</td>
</tr>
<tr>
<td>Lublin Food Industry Cluster</td>
<td>food-agri</td>
<td>2010</td>
<td>22</td>
<td>integrate the Lublin food industry, distribution and building the prestige of the food industry environment, representation and protection of the economic interests of the members of the cluster, mutual assistance and exchange of experience between the members of the cluster,</td>
</tr>
<tr>
<td>Medical Cluster MedCluster</td>
<td>medical</td>
<td>2007</td>
<td>39</td>
<td>generating innovative solutions, through interactions between the various stakeholders in the cluster structures</td>
</tr>
<tr>
<td>East Metalworking Cluster</td>
<td>metal</td>
<td>2009</td>
<td>45</td>
<td>increasing the competitiveness of the economy in the area of competence of personnel in enterprises and the use of the tools available technical progress</td>
</tr>
<tr>
<td>Eastern Ecological Cluster “Energy Efficient Home”</td>
<td>eco energy, construction, wood</td>
<td>2011</td>
<td>14</td>
<td>increase cooperation between affiliated entities in the cluster, successful promotion of regional brand Ecological Energy Efficient Home</td>
</tr>
<tr>
<td>East Poland Furniture Industry Cluster</td>
<td>furniture, wood</td>
<td>2011</td>
<td>12</td>
<td>creation and development of networks at the regional level, between suppliers of innovation and technology in order to raise the level of innovation and competitiveness of the region.</td>
</tr>
<tr>
<td>Local Tourist Organization “Land of Loess Gorges”</td>
<td>tourism</td>
<td>2007</td>
<td>124</td>
<td>create an integrated system of information, promotion and booking, action to improve the tourism infrastructure</td>
</tr>
<tr>
<td>Lublin Hops Cluster</td>
<td>food-agri</td>
<td>2006</td>
<td>35</td>
<td>produce cooperative connections within the group and modernization of processes and products, strengthening the initiative of local companies and institutions operating in the field of hops in order to promote the region, increasing the efficiency of the market as a group associated with the production of hops in Powiśle</td>
</tr>
<tr>
<td>The name of cluster</td>
<td>Industries</td>
<td>Date of origin</td>
<td>The number of members</td>
<td>Objectives of the cluster</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>--------------</td>
<td>----------------</td>
<td>-----------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Association of Entrepreneurs Group Aviation “Aviation Valley”</td>
<td>aviation</td>
<td>2003</td>
<td>112</td>
<td>organization and development of a low cost supply chain, creation of favorable conditions in order to enhance the development of aerospace industry enterprises in this region. The further development of aerospace research, aptitude and skill, cooperation with universities of technology, which would promote new ideas and scientific research within the aerospace industry, promotion of the Polish aerospace industry, protection of enterprise and businesses in the aerospace industry and influence on the Polish government’s economic policy towards the aerospace industry and its domain.</td>
</tr>
<tr>
<td>Eastern Cluster of Information Technology</td>
<td>ICT</td>
<td>2010</td>
<td>39</td>
<td>enable participants to establish a collaborative relationship leading to cooperation. Establishing cooperation with Polish and foreign business organizations, clusters, business, and scientific projects</td>
</tr>
<tr>
<td>EduKlaster – New Media in Education</td>
<td>education, ITC</td>
<td>2007</td>
<td>67</td>
<td>development of innovative technological/education projects, construction of networks and the development and promotion of the implemented measures.</td>
</tr>
<tr>
<td>Alternative ICT Cluster</td>
<td>ICT</td>
<td>2007</td>
<td>21</td>
<td>develop and improve the exchange of knowledge between innovative SMEs, with emphasis on the exchange of innovative ideas and technologies</td>
</tr>
<tr>
<td>East Construction Cluster.</td>
<td>construction</td>
<td>2012</td>
<td>102</td>
<td>improving the functioning and increase innovation cluster members, improve the competitiveness of the entities involved in cooperative relations, through the introduction of innovative new services and products</td>
</tr>
</tbody>
</table>

Source: own illustration

In addition, in case of Lubelszczyzna, we can talk about budding clusters in agro-food industry especially in the area of the municipality Wilków where largely successful (although informally) cooperate hop producers.

Comparing the state of development of cluster initiatives diagnosed in 2011 in preparation for the Ministry of Regional Development, the situation in this respect has not significantly improved. As is evident from the telephone in some cases, the development process of cluster structures is inhibited or even completely abandoned as evidenced by the fact discontinued operations for 8 of the 33 identified cluster structures.

The composition of clusters and cluster initiatives remaps the statistical picture of the region. It is made up mostly of micro and small enterprises, which are also the largest group of companies in the whole province. Larger entities much less likely to engage in activities cluster, which is connected on one side with a small number of large enterprises in the province. Lublin, as well as the lack of real interests of large companies in clustering. In addition, large companies are often linked with foreign capital.
As is apparent from the literature and interviews cluster initiatives in the Lublin province can be divided into three groups:
• existing (operating, developing);
• existing (dormant);
• seed (emerging opportunities to transform the innovation network);
• in liquidation (historical, these have completely ceased operations).

On the basis of these analyzes should be noted that both the number and the level of development of innovation networks which are the clusters and cluster initiatives in the Lublin region is not satisfactory. In most cases, these are initiatives that the development process has encountered a number of financial problems, logistics, mentality or consciousness. Motivator in a substantial part of the cluster was to acquire for the purpose of financial resources in the implementation of EU projects. The problem appeared or will appear in the loss of funding associated with the completion of the project. Then clusters are faced with the problem of financing its activities, including even the cost of establishment. Also drops determination of members to continue its operations, if it is for them to additional costs. This is more noticeable if the performance of a cluster failed to produce tangible results.

Conclusion
The analysis of clusters in the Lubelskie Voivodship can indicate their weakest side which threaten of their further functioning:
• small number of innovations introduced under legal protection in the cluster,
• ignorance of the clusters’ needs from authorities side, incompetence or inability to listen,
• impossible or very difficult to fulfill requirements in regards to obtaining subsidies, financial support from government and EU sources
• weak activity of the cluster in preparing offers for customers from outside,
• sector mistrust, lack of professional courage and conservative attitude (mentality) of entrepreneurs,
• weak entrepreneurial culture,
• reluctance and fear of small enterprises from sharing internal data and becoming dependent from other bigger company,
• mismatches in labour qualification,
• poor financial support clusters from the public authorities.
• poor co-operation with other actors of regional innovation systems, including business institutions.

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Visualization of services – Closing expectations gaps and increasing service quality

The Paper presents a solution to eliminate any possible expectation deficits on the client side within the delivery of services by using visualization methods. The existing options for services are screened within a literature review in service management and, afterwards, reflected with experts from the Facility Management sector. In referring to these results, a method will be presented which supports a continuous exchange of information within services and hybrid bundles of services in specific. Using the example of the planning process of real estates as hybrid value creation, a service visualisation which makes the planning process more transparent to the customer and the other stakeholders is presented.

1. Introduction

Service industries play a progressively essential part in our overall economy (Kellogg and Nie, 1995). However, the wealth of visualization and planning methodologies and tools available in manufacturing industries is not as abundant in the service sector. Many new services fail to realize their objectives, which could result in customer dissatisfaction with potential longterm consequences (Smith, 2007), due to the fact that important dimensions of service processes are often missing or, at best, only vaguely implied (Kellogg and Nie, 1995). Furthermore, as numerous researchers have indicated, direct application of concepts and methods developed from the manufacturing arena to the service sector is inadequate. Service production encompasses all processes necessary to deliver a service, including customer interaction, management activities and service production operation (Fließ and Kleinaltenkamp, 2004). In addition to this, the procurement of services entails uncertainty for customers due to the heterogeneity and immateriality of services, which are intangible activities designed to achieve a certain
range of desired outcomes (e.g., technical, informative, and knowledge-related activities). It is not obvious to the customers what they will receive for their money before the service purchases (Bernhold, 2010; Meyer, 1991; Lasshof, 2006). Likewise, there is a difficulty for the service provider to market their services without the possibility of presenting the final product. The intangibility surrounding a service makes it hard to set standards (Lim, Kim, Hong, and Park, 2012) and complicates the conventional management tasks of designing, constructing, conducting and controlling the performances which go into creating a service (Kingman-Brundage, 1989).

Since customer satisfaction is measured inversely by the gap between expectations and perceptions, attracting customers with lofty prospects that cannot be met, will result in disappointed customers, frustrated servers, and negative word-of-mouth that will repel prospective customers (Harvey, 1998). Additionally, customer satisfaction has a substantial effect on follow-up services, or possible longterm partnerships, which can have advantages for both parties. Thus, clear communication and close cooperation between marketing and operations is pivotal to success (Harvey, 1998). One possibility to avoid the disconfirmation of satisfaction is to integrate the customer into the service process very early on, or to show them the service configuration before its procurement. At the same time, the presentation of service results is needed at the beginning of the delivery process. Therefore, it is important to reduce information asymmetries associated with the service procurement to reduce uncertainties in service procurement for both sides. It should be obvious to the service provider that the customer is an important and active element in the value chain and that their needs and expectations also have influence on the service result (Lasshof, 2006; Chase et al., 1983).

In this paper, the described problem is examined more closely using Facility Management (FM), an innovative service sector, as an example. Property-related services include the realization of individual customer requirements and solutions within the planning, building, and operation of real estates. In this context, a broad variety of stakeholders are involved (planners, architects, engineers, client, users) and should be integrated in a life-cycle-wide planning process. Due to the complexity of such product-service combinations and the integration of different stakeholders, the transparency of the building planning process is insufficient and optimization potentials are not apparent. According to this, there is a need for simulation tools that make the processes and outcomes more transparent for the participants. Therefore, the following paper contains a prospective solution for the given problems within the Facility Management domain.

2. Theoretical Background

2.1. Facility Management

Facility Management (FM) is a management discipline which focuses on the economic use of facilities and real estates. Therefore, related services for meeting the company’s needs in the working environment are in the scope of FM, which contains the
management of support processes to enable the company’s core activities. In doing so, worker’s environmental needs are satisfied by simplifying their tasks, whilst the return on investments in facilities and real estates is increased throughout the real estate life-cycle time. Therefore, FM includes permanent analysis and optimization of cost-based activities related to technical facilities, buildings, and internal processes that are not related to the core activities of the company (GEFMA 100-1, 2004). In its European standard, FM is considered as the combination of multiple processes within a company into services that allow companies to more efficiently improve their primary activities:

In general, all organizations, whether public or private, use buildings, assets and services (facility services) to support their primary activities. By coordinating these assets and services, using management skills and handling many changes in the organisation's environment, Facility Management influences its ability to act proactively and meet all its requirements. This is also done to optimize the costs and performance of assets and services (DIN EN 15221-1, 2007).

### 2.2. Customer Satisfaction and Service Quality in Service Delivery

In order to achieve high service quality and to find a customer-orientated problem solution, it is important to focus on customers and their satisfaction with the service experience and the final service result.

