

TA STRONA NIE BĘDZIE DRUKOWANA

**Management Science in Transition Period in
Moldova and Poland
Processes and Structure in the Time of Destabilization**

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Cracow – Chişinău 2014

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Polish ISBN: 978-83-937642-2-8

Republic of Moldova ISBN: 978-9975-75-700-3

Print:

Drukarnia GS sp. z o.o.

43 Zabłocie Street

30-701 Cracow

Poland

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Preface

Social breakthrough of 90s of the last century in Europe began the transformation processes of enormous impact on all areas of civilization and technology. The change with different intensity and dynamics appeared in all the countries of the former socialist bloc. Cultural issues, the degree of integration within the economic system of the Soviet system were and still are important factors for accelerated transformation. In these processes one have to consider the role of impact on the environment and the accompanying feedback. Social systems are characterized by a high degree of inertia and very rarely we can see immediate response for change. It means that as long as it is possible despite change of inputs there is lack of responsiveness of the system and output remain unchanged.

The system accumulates economic and social change and is creating a hysteresis effect, the end result is an extremely violent reaction, even when the impact factors do not change, or the changes are marginal. The phenomenon of discontinuation appears. It can be argued that in the case of Polish we are in discontinuation period, while in Moldova the hysteresis is present.

The individual parts of the study refer to the description of different aspects of these changes with an attempt to find the structural features of these changes and analysis its' socio-economic impact. In the first volume the essential two parts deal with the fact the era of destabilization. In this section, we have distinguish separate research areas considered as the change agent and accompanying to this change processes of destabilization. As the systemic result we considered the adaptability of processes and organizational structures.

Included in these parts scientific research touch the areas of economics, management, finance and social psychology. The prospect of research is both methodological and cognitive. It is focused mostly on the countries of Poland and Moldova.

The second volume is a perspective of responsibility perceived as a cause and consequence. It included research in the areas of use of existing resources, both material and immaterial. This part of the study similarly refers to the analyzed countries, but also addressed methodological as well as functional issues.

The kindness of Magnificence Rector of the Cracow University of Economics Prof. Dr. hab. Eng. Andrzej Chochół and the Magnificence Rector of Academy of Economic Studies of Moldova in Chisinau Prof. Dr. hab. Grigore Belostecinic was a significant help in the preparation of studies. On behalf of the authors I would like to thank for this support.

I would like to thank also the whole Editorial Committee of the first volume: Piotr Buła, Ph.D., Vlad Grosu, Ph.D. and the second volume Associate Professor, Zorina Şişcan, Ph.D. hab, Halina Łyszczarz, Ph.D. and Krzysztof Machaczka, Ph.D. who arrangement contained in the publications texts and fulfilled the function of editors.

The final shape of the work is the result of the involvement of the employees of the Chair of International Management, Piotr Sedlak M.Sc., who patiently took care to unify the shape of the book and was responsible for typeset. To Monika Sady M.Sc. and Dominika Guja M.Sc. who were proofreading evaluated translation.

On behalf of the Editorial Committee
Janusz Teczke

Chapter 1

Changes and Destabilization

The impact of the turbulence of the environment on the changes in the business models of Polish companies¹

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Abstract

The purpose of the article is to contribute to the discussion on the changes in the business models of Polish companies and to discuss the results of a study on the impact of the turbulence of the business environment on the nature and scope of changes in the business models of Polish companies. The results of the study presented in the paper are a part of a broader project aimed at identifying the processes and mechanisms of organizational renewal in Polish companies.

The essence of business models

A business model defines the logic behind the relationship between the resources at the disposal of an organization and the activities creating value for the broadly-understood clients. The assumption that an organization creates values, present in the concept of business model, suggests an analogy to the concept of value chain proposed by Porter [1985: 37]. The main difference between Porter's added value chain model and business model comes down to the object of analysis. In the added value chain model, the main emphasis is placed on processes - their identification and analysis, while in the business model processes are merely one of the areas of analysis.

¹ Scientific paper funded from the science budget resources for the years 2010-2014 as a research project N N115 019939

The business model indicates the optimal - in the specific context of functioning of an organization - way to create values, and thus makes it possible to answer critical - from the point of view of an organization's business activity - questions: who is the client, what values does the client expect of the organization, how such values are provided to the client, what are the costs of and revenues from the business activity?

When defining the nature of the business model, Fisker and Rutherford [2002] assume that it describes the way in which an organization generates income from its operations, and it includes references to the structure of the value chain, both at the level of a particular company and industry. A broader definition of the business model has been formulated by Shafer [2005:204], who points to the dynamic aspect of the concept, assuming that the business model describes the logic of the core business of an organization and the strategic choices making it possible to create and maintain values in a network of relationships. The definition of the business model proposed by Afuah [2004:9], combining the procedural and functional dimensions of the functioning of an organization, assumes that the business model is a set of decisions made by the participants in the organization, methods and deadlines for the implementation of such decisions, and that it determines the optimal ways to use the resources which allow the creation of unique values for the client.

Paradoxically, the weakness of the concept of business model lies in what also constitutes its strong point - excessive focus on the business activity and overlooking the systemic and operational layers of functioning of an organization. Therefore, in order to incorporate the concept of business model into the practical functioning of a particular organization, one needs to supplement it with both management and execution components.

Turbulence of the environment as a determinant of changes in business models

Seeing an organization as an open system involved in the process of exchange with its environment allows an observation that when shaping business models, the variability and turbulence of the environment must be taken into consideration.

The correctness of this observation can be proven by referring to the assumptions of the contingency theory, according to which the efficiency of an organization is conditioned on the variability of the environment, which makes it necessary to adapt the organizational measures and methods used to the processes occurring in the environment. While in a stable environment, due to the possibility of implementing routine activities and a high degree of specialization, it is reasonable to use mechanistic solutions, in a dynamic and turbulent environment, characterized by a high degree of unpredictability and variability, one should resort to organic

solutions, promoting universalization, decentralization and reducing the level of formalization. This means that the attempts to use mechanistic structures in a dynamic environment, and organic structures in a stable environment can reduce the efficiency of an organization, due to a failure to adjust them to the actual situation of the organization. [Hatch 2002].

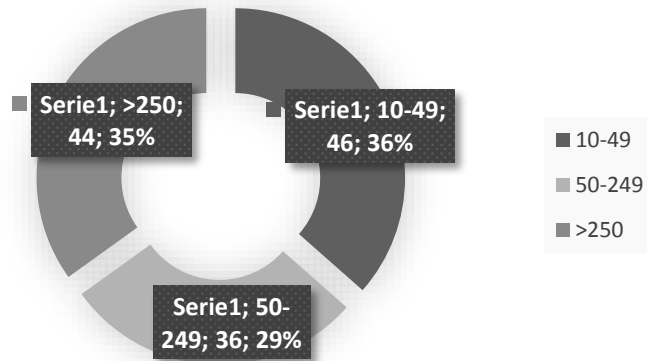
Turbulence, as a variable describing the nature of the environment, should be recognized as an inherent feature of the components of both the micro-environment and macro-environment. However, in the case of micro-environment, turbulence seems to be less important. The correctness of the above statement can be proven by the fact that the micro-environment is characterized by a higher level of predictability and controllability of changes than the macro-environment. Therefore, while not denying the existence of the value of variability and turbulence of the micro-environment, it is possible to limit the analysis of turbulence to the macro-environment and its components: the political and legal, economic, socio-cultural and technological environments.

Characteristics of the sample

As has already been mentioned in the introduction, the empirical verification of the impact of the turbulence of the environment on the nature and scope of changes in the business models of Polish companies is part of a broader study, the purpose of which is to diagnose the processes and mechanisms of organizational renewal used in Polish companies.

The considerations presented in this article refer to the results of a preliminary study conducted in June-July 2013, in which a survey questionnaire was sent to 500 randomly selected entities. 143 entities replied, but only 126 questionnaires were kept upon their verification due to certain inconsistencies in the data provided. 46 questionnaires were sent in by small-sized companies, 36 - by medium-sized companies and 44 by large companies.

Diagram 1 The structure of the analyzed companies in terms of the size criterion, n=126



Source: prepared by the authors.

In terms of committed capital, companies with Polish capital dominate in the structure of the analyzed entities (they constitute more than 57% of the analyzed population). Companies with foreign capital have a little smaller share in the population (43%).

An analysis of the studied population of companies in terms of the business sector criterion shows that the largest group of companies belong to the sector of other services (22.2%), which, together with the companies from the wholesale and retail sale sector (19.0%), the manufacturing sector (15.1%), the finance and insurance sector (12.7%) and the transport and warehousing sector (11.1%) account for over 80% of the analyzed population. Companies from the sectors of: (1) public administration and national defense, (2) construction, (3) agriculture, forestry, hunting and fishery, (4) activities related to arts, entertainment and recreation and (5) professional, scientific and technical activity, constitute the smallest portion of the studied population, their share ranges from 2.4% to 4.8%

Diagram 2 The structure of the analyzed companies in terms of the sector criterion, n=126

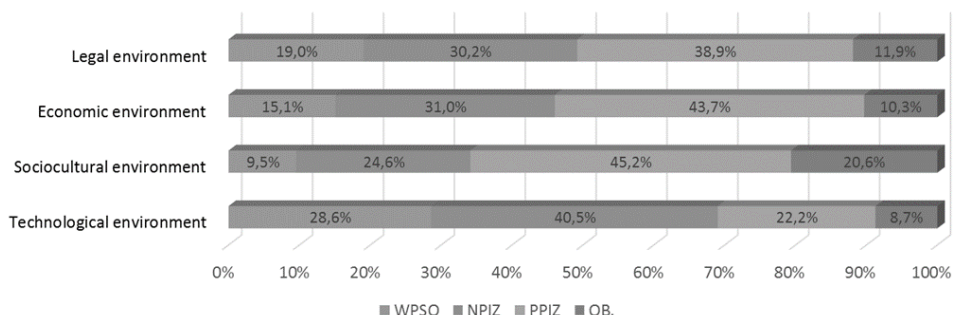


Source: prepared by the authors.

The results of the study on the impact of the turbulence of the environment on the nature and scope of changes in the business models of Polish companies

The average level of variability and turbulence of the environment was estimated by the respondents at 61.3%, which makes it possible to evaluate it as "relatively high" (see Diagram 4). In an attempt to estimate the average level of turbulence and variability of the environment, the research team was forced to make some simplifications and generalizations, distorting - from the perspective of individual entities - the picture obtained. However, from the perspective of the entire sample, the evaluation provides grounds for drawing general conclusions.

According to the respondents, the legal environment is the least turbulent and changeable type of environment from the perspective of organizational renewal processes - the level of turbulence was evaluated at 53% of the maximum level of indicated answers. The variability of technological environment (61% of the maximum level of indicated answers) and socio-cultural environment (63% of the maximum level of indicated answers) were rated slightly higher. The economic environment was recognized as the most turbulent (69% of the maximum level of indicated answers).

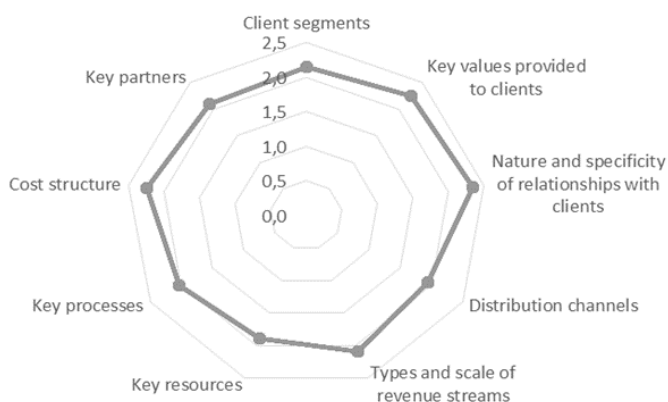
Diagram 3 The assessment of the level of turbulence and variability of the environment, n=126

Key: WPSO - high level of stability of the environment, NPIZ - low intensity of changes in the environment, PPIZ - average intensity of changes in the environment, OB - turbulent environment

Source: prepared by the authors.