One of the most prevalent models for the evaluation of customer satisfaction is the customer satisfaction / dissatisfaction (CS/D) model which defines customer satisfaction as the “outcome of a complex information processing process” (Herrmann et. al., 1997). According to this model, customers evaluate their satisfaction by comparing the subjectively perceived performance of the product or service with the performance they expected before the product or service was bought (Vavra, 1997; Gerson, 1994). Therefore, the expected result can be either confirmed or disconfirmed by the perceived result. In the case of disconfirmation, the perceived result can be either better than the expected result (positive disconfirmation) or worse (negative disconfirmation). The latter leads to customer dissatisfaction, whereas the confirmation of expected results and positive disconfirmation generate satisfaction (see Figure 1). Also, different consequences from satisfaction or dissatisfaction can be derived. For example, loyalty from satisfied customers who tend to repurchase a product or service, or word-of-mouth advertising in the case of recommendations to potential buyers. Conversely, dissatisfied customers may also have a negative impact on word-of-mouth advertising, become inclined to change suppliers, or express their dissatisfaction in the form of complaints.
Pertaining to services and the intangibility of their results, it is difficult to align the service quality and the consistency of services with respect to customer expectations (Meyer, 1991). This is a challenging task for service providers because services are sold before their delivery. That means customers face uncertainty about what to expect from service results. Service providers are also confronted with the insecurity of not knowing how to satisfy customers’ needs and expectations in a sufficient way. To some extent, customers do not even know what they are expecting or what they really need for solving their particular problem or rectifying their individual needs. This can also lead to dissatisfaction with the delivered service although it was carried out thoroughly.

With regard to the importance of customers’ expectations and its linkage to customer satisfaction or perceived service quality, it is necessary to be aware of what customers expect. It is also of high relevance to manage those expectations in order to raise customer satisfaction and customer perceived quality to accomplish opportunities of economic success. Customer expectations can be influenced, for example, by understanding the customers’ point of view or identifying their needs, by coordinating corporate communication strategies, or by increasing transparency of service processes so that expected results match the actual service results (Bidmon, 2004; Richter, 2005).

3. Methodological Approach

The scope of the investigation is to identify potentials for increasing the transparency of service results with respect to FM-focused planning and its challenges. With respect to an extensive cooperative planning, the coordination work should be reduced and it has to create transparency between different stakeholders by means of visualization approaches. A preliminary study was carried out to identify visualization options for service processes especially to customers. Also, information and processes that must be provided to the customer at the beginning of services were outlined using the case of FM-focused planning. Consequently, potentials for service visualization were initially
investigated in practice in order to identify the research gap in more detail and to gain insights in practical service business. This was realized by conducting interviews with experts from the Facility Management sector with the objective of defining the status quo regarding their experiences. The interviews also served to investigate how to deal with customer expectations and service providers and to determine whether there are already management tools in use in practice.

Based on these findings a method has been developed for the visualization of services in a FM-based planning process which is divided into three levels with different detailing depths and scopes of visualizations.

4. Cooperation Experience Model

A new framework was created that adequately addresses the complex requirements of service system visualization; in particular, in hybrid value creation processes such as Facilities Management. The development of this visualization model is based on the results of the project “FlexNet” (2011-2013) promoted by BMBF (Federal Government Department for education and research, Germany). The FlexNet projection is a tool for identifying and documenting flows of information during the planning and operation of buildings (Bräuer, Knackstedt, Matzner 2013; Averbeck et al. 2013). In the current project “Cooperation Experience”, this projection is developed further. The initial results are applied in the following solution for the effective visualization of service processes. For modelling the cooperation and information interfaces, several levels are needed which have different detailing depths (figure 2).

**Figure 2. Method framework of the Cooperation Experience Model**

![Method framework of the Cooperation Experience Model](image)

The first level gives a quick overview of processes, while the second level describes the activities between the cooperation partners, and in the third level, the processes are completed with detailed information.

In the first level (figure 3), the processes needed for the whole service process to generate a performance are described. The focus is on gaining a quick understanding of the gross process without specific knowledge. The involved partners are related to the chronologically arranged process steps. This framework should be discussed in the first project meeting and the first meeting with the customer to assign responsibilities. The
whole process has to be captured from the beginning to the end. Neither weak points nor room for improvement are pictured in the first level.

**Figure 3. Regulation Framework**

The second level (figure 4) represents a “cooperation-arena” which contains the processes identified in the first level with their activities. Many arenas exist in this model such as process steps in the regulation framework of the first level. Hence, every process step of the first level is a framework for one cooperation arena. In the arena, every process relevant to the stakeholder is presented. Moreover, information objects which need to be interchanged between the players for the process are described.

**Figure 4. Visualization of Cooperation Activities**

The stakeholders are arranged around the arena and are connected with arrows. For the customer (owner), the cooperation activities are obvious in terms of who the
emitter is and who the addressee is. The customer is part of the arena and they have an overview of with whom they have to cooperate. The order of interactions is numerically marked. In addition to the numbers, verbs on the arrows describe what happens with the information. In the middle of the arena, the information objects are located which are part of the process steps. They are ordered chronologically among each other. The customer is able to spot at a glance who is responsible for which information and, therefore, who their contact person is. To create the arena, the following questions have to be answered:谁 initiates which activity? Which stakeholder is involved in this activity? And which information has to be sent to these stakeholders?

In the third level (figure 5), the processes described in the second level are detailed. The purpose of this level is to support the processes of the second level with more detailed information. With the help of the choreography diagram, potential loop lines and branches can be pictured. A choreography diagram always displays exclusive processes with two or more player. Customers can see in detail which stakeholders work together, at what time and which information objects are exchanged. They are informed of when they can count on results and information. Simultaneously, the documentation of every single process is ensured so that traceability and transparency can be achieved. Hence, customers can plan when they want to compare their expectations with the intermediate results to intervene if the expectation gap is too big. Moreover, they know when the other stakeholders need their input. This reduces failures of coordination and optimizes the process flow and the intermediate results and, therefore, the final result.

**Figure 5. Choreography Diagram**

With the help of this model customers feel integrated in the process. They can follow the whole process, have opportunities to intervene, and can actively influence the results. The feeling of being able to participate in the results leads to higher customer satisfaction.

5. **Conclusion**

Coherent visualization of service processes is essential to the prosperity and effective management of service businesses. Clear customer understanding of the service system can lead to the closing of expectation gaps, the active participation of the customer in service operations, enhanced coordination of diverse activities, and improved
communication between stakeholders among numerous other benefits. However, due to the complex and intangible nature of service delivery systems this can be difficult to achieve.

The Cooperation Experience model developed in this paper is recommended for use in the visualization of multifaceted service systems such as hybrid value creation in Facilities Management. The model offers a comprehensive knowledge of the entire system, the various stakeholders and participants, and their roles in the detailed system procedure and flow of information.

Further advancement can be made to the model by implementing additional information and indicators. Specifically, ratings of the process or performance, customer satisfaction indices, and completion time assessment can enhance the rigorousness and expediency of this visualization approach.

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References


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In recent years one of the key challenges for the company management became its development. Originally the problem concerning organization development was identified with the creation of an efficient system which demonstrated the readiness for a steady growth. The basic management action was the prevention or elimination of any emerging crises which jeopardised the system’s stability. Such an approach in conditions of increasing disturbances and destabilization which, for several decades, has been occurring in the internal and external company environment, has become significantly obsolete. Dynamic conditions of companies operation in the modern world, widely identified discontinuation processes which are strengthened by the technological progress and revolutionary social changes, radically influenced the change in directions and opportunities for business development. As a result there appeared the need to redefine the general approach to the company management, including the management of its development. The purpose of this article is to point out the role of identified growth paradox and crisis in generation of the company’s development potential as the method of responding to challenges posed by destabilized environment.

1. The impact of paradoxes on the management conditions of a modern company

The statics of organization development process which was understood as the steady progress as the effect of adopted long-term strategy was replaced by dynamics of processes in which the main obligation is to create and implement the strategies which ensure continuous adaptation and modernization of the system. The issue concerning
management of organization development turned from the explicit aim at elimination of crises in the organization towards its identification and understanding in order to create the strategic changes which make it possible to overcome them and, as a result, to modernize the whole organization. The classic dilemma of the organization which relates to strengthening its position in the market space is replaced by the contemporary awareness of the evolution and revolution paradox which is expressed in co-existence of growth and crisis as the two indispensable elements of the company’s development which pose the challenge of steady change.

Multiple research and observations of business development clearly proved that the so-called company’s ‘success area’ is not permanent. It changes along with the change in the company’s environment and its internal potential. In order to obtain a successful outcome, companies due to changes in conditions which currently define their area of development were forced to seek for new ways to obtain the proper competitive advantage. The company’s competitive advantage becomes the source of success. The success is understood as the condition of temporary and subsequent balance which is achieved throughout the existence. Such a definition of the success is no longer only the aspiration and reward for the correct management, but is the necessity which becomes the guarantee of survival.

As it can be seen, the management problems which occur in the process of company’s development are numerous and diverse. We have to remember, however, that their character depends, to a large extent, on the level of the company’s development. Practice indicates that along with the company’s metamorphosis and move through the subsequent phases of development, the management problems and ways to solve them also change. The selection of the strategy depends, to a large extent, on the phase of the company’s development.

The basis for the previous organizational paradigm were the assumptions concerning the hierarchy. It was assumed that the top management is familiar with all answers and supervises the objectives and work processes of the organization. Currently, it is assumed that the knowledge of objects and answers to questions can be found everywhere in the organization. Among the skills and knowledge of matters of all organization members, when members join into teams. In this model objectives are established together and the work processes are generated under teams of specialists. In the new system the key to success is understanding that managers should share their power and responsibility with teams of people which were once limited by the stiff, bureaucratic power systems.

Reduction of corporations and creation of more flat organizational structures, with a smaller number of middle managers who were the core management in the traditional hierarchy system, force organizations to greater empowerment of members which will allow them to work in the real team. The phenomenon known as teams is particularly adjusted to the era of the knowledge and information society and globalization processes. Information superhighways and networks connect teams on different continents and
around the world which facilitate the replacement of information and creative ideas. Global alliance creates new possibilities to use multinational teams in order to develop cooperation and creative exchange of thoughts and knowledge.

When we first think of organization development, it seems that it is a relatively clear process. It is restricted to outlining the necessary vision of the future and then providing the necessary tools in the implementation of the objective. The practice, in consequence, proves to be completely different. The abstractness of ideas which will set the future development conditions and the selection of solutions and tools tend to be a problematic issue. One of the proofs for the relevance of such observation is the assessment of the condition and the course of companies and other organizations development. Development is, in a vast majority of cases, a pure coincidence rather than conscious and planned action. When we identify this problem it is difficult not to ask the questions concerning the reasons for this state of affairs. The conclusion seems to be justified that it is not caused only by the lack of adequate experience and knowledge concerning management, though it may be the one of reasons. An equally important aspect is also the problem concerning multi-dimensional thinking in organization’s management. The abovementioned ability of multi-dimensional thinking is the ability to identify contradictory areas which exist in our reality and combine these seemingly different aspects of the organization. The observation of organizations which are successful proves that the acquired ability to solve these paradoxes is one of the major keys to the conscious formation of changes and organization development and hence to achieve desired efficiency in management and appropriate dynamics of adjustment.

One of the first books which was written in the spirit of recognition of changes as the key element to efficient management was the book published in 1982 titled „In Search of excellence“ written by T. Peters and R. Waterman. They assumed that companies are systems of variables and they tried to demonstrate that the intelligent approach to the management should comprise of seven variables: structure, strategy, people, style of management, system and procedures, concepts of development and joint values which today are understand as a broader term which is the organization's culture and expected strengths and system features.

They defined and developed this idea as the so-called „McKinsey 7-S scheme“. They also wrote: “by some manipulation we managed to identify all seven variables which begin with the letter 's' and to find names for them. We were encouraged by A. Athos from Harvard Business School who emphasizes that without alliteration which supports remembering, our conclusions are too difficult to explain and too easy to forget”.

Currently, after many years of application of this scheme, it is important to consider it as a useful way of thinking about the organisation. Not only about the so-called stiff organisational elements as strategy, structure, but also ‘flexible’ ones, such as style of management, personnel (people), skills (competences) and joint values (Peters, Waterman, 2000).
Further years of business development and knowledge evolution as well as experience in management proved that the key elements for success, as mentioned before, are changing. Nowadays the company resembles a ship sailing over an infinite ocean rather than a wagon which moves along the set path. Therefore, no wonder that the above mentioned principles were not always effective.

After twenty years the time came to change the approach. In 2005 the book B. de Wit and R. Meyer published a book titled „Strategy synthesis: resolving strategy paradoxes to create competitive advantage“. The basis of this book is the claim that success in management depends on the capacity to recognise contradictory ideas. A paradox is a situation when two seemingly opposing or even mutually exclusive facts turn out to be simultaneously true. Therefore this refers to replacing thinking „either, or“ with „both (...) and (...)“. This issue is best illustrated by the scheme below (Fig. 1).

**Figure No. 1. Strategy synthesis**

![Strategy Synthesis Diagram](image)


Each pair of contradictors produces tension as they seem to exclude one another. It is common that in everyday life and in professional activity we tend to stop at this stage of analysis of the situation. From the perspective of constraints and challenges the solution of which would require contradictory decisions or actions, we assume that we have to make an alternative decision. The dilemma appears again, whether the choice is right, since the world is so complex, dynamic and controlled by technology. Does the goal of our activity constitute the choice between e.g. logic and control, revolution and evolution, reflection and synergy, competition and cooperation, profitability and responsibility, if we talk about the company. Similar dilemmas appear in other aspects of our human activity as e.g. work and family or loyalty and fairness.
The essence of organization’s management and shaping of its development potential, as well as determination of relevant strategic directions consists in struggling with those types of tensions. The ability to identify these contradictions and then their reasonable integration thanks to which we can achieve special complex nature and regularity in development is the basic challenge in today’s complex world. B. de Wit and R. Meyer formulated ten most important paradoxes in particular strategic areas and organization’s development 1).

<table>
<thead>
<tr>
<th>Topics</th>
<th>Paradoxes</th>
<th>Perspectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic thinking</td>
<td>logics vs. creativity</td>
<td>rational reasoning versus generative reasoning</td>
</tr>
<tr>
<td>Strategy formation</td>
<td>intentionality vs. emergence</td>
<td>strategic planning vs. strategic gradualness</td>
</tr>
<tr>
<td>Strategic Change</td>
<td>revolution vs. evolution</td>
<td>discontinuous renewal versus continuous renewal</td>
</tr>
<tr>
<td>Business level strategy</td>
<td>markets vs. resources</td>
<td>exogeneity versus endogeneity</td>
</tr>
<tr>
<td>Corporate level strategy</td>
<td>responsiveness vs. synergy</td>
<td>portfolio organisation versus integrated organisation</td>
</tr>
<tr>
<td>Network level strategy</td>
<td>competition vs. cooperation</td>
<td>discrete organisation versus embedded organisation</td>
</tr>
<tr>
<td>Industry context</td>
<td>compliance vs. choice</td>
<td>industry dynamics versus industry leadership</td>
</tr>
<tr>
<td>Organisational context</td>
<td>control vs. chaos</td>
<td>organisational leadership versus organisational dynamics</td>
</tr>
<tr>
<td>International context</td>
<td>globalisation vs. localisation</td>
<td>global convergence versus international diversity</td>
</tr>
<tr>
<td>Organisational purpose</td>
<td>profitability vs. responsibility</td>
<td>shareholder value versus stakeholder value</td>
</tr>
</tbody>
</table>


One of the fundamental examples of accepted orientation of thinking by means of paradoxes is the evolution of companies orientation with respect to the selection between exo- and endogenous orientation in management in the field of strategy and organization development. The essence of exogenous changes is the revolution which is the process in which changes break down the existing state of affairs. The company seeks to interrupt the constant organization development. Such actions seem necessary when undertaken actions are not able to free the organization from the previous condi-
tion (De Wit, Meyer, 2007). Representatives of this approach believe that the company should not focus on its possibilities, but on the specific nature of the environment. In the 1980s the exogenous concept of strategic changes was presented by M. Porter. This approach (also known as MBV – Market Based View) is based on a model of five forces and a value chain model. The foundation of this concept is an assumption which states that the purpose of the strategy is to achieve the competitive advantage. The competitive advantage of the company is generated thanks to the appropriate interpretation of the market on which it functions and its ability to generate the product/s meeting the requirements of the market.

The endogenous changes are processes extended in time, which consist of a set of overlapping processes of the organization’s evolution. In this process the present shape of a company is assumed as the starting point. The proponents of this concept believe that a strategy should be built around the opportunities offered by the environment, but around the strengths of an enterprise. According to them, competences cannot be acquired – an organization must develop them.

It is believed that it is difficult for an organization to present itself within the scope of basic competences, even if the market requires it. The main determinant of the decision made by a company is not thus what opportunities the market provides, but what the enterprise may offer it in consequence. This approach (RBV – Resource Based View) was developed in the 1990s as a result of, among others, works of G. Hamel and C.K. Prahalad, who believed that the foundation of the strategic change is the way of input resources management for development of key competences and distinctive abilities.

The market environment and the company are dynamic systems, subject to constant changes so the selection between exogenous and endogenous approach is not simple (Allaire, Firsirotu, 2000). The application of exogenous and endogenous approach indicates quite surprising fact. (Fig. 2).

The proponents of the exogenic concept believe that when establishing a strategy a company should not focus on its capabilities, but on the specific nature of the environment. On the other hand, the proponents of the endogenic concept believe that companies should at first appeal to their competences and try to construct the elements of their strategy on this basis. The characteristic features of an endogenic company are: constant improvement, learning and adaptation. Employees need to be constantly motivated to develop and build their own learning potential. They should constantly ensure their knowledge, which means not only absorbing new information, but also questioning the beliefs which are rooted in the organization (Machaczka, 2014).

In practice, managers face evident market paradox and resources. The difficulty is, however, that when we speak about the paradox we have to understand that we face a situation in which the described problem does not actually have a solution. It does not have a solution because it is impossible to logically integrate two opposites in internally consistent manner of the problem’s understanding. Managers may only try to replace
...the ‘either, or’ approach with the ‘both (...) and (...)’ approach. It turns out that the proper approach in the field of establishment of the strategy is the ability to integrate these seemingly extreme concepts within the system.

Figure 2. Towards the modern models of strategic thinking.

<table>
<thead>
<tr>
<th>Market based view (MBV)</th>
<th>Resource based view (RBV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>Competences</td>
</tr>
<tr>
<td>Markets</td>
<td>Markets</td>
</tr>
<tr>
<td>Competences</td>
<td>Products</td>
</tr>
</tbody>
</table>

Integrated, multidimensional approach to strategic dimension management


2. Multidimensionality of the development space of a contemporary company as a strategic changes factor

As it was already stated the conditions for formation and development of the modern companies are subject to dynamic and constant changes. The source of these changes is not only the broadly understood company’s environment, but also the internal space of an organisation. Identification of the aforementioned sources of changes makes it possible to indicate two basic moving spirits in the company’s development. The first spirit is related to exogenic conditions. These conditions are created by complex external environment of an organisation. The basic characteristics describing the contemporary external environment of a system is its turbulence, complexity and variability. These characteristics result from the intensity of discontinuing phenomena in the socio-political-economic space that we have to face now. The second spirit is related to endog-
enous conditions of growth and development of an organisation creating in each case a unique potential of a company. This space is often defined as an internal environment of the system which is created by the whole set of tangible and intangible characteristics which constitute the value of resources that are the basis for the renewal potential of a given company. The indicated potential is generated by people, their intellectual capabilities and readiness for creative use of the potential of cached knowledge in each organisational system.

The spirits presented above form the functioning and development context of contemporary companies and all other organisations. Due to their source of origin they form completely different generators of challenges which have to be faced by the management. On the other hand, their effect on an organisation is simultaneous and equally strong. Thus, it seems necessary to construct organisational systems in such a way that they have the ability of parallel and simultaneous identification, generation and implementation of changes enabling proper reaction and use of the possibilities created by these spirits.

The above outlined image of conditions and challenges of operation and development of companies creates an extremely complex space. A space where it is difficult to identify explicit possibilities and constraints of development and, at the same time, it is extremely difficult to indicate clear direction for an organisation to follow. A question arises, since the complexity and multidimensionality of elements affecting the development opportunities of an organisation reached such a high level of complexity, can this development be shaped in a pre-set and long-term manner? Should the organisations in their decisions be restricted only to short time span, the rest of their existence and opportunities of survival left to undefined future? Should activities enabling creating long-term growth and development of an organisation be abandoned because of awareness of rapid outdating of formal strategy in mid and long term perspective?

Answers to these questions could seem obvious at first glance, but they put us in a situation of many dilemmas that we need to solve, rather than explicit answers directing our searches in one direction. However, we can and we should make an attempt of non-traditional manner of giving answers to the above questions. The direction which seems to be correct, is related to search for the proper structure of the internal organisational system which make it possible to generate the appropriate motor reaction which enables the effective solution of challenges, outlined above, which the modern companies have to face and creation of relevant potential of the strategic change.

It is certain that organisations, just like all living systems, are governed by the laws of entropy. No activities ensuring appropriate development potential must lead in consequence to fall of a given system, including special types of organisations being a company. The main generator of development, as we know, is the ability to create necessary and appropriate changes. Current experiences clearly show that it does not refer generally to the ability of creating and introducing every change, but the ability to create appropriate changes. As a consequence, it is not the ability of diagnosis and analysis of
what is the goal of selecting a proper strategy that seems essential, but more the ability
to identify possible directions of changes in the future at simultaneous creation of a sys-
tem able to absorb and creative creation of their future. The instrumental ability seems
thus not essential to build effective strategies by the system, but its creative structure
manifesting itself in readiness of the system to identify possible development directions
and flexibility in selection of adequate strategies enabling optimum use of opportunities
present at the given stage of its existence.

The reality of functioning and development of contemporary organisations can therefore be defined as a completely separate dimension with regard to conditions pre-
vailing in near past. An important challenge for companies as well as researchers look-
ing for proper solutions in the management space is the problem of discovering proper
interrelations between the potential of a company, external conditions, possibilities to
survive on the market, then improvement in a competitive position, possibilities and di-
rections of further changes and, as a consequence, ensuring an appropriate development
potential of an organisation. The dependencies indicated here, are probably the most
important challenge for management in strategic space of contemporary organisations.
It is also an expression of contemporary thinking about the business of the 21st century
constructed on a logic summed up in the saying: “survival is the company’s challenge, sur-
vival is possible only thanks to properly selected change, proper changes enable development,
development is the basis for survival” 3).

Figure 4. Constellation of existence factors of a contemporary organisation

![Diagram showing factors of a contemporary organisation: Survival, Change, Development]

Source: Prepared by the author.

An important aspect of the above mentioned pragmatics of thinking about the
challenges for modern management is the awareness that the use of set schemes of
thinking, in particular, in the strategic aspect, cannot bring the relevant effects of crea-
tion appropriate and creative strategies. This can be noted at a rough analysis of the
market space, where companies may be identified which are able to perfectly behave in
conditions of their area of functioning, cope with variability of the environment, market
challenges, competition, customer needs and internal development challenges, such as absorption of new technologies, adaptation of organisational culture, etc. On the other hand, unfortunately, we may frequently observe more numerous examples of very similar organisations that seemingly use similar solutions, however, they react dysfunctionally to the same conditions. They are not able to respond to various external stimuli, wrongly interpret information, they are unable to cope with coordination of internal changes. As a consequence, it results in difficulties with staying on the market or even bankruptcy. The reason for this condition lies in something more than only the aforementioned instrumental capacity in use of the management tools in the strategic space system (Machaczka, 2014).