The conducted study (see Diagram 6) revealed that the intensity of changes in the business models of Polish companies is "slightly above average" (the average value for all the variables stood at 2.1 on a scale of 0 to 4). The greatest intensity of changes (2.3) was observed in two business model components - Key values provided to clients and Nature and specificity of relationships with clients, while the lowest intensity of changes (1.9) was seen in Distribution channels and Key resources. The relatively high level of changes in Key values provided to clients and Nature and specificity of relationships with clients can be explained by the pro-client approach of the analyzed companies, which made attempts at adjusting themselves to client expectations. When evaluating the components characterized by the lowest level of intensity of changes, two issues should be addressed. First of all, it should be emphasized that the rate of changes was not significantly lower than in the case of the variables characterized by the highest intensity of changes - the difference between the components stood at 17%. Second of all, when indicating the reasons for the lower intensity of changes in the case of Distribution channels and Key resources, it can be assumed that the relative correctness of the structure of these components has weakened the pressure to modify them.

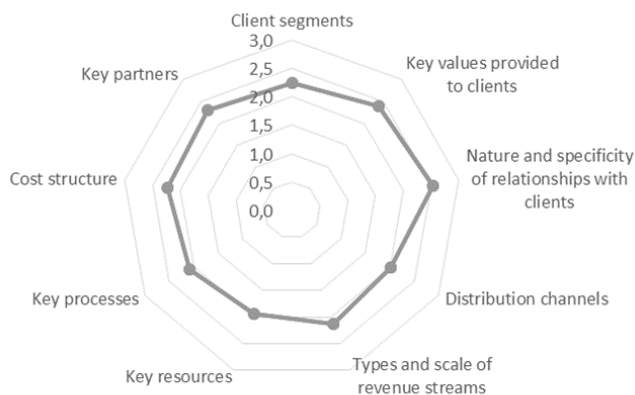
Diagram 4 The average intensity of changes in the business models of Polish companies (on a scale of 0 to 4, where 0 means no changes, 1- low intensity of changes, 2 - average intensity of changes, 3 - high intensity of changes, while 4 means fundamental changes)



Source: prepared by the authors.

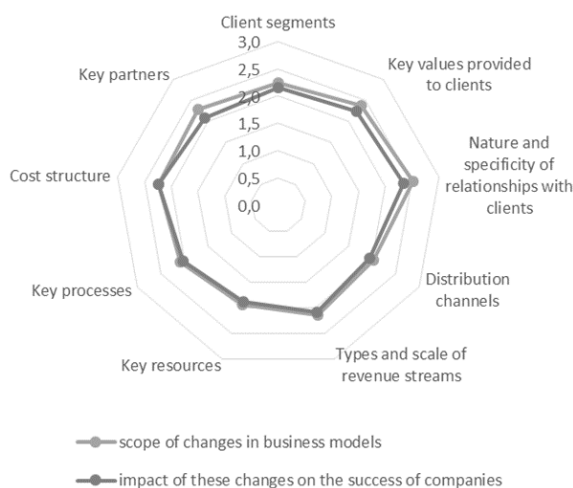
An analysis of the results of the study yields the conclusion that changes made to two business model components: Key values provided to clients and Nature and specificity of relationships with clients have the greatest impact on the success of Polish companies (see Diagram 7). Changes related to Key resources have the least positive impact. At the same time, the conducted analysis (see Diagram 8) points to the existence of a strong correlation (0.9) between the scope of changes in business models and the impact of such changes on the success of Polish companies, which makes it possible to formulate a conclusion that the processes of change are implemented in a correct way. The only deviations in plus can be seen in such components as: Key values provided to clients, Nature and specificity of relationships with clients, Distribution channels, Key processes, and Key partners.

Diagram 5 The average value of the impact of changes in the business model on the success of Polish companies (on a scale of 0 to 4, where 0 indicates no impact, 1- minor impact, 2- average impact, 3 - significant impact, 4 - critical impact)



Source: prepared by the authors.

Diagram 6 The relationship between the scope of changes in business models and the impact of these changes on the success of Polish companies (on a scale of 0 to 4, where 0 indicates no impact, 1 - minor impact, 2 - average impact, 3- significant impact, 4- critical impact)



Source: prepared by the authors.

In order to determine the relationship between the level of turbulence of the environment and the changes in the business models of Polish companies Spearman's rho analysis was used, the coefficient of which is only slightly sensitive to outliers, and thus it is particularly useful for analyzing low-quality data. Pearson correlation was also used for further verification (see Table 1). In each case under consideration which was subjected to statistical verification the assumed level of significance α stood at 0.05. For each of the four results which were subjected to further inference a p-value of 0.000 was obtained, which proves the reliability of further inference.

Table 1 The impact of the turbulence of particular types of environment on the processes of change in the business models of Polish companies

	Client segments	Key values provided to clients	Nature and specificity of relationships with clients	Distribution channels	Types and scale of revenue streams	Key resources	Key processes	Cost structure	Key partners
<i>P</i>	0.02	0.00	0.03	0.09	0.09	0.23	0.09	0.06	0.11
<i>E</i>	0.17	0.12	0.10	0.16	0.37	0.12	0.19	0.11	0.14
<i>S</i>	0.51	0.26	0.05	0.06	0.13	-0.07	-0.14	0.04	0.57
<i>T</i>	0.18	0.63	0.14	0.09	0.52	0.09	0.14	0.08	0.31

Source: prepared by the authors.

Key P – political and legal environment, E – economic environment, S – sociocultural environment, T – technological environment

An analysis of the data presented in Table 1, relating to the impact of turbulence of particular types of environment on the processes of change in the business models of Polish companies, yields three conclusions. First of all, according to the respondents, the turbulence of the political and legal, and economic environments has no effect on the changes made to individual business model components in Polish companies. This observation reveals the emergence of a particular kind of resistance to the crisis situations occurring in the macro-environment of the companies. Second of all, the results of the study reveal a statistically significant relationship between the turbulence of the socio-cultural environment and the changes taking place in the Client segments and Key partners components. Third of all, there is a statistically significant relationship between the turbulence of the technological environment and the Key values provided to clients and Types and scale of revenue streams components.

Conclusion

The results of the study on the impact of the turbulence of the environment on the nature and scope of changes in the business models of Polish companies allow for making four observations.

First of all, in terms of the processes of organizational renewal, the average level of variability and turbulence of the environment of the analyzed companies can be evaluated as "relatively high".

Second of all, the intensity of changes in the business models of Polish companies is "slightly above average". The greatest intensity of changes can be seen in two business model components - Key values provided to clients and Nature and specificity of relationships with clients.

Third of all, changes made to two business model components - Key values provided to clients, and Nature and specificity of relationships with clients, have the biggest impact on the success of Polish companies, which allows the observation that there is a correlation between the intensity of introduced changes and the impact of these changes on a company's success.

Fourth of all, when it comes to the four components of the business models used in Polish companies, there is a statistically significant correlation between the intensity of changes and the turbulence of the socio-cultural environment (components such as: Client segments, Key partners) and the technological environment (components such as: Key values provided to clients, Types and scale of revenue streams).

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Reaction to organisational change. The psychodynamic perspective

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Abstract

This article is based on the assumption that there is a connection between the behaviours within an organisation and personality mechanisms of its key figures. The connection is particularly significant when decisions made by top management representatives go beyond the routine situations or standard procedures existing in the organisation. The article presents patterns of behaviour typical for specific personality types of leaders and characteristic for specific organisation personality dysfunctions in accordance with the personality-based approach to organisation. The article proposes the major courses of action to ensure success in the change implementation process depending on the organisation personality type.

Introduction

The role and significance of leaders in management of an organisation is an important and always current issue. It attracts the attention of both theoreticians and practitioners of management, who agree in identifying the necessity of conscious and targeted development of efficient leadership. Confrontation with the need to implement change in organisation is some kind of test of the efficiency and competency of representatives of the organisation's management.

The presented article is of theoretical nature. It was created on the basis of a review of publications devoted to leadership and organisational change, yet with the application of the results of own research. Its aim is to identify the way in which the personality of the leader determines the functioning of an organisation in the light of change, both of the evolutionary and revolutionary nature. The article is based on the assumption that there exists a relation between the behaviours of organisation members at a time of change and the personality type of the key organisational

figures. The key people in the organisation are those who exert the decisive impact on formation of adaptive behaviours, which occur at the all levels of the organisational structure. This relation is particularly significant, when decisions made by representatives of top management go beyond routine situations or standard procedures existing in the organisation. The process of organisational change, especially characterised by a broad nature and extent, certainly belongs to such cases.

Selected models of organisational change

Both empirical and literature studies from the last decades show that organisations and leaders keep facing various problems which emerge when it is necessary to make changes, especially changes of strategic importance for an organisation. Despite the fact that many models of change, which help to understand the change and its dynamics, have been developed, individual and organisational change acceptance indicators still seem to diverge from the level which would enable leading an organisation through that process in an efficient and painless way.

Simple models of change were initially developed in the works on understanding change. They focused on the stage of preparation, introducing and reinforcing change in everyday procedures and culture of the organisation. A classic and well-known example of this approach is the three-step model of change created by K. Lewin, which keeps inspiring both scholars and practitioners also today.

Gradually, there were created more complex change models, enriching the characteristics of the change process with additional dimensions of the organisation, such as culture, leadership, communication, motivation, employee involvement, structure, rewarding and the dominant way of working in the organisation. In particular, the models of researchers like W. Burke, G. Litwin [1992], D. Nadler, M. Tushman [1980], N. Tichy [1983] took into account the significant impact of external and internal factors, including culture, structure, individual needs and values, goals, or the way of communicating, and especially transmitting feedback. J. Kotter [1998] included in his model the way of exercising leadership, communication, structure of change, empowerment of employees and implementation of change.

E. Rogers [2003], investigating adaptation to innovation, explains individual change acceptance indicators depending on the applied indicators of perception of necessity of change and the implementation method. The author argues that acceptance of change is mainly conditioned upon the way of communicating within an organisation and assessment of its justifiability in the eyes of the employees.

As a result, analogically to the case of investigating consumer attitudes, employees are categorised as innovators, early followers, early majority, late majority and marauders (or not adapting to change).

The models contributed significantly to a better understanding of the complex process of change, and led to more efficient management of the process, regardless of the nature and circumstances, that is the extent of change. Sometimes the models have been criticised for their linearity, some kind of rigidity in approach to specific stages, difficulties in translating them into the practice of management, omission or marginalisation of the role of human in the process of change and thus lack of ultimate understanding of the dynamics of resistance to change [Gilley, 2005].

Doyle et al. [2000] claim, however, that agents of change are overloaded with models and they lack the ability to identify supporters and opponents of change. As a result, there may be observed among the management staff excessive adherence to a selected model of change, often resulting from short-term and superficial fashions. It would be hard not to agree with the authors that the attitude of the management does not guarantee successful implementation of change. Thus, other factors that affect the success of the process of organisational change management need to be sought.

Trying to overcome or at least reduce the shortcomings of the some models of change, we have developed a model of the Triad, with the use of both the works of the aforementioned authors, and drawing from experience and the results of own research. The Triad Model describes the key actions needed for carrying out efficient change in an organisation and indicates three perspectives that describe the complex change process. The first perspective - WHERE TO concentrates on determination of the meaning, direction and effects which are expected from the change, so we need to identify the future state. All plans, implementations and actions must be subjected to the results that are to be effected by the change. The second perspective WHO focuses on winning and involving people in the process of change. This is extremely important, as each organisational change is a situation which requires most of the employees to permanently transform their attitudes and conduct. The third perspective WHAT concentrates on development and implementation of the new organisation model, which will determine the desired human conduct. It requires verification and repeated identification of priority processes, ensuring measures for efficiency control, as well as standardisation and structuring [Skalik, Barabasz, Belz, 2010]. We decided to seek support in knowledge about the personality and psychodynamic concepts describing the organisations and their

members. As a result this article adopts the assumption that the personality of the leaders of an organisation has a significant impact on implementation of organisational change, which determines the eventual success or failure.