3. L.E. Greiner's Model as an example of integration of the evolution and revolution paradox in management of the organization development

Along with the company's development, visible growth and crises, its awareness of existence is shaped in the capacity for the change's absorption. Unfortunately, in spite of the fact that there is awareness of the complex organisation transformation, the efforts for higher effectiveness which consist in the use of various instruments and techniques and vigorous implementation of strategies are often wasted. The research presently widely conducted worldwide indicates quite clearly that successes are achieved mainly by organisations that are able to ensure simultaneous and coordinated changes in all areas of functioning. Designing a proper internal structure of an organisation should make it possible to create a system capable of reconfiguration processes. Reconfiguration processes should be understood as the creation of mechanisms which, including organisation abilities, enable the generation of desired strategic changes and provide the opportunity for development, which is the guarantee for the negative entropy and survival capacity.

The project of such a structure needs to take place in described awareness that in the organisation we deal with a substantial number of seemingly contradictory phenomena which we are forced to reconcile in the field of the organisation. As can be easily noted, the above statements are a complement to the definition of the essence of such complicated process as the organization development. It can be stated as such because it takes place most often in extremely complex conditions. In the event when we encounter many contradictory processes, phenomena and areas which we have to combine into one efficient management system. An example of these contradictions in the development of an organization can be found in one of the most common models of development which is proposed by L. Greiner in which we come across the example of paradox which is the paradox of evolutionary and revolutionary changes by means of the paradox of development and crisis. The phenomena seemingly far from each other, but actually so inseparable (Machaczka, Machaczka in: Lachiewicz, Matejun 2011).

L.E. Greiner's Model gained the permanent place in the literature concerning management. It was published in 1972, in Harvard Review Business magazine, and titled “Evolution and Revolution as Organizations Grow”. Its basic advantage is that it
indicates managers that each solution which at a given moment seems to be excellent includes traces of crisis. It is common that everything which used to be perfect does not bring effects now. Unfortunately, many managers do not understand this obvious truth.

L. E. Greiner presented the company’s development as the evolution and revolution process which occur alternately because of the age, size and the growth rate in the trade in which the company operates (Fig. 3).

**Figure 3.** Model of an organization grow according to L. Greiner

![Greiner Model Diagram](image)

Source: Greiner (1972), p. 41.

The analysis of presented L.E. Greiner’s Model enables the identification of five basic areas which affect the capacity to build organization’s development potential at a given stage. These are: age of the organization, its size, stage of its development and another crisis which the organization will possibly face as well as the level of external factors’ changes which are characterized mainly by the growth rate of the sector (Greiner, 1972). Therefore, the capacity to have the appropriate tools and the ability to identify designated areas which define the organization development make it possible to identify the level of the company’s development and problems, from the point of view of the stage of development. It makes possible to avoid such mistakes as the use of managing-organizational solutions in a long term, which, in a given moment, cease to be adequate and instead of helping organization in a simple manner they are harmful, exactly as strategies which in a given moment are right and in another one prevent to gain desired effects (Machaczka, 1998). Therefore, knowledge which concerns, on the one hand, the level of development and on the other hand possible crises makes it possible to main-
tain desired dynamics of changes. This, in turn, leads us to the condition when we are able not only to adapt the behaviour of the organization to existed situation, but also we can forecast and then design them in the perspective of the future. Nowadays the fundamental way of thinking concerning management, competitiveness and development functions as elements which result from deliberate actions and not as a coincidence.

Among indicated reality of the company's development, on the one hand it becomes important to be able to identify and understand the subsequent associations between the stages of the organization development and the potential crises and on the other hand the possibility to diagnose and examine the stage of organisation development and the possible crises. Answers to these questions are the basis for the solution of the abovementioned paradox.

The basic challenge for the modern organizations is, however, still the control of abilities which enables the conscious shape of own reality and future. It is difficult to imagine that in the organization on the one hand we think about the future and on the other hand in the management practice we limit ourselves only to the current reactions on what we can meet. It is appropriate to point out that this is the situation from which we deal most common.

It can be said that the way to solve the aforementioned paradox is the ability to understand the process of specific organization development. Then, if possible, to diagnose and learn the current conditions of the company. Finally an attempt to prepare the entire system which is based on the capacity to prepare the ‘learning strategy’ which enables the proper responses to development stresses which occur in the organization. Such a system would become asystem which has the capacity to examine actual conditions and reasons of its problems and possibilities for development and then could implement the relevant solutions which would permit the use of the stage of its development in order to constantly develop.

To sum up the above discussion, we can see that the problems of company's development management are multi-dimensional and their character depends on achieved level of development. By the use of one of the most common models in science and management practice, i.e. L.E. Greiner's Model, we can note strong associations between the states of organizations growth and the crises which are, among others, a derivative of these increases. The effectiveness of modern organization development management is the identification of the current phase of the system development and simultaneous diagnosis of anticipated crisis. It is important to realise that disturbances have always existed within the system. However, the specific challenge for these phenomena appeared at the time of the evolution of the organization's environment towards the discontinuation, which, on the one hand, critically intensifies the internal interruptions and on the other hand forces the constant implementation of the creative strategic changes. Therefore, the ability to identify changes which take place both of the stimulant and non-stimulant character and the potential possibility to predict the future necessary changes have unquestionable meaning for the organization's development strategy. Knowledge and the
capacity to identify which of the changes are possible, and which are objectively unjustified allow creative and more complex selection of appropriate development tools and simultaneous use within the effective set of organization's instruments adaptation and creative strategies. This leads to creating the practical potential of abilities to solve one of the main paradoxes of the modern companies which is the paradox of growth and crisis.

References

Short bio of author
PhD in economics within the scope of management. Currently employed as an assistant professor at the Cracow University of Economics in Poland. He has been employed there since 1998. Since 2012 he has been working works at the Department of International Management which is headed by Prof. dr hab. Janusz Teczke, PhD. In his scientific work, he focuses mainly on the problems of organization’s development and management, organization’s modelling, modern directions of management theory evolution, modern methods of management, as well as on the problem of leadership. His activity, apart the scientific activity, includes teaching, training and business.
The article made an attempt to demonstrate that the availability of qualified staff, mostly university graduates, is one of the dominant factors affecting the position of Poland as the leader of the sector of modern business services in Central and Eastern Europe. It also indicated employee competences that are, at the same time, important and the most difficult to obtain. They include initiative, innovativeness, commitment, intercultural sensitivity or knowledge of foreign languages.

1. Introduction

Dynamic changes in conditions in which business activities are conducted in the international perspective through the development of information and communication technologies force enterprises to undertake strategic actions aimed at strengthening the competitive position.

A modern concept allowing enterprises to improve the effectiveness of their functioning is offshoring, which means relocation of selected processes or functions from the enterprises abroad.

Offshoring involves analyzing and managing the chain of a company’s value. It requires separation of core competences and those operations that may be implemented more effectively using its own foreign company or a collaborating foreign entity.

Currently, more and more entities have been deciding to relocate their services. Service offshoring applies, first of all, to IT services (development of applications, reengineering and safety control, processing business transactions) as well as broadly understood business services (finance and accounting, legal services, call centers, engineering services, market analyses and research as well as data processing and administrative as-
sistance). Delocation of the companies’ operations forced the need for changing their functioning by establishing centers coordinating the functioning of the organizations on the global scale. These centers aim at the maintenance of contact with customers as well as transfer of information between a geographically dispersed network of cooperating units\(^1\). A new form is the offshoring of business processes based on knowledge (Knowledge Process Offshoring), which applies to services requiring expert knowledge e.g. related to the law, market analysis and research or design and engineering services\(^2\).

In the new wave of globalization – transferring services to countries with low costs of labor and qualified workforce – Central-Eastern Europe has recently become an important place for locating business services. It is worth emphasizing that Poland is the leader in the offshoring service sector in Central-Eastern Europe in terms of the size of employment. The availability of qualified staff, mostly university graduates, is one of the dominant factors affecting the position of Poland as the leader of the sector of modern business services in Central and Eastern Europe.

The purpose of the article is to analyze the development of the sector of modern services in Poland and indication of competences required from university graduates.

2. **Human capital as a motive of international expansion in the form of offshoring**

Businesses build their strategies of development and competition taking into account the current and the future condition of the environment as well as the possibility to take advantage of the opportunities and created by the environment counteract any encountered hazards.

The reasons for making decisions about using the services of an external partner have been presented by an American organization known as The Outsourcing Institute. Research conducted in enterprises in the US and Western Europe show that the most important motive of offshoring is still cost reduction. The awareness that as a strategy offshoring may contribute to boosting the effectiveness and, as a consequence, development of an enterprise has also been on the rise. Global concerns more and more often delocalize their operations seeking resources on foreign markets. In the case of services the most significant resource is intellectual capital, particularly human capital. Businesses look for employees with a proper level of education and competences as well as specialists in very narrow specializations.

Acquisition of resources on the global scale most often applies to the geographical directions, the scope and the forms of acquisition of resources, in particular human resources, by businesses. Its aim is high productivity, which may be pursued by an enter-

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\(^2\) Masłowski A., Nowe formy usług opartych na wiedzy, „Handel Wewnętrzny”, 2005, no. 3.
prise by utilizing cost strategies, seeking the cheapest means of production or through high operational effectiveness and proper strategic positioning\(^3\).

Offshoring may make it easier to increase the human capital resources of an enterprise.

The current criterion of selection of a country and a city for location of offshoring activities is not the labor cost but the resource of employees with specific education as well as competences.

A.T. Kearney publishes the Global Services Location Index, which takes account of three main factors determining the attractiveness of offshoring in particular countries: the cost of human resources, workforce skills and availability as well as the quality of the business environment (see tab. 1)\(^4\). Based on the index it can be stated that India is the most attractive place for location of offshoring activities, chiefly for companies from the USA. India surpass other countries in terms of costs, availability of specialists, knowledge of English, information infrastructure and experience in the IT sector. A factor attracting investors to the IT service sector was the extensive availability and high level of education of specialists associated with the IT sector\(^5\). Similar advantages characterized other countries of South-East Asia. In this respect Malaysia, Thailand or Indonesia have been becoming a more and more frequent alternative to India and China.

Due to competitive labor costs and a large potential of employees who are educated and fluent in English, India has become the world’s center for offshoring services, mainly IT and financial ones, but also call center\(^6\). India and China are considered the most beneficial locations for offshoring activities, which is confirmed by a ranking prepared by the global strategic consulting company A.T. Kearney from 2014 Global Services Location Index 2014. This agency publishes the Global Services Location Index which takes into account three main factors determining the attractiveness of offshoring in particular countries: the cost of human resources, the skills and availability of la-

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4 Szymaniak A., Polska w rankingach atrakcyjności dla offshoringu usług, in: Globalizacja usług, Outsourcing… op. cit., p. 288.

5 Liberska B., Globalizacja a offshoring usług sektora IT, in: Globalizacja usług, Outsourcing, offshoring i shared services centers, ed. by A. A. Szymaniak, Wydawnictwa Akademickie i Profesjonalne Spółka z o.o., Warszawa 2008, p. 246.

6 India also has a significant share in the worldwide offshoring, e.g. in services related to textile production (dyeing, production of fabrics or sewing) in trades less developed in terms of technology. Numerous companies provide services for clothing corporate businesses i.e. H&M, C&A or Inditex – the owner of such brands as ZARA, Bershka or Pull&Bear, see. Międzynarodowa kooperacja gospodarcza z polskiej perspektywy, ed. by B. B. Stępień, PWE, Warszawa 2011, p. 153.
bor force and the quality of the business environment. India is the most attractive place for location of offshoring activities, chiefly for companies from the USA. India surpass other countries in terms of costs, availability of specialists, knowledge of English, information infrastructure and experience in the IT sector. A factor attracting investors to the IT service sector was the extensive availability and high level of education of specialists associated with the IT sector. Similar advantages characterized other countries of South-East Asia. Malaysia, Thailand or Indonesia have been becoming a more and more frequent alternative to India and China (table 1).

Table 1. Global Services Location Index 2014

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>Financial attractiveness</th>
<th>Availability and skills of employees</th>
<th>Business environment</th>
<th>Total Index value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>India</td>
<td>3.14</td>
<td>2.71</td>
<td>1.19</td>
<td>7.04</td>
</tr>
<tr>
<td>2.</td>
<td>China</td>
<td>2.26</td>
<td>2.54</td>
<td>1.36</td>
<td>6.15</td>
</tr>
<tr>
<td>3.</td>
<td>Malaysia</td>
<td>2.72</td>
<td>1.43</td>
<td>1.84</td>
<td>5.98</td>
</tr>
<tr>
<td>4.</td>
<td>Mexico</td>
<td>2.67</td>
<td>1.61</td>
<td>1.61</td>
<td>5.90</td>
</tr>
<tr>
<td>5.</td>
<td>Indonesia</td>
<td>3.15</td>
<td>1.56</td>
<td>1.16</td>
<td>5.87</td>
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<tr>
<td>6.</td>
<td>Thailand</td>
<td>3.01</td>
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<td>1.44</td>
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<tr>
<td>7.</td>
<td>Philippines</td>
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<td>1.48</td>
<td>1.26</td>
<td>5.75</td>
</tr>
<tr>
<td>8.</td>
<td>Brazil</td>
<td>1.81</td>
<td>2.25</td>
<td>1.63</td>
<td>5.69</td>
</tr>
<tr>
<td>9.</td>
<td>Bulgaria</td>
<td>2.99</td>
<td>0.97</td>
<td>1.66</td>
<td>5.62</td>
</tr>
<tr>
<td>10.</td>
<td>Egypt</td>
<td>3.20</td>
<td>1.36</td>
<td>1.06</td>
<td>5.62</td>
</tr>
<tr>
<td>11.</td>
<td>Poland</td>
<td>2.28</td>
<td>1.39</td>
<td>1.87</td>
<td>5.54</td>
</tr>
<tr>
<td>12.</td>
<td>Vietnam</td>
<td>3.30</td>
<td>1.14</td>
<td>1.10</td>
<td>5.54</td>
</tr>
<tr>
<td>13.</td>
<td>Chile</td>
<td>2.35</td>
<td>1.29</td>
<td>1.89</td>
<td>5.53</td>
</tr>
<tr>
<td>14.</td>
<td>USA</td>
<td>0.49</td>
<td>2.88</td>
<td>2.15</td>
<td>5.53</td>
</tr>
<tr>
<td>15.</td>
<td>Lithuania</td>
<td>2.73</td>
<td>0.93</td>
<td>1.87</td>
<td>5.52</td>
</tr>
</tbody>
</table>


A number of companies more and more often decide to relocate their activities to Central and Eastern Europe. This region’s attractiveness grows due to the availability of employees with specialized skills, a high quality of education, cultural proximity or a friendly climate for foreign investors. In the case of SSCs (shared services centers) companies which decide to separate and relocate them, take into account mainly two

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8 B. Liberska, Globalizacja a offshoring usług sektora IT, in: Globalizacja usług. Outsourcing, offshoring i shared services centers, ed. by A. Szymaniak, Wydawnictwa Akademickie i Profesjonalne Sp. z o.o., Warszawa, p. 246.
directions: Asian countries and Central and Eastern Europe. The first direction is particularly attractive for transnational corporate businesses, while smaller international companies choose new member states of the European Union.

The costs of labor in Central and Eastern Europe are two times higher than in India, while they are much lower than those in Western European countries. It may also be noted that the availability and skills of employees are evaluated better in India and in Western European countries than in Central and Eastern European countries, just like the business environment. A number of transnational corporate businesses decide to relocate their activities more and more often to Central and Eastern European countries with a high potential in providing IT services for global markets. This region’s attractiveness grows due to the availability of employees with specialized skills, a high quality of education, cultural proximity or a friendly climate for foreign investors. Geographical proximity, economic linkages, cultural ties give these countries an advantage as a place for locating services for Western European countries. Companies choose nearshoring which consists in transferring jobs not into the cheapest regions but close to the headquarters in terms of geography, as well as culture. The most attractive positions in the ranking of attractiveness for offshoring by A.T. Kearney in Central and Eastern in 2014 were held by Bulgaria, Poland and Lithuania.

It may be assumed that in the case of Central and Eastern countries which joined the European Union and adapt their business environment to EU standards, the geographical proximity will be the factor influencing this region’s competitiveness for offshoring services. Offshoring is becoming an attractive form of internationalization and globalization of enterprises. It makes it possible to achieve benefits in the form of cost reduction, access to target markets, qualified employees. However, when deciding to choose offshoring as a form of international expansion enterprises should consider possible constraints i.e. difficulties in managing dispersed operations, the costs of coordinating a chain of business partners located in various time, geographical and cultural zones. Companies also need to have an appropriate information and communications (ICT) infrastructure.

3. Forms of offshoring services and required employee qualifications

The international exchange of services is organized in specific organizational forms. The following ones can be distinguished: offshoring of business and IT processes, shared services centers as well as knowledge process offshoring (KPO). Each of these forms requires hiring employees with a diverse level of qualifications.

The literature on the subject introduces a distinction between IT offshoring and business process offshoring. IT offshoring is associated with IT technologies as well as

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10 Gabryszak R., Foremna – Pilarska M., …, op. cit.
processes found in the value chain of an enterprise. Offshoring in the field of IT consist of: implementation or handling modern technologies and may apply to utilization of the Internet, e-commerce with regard to databases and their processing. BPO, namely business process offshoring, involves relocation of functions of enterprises regardless of the degree of utilization of IT e.g., finance and accounting, legal and engineering services or market analysis and research\textsuperscript{11}.

Regarding the type of conducted activity the following forms of business process offshoring can be distinguished (BPO):

- Phone service centers (call/contact center) – these are centres providing services requiring information flow and processing e.g. IT help, consulting or conducting market research,
- Shared services centers – centers involved in (apart from customer service) broad activities in the field of administration, e.g. accounting- personnel service, including handling transactions, suppliers’ invoices, payouts of remuneration as well as legal consulting\textsuperscript{12}.

Shared service centers constitute a model used by international corporations for around twenty years. The development of the centers is strictly connected with the development of telecommunication and information technologies. Initially they were developed for accounting and financial processes and in time the scope of their use has been extended. Currently, the services most often rendered by the centers are still services associated with finances and reporting, IT and supply, completion of orders, human resources, IT systems, real estate or contract management\textsuperscript{13}.

A new developing form of business process offshoring is knowledge process offshoring (KPO). Knowledge process offshoring is associated with the search for workforce holding skills in diverse fields. The demand for highly-qualified specialists results from the complexity of the processes subject to offshoring.

KPO applies to services, generation of which requires specialized expert knowledge relating to e.g. market analysis and research, legal advice, engineering and design services. KPO includes financial services, business&market intelligence.

The forms offshoring services and the employee qualifications required for their implementation are presented in table 2.

Offshoring more and more often involves knowledge-based processes aimed at providing support for innovative activities of an organization. Globalization provides companies with access to workforce resources and allows them to employ better educated staff. The availability of resources of highly qualified workforce results in the fact

\textsuperscript{11} M. Majchrzak, Offshoring jako nowoczesna forma świadczenia usług w skali międzynarodowej, Zeszyty Naukowe, Uniwersytet Ekonomiczny w Poznaniu, Poznań 2010, no. 146.

\textsuperscript{12} A. Masłowski, Nowe formy usług opartych na wiedzy, „Handel Wewnętrzny”, 2005, no. 3; M. Majchrzak, Offshoring jako nowoczesna forma świadczenia usług w skali międzynarodowej, Zeszyty Naukowe Uniwersytetu Ekonomicznego w Poznaniu, 2010, no. 145.

\textsuperscript{13} M. Majchrzak, Offshoring jako nowoczesna forma..., op. cit.
that organizations are able to acquire better educated and effective employees from various countries in order to carry out research projects. Taking advantage of offshoring of services enables businesses to increase their competitiveness as well as expand their operations in the sphere of innovation as well as boost the quality of offered services and simultaneously reduce their costs.

Table 2. Forms of offshoring services and required employee qualifications.

<table>
<thead>
<tr>
<th>Services requiring low qualifications</th>
<th>Services requiring medium qualifications</th>
<th>Services requiring high qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data input and call/contact service centers</td>
<td>Financial and accounting services, data analysis and processing, programming, back-office type services</td>
<td>R&amp;D services, design including architectonic, software development, animations, medical testing and analyses, designing technologies</td>
</tr>
<tr>
<td>Very good knowledge of foreign languages among potential employees as well as linguistic traditions of the country</td>
<td>Higher qualifications dependent on the type of service</td>
<td>High qualifications in narrow specializations</td>
</tr>
<tr>
<td>Phone service/contact centers</td>
<td>Back-office type services, IT services</td>
<td>Shared service centers and knowledge process centers</td>
</tr>
</tbody>
</table>

Source: prepared by the author

4. Access to competent employees and location of modern business services

Over the recent years Central and Eastern Europe has become an important place of location of business services and the site of operation of approximately 1000 service centers ((BPO), ITO, SSC, R&D) with foreign capital. The employment in the sector of modern business services in the countries of Central and Eastern Europe ranges between 270 000 and 300 000 people and is dynamically growing. Poland is a leader in terms of employment in the sector of modern business services. Over the recent years the average annual growth in employment in the sector in Poland has remained at the level of ca. 20%.

The largest number of employees in the sector of modern services work in Kraków (19 400), then Warsaw (14 200), Wrocław (12 600), the Tri-City (8 000), Łódź (7 700), the Silesia Metropolitan Area (6 900) and Poznań (5 000).

One may indicate a number of comparative advantages which comprise Poland’s significant potential, e.g. definitely lower labor costs as compared to western countries, well-developed workforce, knowledge of foreign languages (English, German and French, to a lesser extent), cultural proximity with Western European countries, geo-

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14 Sektor nowoczesnych usług biznesowych w Polsce 2013, Związek Liderów Sektora Usług Biznesowych (ABSL).
graphical proximity with Western European countries, investment incentives e.g. as part of special economic zones (SEZ).

The year 2012 was a record one for Poland in terms of the number of business service centers established as a result of investments of foreign capital. In total 56 of them were created at that time, most of which in Kraków (11), the Tricity (9) and Wrocław (9). On average, a center located in Poland employs 257 people, given that the average size of employment has been increasing every year. New jobs are also created in the environment of those companies. It is estimated that for every 1,000 jobs in the service shared centers located in Kraków 267 jobs in are created in the local economy (in transport, training, catering)\(^\text{15}\).

Considering the previous dynamic growth of the industry in question, the prospects of its development in the years to come are optimistic. It is estimated that in 2014 the number of people employed in foreign business service centers in Poland will amount to at least 125,000. According to the research of the Association of the Leaders of the Sector of Business Services until 2014 as much as nine out of ten service centers have declared an increase in employment\(^\text{16}\). Specialists from the trade estimate that in 10 years the employment in Kraków alone may exceed 50,000 people.

Research conducted among the representatives of the industry confirms that the most important factors deciding about the location of shared service centers in Kraków are not only relatively low costs, but the supply of employees with good knowledge of foreign languages. Subsequent factors in terms of importance include: availability of office area, acknowledged brand of the city (attractiveness of life in the city) as well as a good network of airline connections.