Tasks and role of management representatives

According to the classic rendering of the management tasks and functions, it was customary to assume that the superior deals mostly with planning and making decisions, organising work, leading and motivating, as well as controlling the subordinates. In course of time, many authors propose more or less original and novel perception of the essence of leadership and the nature of the way of implementing specific management functions. J. Burn [1978] drew attention to the surprising paradox – leadership, being one of the most frequently raised issues in the field of management sciences, is a problem still relatively poorly understood [see also Mintzberg, 1973]. Over the years, there have been formulated many definitions and theories of leadership, starting from those that focus on identification of forms of activity typical for the leadership process, to theories focused mainly on identification of behaviours which emerge in the superior – subordinate relation. W. Bennis and B. Nanus [2003], presenting an overview of literature dedicated to the issue of leadership, concluded that there were over eight hundred and fifty definitions of leadership. Most of them point to the fact that leadership is composed of features, behaviours and skills of individuals which are expressed in the applied style of leading people [Bass, 1990]. Although objective conditions in which a given enterprise operates play a key role in shaping volitional actions and in the process of making decisions by the leaders, also their personality, experience, or value systems have a paramount impact on strategic choices and intraorganisational behaviours of leaders [Finkelstein S., and Hambrick D.C., 1990, 489-500; Chatterjee A., and Hambrick D.C., 2007, 351-386].

M.F. Kets de Vries [2003], who represents the psychodynamic approach to leadership, underlines that the essence of leadership is formed by personality and the behaviours of leaders which fix and maintain the psychological contract concerning mutual expectations in relations between leaders and superiors. Self-awareness, including awareness of experienced emotions, understanding of intrapsychic, interpsychic, intragroup, and intergroup relations are issues that currently seem to be the most important from the perspective of psychodynamic outlook on an organisation and leadership. From the perspective of psychological knowledge, it can be stated that the impact of dominant individuals on the other organisation members is exerted thanks to the fact that top management representatives generate

some shared ideas and visions, which permeate to all levels of organisation through the communication process and on the deeper level by the imitation and identification mechanisms. This creates the basis for formation of a type of adaptation to the surrounding conditions existing in an organisation [see: Kernberg, 1976; Stapley, 1996; Barabasz, 2008]. This, in turn, has an impact on making decisions, both at the strategic and at the operational levels. The assumption has become the basis for formulation of the idea of personality of organisation. This article employs it to illustrate the manner in which personality features observed in an organisation determine the way of reacting to the phenomenon of organisational change.

Personality as a category of describing an organisation

The starting point for the own research of the one of the author of the article were reports saying that stable, relatively permanent psychological features of key organisation members are dominant factors that determine the neurotic or mature way of functioning of an organisation [see: Kets de Vries, Miller, 1984; Miller, Kets de Vries, Toulouse, 1982; Kernberg, 1976]. Many other authors emphasise that each of strategy, structure and culture remains under strong influence of the personalities of top management representatives [see: Kernberg 1979; Stapley 1996; Bridges 2000]. Kets de Vries and Miller [1984; 1986] claim that representatives of top management work out and present beliefs, views and attitudes common for the whole organisation with respect to issues key for the whole organisation. Their content is carried over to all levels of the organisational structure through psychological mechanisms like identification and projection, and special role is played by the mechanism of transference. The key people in the organisation are those who exert the decisive impact on formation of adaptive behaviours, which occur at the levels of the organisational structure.

Organisational personality, understood as a theoretical construct, means the totality of internal mechanisms which integrate the psychic and social activity of organisation members in the conditions determined by its structure and the nature of its basic activity. They comprise internal mechanisms of regulating the behaviours of organisation members, developed as a result of interpersonal relations between group members who are influenced by the standards and values, objectives, mission, and vision of the organisation. The essence of personality lies in the mechanisms which determine the ways of coping with emotions of its particular members. They depend on their personal predispositions, but at the same time are determined by the conditions prevalent in the organisation by way of involvement in the life of

the organisation [Barabasz, 2008]. The significant function of an organisational personality is to shape behaviours consistent with the organisation's objectives, create and transfer a system of common beliefs, judgements, evaluations, ideas to the whole organisation, but most of all reduction of the level of anxiety and aggression in the organisation. This is facilitated by defence mechanisms developed in the organisation under the influence of individual mechanisms used by its members. This causes homogenisation of the behaviours of the organisation members, leading to “organisational personality” [ibidem, 2008].

Organisational personality type and reaction to change

In the context of reaction of an organisation to announced and implemented organisational change, recurring patterns of behaviour characterising the personality type of a given organisation can be distinguished. Adopting the understanding of the concept of “organisational personality” as defined above, two basic types of organisation can be differentiated – functional organisations and dysfunctional organisations. A functional organisation is one that is capable of proper implementation of its mission, objectives and everyday tasks. On the opposite extreme to the functional organisation lies the dysfunctional (neurotic) organisation. It is easiest to describe with adjectives like rigid, and at the same time unstable, both closed to the external environment and creating numerous and difficult to overcome barriers within the organisation [Barabasz, 2008].

Analogously as in the case of personality disorders of an individual, organisation dysfunction types can be discussed in terms of the dominant picture of personality disorders that are manifested by key people in the organisation in specific conditions of its functioning. Typologies of neurotic organisations are described in the works of M.F. Kets de Vries, D. Miller, [op. cit.: Kets de Vries, Miller, 1984; Have et al., 2002] and P.H. Friesen [Miller, Friesen, 1984]. They discussed neurotic organisations of schizoid, depressive, dramatic, paranoid and compulsive types. Based on clinical knowledge, and the classification of personality disorders [Rosenhan, Seligmann, 1994], we differentiate the following types of dysfunctional organisations: organisations of schizoid, depressive, paranoid, hysteric, compulsive and psychopathic personalities. In each of them, specific patterns of behaviours, conditioned by internal mechanisms of adaptation to change can be found. The table below shows reactions to change typical for each organisational personality and proposals of corrective actions, that is actions aimed at supporting the process of change.

Table 1. Organisational personality types and reactions to change

Personality type	Reaction to change	Ways of preventing dysfunctional reactions
Schizoid	Withdrawal, lack of readiness for exchange of views, feeling of lack of bond and attachment to other organisation members; submissiveness – readiness to submit based on anxiety, declarative and superficial; neither clearly enthusiastic, nor definitely critical behaviours towards the vision of change occur	Building small teams, which implement clearly defined tasks; unambiguous delegation of power; offering far-reaching support from direct superiors; periodical, regular meetings in bigger teams, but not necessarily organisation-wide
Depressive	Feeling of nonsense, impending catastrophe; numerous signals and messages conveying the feeling of inadequacy, lack of competences needed for coping with the challenges; torpor – “nothing makes any sense”; fear of failure may take the form of accusing superiors and the external environment of lack of care and understanding for the difficult situation of the “rank and file” employee	Assigning “small” tasks, building involvement in the change process by tiny steps. Rewarding, rewarding, rewarding – each behaviour that testifies to overcoming apathy and pessimism
Paranoid	Suspicion and lack of trust in initiators of change; hypersensitivity to any signals which might signify any limitations or difficulties at the stages of preparing and implementing change; looking for hidden content in the transmitted communication	Ongoing communication paying attention to feedback; calling emotions and simultaneously presenting rational arguments; ensuring participation in making the most important decisions, determining the direction of change, etc.
Hysteric	Instability, expressive showing of emotions, usually extreme – from optimism and readiness to get involved in the change process to depreciating each manifestation of that optimism and falling into despair; at each level of the organisation, there appear almost simultaneous manifestations of idealising of what is (or was) and depreciating the “old ways” (or “new ways”); numerous coalitions and coteries – usually impermanent – come into existence	Stress on permanence of communication bonds and stable, rational message coming from superiors down the organisation ladder; conscious use of measures to maintain an unambiguous direction of change; clear determination of the vision and objectives of change and their operationalisation at each level of the organisational structure
Compulsive	Defensive focusing on unimportant issues, which prevents understanding the essence of the proposed change; extreme attachment to own proposals and own point of view – induces constant conflicts between specific employees, as well as at various levels of the organisational structure	Creation of a safe platform for exchange of ideas – not rejecting any proposals without subjecting them to thorough analysis; use of the propensity for perfectionism in implementation of clearly defined tasks; building teams as varied as possible; rewarding, minimising minor shortcomings

Psychopathic	Strongly centralised, even if the centre of authority is not quickly or easily recognisable (power structure does not have to overlap with the formal structure); instrumental interpersonal relations, high staff turnover; lack of feeling of loyalty to the organisation; order-based way of introducing change; arousing anxiety and uncertainty in order to subjugate organisation members more easily	Building a strong opposition centre with respect to the current management, presenting a clear, simple and consistent programme of change
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Source: Own study on the basis of: Kets de Vries, D. Miller *The neurotic Organizations*, Jossey-Bass, 1984, and A. Barabasz *Osobowość organizacji*, Wyd. UE in Wrocław, 2008

Conclusions

Models of change are necessary; they provide invaluable benefits in the process of coping with the phenomenon of organisational change, which is complex in organisational, managerial and social terms. Observing the difficulties with which organisations struggle, one may get the impression that the models too often serve to defend against the necessity of constant confrontation with organisation members, with their fears and concerns, as well as hopes. The more so, as this happens in the situation when both concerns and hopes are difficult to verify and happen to be unjustified to a similar extent. Models which describe organisational change processes do, however, help organisation members, especially the management, to cope with helplessness when confronted by expectations of organisation members. The degree to which and, most of all, the way in which they use selected models and communicate with the other organisation members and their environment result from the personality of the leaders, including also the personalities of initiators of change.

From the psychodynamic perspective, it seems useful to recognise typical patterns of behaviour, which are revealed by observation of key organisation members. For they are the carriers of information concerning the way in which key people, and thus the whole organisation, cope with anxiety, the feeling of threat, uncertainty, risk, the need to develop *versus* the desire of stability and safety. The states are significant for each organisational change, not only due to their universal nature, but also due to the commonality of their occurrence – for they are experienced at the level of individuals, groups and whole organisations during every difficult periods.

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Countertrade in international economic relations

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Abstract

World trade continues to grow faster than world production in spite of mounting protectionism. One reason may be the increased role being played by countertrade, forms of trade especially designed to overcome barriers. It is a paradox that these ancient forms of trade, predating the use of money, continue to be popular and continue to grow in importance. The growing importance of countertrade in international trade has started to attract the attention of international organizations who view countertrade as a return to bilateralism and reciprocity, and thus as a threat to the multilateral world trading system. The article discusses the functions, advantages and problems of countertrade in international trade.

In practice of affairs, the definition of countertrade refers to the complicated international transactions, starting with the simple barter till the modern forms of industrial cooperation. The common feature is that the transactional mechanism is based on compensation: the goods of one partner (exporter) are partially or totally compensated by the goods of another partner (importer). Otherwise, in French literature the definition that designates these transactions is named *compensations*; but English literature offers the term *countertrade*. Specialists appreciate the fact that there is no one common and universally used definition of countertrade. Countertrade transactions can be complicate and troublesome sometimes. In the narrow sense, countertrade is conditioning of purchase transaction with one of buying. In the broad sense, through these operations are understood all the forms of bilateral coordination between partners, including those actions of international economic cooperation.

Many international businesses and corporations are using countertrade in selling their products overseas. Companies are purchasing local products to offset the exports of their own products into a market. Countertrade is a form of barter in which exporting firms is required to take the counter value of its sale in local goods and services instead of cash.

In order to get an overall idea of the general traits and the characteristics of countertrade, reference could in a somewhat tedious manner be made to some typical examples of attempts at defining countertrade:

- Countertrade is an international sale, which is conditional in on a sale in opposite direction.
- A technique by which one can obtain goods or services without necessary having to use money.
- It is also seen as an innovative financing technique.
- International trading transactions in which purchases are made to offsets sales as a means of reducing the flow of hard currency.
- Countertrade as traditionally understood is the exchange of goods - a kind of international barter.
- Countertrade is an umbrella term for various forms of international transactions in which the seller is obligated by the buyer to accept a partial payment in goods.

Functions of countertrade in international trade

In the present day, however, controlled economies have been substituted by deregulation and privatization in a global context of increasing competitiveness. With this background, importer countries tend to increase their productiveness and their marketing abilities as well as to decrease their budget deficit and public sector expenses. It is increasingly more usual, then, that the commitments the foreign exporter undertakes take the form of transfers of manufacturing experience or knowledge, creation of local employment and acquisition of new projects and investments for the exporter. Finally, countertrade can be used to reduce or eliminate the negative consequences of the international loan system which governments of poor countries adhere to when importing basic products, that only leads to a progressive increase of their external debt. Countertrade can also be used as an instrument that allows countries that have historically acted as lenders to retrieve their confidence in the credit capacity of debtor countries by means of the so called “credit collateralization”, which consists of using the counterpart goods as a secondary collateral measure. This economic theory is so called because both lender and debtor are indebted to each other, as counterpart goods are used to secure the initial import credit.

Advantages and disadvantages of countertrade

Many countries have made countertrade an important, if not critical, consideration in their international purchases particularly in developing countries which consider countertrade as important method to solve their problems of debt and to extend their exports to the other parts of the world. As result they find countertrade advantageous for their commercial and economic benefits as will be seen hereunder:

Advantages

1. These countries have used countertrade to deal with urgent problems like liquidity crises, sudden falls in export or stoppage in traditional flow of trade following the imposition of import controls.

2. In the view of developing countries, countertrade helps them to achieve targets laid down in national plans and also enable them to strengthen their control over the economic sectors.
3. Developing countries identify new export markets for their products when they deal in countertrade transactions, but many of those countries do not have the marketing sources required to effectively sell their products in international market.
4. Stability of commodity prices can be maintained by countertrade or barter when these fall below the fixed price agreed by the commodity cartel. For example, a number of OPEC countries barter in crude oil in private through government to government transactions at below the official price in order to remain competitive in the decline crude oil prices. However, this may not effectively protect the cartel for long period of time its usefulness for dealing short-term price fluctuations.
5. Countertrade can be the effective tool for increasing investment capital and over long term economic benefits. As a result, the countries can use their purchasing power to attract foreign firms to undertake investments, transfer technologies, establish plants, establish joint ventures or subsidiaries in the country, train local workers and also provide other economic concessions creating a long term positive impact of local economy.
6. Countertrade is an especially important factor in assisting the economic survival of both developing and developed countries.

Disadvantages

Notwithstanding the advantages, in the eyes of many countries it would appear to be less advantageous for western firms. A countertrade transaction can create a broad display of unexpected economic side effects which can be seriously disruptive to the economy of the export and import countries. Some of the more disadvantages of countertrade are as follows:

1. The price for goods in countertrade transactions may be increased for the importing country by as much as 10% or even more or sometimes it may reach 30% above the international market price.
2. However, countertrade at the same time may create a loss to the exporter who frequently resells the goods or commodities to a third party at a discount price.
3. Many developing countries do not possess the management capabilities, information and distribution channels which are necessary to promote their exports. In addition to the above, they lack in negotiation strength and abilities to obtain favorable conditions in countertrade transactions.
4. Countertrade complicates international trade procedures and makes transaction more risky and costly.
5. A detailed description of the goods may not, generally, be available at the time of countertrade transaction, and uncertainty in regard to the availability and quality of goods to be purchased may cause serious disadvantages to the exporter.
6. Countertrade may undermine the multilateral trading system, replacing it by "bilateralism", which result in contraction of trade and production through diversion in trade, misallocation of resources and in the increase of transaction costs.

Countertrade problems

Looking at the literature focused on the countertrade problems the risks these agreements present can be linked to:

- *product problems*. As stated in the studies of Person and Pearson and Forker many companies verify the receipt of goods and services in return that exhibits inferior quality to the Western partner's requirements. Availability problems have also been documented.
- *negotiating problems*. Countertrade seems to ask for more complex and time spending negotiations.
- *uncertainty* concerning the outcome of the whole (long-term) operation. This uncertainty often brings to additional expenses in the form of brokerage fees and facilities, and higher procurement costs.

Some studies describe in detail how countertrade complicates the international trade procedures and makes transactions more costly and risky. Reported risks are: changes in the price of the countertraded goods (being these agreements effective for long periods), lacks in management and technical capabilities of the buyer, IP protection. Some authors emphasize the fact that countertrade may also undermine the multilateral trading system replacing it with bilateralism with possible disruptive effects (e.g. trade contraction).

Other risks discussed in some studies are the sequestrations of assets or profits by host governments (particularly when high value offset deals are involved), restricted sourcing flexibility and increased operating costs. Since countertrade transaction often involve a number of subjects in a number of countries, the issue of what law has to be applied in the event of a dispute represents another problems. Finally involving governments, countertrade legal action against a sovereign government are difficult to be pursued.

Lack of specific regulation for countertrade transaction

There is no specific regulation that governs countertrade, neither at a local or at an international level. In the first case, governments in some countries have used countertrade as a temporal strategy to relaunch their economies in times of recession or crisis. This is why countertrade has become compulsory under certain national governments (Colombia, Indonesia, Australia, etc.), as economic rules aimed to guide their economies. These regulations are contingent and usually modified when preferences or political orientations change. They do not usually include a complete regulation for these operations, or do they offer an answer to many of the questions arising both at local and international levels. These mandatory rules are usually of an economic orientation and are aimed to guarantee the fulfillment of the country's economic, financial and foreign-matters measures. The following are examples of some of these rules: some countertrade operations need to be approved by the government; the importation of certain kind of goods can only be carried out by means of some specific countertrade transactions; countertrade is the only way to offer certain goods; goods obtained by countertrade have to meet certain origin requirements; evidence account can only be used under specific conditions; the acquisition of certain goods can only be carried away by meeting the

countertrade commitment up to a specific extent; an authorization from the government has to be provided in order to link payment commitments that limit the payment in the country's currency; or, finally, that some specific financial conditions are required for the payment. Legislation to regulate countertrade at an international level does not exist either. The Legal Guide on international Countertrade Transactions by the UNCITRAL (1993) is just a reference text which offers orientation for companies that decide to use countertrade.

Applicability of specific international conventions

1. UNO Convention on the International Sale of Goods (Vienna, 11th April 1980).

The authors have made an effort to prove the applicability of this convention to countertrade operations and, in particular, to the different modalities of parallel purchases. However, "modem" operation modalities performed in international trade cannot be subject to classical contractual schemes. For this reason, this Convention does not offer an appropriate answer to the special aspects of these transactions, as it was drawn up with the purpose of solving those issues arising from standard (international) sales contracts. On these contracts, the parties undertake their respective commitments on the delivery of goods and the payment of the corresponding price. Neither the aim and purpose of a countertrade operation (from an economic point of view) or its social function or the objectives the parties have tried to reach by its fulfillment can be analyzed as simple sell and purchase relationships. It is therefore reprehensible that some doctrines try to divide and classify countertrade operations with the aim or categorizing them into more popular (typical) categories within different national legal systems as they do not take into account the features and singularities of these operations. It is hence advisable to analyze the applicability of international conventions with regards to the functionality of countertrade operations and not in the opposite way, trying to artificially classify them according to the texts, as happens when the applicability of the Vienna Convention to countertrade is considered.

2. Applicability of the Regulation 593/2008/EU on the Law Applicable to Contractual Obligations (Rome I).

From the perspective of the European Private international Law, countries in the European Union are part of the Rome I Regulation on Law Applicable to Contractual Obligations. The laws specified in the Regulation apply whether or not they are the laws of a contracting state. It is a Regulation on international contracts in the wider sense of the term. As it is already known, this Regulation deals with dispute settlement rules, in which the private autonomy is the main element that determines the law applicable to the contract. Thus, contracts are governed by the law chosen by the parties. The main difficulty that arises from the application of this Convention to countertrade operations is to determine whether we deal with a single contract or a plurality of contracts. The usefulness of the Rome Convention to offer solutions to countertrade operations can be questioned due to a number of reasons that have to do with the dynamicity of such operations in countertrade. On one hand,

it is important to note the frequency with which the parties settle disputes arising in countertrade by means or non-judicial proceedings (arbitration and other alternative ways of dispute settlement such as conciliation or mediation). It is therefore necessary to evaluate if those ways of settlement (the two latter in particular) are compatible with the application of this Regulation. On the other hand, additional problems arise from the analysis of the feasibility of the solutions to countertrade operations offered by the aforementioned Convention. These problems have to do with the fact that the convention states that each contract should be governed under the law chosen by the parties. The multiplicity of documents that are usually used to perform a countertrade operation makes it extraordinarily complicated to determine when a reference to a specific law means the choice of a law according to the Rome Regulation. Moreover, the right to appeal stated in the convention does not seem to be of much use either, as no legal system appointed will have specific rules for this kind of operations. This justifies the critics made to the convention for trying to "nationalize" the contract by looking for a national legislation to govern countertrade operations show that there is no regulation available that can be applied to provide appropriate solutions to these operations.

Clauses commonly used in countertrade transactions

Transfer to Third Parties

It is frequent that the director indirect participation of several subjects is needed for the fulfillment of a countertrade operation. In the case of an indirect participation of any subject, a clause is added to transfer the countertrade commitment to a third party designated by the parties at a later stage. This clause is usually added when the participation of a trading house to launch the counterpart goods on international markets is foreseeable or when the firm that is going to provide the counterpart goods is not the same firm that took part in the fulfillment of the countertrade operation. Thus, one or both parties that initially reached the agreement can designate a third party to undertake their part of the contract without the need of a new consent.

Linkage clause

In the case of parallel purchases where the main importer comes from a country with controlled economy (in which several public organizations are responsible for the production and selling of the counterpart goods are present). The exporter can request that the goods are purchased by certain bodies different from those with which the contracts have been signed. This guarantee is known as linkage, and it allows the exporter to increase the variety of acquirable products.

Penalty Clause

According to UNCITRAL, the main aim of the penalty clause is to allow the main exporter to get released from the counterpart commitment through the payment of an agreed amount, thus breaking the link existing between related agreements or relationships. Although both parties are interested in the proper fulfillment of the operation in which they are implied, this clause can provide an appropriate tool in case any of them has got involved in the relationship, but does not wish to perform the countertrade commitment. However, this point of view involves some problems

and issues. Firstly, the payment of the amount agreed by this clause as allowances might not release the party from its commitment. Secondly, the aim of such clause in countertrade is not to provide the exporter with a way to break the commitment in bad faith, but just as a solution for those cases in which the breach is not carried out in bad faith. Therefore, the use of this clause with different purposes with only is a source of problem and distortions that will affect the interest of both parties.