The development of modern business services results in the fact that financial and accounting employees with knowledge of foreign languages are still included among those in short supply\(^\text{17}\). The basic requirement in this field is the knowledge of at least two foreign languages at the level permitting effortless communication. The following languages are desired the most: Dutch, Scandinavian languages, Portuguese, Hungarian or Czech. The employers have difficulties in recruitment of people with knowledge of German they would expect. The demand for specialists with knowledge of this language is high and not all graduates of philological majors in German meet the employers’ requirements.

The BPO/SSC industry has included the following in the group of competences important and difficult to obtain: communication (oral and written), commitment, analytical capabilities, stress management, adaptation, goal orientation, focus on the

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\(^{15}\) Sektor usług biznesowych w Małopolsce. Stan i perspektywy rozwoju, Wojewódzki Urząd Pracy w Krakowie, Kraków 2013.

\(^{16}\) Nowoczesny sektor…op. cit., p.

\(^{17}\) Barometr zawodów 2013. Raport podsumowujący trzecią edycję badania, Wojewódzki Urząd Pracy w Krakowie, Kraków 2013 r.
customer, intercultural sensitivity, cooperation, effect on others as well as the German language\textsuperscript{18}.

In the case of the BPO/SSC the highest demand dynamics is anticipated in the field of competences of innovation, effect on others, basics of economics, stress management as well as initiative. Outsourcing also requires specialists in the field of IT. Professions in short supply in Kraków include: programmers and website administrators, database designers and administrators, IT application specialists. Specialists, among others, with knowledge of the Java and the C++ languages and the NET technology are being sought. Experienced employees are also appreciated, therefore a large part of HR flows takes place between companies competing for the best specialists by offering them higher earnings. In the case of ITO/IT companies competences that are important and, at the same time, the most difficult to obtain include: initiative, innovativeness, commitment, data algorithms and structures as well as intercultural sensitivity. In the case of ITO/IT industry the highest dynamics among the mentioned competences is anticipated in the field of such competences as: initiative, innovativeness, written communication, oral communication, goal orientation, organization of own work, cooperation, commitment, intercultural sensitivity, command of English, learning ability, adaptation, stress management as well as analytical abilities.

5. Summary

Foreign investors have been showing a growing interest in undertaking offshoring activities in the countries of Central and Eastern Europe, particularly in Poland. The region remains a natural back-up for the offshoring of European corporate businesses. Central and Eastern Europe offers attractive labor costs, workforce competences as well as a consistent business environment. The region’s cultural proximity with Western European countries is also important. Economic, historical and geographical ties result in the fact that Central and Eastern European countries become particularly attractive for smaller service companies.

The availability of qualified staff, mostly university graduates, is one of the dominant factors affecting the position of Poland as the leader of the sector of modern business services in Central and Eastern Europe. What distinguishes Poland among other countries of the region is the high number of academic centers. The majors whose graduates most often find employment in those centers include economics, administration, computer science as well as engineering and technological majors. Along with the increase in the number of countries for which such services are provided increases

\textsuperscript{18} Bilans kompetencji branż BPO i ITO w Krakowie. Raport przygotowany przez Centrum Ewaluacji i Analiz Polityk Publicznych Interdyscyplinarnego Centrum Badań i Rozwoju Organizacji UJ, Kraków 2012.
the demand for people with command of other foreign languages e.g., Danish, Swedish and Norwegian.

Employment in the sector modern business of services has been constantly on the rise, also due to the fact the world leaders in this business locate new branches in Poland. According to some experts’ opinion the upward trend in the outsourcing sector in Poland will be maintained in the future years.

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Short bio of author

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One of the fundamental elements of CSR is the stakeholders’ issue. What is important is their influence on the organization, as well as accounting for their expectations by the organization, as well as such issues as a two-sided dialogue, proactive attitude and undertaking joint actions. Capacity for joint action and potential to introduce a social change, are the characteristic features of the stakeholders’ capital. It is of greatest value for companies in the dialogue process, since it is both, a source of inspiration and criticism, as well as a drive for change and an argument for introducing social innovations. Effective involvement of stakeholders in joint actions is discussed in the article. Also the examples of CSR activities aimed at solving significant social challenges are presented.

1. **Stakeholders as the organization partners**

One of the tools of corporate social responsibility is the dialogue with stakeholders. It makes it possible to involve various groups in the decision-making process, i.a. employees, customers, local communities, non-governmental organizations, suppliers, or investors. As a result, the company can learn more about the expectations and needs of important groups and more effectively respond to social problems or environmental challenges. According to M. Panek–Owsiańska, the President of the Responsible Business Forum, the dialogue with stakeholders is a quintessence of CSR. According to her, it is impossible to prepare strategies or implement good practices, if the stakeholders are not identified correctly. Inviting different groups to conversation and serious treatment of their opinion can be perceived as an act of courage on the part of the company. The dialogue may be difficult but it brings benefits for companies, as it enables them to hear various opinions and adapt the activity to real problems and challenges.
Accounting for the stakeholders may take very different forms – starting from current communication, through a formalized process of a social dialogue, to education or involving them in communication and selling products and services. A key question from the company perspective is – which method of stakeholders’ involvement is important from the point of view of a particular business target, since the idea is not the involvement as such but creating a bilateral value (*Joint responsibility. The role of social reporting*, 2013, p. 26).

Stakeholders can be thought of as any group or individual who can affect, or who can be affected by, a corporation or its activities. We can also think of stakeholders as groups or individuals who define value propositions for the company and who therefore must be attended to as part of a sound commercial approach to building loyalty with customers, employees and investors.

Stakeholders are sometimes divided into primary stakeholders, or those who have a direct stake in the organisation and its success, and secondary stakeholders, or those who may be very influential, especially in questions of reputation, but whose stake is more representational than direct. Secondary stakeholders can also be surrogate representatives for interests that cannot represent themselves, i.e., the natural environment or future generations.

*Fig.1. Typical Primary and Secondary Stakeholders.*

Because of the number and spectrum of stakeholders, organisations often start by defining a narrow group of key stakeholders with whom they seek to engage. However, relationships with stakeholder groups are typically neither static nor uniform. The map of stakeholders may look different from issue to issue, and new stakeholders can emerge on the scene unexpectedly. An individual or organisation may have several different stakeholder relationships with a company as well as interrelationships with other stakeholders. Furthermore, in a world of networks based on Internet connectivity, alliances between stakeholders in business may grow, change or collapse with equal rapidity. This is why many leading businesses focus more on developing the requisite organisational mindsets and capabilities needed to build trust-based relationships with their stakeholders than on static mapping of relationships and priorities from the company’s perspective (K. Partridge et al., 2005, pp. 13–14).

2. Stakeholder engagement

With the heightened debate on corporate environmental and social responsibility signalling a new perspective on the interaction between business and society and the distinction between what happens inside and outside of the company becoming blurred, progressive businesses are moving beyond reacting to single issues such as environmental pollution or labour standards. Increasingly, they are aware of the interconnections and complexity of environmental, social and economic issues and recognise they cannot act alone to generate solutions. Stakeholder engagement is rapidly emerging as a vital tool to develop an understanding of what sustainability means for companies and how it can contribute to value creation and the viability of their operations.

Engagement is an umbrella term that covers the full range of an organisation’s efforts to understand and involve stakeholders in its activities and decisions. Engagement can help organisations meet tactical and strategic needs ranging from gathering information and spotting trends that may impact their activities, to improving transparency and building the trust of the individuals or groups whose support is critical to an organisation’s long-term success, to sparking the innovation and organisational change needed to meet new challenges and opportunities (K. Partridge et al., 2005, pp. 12–13, 15–16).

Stakeholder engagement encompasses relationships built around one-way communication, basic consultation, in-depth dialogue and working partnerships. Each successive approach represents a greater commitment on both sides in terms of time and money, and risk and cooperation.
**Tab. 1. Levels of Engagement**

<table>
<thead>
<tr>
<th>Level</th>
<th>Goal</th>
<th>communication</th>
<th>Nature of relationship</th>
<th>Engagement Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remain</td>
<td>No goal. No engagement.</td>
<td>No active communication</td>
<td>no relationship</td>
<td>Stakeholder concern expressed through protest, letters, media, websites etc., or pressure on regulatory bodies and other advocacy efforts.</td>
</tr>
<tr>
<td>Passive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monitor</td>
<td>Monitor stakeholders’ views.</td>
<td>One-way: stakeholder to company.</td>
<td>no relationship</td>
<td>Media and internet tracking. Second-hand reports from other stakeholders possibly via targeted interviews</td>
</tr>
<tr>
<td>Inform</td>
<td>Inform or educate stakeholders.</td>
<td>One-way: company to stakeholder, there is no invitation to reply.</td>
<td>Short or long term relationship with stakeholders. “We will keep you informed.”</td>
<td>Bulletins and letters. Brochures, reports and websites. Speeches, conference and public presentations. Open houses and facility tours. Road shows and public displays. Press releases, press conferences, media advertising, lobbying.</td>
</tr>
<tr>
<td>Transact</td>
<td>Work together in a contractual relationship where one partner directs the objectives and provides funding.</td>
<td>Limited two-way: setting and monitoring performance according to terms of contract.</td>
<td>Relationship terms set by contractual agreement. “We will do what we said we would” or “we will provide the resources to enable you to do what we agree”.</td>
<td>‘Public Private partnerships’ and Private Finance Initiatives, Grant-making, cause related marketing.</td>
</tr>
<tr>
<td>Consult</td>
<td>Gain information and feedback from stakeholders to inform decisions made internally.</td>
<td>Limited two-way: company asks questions and the stakeholders answer.</td>
<td>Short- or long-term involvement. “We will keep you informed, listen to your concerns, consider your insights, and provide feedback on our decision.”</td>
<td>Surveys. Focus Groups. Workplace assessments. One-to-one meetings. Public meetings and workshops. Standing stakeholder advisory forums. On-line feedback and discussion.</td>
</tr>
<tr>
<td>Level</td>
<td>Goal</td>
<td>communication</td>
<td>Nature of relationship</td>
<td>Engagement Approaches</td>
</tr>
<tr>
<td>-------</td>
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<td>-----------------------</td>
</tr>
<tr>
<td>Involve</td>
<td>Work directly with stakeholders to ensure that their concerns are fully understood and considered in decision making.</td>
<td>Two-way, or multi-way between company and stakeholders. Learning takes place on both sides. Stakeholders and company take action individually.</td>
<td>May be one-off or longer-term engagement. “We will work with you to ensure that your concerns are understood, to develop alternative proposals and to provide feedback about how stakeholders views influenced the decision making process.”</td>
<td>Multi-stakeholder forums. Advisory panels. Consensus building processes. Participatory decision making processes.</td>
</tr>
<tr>
<td>Collaborate</td>
<td>Partner with or convene a network of stakeholders to develop mutually agreed solutions and joint plan of action</td>
<td>Two-way, or multi-way between company/ies and stakeholders. Learning, negotiation, and decision making on both sides. Stakeholders work together to take action.</td>
<td>Long-term. “We will look to you for direct advice and participation in finding and implementing solutions to shared challenges.”</td>
<td>Joint projects, voluntary two-party or multi-stakeholder Initiatives, Partnerships</td>
</tr>
<tr>
<td>Empower</td>
<td>Delegate decision-making on a particular issue to stakeholders</td>
<td>New organisational forms of accountability: stakeholders have formal role in governance of an organisation or decisions are delegated out to stakeholders</td>
<td>Long-term. “We will implement what you decide.”</td>
<td>Integration of Stakeholders into Governance Structure. (eg. as members, shareholders or on particular committees etc.</td>
</tr>
</tbody>
</table>


A key difference between the low levels and the high levels of engagement is the degree to which you pool resources (knowledge, human resources, operation capacities, finances or influence on others) in order to achieve a shared objective. In general, the more fundamental the transformation is that you and your stakeholders want to make happen, the more important it is that you work together closely and make the best use of each others resources.

Analysing the issue of holding a dialogue with stakeholders, the standards developed to support such a dialogue and cooperation should be mentioned. They are the standards of AA1000 series created by the international AccountAbility think-tank. Three standards from the series are: AA1000 Principles of Responsibility (APS), AA1000 Stakeholders’ Involvement (AS) and AA1000 Verification (SES).

The first one defines the principles, observing which is necessary for involving stakeholders and it is helpful when verifying present involvement. The second standard
in the series contains guidelines for stakeholders’ involvement addressed to the companies that have just started or plan the dialogue process. The last standard enables verification of the implementation of the aforementioned principles and the quality of information reported in relation to the organization operations.

AA1000SES standard is suitable for use at all levels and at all types of the stakeholders’ involvement. It can be used both, for internal and external involvement, in public, private or civil organizations, regardless of their size. It can be used for one-time projects, as well as for implementation of long-term plans.

A special advantage of the standards is not only free access but, above all, facilitating processes of information and education of stakeholders, managing reputation and risk, assistance in better understanding of issues related to stakeholders’ needs and expectations and verified know-how (Kondraciuk, 2014).

The stakeholders can also be those who under the custom, law, culture, or respect they have, are authorized to represent the abovementioned people or the ones that cannot speak for themselves – such as future generations and natural environment.

Effective involvement of stakeholders can (AA1000SES, 2011):
• provide longer-lasting and sustainable social development, giving those who should be heard, a chance for having their opinion accounted for in the decision-making process;
• facilitate the risk and reputation management;
• enable shared use of resources (knowledge, people, money, technology) for solving problems and achieving aims inaccessible for single organizations
• make it possible to understand the complex environment of the operation, together with changes in the market and cultural conditions;
• make it possible to learn from stakeholders for improvement of products and procedures;
• inform, teach and influence stakeholders in such a way that their decisions and actions have a positive impact on the organization and society;
• help to establish relations with stakeholders based on trust and transparency.

In order to benefit from stakeholders’ involvement, the companies should remember that (The dialogue with stakeholders, 2014):
• A key factor in the success of the held dialogue, is adopting a proper attitude, i.e. active listening to the partner, openness to their comments and suggestions, and also joint effort to work out a solution satisfying to all parties.
• Achieving long-term, strategic benefits from stakeholders’ involvement requires planning actions, taking into account a long time horizon.
• The success of the whole process is determined at the stage of responding and communicating the progress in the implementation of stakeholders’ expectations. This is a confirmation of "keeping the word" by the company.
• The dialogue with stakeholders requires great involvement on the part of the company at all its stages. It is worth appointing particular people responsible for its preparation and implementation.
A good solution is holding the dialogue with the participation of external consultants, e.g. as the moderators of the meeting. It gives the sense of independence and facilitates the involvement of participants. It also ensures an open and friendly atmosphere of the discussion.

A dialogue is a process where sustaining high level effectiveness is possible, assuming a selection of diverse tools. Therefore, it is worth considering, using different forms of dialogue and enabling their evolution.

The most effective are the forms of dialogue where a human element dominates, namely direct contact and conversation between the involved parties.

If the company is not ready for a full process of dialogue, it is possible to start with one or two topics, or a dialogue with selected groups.

When starting a dialogue with a local community, its specific character, possible negative attitude and hermetic nature of the environment should be accounted for. Therefore, cooperation with local authorities, trusted representatives of the community and experienced NGO, is extremely valuable and helpful in achieving the intended aim.

The company openness, willingness to cooperate, explain various issues – sometimes also the disputable ones, are very important for the effects of the dialogue. All that serves to build stable relations with stakeholders and affects future cooperation.

Groups with a negative approach toward the company should not be treated as a threat. It is good to listen to these voices too, to be able to react to them, answer and possibly solve any disputable issues, which would be of great advantage for both parties.

The dialogue process should be continuously developed and adjusted to the changing situation inside the company, and in the business and economic environment.

3. Stakeholders’ capital – an outline of the issue

A dialogue is a long-term process involving many entities, making it possible to invite the representatives of various backgrounds, different interests, and also people with extreme views to one table. A dialogue can also unite around one problem, and the organizations holding the dialogue with stakeholders focus on that. A dialogue finally uses the stakeholders’ capital to introduce the social change.

Stakeholders’ capital can be defined as an aggregate of resources of knowledge, relations and readiness to share experience, and finally, a capacity for joint action and potential to introduce social change.

For companies, the greatest value in the dialogue process is the stakeholders’ capital, since it is a source of inspiration and criticism, as well as a drive to change and an argument for introducing social innovations. A dialogue is a process of building relations with stakeholders and a tool for permanent verification of the company actions and giving feedback.
Those issues are pointed out by B. Rok in a new publication of the Responsible Business Forum entitled “Dialogue and building relations with stakeholders. Manual for companies” (2014). It suggests first to have a kind of “Copernican revolution” and instead of putting the company in the middle of the drawn in all reports, stakeholder circle, consider it one of many stakeholders of a common challenge. Another issue is a change in thinking about joint actions. According to B. Rok the future of the dialogue with stakeholders are different networks, clusters of responsibility, i.e. coalitions for a given issue. An important approach is that: we have something important to do together and for that purpose, resources of a few companies, various organizations can be joined and a network created. B. Rok supports dialogues on a specific topic, resulting in a joint action with a positive social impact. That is why the abovementioned “stakeholders’ capital” is so important, changing the environment in which the company functions, which complies with perceiving CSR (according to the European Commission definition) as the society impact.

B. Rok warns against an immediate dialogue with everyone on everything, and advises to start from including different groups in the process of consultations and decision-making. It is easiest to start from the social plane, namely relations with non-governmental organizations, with which it is possible to search targets and plan reasonable actions together.

Involving stakeholders enables a real diagnosis of the needs and expectations of the environment, which may help solve significant social challenges. The power of such a positive action, uniting around a common case, makes others more attracted to the initiative. B. Rok compares such cooperation to a flywheel – if the flywheel begins to turn, new partners and new resources appear. The dialogue with stakeholders becomes an inspiration to create new chances for the development of business and society, which generates a sustainable value for all. An important element of such action should be convincing the company about “the need for the company to contribute to social progress” (Kuraszko, 2007, p. 69).

Three examples of joint actions, initiated by both the companies and non-governmental organizations, are presented below. Their common element is the use of stakeholders’ capital to take the steps leading to social changes.

The first example of joint actions, in the sphere of environment protection, is the cooperation of the Tetra Pak company with a wide range of stakeholders. In 2006, the company, involving Internet users, initiated an action of planting trees in the Polish National Parks. On the “plan a tree...” page, the Internet users could plant their virtual trees and watch them grow. Tetra Pak undertook to plant a real tree for every virtual one. Thanks to that, nearly 600 000 trees were planted in the National Parks. It is very important because the stakeholders can also be those who cannot speak for themselves – such as future generations and natural environment.

Each edition of the “Plant a tree...” campaign was accompanied by a contest addressed to school teenagers or Internet users, to popularize knowledge about protecting
forests through proper consumer choices. The Tetra Pak company is involved in a number of activities initiated by WWF Poland, e.g. flood action aimed at raising the general public awareness in Poland about the need to take comprehensive actions for protecting people and areas threatened by floods. On the other hand, under the coalition with the Tesco Polska company and the Biosystem Elektrorecykling SA, Tetra Pak organizes ecological education programs for schools. **Children and teenagers with selective collection and recycling, and the human impact on the environment.** More than 1.5 million students throughout Poland have benefited from the program since its launch.

Without doubt, one of the main social challenges in the global scale is the problem of malnutrition and hunger. According to the Polish Humanitarian Organisation data, in spite of the fact that the number of people suffering from hunger decreases worldwide, in 2011 – 2013, 842 million were malnourished. That means every 8th inhabitant of the Earth has no access to enough food to satisfy physical hunger and live an active, social and professional life. One of the aims of the PAH operations is to create conditions for developing independent food production in the poorest countries and reducing the number of malnourished and hungry children in Poland and the world. For its implementation, the Pajacyk (*wooden puppet*) program was created, under which the meals for children at schools and day care rooms are financed. Feeding is provided during the school year across the entire country. In 2014/2015 school year, 1 524 children in 87 institutions throughout Poland will benefit from the feeding program. Implementing the project would not be possible without participation of a number of entities that make a sort of stakeholders’ capital that uses the capacity for joint action. They include Polish and international institutions, companies and individuals. The latter can give their support through i.a., clicking the virtual Pajacyk tummy on the PAH page. Behind each click – recorded at the level of a few dozen thousand a day – is the sponsors’ financial support. Another form of help is, for instance, collecting points under the Payback multi-partner bonus program by the customers of BP gas stations, which can be transferred to support “Pajacyk”. The BP company together with its clients, have funded around 1.5 million dinners so far.

**The last example of taking joint actions under the coalition of companies, having a positive social impact, is the Partnership for Health program.** It is a platform for agreement of three companies (Biedronka, Danone, Lubella) and a scientific institution (the Mother and Child Institute). The aim of the Partnership is to promote a healthy diet as a basis of physical and intellectual development of schoolchildren. As a result of the Partnership for Health operations, the Milky Start was created, i.e. semolina with milk, whose ingredients were prepared so as to provide children with a portion of nutritional elements necessary for their proper development for breakfast. This product was defined as the first socially useful product in Poland – as it was created in response to concrete social problems (in this case these are: the problem of bad diet for children and an economic barrier) – the Milky Start contains components necessary for the proper development of children and it is affordable price wise (tab. w2).
Since 2011 the Partnership has also been the organizer of “Breakfast gives power” program for children from the younger classes of primary schools. The aim of the program is to raise the awareness – not only of students, but also teachers and parents – of the healthy nutrition and the role of breakfast in a child diet. The partners predict that these actions will contribute in the future to reducing the level of children malnutrition in Poland.

The issues related to healthy nutrition and physical activity are close to all the Partners, each however, deals with them differently and thus brings different, complementary competencies in the cooperation. In the case of the Institute of Mother and Child, the reason for involvement in the Partnership is the scope of operations – protection of children health, medical care for children and issues related to their proper mental and physical development. The involvement of Danone, Lubella and Biedronka in the Partnership, results from the importance attributed by the companies to promoting a proper, well-balanced diet, for the sake of consumers’ health.

Table 2. The structure of operations under the Partnership for Health coalition.

<table>
<thead>
<tr>
<th>Danone</th>
<th>Libella</th>
<th>Biedronka</th>
<th>The Institute of Mother and Child</th>
</tr>
</thead>
<tbody>
<tr>
<td>– The idea of the Milky Start and the business model of cooperation;</td>
<td>– Development of the Milky Start formula,</td>
<td>– Distribution and sales of the Milky Start;</td>
<td>– Knowledge and experience of experts,</td>
</tr>
<tr>
<td>– Marketing activities, public relations and coordination of Partners’ work.</td>
<td>– the production of semolina, and its transport to stores.</td>
<td>– Support of sales in the stores.</td>
<td>– Preparation of dietary recommendations that the Milky Start should meet.</td>
</tr>
</tbody>
</table>


With regard to the joint activities concerning the idea of the Milky Start, the partners adopted certain rules of cooperation:
1. Equality.
2. Distribution of the product only in the JMD Biedronka network in Poland.
3. Aiming at the highest quality product at the lowest price possible – minimum mark-up of the product, which ensures the growth of initiative and of the product.
4. Reinvestment of the surplus mark-up of the product and promotion of the healthy diet for children (in cooperation with the Institute of Mother and Child).