Review Clauses

The long period of time over which some countertrade operations are performed makes it advisable to include uses that allow fume changes. E.g., these may be due to the modification in the prices of the goods sold or to difficulties in the fulfillment of the contract that may arise more than ten years from the formalization of the agreement. Because of this, although it is frequent to avoid the settling of a fixed price for the goods in countertrade agreements (e.g., by reference to their corresponding value in the market at the proper time, etc.). The inclusion of a price-review clause is advisable. It is also advisable to include a hardship clause, as the lapse of time passed can complicate the fulfillment of the agreements in the conditions initially agreed. It must be taken into account that this clause is not an act of God clause. In case of an act of God, the fulfillment of the agreement is deemed impossible. This clause's only purpose is to modify some of the initially agreed conditions, as the fulfillment of these in the precise moment the commitments included in the contract has to be performed becomes quite difficult.

Other Clauses

It is also frequent that the developed country asks for the inclusion of a clause to limit the re-export of counterpart goods. According to this clause, the other contracting part commits not to re-export counterpart goods in certain markets so the developed country does not lose the advantages obtained in those countries, in which the products the counterpart consists of are exchanged for money. Counterpart goods developed countries are usually more interested in those traditional of the developed country, which, at the same time, are not difficult for the latter to sell in the international market. The purpose of this clause is twosome: protecting the developed country's markets, in which they usually sell their traditional products and, at the same time, allowing the performance of countertrade agreements with other countries. These agreements involve the abovementioned products as well as others whose trade is more complex, as they are not traditional. The use of other clauses as a consequence of the long period of time needed to perform a countertrade operation is also frequent. This long time, which is linked to unpredictable events that may occur during such time, can lead to a nonperformance of the compensation obligation due to an act of God, an accidental event or other causes related to unforeseeable, unavoidable circumstances. For this reason, it is advisable to include a "hold harmless clause"(particularly in the protocol, if applicable), that defines the potential impediments and their legal consequences in the context of the operation. Among these circumstances are those of a legal nature,

such as modifications in the importing country regulations or the existence of a prohibition to import or export certain goods. The circumstances can also be of a natural origin, like an accident, etc. UNCITRAL's Guide calls them "exempting impediments".

Conclusion

Countertrade is considered to generate additional foreign exchange by helping to overcome entry barriers in western export markets as the import is made contingent on the export of the countertrading country's product. How valid is this argument? Countertrade will promote exports when two conditions are met. Sales of the countertrade goods could cause displacement of traditional exports when they are sold at lower prices in the countertrade transaction than in traditional trade, and when the contracts are not endorsed with destiny clauses constraining or prohibiting the selling of the countertrade goods to third markets and third parties.

In modern international trade, companies use countertrade as a strategy to make transactions more flexible. This strategy allows the subjects involved to obtain, through reciprocal commitments, additional benefits that could not be obtained by means of conventional transaction (i.e. the purchase of goods at a specific price). The element that distinguishes countertrade operations is the undertaking of commitments, that usually have the function of creating an added value for the economy of the countries involved in the transaction, and that, in most cases, is a proof of co-operation between the parties. Countertrade is not an altruistic or unselfish way of trading; it is a form of the so called "Fair Trade". On the contrary, the lucrative purpose of the companies that use this method is unquestionable. It has been noted that countertrade is a way of trading that relies on hostage-based contracts, by which the firms can have a guarantee when assuming risks that are inherent to international trade. This way is particularly adapted to trading with developing countries, as it implies obligations for both parties.

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Perception of changes in Polish enterprises

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Abstract

The need to adapt to the changing environment is a natural response of contemporary enterprises. The efficiency of such adaptation depends however on the level of manager's perception of changes. This article presents results of research on the opinion of Polish entrepreneurs about their perception of changes in the environment and their role in their enterprise. Polish enterprises' perception of changes does not differ much from the perception of other managers worldwide.

Introduction

Continuous observation of the environment by enterprises and their response to the changes seems to be a natural behaviour of contemporary enterprises. On the majority of management faculties and business workshops it is highlighted that it is very important to think and act in a strategic way, which makes managers look many years ahead, searching for opportunities and risks in order to make correct business choices on the basis of gained information. However, Polish enterprises' strategic behaviour does not always confirm this approach, which seems to be natural. The response of many Polish enterprises to phenomena of the last economic crisis (2008-2012) can be an example. It is also evidently proven by the results of the research carried out under the direction of S. Kasiewicz: as much as 56% of the analysed Polish enterprises do not manage their risk professionally (i.e. they do not identify the exposure to risk, measure the size of undertaken risk, direct the risk or control their undertakings from the point of view of opportunities and risks), while 18% of the analysed enterprises practically do not undertake any actions to manage risk, but react only when adverse phenomena occur².

² S. Kasiewicz, B. Lepczyński, *Rola ryzyka w budowaniu konkurencyjnej strategii przedsiębiorstwa* [in:] *Zarządzanie finansami. Upowszechnianie i transfer wyników badań*, Zeszyty Naukowe nr 689, Finanse, Rynki Finansowe, Ubezpieczenia nr 50, Uniwersytet Szczeciński, Szczecin 2012

In the light of such alarming data a question arises to what extent Polish managers' perception of strategic changes differs from the perception of world entrepreneurs and for what reasons. In order to answer these questions, the Authors carried out research to diagnose the attitude of Polish entrepreneurs to the changes and identified differences in their perception of the environment compared to the perception of other managers worldwide.

The aim of the article is to present results of a pilot research that was to explore opinions of the Polish managers about the main trends and changes occurring in the enterprises and their environment. The research results will provide a basis to prepare a target research which will identify the attitude of Polish enterprises to the changes on a systemic basis, and which will indicate significant differences between the perception of Polish and world managers.

Theoretical basis of the research

It is assumed in the discussions on management that one of the key success factors of enterprises is to adapt to the environment which is developing with accelerating speed in more and more unpredictable way. The problem of changes in the business environment has been discussed in the reference literature for a long time. It is indicated that the environment is a place of forming significant decisions that impose restrictions on an organisation and shape its future³. Many researchers have handled the concepts of changes in the business environment. Such concepts can be listed as: weak signals and turbulence levels by H.I. Ansoff⁴; turbulent environment by P. Drucker⁵; continuous critical problems by H. Ozbekhan⁶; changeable and turbulent environment by R.A. Webber⁷; generalized uncertainty by A.K. Koźmiński⁸; competing on the edge of chaos by P. Płoszajski⁹; turbulent field by B. Wawrzyniak¹⁰; sources of impulse and the place of a change by R. Krupski¹¹.

It should be however noticed that the requirement to adapt to the environment has always existed. Enterprises have always had to response to the

³ G. Nizard, *Metamorfozy przedsiębiorstw. Zarządzanie w zmiennym otoczeniu*, PWN, Warszawa 1998.

⁴ H. I. Ansoff, *Zarządzanie strategiczne* [original title: *Strategic Management*], PWE, Warsaw 1985 and H. I. Ansoff, *Managing Strategic Surprises by Response to Weak Signals*, "California Management Review", vol. xviii, no. 2, 1975.

⁵ P. Drucker, *Zarządzanie w burzliwych czasach* [original title: *Managing in Turbulent Times*], OW AE, Cracow 1995.

⁶ H. Ozbekhan, *Toward a General Theory of Planning*, University of Pennsylvania. Management and Behavioral Science Center, 1969.

⁷ R.A. Webber, *Zasady zarządzania organizacjami* [original title: *Management : basic elements of managing organizations*], PWE, Warsaw 1990.

⁸ A. K. Koźmiński, *Zarządzanie w warunkach niepewności*, PWN, Warsaw 2004.

⁹ P. Płoszajski, *Organizacja przyszłości: przerażony kameleon*, Internet materials, 2007.

¹⁰ B. Wawrzyniak, *Odnawianie przedsiębiorstw*, Poltext, Warsaw 1999.

¹¹ (ed.) R. Krupski, *Zarządzanie przedsiębiorstwem w turbulentnym otoczeniu*, PWE, Warsaw 2005.

changes occurring both in their close and more distant environment. What has changed however in the contemporary world is the nature of the change which is today a permanent element of the business environment. The main factors affecting the nature of modern economies were big technological changes, political and legal changes, intensified competition or, in general terms, all globalisation processes present in the world in the recent years. Changes in the environment affect not only the selected part of an enterprises' activities, but they also often require re-designing of the way of functioning in general.

C.K. Prahalad¹², the author of the core competencies concept, lists, among three super-trends for which organisations should be prepared, improvement in three competitions: costs, talent and speed of innovation. These translate into the creation of three strategy dimensions: business dimension, social dimension and technological dimension. Complex changes in each of the listed areas occur both with reference to the environment and to an enterprise itself, which is a serious challenge for the managers¹³. In such conditions the managers are required to have special skills of perceiving, analysing, interpreting and generating solutions and their quick implementation.

The managers are now facing the challenge of continuous growth of their companies. It is however hampered by external and internal enterprise forces. Correct choices and the ability to keep high strategic potential of an enterprise depend on the managers' way of perception of factors located in close and more distant environment, as well as in an enterprise itself. Since, as a result globalisation of economies, many phenomena in business environment are homogeneous on many markets, managers from many countries of the world should perceive these phenomena in a similar way and translate them into specific strategic decisions. A question arises to what extent the perception of changes in Polish enterprises is similar to the perception of managers from all over the world. Do Polish managers interpret global trends in a similar way and which of them are the biggest management challenge?

While searching answers for the above questions, the Authors attempted to examine opinions of Polish managers on the occurring changes, and were inspired by research carried out by the Bain&Company¹⁴, dedicated to management trends and instruments used by the managers. The research, carried out for years, shows the way the managers' perspective has been changing and what factors are of priority significance in the period in question. In the Authors' opinion it is interesting to carry out research on a similar subject on a sample of Polish employees and managers and to observe similarities and differences. The authors decided to perform such research on a cyclical basis, and this Article presents its pilot results.

¹² C.K. Prahalad, *Szybko, coraz szybciej*, (interview), Manager Magazin, January 2007

¹³ A feature of the complex environment is the large number of its elements, interdependence of phenomena and their diversity, compare G. Sargut, R.G. McGrath, *Jak żyć ze złożonością*, „Harvard Business Review Polska”, July – August 2012.

¹⁴ D.Rigby, B.Bilodeau, *Management Tool& Trends 2013*, Bain &Company, 2014.

Method and research sample

The technique of a poll questionnaire with questions about the respondents' opinion was used in the research on employees' and managers' opinion about the trends and changes in enterprises and their environment. Students of postgraduate studies at the Institute of Management of the Warsaw School of Economics were the respondents. The group was diversified and consisted of: employees on executive posts (28%), lower level managers (23%), medium level managers (34%), higher level managers (13%) and owners/co-owners (2%). A total of 47 people representing various enterprises were covered by the survey. The table below presents detailed description of enterprises of the respondents.

Table 1. Description of enterprises

Criterion:		% share
Size	Small (employing from 10 to 49 people)	2.1%
	Medium (employing from 50 to 249 people)	17.0%
	Large (employing more than 250 people)	80.9%
Sector	Production	10.6%
	Trade	76.6%
	Services	2.1%
	Administration	6.4%
	Other	4.3%
Scope of business	Local	2.1%
	Nation-wide	31.9%
	International	38.3%
	Global	25.5%

Source: prepared by the authors.

In order to identify trends and changes occurring in enterprises and their environment according to the employees' and managers' opinion, the respondents were asked to comment on three groups of statements concerning: general changes inside and outside their enterprise, changes in the competitive environment and changes in macro-environment.

The first group of 21 statements was based on questions included in the Bain&Company survey, modified and adapted to the Polish conditions. The respondents were asked to state whether they agree or not with the listed statements. "I don't know" answer was also possible.

The second group covered 7 statements about competitive environment of an enterprise and changes that occur there. In this case also the respondents were asked to indicate whether they agree or not with the listed statements, and "I don't know" answer was possible.

The last group of statements covered 6 elements of macro-environment (politics, law, demography, technology, economy, society). In this case the respondents were asked to evaluate, according to a 5-point scale, the intensity of changes affecting activities of an enterprise in the listed areas, where 1 means very low intensity and 5 means very high intensity of changes.

Results of the pilot research

The results of a general evaluation of changes occurring inside and outside an enterprise, based on the Bain&Company research, will be presented in the first place. It turns out that the employees and managers under research are most concerned with the changes preferences of the clients, which necessitate introduction of changes in the organisational culture and processes (94% of answers). 57% of respondents consider that the insufficient knowledge of clients adversely affects their enterprises' results. They also observe decreasing brand loyalty of the clients (60% of answers) and growing significance of social media in contacts with the clients (49% of respondents consider that social media had improved their relations with the clients),

Excessive complexity of an enterprise is also considered as a significant obstacle for its activities (84% of answers). The surveyed employees and managers also observe the need to follow technological changes (75% of them consider that expenses for IT should grow, and 57% consider that the present IT system is a constriction), but on the other hand they do not think that their enterprise is not threatened by cyber attacks (85%). The managers and employees consider also that innovations are crucial, since as much as 89% of answers confirmed the statement that innovations are more important than cost reduction, although they do not think that their companies are innovative (only 45% of respondents think so).

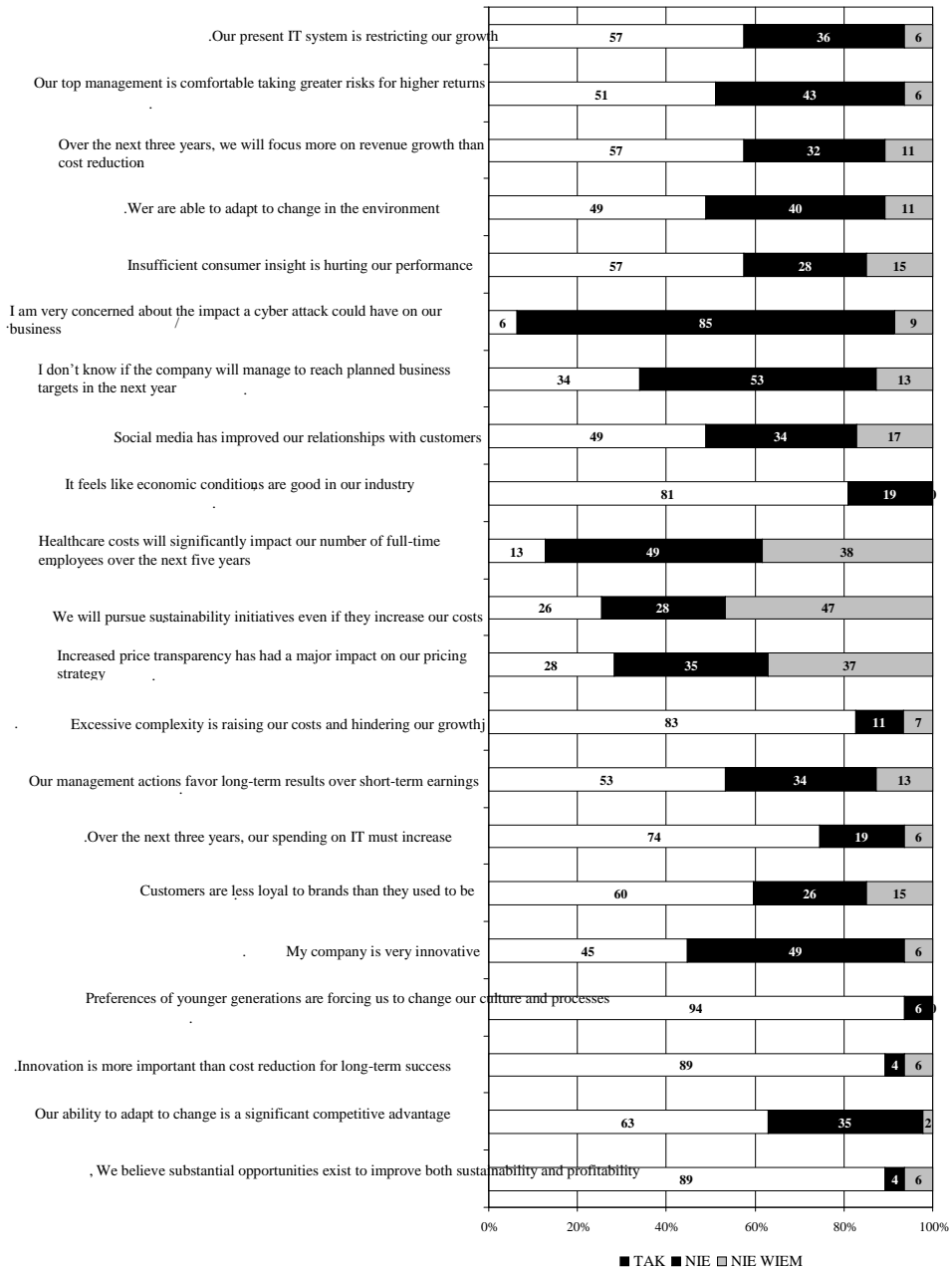
Interestingly, the surveyed Polish employees and managers perceive the condition of their sector as good (81% of answers). They also look optimistically into the future, indicating the opportunities to improve profitability with simultaneous sustainable development (89% of answers). Additionally, in the opinion of the respondents, the enterprises they work in are capable of responding to the changes in the environment. As much as 63% of the respondents consider that the ability to response to the changes constitutes a competitive advantage of their enterprise, while 49% of them consider that their enterprises are able to adapt to the changes in the environment.

The surveyed employees and managers indicate also that their enterprises will focus more on the quality than on the cost reduction in the future. This is a very important trend observed in the practice management. 57% of respondents gave such answer in this research. In the opinion of the surveyed employees and managers,

enterprises also focus more on long-term development than on short term profits (53% answers).

Detailed results of the respondents' answers are presented on figure 1.

Figure 1. Perception of general changes inside and outside an enterprise



Source: prepared by the author.

Comparing the results of research in Polish enterprises with data obtained by Bain&Company, certain similarities and differences can be observed in the perception of the environment influence on an enterprise. Firstly, both national and foreign entrepreneurs perceive the ability to response to changes in the environment as an important source of competitive advantage of their enterprise. Both groups under research similarly understand the reasons of failures of their enterprises as insufficient knowledge of the clients' needs. The enterprises under research equally seriously approach challenges relating to the need to introduce innovations (especially those based on IT solutions) and highlight the role of social media in the enterprise's functioning.

On the other hand, Polish respondents very positively evaluate economic changes in their sectors. As much as 81% of Polish respondents evaluate the condition of their sector as good, while only 57% of the Bain&Company respondents say so. Polish enterprises also more negatively evaluate the influence of enterprise complexity on costs and opportunities of the enterprises' development. 83% of the examined Polish enterprises think so, while only 63% of world respondents agree with this statement. What is more, among the analysed Polish enterprises, the number of those which are ready for sustainable development despite the growth of functioning costs is much smaller (only 26% of respondents agree with this statement, while as much as 60% of foreign respondents state so). However, both groups presented a similar opinion about further opportunities of sustainable development and improvement of profitability.

Interestingly, Polish managers observe the need to change organisational culture and internal processes as a result of subsequent client generation to a greater extent than their colleagues from abroad (94% answers supporting this statement in the Polish research against 69% in the foreign one). Interestingly, the Polish entrepreneurs do not feel the pressure in respect of transparency of price mechanisms and are not afraid of cyber attacks. The results in respect of innovations in Polish enterprises are not very optimistic either. Only 45% of Polish respondents consider that their enterprise is innovative, while as much 68% of respondents interviewed by Bain&Company say so. Detailed results are juxtaposed on the table below.

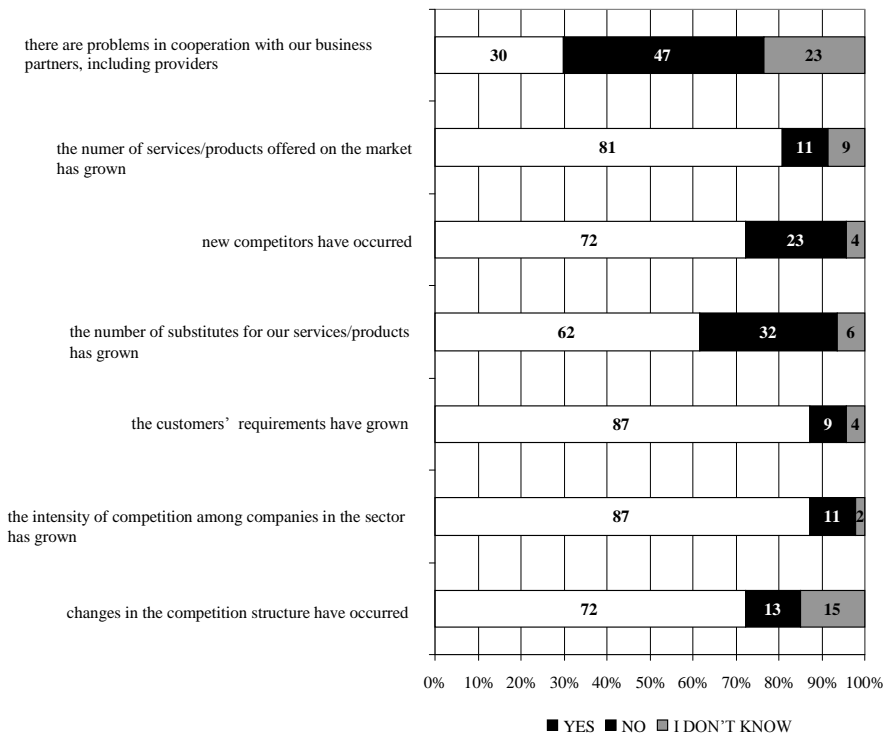
Table 2. Juxtaposition of research results

Question	Our research		Bain&Company research	
	Agree	Disagree	Agree	Disagree
We believe substantial opportunities exist to improve both sustainability and profitability	89%	4%	81%	5%
Our ability to adapt to change is a significant competitive advantage	63%	35%	75%	10%
Innovation is more important than cost reduction for long-term success	89%	4%	74%	10%
Preferences of younger generations are forcing us to change our culture and processes	94%	6%	69%	12%
We are very good at innovation	45%	50%	68%	14%
Customers are less loyal to brands than they used to be	60%	26%	67%	17%
Over the next three years, our spending on IT must increase as a percent of sales	75%	19%	65%	13%
Our management actions favor long-term results over short-term earnings	53%	34%	64%	19%
Excessive complexity is raising our costs and hindering our growth	83%	11%	63%	17%
Increased price transparency has had a major impact on our pricing strategy	28%	35%	61%	12%
We will pursue sustainability initiatives even if they increase our costs	26%	28%	60%	17%
Healthcare costs will significantly impact our number of full-time employees over the next five years	13%	49%	57%	19%

Over the next three years, we will focus more on revenue growth than cost reduction	57%	32%	57%	21%
It feels like economic conditions are improving in our industry	81%	19%	57%	21%
Social media has improved our relationships with customers	49%	34%	56%	17%
I am very concerned about how we will meet earnings targets in 2013	34%	53%	55%	24%
Our top management is comfortable taking greater risks for higher returns	51%	43%	53%	24%
I am very concerned about the impact a cyber attack could have on our business	6%	85%	50%	26%
Our current information systems are constraining profitable growth	57%	36%	49%	27%
Insufficient consumer insight is hurting our performance	57%	28%	50%	24%

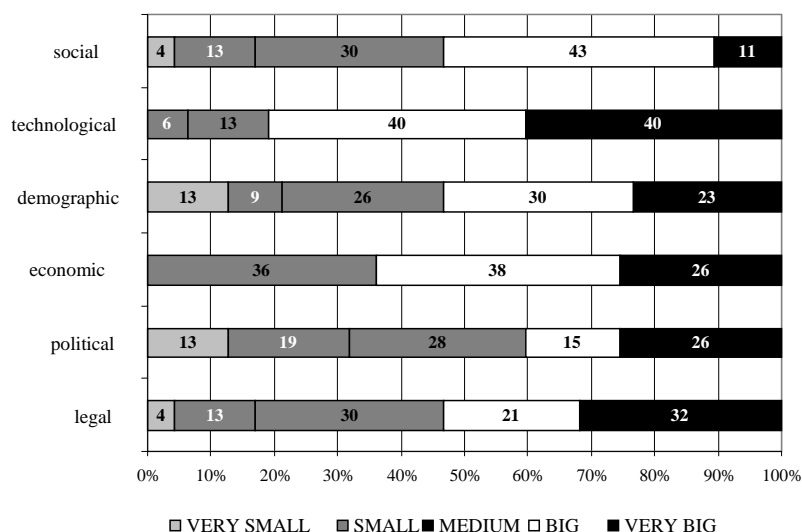
Source: prepared by the authors.