The partners share their knowledge and undertake joint actions within the program, so that the social benefits are still greater.

As it was already mentioned, one of the important areas of CSR operations is the creation and maintenance of good relations between the organization and its social environment. The Corporate Social Responsibility conception emphasizes that the organizations present in the economic sphere do not operate in vacuum but are an inte-
gral part of the whole social structure. Activity in this area is, first of all, involvement in important social problems, undertaking by means of a dialogue with other institutions included in the social environment, solutions of difficult issues. In other words, activity in the Corporate Social Responsibility area means development of an enterprise that is accompanied by positive social changes (Wierzyński, 2011). The above examples are a perfect illustration of the contribution of business to social development and are the answer to the question about what others gain from the company’s presence on the market, its operations and growth. It would not be possible without the dialogue and involvement of stakeholders.

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**Short bio of author**

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The article presents idea of Corporate Social Responsibility (CSR). It gathers some of the definitions already present in literature but also present result of qualitative studies among CSR professionals. The author conducted several interviews with people working on positions connected with CSR in Poland, Sweden, Germany and Spain.

The article is prepared as a result of research grant „Strategia adaptacji Społecznej Odpowiedzialności Biznesu w okresie społeczno-gospodarczej destabilizacji.” Number 2011/03/B/HS4/01972 founded by Narodowe Centrum Nauki.

1. Corporate Social Responsibility in the literature

The idea of Corporate Social Responsibility (CSR) is present in the management science for quite some time. It is said to become popular 1970’ (Gavon, 1975) but it was created much earlier. We may assume that responsible behavior of companies is as old as the idea of doing business itself. Undoubtedly, long before the phenomena was named, some of entrepreneurs behave more responsible than others. So when the idea of CSR was defined? For sure already in 1953 when Social Responsibilities of the Businessman (Bowen, 1953) was issued.

What does it mean to be socially responsible? Polish language dictionary the word “responsible” describes as “having a duty to deal with something” (PWN dictionary) Cambridge English-English dictionary explains it as “something that it is your job or duty to deal with” (Cambridge English dictionary). The word social is defined as something related to other people (Cambridge English dictionary).
It is time to look at more scientific definitions. The author of *Social Responsibilities of the Businessman* described CSR as „the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen, 2011).

In 1975 Carroll A.B. gathered definitions of CSR. Some of them are: “Going beyond profit making (Davis, Backman); Going beyond economic and legal requirements (McGuire); Voluntary activities (Manne); (...) Concern for the broader social system (Eells and Walton); Responsibility in a number of social problem areas (Hay, Gray and Gates); Giving way to social responsiveness (Ackerman and Bauer, Sethi)”(Carol, 1979). Carroll A.B. described Corporate Social Responsibility as consisting of 4 elements: Discretionary (or Volitional) Responsibilities, Ethical Responsibilities, Legal Responsibility and Economic Responsibilities (Carol, 1979).

Turker D. writes that “CSR is defined as corporate behaviors which aim to affect stakeholders positively and go beyond its economic interest” (Turker, 2009).

According to Freeman E. stakeholder is an individual or group affected by someone/something (Freeman, 1984). Using term “stakeholder” seems to be more appropriate as it consist both of society and individuals. But when we define society as both an individual and the group they create both society and stakeholder terms seems to be correct.

Campbell J.L. point out that responsible behavior ‘may mean different things in different places to different people and at different times” (Campbell, 2007) This is the thesis that will be verified by empirical research described further.

**2. CSR Today**

Nowadays the idea of CSR spread around the world. It is part of companies strategies and often topic of scientific research. CSR also have own ISO standard (ISO 26000) published by *International Standardization Organization*. The organization defined social responsibility as “responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that

- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behavior and
- is integrated throughout the organization and practiced in its relationships“ (International Standard Organization).

In Poland the dynamic growth of CSR activities was noticed in 90’ with bigger inflow of foreign companies (Polish Ministry of Education).
At the end of 2009 on Polish Stock Exchange (GPW) the index of Socially Responsible Company was created. The index is called RESPECT Index, which stands for Responsibility, Ecology, Sustainability, Participation, Environment, Community, Transparency.

It is worth to add that similar indexes were being counted much earlier: for example Dow Jones Sustainability Index series (DJSI), measured since 1999. They use phrase Corporate Sustainability which is defined as “is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments” (Dow Jones).

3. Research procedure and sample

The author decided to use qualitative approach to the subject and decided to undertake in-depth interviews by phone. The purpose of the research was not to give general information about population of CSR professionals but explore and present the scope of the answers about understanding of CSR. This article describes part of the findings of bigger scientific project „Strategia adaptacji Społecznej Odpowiedzialności Biznesu w okresie społeczno-gospodarczej destabilizacji.” (Strategy of Adaptation of CSR in the time of socio-economic changes founded by Narodowe Centrum Nauki (number 2011/03/B/HS4/01972)

The research was done internationally. The author selected 20 companies from Spain, Poland, Germany and Sweden. This multinational aspect explain why not personal but telephone interviews were chosen as a research method. All in all it gave a number of 80 companies. The chosen companies were from the lists of the biggest in their countries. The author used purposive sampling method because of two reasons: to talk with people working on CSR subject. The very probable assumption was made – that job positions dedicated to CSR are positively correlated with size of the company. The second reason was the research efficiency. As pre research preparation have proven acquiring relevant interview with bigger company was much less time consuming that with smaller companies.

The author had no prior connections with the companies. The invitation to the research was send using following algorithm.

In case where there couple of people mentioned in contact page of CSR department the author was trying not to contact the head of the department (assuming that the person will have the least time for such interview) and started with people working on lower positions. Nevertheless when the person did not picked up the phone, the author was trying to contact one by one every mentioned person.

Only 11 companies finally agreed and participated in the research. 3 from Sweden, 1 from Spain, 4 from Germany and 3 from Poland. 17 companies refused because of “lack of time”. 4 companies agreed to the interviewed but later either the right person didn't picked up the phone or started to rescheduling interview. The author gave up contact with such situations after third reschedule. 52 companies did not replied.
From the companies that took part in the research the author conducted 2 face to face interviews and 9 telephone interviews. Personal interviews were conducted with professionals working in Poland. The interviews took from 20 – 65 minutes. The duration varies so much, as it depended on how talkative the interlocutor was and how much time was he/she willing to devote to such interview. In case of the shortest interview the questioned informed that have other meeting and can talk strictly for 20 minutes. All the interview were conducted using earlier prepared script, however they had semi-structured nature. The questioned sometimes brought up unexpected but interesting matters which were also explored during the talk. The script covered various aspect of CSR, the company strategy, the benchmarking policy and opinion about external situation. This article presents only a small part of the findings: understanding of CSR.

At the beginning of each conversation the author informed that he works on Cracow University of Economics and is a member of research team working on the project founded by Narodowe Centrum Nauki. He also gave information about the purpose of the interview. The persons were informed that all the answers are anonymous. They were also asked for permission to record the interview. There were promised that the recording is done only to facilitate research project. All the interviewed agreed for being recorded.

4. Understanding of CSR

Before going deeper in the empirical research done by the author it is worth to explain the one of the important matter: nature of perception process. As humans, we are not perfect and what we see and how we understand things is sometimes far
different from the objective true. Why is that so? The human perception is described by Nęcka E. Orzechowski J., Szymura B. as „process of active interpretation of data coming from senses using context guidelines and earlier gathered knowledge“ (Nęcka, 2012). Also Levine and Shefner emphasize that how we see things is a result of our interpretation (Levine, Shefner). Koziellecki J. describe it as „subjective representation of the world“(Koziellecki, 1992). Looking at those definitions we may expect that every person will see the CSR aspect a bit different. What is more how do managers perceive CSR is also based also on the knowledge they have.

The interlocutors were asked how do they understand the concept of CSR: The question was: “How do you personally understand the phrase Corporate Social Responsibility and what does it mean for company to be Socially Responsible”.

The research showed that all of questioned knew the idea of CSR, however it also revealed that every of them described it in different way which confirmed earlier mentioned thesis of Campbell J.L. One person could not described CSR directly but during whole interviewed gave pieces of information which proved that knows the idea.

Below, there are gathered answers presented. Usually they consist also of enumerating beneficiaries of CSR.

“For us it means to be truly sustainable... it means making everyone to understand that they are part of it, have responsibility… it means both reducing that social environmental and economic negative impact but taking advantage of opportunities that it brings.”

Large, Swedish, industrial production company (I)

“I think in entitles developing our business in a good and positive relationship with society and environment which company operates in. We try... I mean we want the social responsibility to be an integral part of our business and we are working on it.”

Large, Spanish industrial production company

“(…) what can we do within society and for the society.”

German company producing goods for consumers

In our company it means that we take care about our employees and our suppliers, we do support fair payment not only the HQ but also destinations (...) We take responsibility for what we do.

Large, German, providing B2C services.

Interesting finding was, that only person gave short but specific answer

“For me it is very simple: protect environment, protect people, no corruption and open books.”

Large, Swedish production company (II)
It may be also quite surprising that “no corruption” was mentioned as the main point.

On the other hand there were the answers putting emphasis on how the idea complicated is.

“There is no clear definition. Someone call it CSR but others Corporate Responsibility others call it sustainability... this is my first impression: there is no clear definition. In my understanding of CSR or sustainability this should be some kind of management concept which integrate different dimensions: you can call it economical, ecological, and well, social.... But you can also come from investors perspective like ESG (environmental social governance) Whatever you call it. It’s about integrating different dimensions into organization.”

Large, multinational company from Germany, providing both B2B and B2C services.

“For me socially responsible company is a company which fallows some rules... and starts activities which are a result of what the company actually does. It is wide subject.”

Polish subsidiary of multinational FMCG company

“It is much wider than <something> used to called philanthropy. CSR is perceived as phenomena of giving away, supporting, sponsorship and similar activities. But is of course only partial image. It was very good in XIX century, but we are in XXI century and that so called responsible business is different category now. One can say, that the whole previous 16 years... because it is a time that responsible business is growing in Poland (...) showed that this is much more than only helping other person in the reactive way (...). It is developing and building the company in a way that the company growth in sustainable way. And the sustainable means, not only not doing harm but also coming across solutions (technical or technological) which enables the company and society to growth in sustainable and full way.(...) business have to perceived in holistic way and CSR as well, because it concerns human beings.”

Polish subsidiary of multinational sales company

The interviews with polish professionals revealed that they perceive CSR as relatively new idea in Poland

“For me CSR is a new trend that appears, I work here for ten years and I remember when there was no CSR department.”

Polish subsidiary of multinational FMCG company

(....), that the whole previous 16 years... because it is a time that responsible business is growing in Poland (....)

Polish subsidiary of multinational sales company
5. Summary

Corporate Social Responsibility is a complicated matter. There are no clear definitions both in scientific literature and in opinion of professionals. Among the questioned every person was able to discuss about CSR and in general they understood it similarly. However when we look in detail – there were no two the same answers and each of interlocutors defined the CSR concept a bit different.

All of the questioned understood the term in positive way.

The research also revealed that idea of CSR, in the opinion of some of the questioned is strictly connected to sustainability and sometimes is even understood as synonym of sustainability.

The interviews with Polish employees showed that they treat CSR as new idea, which was present in more developed countries earlier.

Side finding is that, even companies declaring to be socially responsible have very little time or are unwilling to participate in this kind of research.

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