In order to learn about the respondents' opinion about trends and changes occurring at an enterprise and in its environment in more detail, further questions referred only to closer competitive advantage. Factors relating to forces affecting attractiveness of the sector indicated by M.E. Porter were taken into account. Similarly to the previous group of statements, the greatest significance was assigned to the clients and the competitors. As much as 87% of respondents consider that the clients' requirements have grown. Equal number of respondents considers that the intensity of competition in their company's sector has increased, while 72% of respondents indicated changes in the competition structure and occurrence of new competitors. The increased clients' requirements and competition intensity resulted also in the opinion of 81% of respondents indicating the growth of number of products and services offered on the market of an enterprise's operation. Problems concerning cooperation with business partners, including providers, were indicated by the smaller number of respondents. It can be therefore stated that two variables are most significant for the competition environment turbulence: clients and competitors (present and potential ones). What is interesting though, is that despite the increased requirements of the clients and competitors, the respondents positively evaluate changes occurring in their sector. Detailed results of the respondents' answers are presented on figure 2.

Figure 2. Perception of changes in the competitive environment

Source: prepared by the authors.

Changes in the enterprises' macro-environment were the last analysed dimension of the environment. The research results show that, according to the respondents' opinion, all the dimensions of more distant environment of the enterprises are characterised by big or very big intensity of changes. However, the technological environment turns out to be most significant. Over 80% of the surveyed employees and managers indicated large and very large intensity of changes occurring in this environment aspect. Changes in the economic environment are evaluated as only slightly less intensive. Political environment was evaluated as the most stable environment dimension by the surveyed employees and managers. Detailed results of the respondents' answers are presented on figure 3.

Figure 3. Perception of intensity of changes in the macro-environment

Source: prepared by the authors.

Assessment and conclusions

Comparative analysis of the Polish and foreign managers' perception of changes shows numerous similarities in the attitude to the environment and its impact on an enterprise. I refers mainly to the need to introduce innovations, identification of changes in the clients' profile, importance of social media, the need to incur costs of IT, as well as concentration on development opportunities and increasing profits rather than on cost reduction. The last factor is especially important and it is the evidence of mature attitude of the Polish managers to enterprise management. Polish managers are therefore not very different from managers from other countries. They turn their attention to the environment and the need to introduce changes in the enterprises in order to maintain their competitiveness.

However, apart from similarities there are also numerous differences in the opinions of Polish and foreign managers. One of the distinct differences is that the Polish managers do not see the threat of cyber attacks and changes in the costs of healthcare, as well as their impact on the employment of people. Another significant difference relates to the attitude to sustainable development. Polish managers do not see such necessity yet. It may result from the fact that the issue of sustainable development is not handled in the Polish industry-related and scientific publications so much as in foreign ones. Polish managers do not see the need to introduce changes in the price policy or greater price transparency. It may be related to a different legal system. Another difference is about innovations. Interestingly, despite considerable significance assigned to innovations, Polish manager do not consider their

companies to be innovative. The perception of economic conditions of the enterprises' functioning is also very different. Foreign managers are much more concerned by the condition of their sector and attainment of business goals planned by their companies.

The differences in perception of the environment and the need to introduce changes in enterprises can be a result of different conditions of Polish and foreign enterprises functioning. The evaluation of sectors was much better in Poland, where the reaction to the economic crisis was a little better. Simultaneously however the lower level of technology development in Poland so far resulted in the fact that the managers do not see the threat of cyber attacks, although the technology environment is regarded to be most intensively developing.

Conclusion

The aim of the article is to present results of pilot research that was to explore opinions of the Polish managers about the main trends and changes occurring in the enterprises and their environment. This aim was achieved by research carried out on the sample of 47 respondents who were the students of postgraduate management studies at the Institute of Management of the Warsaw School of Economics.

Results of the research showed numerous similarities between Polish and foreign managers. The similarities covered perception of the environment, as well as the enterprises' priorities. Some differences were also observed. They were caused mainly by different conditions of the Polish and foreign enterprises' functioning.

The pilot research results will be a basis for development of a research tool that would enable systematic evaluation of perception of changes of the environment and in enterprises. The monitoring of the managers' opinion is very important for several reasons. The first reason is to find out to what extent conditions of running business in Poland and in the world are similar and to what extent Polish managers are characterised by management maturity. Another reason is to identify important changes from the managers' point of view, which can be a basis for further science development towards broadening knowledge on these issues, building instruments and methods that can be used in business practice.

At present the authors consider that the research instrument proved to be appropriate. It only requires small modifications of the questions, to adapt them to the Polish context. The research will be continued after the introduction of changes.

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Flexibility of international business under destabilization conditions

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Abstract

The article tackles the problem of an attempt to adjust international business to functioning under destabilization conditions. Particular parts contain issues regarding the essence of organizational efficiency, the profile of the destabilization age, the scheme of shaping business efficiency under destabilization conditions, consequences for business and an attempt to protect against discontinuation changes.

Theoretical discussions on organizational efficiency.

The concept of organizational efficiency in the Polish school of management is connected mainly with praxeological achievements the grounds for which were created by T. Kotarbiński¹⁵ Praxeological deliberations, however, create only a certain conceptual and philosophical construct requiring its operationalization for the needs of empirical analyses of the assessment of organization functioning. From this perspective, global deliberations on organizational efficiency may be brought down to three basic trends. The first one is the group of research on the role and application possibilities of various management theories, such as situational, interaction, personal, psychoanalytical, to mention just some examples¹⁶ The second trend relates to the determination of the impact of relations taking place between specific variables of the structure and managerial behavior on organizational efficiency. The third trend is focused on the assessment of the efficiency of specific organizational methods, or management techniques¹⁷

The deliberations included in this article should be assigned to the second trend, namely referring to the definition of organizational efficiency and the determination of assessment criteria for specific results achieved by organizations.

¹⁵ Kotarbiński T., Traktat o dobrej robocie, Wrocław-Warsaw-Kraków-Gdańsk 1973

¹⁶ Wunderer R., Führung Lehre – Grundlagen der Führung, Berlin-New York 1980

¹⁷ Teczke J., Techniki zarządzania a sprawność organizacji, Kraków 1988

It was thus assumed that business organizations aim at maintaining efficiency which is manifested in the fact that it is accepted by other organizations which cooperate with it. This general definition may be supplemented with the definition by H. Dawson "...a company may protect its existence in the long run if it meets the objectives of direct business partners, namely recipients, suppliers, employees and the development tendencies of the superior system, namely social expectations, legal requirements etc."¹⁸ It may thus be stated that a business organization is efficient in the general sense as long as it meets the expectations of these groups which have organizational power over it. 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 undertakes 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,
- building a system of measures compensating the organizational inefficiency making it possible to restore the assumed level of efficiency (Fig. 1)

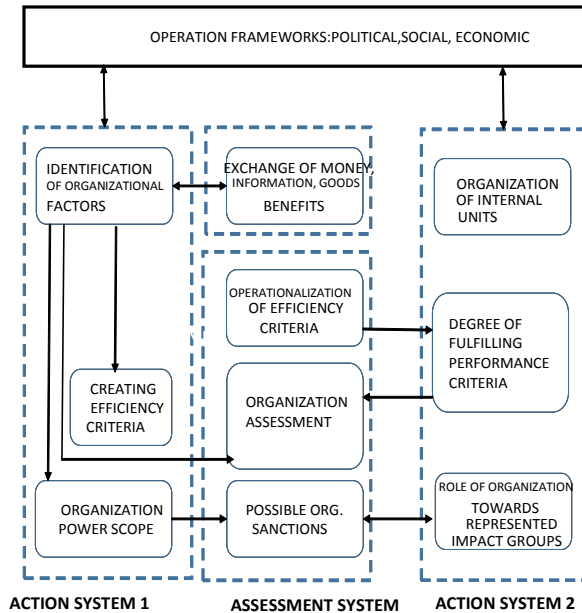
The process of identification of impact groups characterizes both the existing internal relations and describes interactions between them, but also includes external factors of impact, such as social and legal standards, the market. This part of activities performed by business leads to the determination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

The diagnosis should make it possible to interpret and assess the criteria of efficiency. For such 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 only have the nature of general indications, in the process of diagnosing they should be transformed to the form making it possible to clearly assess the obtained results. The created system of assessments additionally stimulates members of its own organization (or in the case of global companies - of its own organizations) and the local community.

¹⁸ Dawson H., The human concept: *New philosophy for business*, *Business Horizons*, 12/1969, p. 29

The compensating system makes it possible to move in a set of passive or active actions. Passive actions mean an adjustment to criteria formulated by the environment. The business environment decides which criteria will be formulated and which levels of fulfilling them will be satisfactory. Only very high market attractiveness or an extremely poor position of the organization,

Figure 1. The process of shaping the efficiency of a business organization



Source: prepared by the author on the basis of Teczek J., op. cit. p. 119

would lead to the acceptance of passive actions. On the other end, there are active actions meaning that it is the organization which establishes and freely changes the set of criteria in the most beneficial manner and the levels of fulfilling them. In the extreme form, active actions are possible in the case of an extremely small market attractiveness or an extremely strong position of a business organization. The presented model of shaping the efficiency of a business organization is correct under conditions of evolutionary changes with a balanced impact of its distinguished elements. However, it should be adapted in a destabilization situation. Its essence is presented in the further part of the discussion.

The essence of the destabilization age¹⁹

The process of historical development is characterized by two states occurring alternatively. The first one is the condition of a relative stabilization, while the second one is the condition of more or less turbulent changes. Particular states are accompanied by longer or shorter periods of time. Their length depends on the degree of transformation factors accumulation and system inertness. In the first state, social effort is focused on maintaining the status quo, protecting social and civilization positions, counteracting the occurring symptoms of changes, absorbing the technical and civilization progress. In the second state, societies quickly try to identify the occurring changes seen as opportunities but also threats, move to a higher level of social and economic development. It is justified thus to ask in which phase of historical development we are at the present moment seems. The political and economic system established after World War II is an almost 50-year old state of invariability. The events of the 1990s and of the previous century in Poland and in other countries of Central and Eastern Europe were only very strong impulses and symptoms of changes. The scope of changes, their political and economic effects have not been properly interpreted. The turn of the 20th and the 21st century is a period when rapid changes in technique and manufacturing technology were accompanied by equally rapid economic and social changes. Globalization, which was dominant in this period, was accompanied by an euphoria of its supporters and a total criticism of its opponents. Globalization processes and the hegemony of global companies and the most developed countries in the world were supposed to be a guarantee of global peace. The September 11 attacks, an event not that significant from the global perspective, resulted in essential changes in the perception of the world. It was a breakthrough with huge economic, social and political consequences. From the economic perspective, actions which were supposed to counteract social anxiety, protect business organizations and the citizens may be noticed. Actions undertaken in the economic area include: reducing interest rates, increasing the role of the insurance sector, growth in expenses on defense, introducing restrictions and safety measures in civil aviation. Effects in the social sphere included: an attack on the rights of an individual and its freedom and the loss of safety in western countries. We may observe two phenomena in politics. The first one is the primacy of politics over economy in the democratic world, and the second one are basic transformations on the international political scene. In my deepest opinion, a new age emerged in the contemporary world, which I describe as the age of destabilization.

¹⁹ Teczek J., Business Challenges in the Times of Destabilization in Eastern European Countries [in:] Critical issues in global business: lessons from the past, contemporary concerns and future trends; Nineteenth World Business Congress IMDA; Turkey 2010, 448-451

The age of destabilization has already generated the following paradigms:

- the society has become a society of risk and a society of fear with time,
- democracy has been given propaganda meaning as well,
- social inequalities increase out of proportion,
- the global market is chaotic and unpredictable,
- global terror appears,
- long-term analyses are hardly credible due to the unpredictability and speed of changes.

The risk society is in fact a society doomed to the knowledge of experts, as defined by U. Beck.²⁰ The concept formulated by U. Beck means that we live in times when we are forced to use the specialized knowledge of experts whose advice we are unable to verify. Our actions are thus burdened with ignorance and we only need to trust that the experts who give us advice are genuine specialists. Therefore, risk is present both when making everyday decisions, such as the purchase of a new device, as well as those with a longer time perspective, namely financial and investment decisions. Events of the recent period demonstrated how deceptive this knowledge is and how risky decisions made on its basis are. However, there is no social choice of a different alternative, because the pace of accompanying changes is so quick that we are unable to either follow them or even to oppose them. Seemingly, knowledge is commonly available. Thus, the belief that the contemporary society is a society of knowledge and intellectual capital. However, in fact, this is knowledge rationed by narrow specialization. There is no universal knowledge, there is only specialized knowledge and it is, in fact, useless to assess social and economic phenomena accompanying us. The presented arguments refer at the same time to the middle of the 1960s when the term "managerial revolution" appeared, which in fact meant that the owners became dependent on the decisions of a group of experts called managers hired for managing companies. The solution which was suggested back then was to incorporate managers into the ownership through financial instruments making individual income dependent on results obtained by companies. The scale of expectations from managers, on the one hand, and the scale of ignorance from owners, on the other hand, resulted in an economic crisis. The processes of social polarization will increase and the hypothesis put forward by T. Sarrazin on the gradual intellectual regression of multicultural societies in highly developed countries may be regarded as highly probable.²¹ The result will be an increasing fear against innovations and civilization progress.

²⁰ Beck U., *Spółczeństwo ryzyka. W drodze do innej nowoczesności*, Warsaw 2002.

²¹ Sarrazin T., *Deutschland schafft sich ab – wie wir unserer Land aufs Spiel setzen*, Deutsche Verlag- Anstalt 2010,

Democracy formulated in ancient Greece has found new meanings in the contemporary world. In its original version formulated by Cleisthenes it used to mean the rule of the people²²Democracy is present in the history of mankind for a relatively short time. Power the source of which is bestowal from other people, is a short period in ancient Greece where only certain people had the right to decide and approximately the last 200 years. In the basic meaning, democracy was aimed at protecting the right of minorities against the dominance of the majority. Presently, democracy means the resignation from certain individual freedoms to ensure safety against real but also hypothetical threats. Democracy is thus becoming, on the one hand, a graded notion in which the rights of an individual are temporarily and spatially limited depending on the situation and, on the other hand, a propaganda tool used to obtain geopolitical and economic privileges. The protection of acquired majority rights is not becoming the basic priority of political actions. Democracy is thus an archaic concept adjusted to the requirements of contemporary societies.

Social equality, as one of the prime slogans of democratic societies, aims at relativism. Social equality and inequality is becoming the slogan of numerous debates and scientific discussions but the results of these discussions appear to be rather propaganda postulates than actual propositions. Social inequalities accompanied people at all stages of civilization development and were a natural stimulus of development. Inequalities resulting from personal characteristics or education are natural and socially accepted. The situation is different when it comes to inequalities in the access to education, material goods or safety, both physical and mental. These inequalities arouses objections and are the source of social dissatisfaction. The end of the 20th century and the beginning of the 21st century saw the emergence of information inequalities. The introduction of common access to the Internet should seemingly level this inequality. In fact, however, only a limited consumerism of products delivered by highly specialized companies is present.

The globalization age gave global companies the sense of a safe market. It may be assumed that a global company is one which perceives the global market as its own. The acceptance of such definition means that the origin of capital, the place of the registered office, language, the nationality of managers or the source of production resources are of secondary importance from the perspective of a global company. The freedom to move assets and people were determined by the indexes of global attractiveness of markets. The conducted research and indexes derived on its basis, such as the economic freedom index, the human development index or the affluence index guaranteed stable business development. The developed indexes were, at the same time, an important distinguishing mark of long-term investments. However, it is difficult to speak about a safe market if countries present in the lists of numerous indexes are currently experiencing the economic crisis and the leading companies in those countries cannot cope with this situation without the state's financial assistance.

²² Powszechna historia filozofii, vol. 2, p. 472

At the end of the 20th century, terror lost its national dimension, focused on institutions and public relations in one country, and became global. Global terror fits into the stormy and unpredictable environment. Global terror is not institutionalized and it has a multinational, multiethnic and multiracial composition.²³ The development of information and communication techniques, anonymity and the fluidity of capital, poor control over military technologies, the ease and high speed with which people move are some factors supporting the development of global terror. Global terror has become an element of pressure both on state institutions but also on the industry, including one which has very little in common with politics, such as the tourist industry.

The usefulness of long-term analyses and economic forecasts should be redefined in the age of destabilization²⁴. Forecasts formed in such manner are becoming the examples of "professional intuition"²⁵ The turbulence and instability of the environment forces the mobility of business organizations. Methods of economic forecasts use an increasing number of descriptive variables and more and more complicated statistical calculations. However, generated solutions still simplify the surrounding reality, reducing its complexity and thus increasing the error of correct estimation. Generated models are discontinuous models, with unknown values of parameters and axiomatically formulated functions of choice. The consequence is the illegibility of developed forecasts and only situational relevance of obtained solutions.

The presented discussion regarding the paradigms of societies in the destabilization age is a significant challenge for contemporary business. From the point of view of business, the characteristics of the environment include: fluency, growth in the importance of knowledge, technological dichotomy. The result of the distinguished characteristics of the environment is such behavior of business organizations which will eliminate emerging threats and use noticed opportunities.

The process of shaping efficiency under destabilization conditions

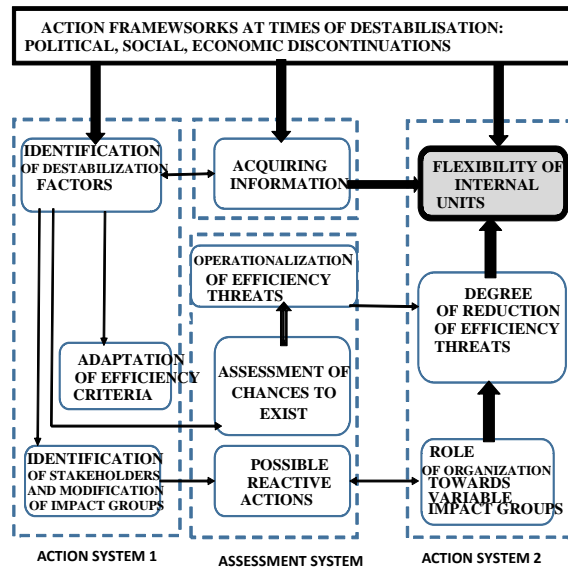
Fluency described by discontinuation processes means that small changes in the volume of impact are accompanied by a very strong reaction of the condition²⁶ Discontinuation processes force organizations to use such solutions which will be less sensitive to the variability of the environment. The process of shaping efficiency presented the first part needs to be modified (Fig. 2).

²³ Horgan J., *Psychologia terroryzmu*, Warsaw 2008

²⁴ Kahneman D., *Pułapki myślenia- o myśleniu szybkim i wolnym*, 2012

²⁵ Ibidem, p. 250, reference to Garry Klein, *Sources of Power*

²⁶ Teczek J., *Zarządzanie przedsięwzięciami zwiększonego ryzyka*, Warsaw 1996

Fig. 2. The process of shaping efficiency under destabilization conditions

Source: prepared by the author

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. Such solutions include network structures, outsourcing or lean management. Network structures make it possible to delocalize human and information resources, increase the reliability of an organization by the possibility to take over the responsibility of any network participant by other members of the network, protect against unforeseen interference. The concept of outsourcing makes it possible to decentralize activities, increase business mobility, concentrate on key areas of the company's functioning. Lean management makes it possible to eliminate all unnecessary functions in the organization, both in the area of manufacturing and administrative functions.

For post-industrial societies knowledge is an important element of protection against intellectual subordination by experts and specialists. It has, at the same time, a significant value for a company, defined as intellectual capital, and, in consequence, also as intellectual capital of the society as the counterweight of the society of populism. Europe, imitating the United States of America, is introducing the concepts of continuous learning to a larger and larger extent, and the effect will

be an increasing professional polyvalence. Polyvalence means performing various occupations and the obligation of continuous education to meet the new responsibilities resulting from technical and technological changes, the disappearance of old occupations and the formation of new ones. The acquired knowledge may have various attributes. It may be friendly knowledge, but also aggressive, submissive and egocentric. The dynamism of knowledge development and the speed of its practical use in business results in the fact that societies do not keep up with predicting ethical and moral risks and do not create systems of legal and formal protections.

Conclusions

The presented deliberations only indicate the complexity of relations taking place between societies of the destabilization age and the surrounding business. The paradigms of the destabilization age, on the one hand, and the variability and indeterminacy of business, on the other hand, lead to a situational evaluation of the attractiveness of regions, countries and their blocks. The organizational and social sphere, namely fluency and the growth in the importance of knowledge, are elements which significantly affect the technological dichotomy. This means a further spread of the technological shears and leaving a considerable part of the contemporary world in total dependence on the leading global countries. Expenses on research and development in particular countries in the world are drastically out of proportion. Research and its experimental verification does not imply its local popularization. Using the capital mobility, business moves its investments to countries with the best economic and social conditions and is constantly looking for countries offering more beneficial conditions for investments. The production market and the sales market are different areas both in economic and cultural terms, e.g. China, Brazil and India for production processes in the form of direct investments and the USA, the European Union for the process of sale. The created protection barriers for import are hardly effective, and differences in labor costs are so substantial that they cannot be eliminated by higher work efficiency in industrialized countries.

Societies in the destabilization age are moving in a decision-making space set out by contemporary business, including active behavior on the one end and passive ones on the other.

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Supply of professional risk management consulting services as a subject of scientific management studies in times of destabilization

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Abstract

In times of progressing destabilization of conditions of conducting economic activities by organizations from various sectors it may prove beneficial to turn to professional consulting services, including especially those related to risk management.

The present paper focuses on identification and evaluation of supply of professional services in terms of risk management, offered by selected international consulting companies which have their offices in Poland.

Introduction

Consulting as a specific type of business activity is subject of interest of management sciences basically since their onset. It is this very sector which presumably provides the greatest number of hands-on contributions and inspirations for management, in particular in its methodological current.

Authors of the present article focus their attention on the problems of supply of professional consulting services in terms of risk management which are offered by international consulting companies. For it has been assumed that in times of existing and progressing destabilization of conditions of conducting economic activities by organizations from various sectors these services may significantly contribute to improving the probability of surviving and developing of the organizations mentioned.

As the inherent objective of the research carried out by the authors was to identify and evaluate supply of consulting services in terms of risk management offered by selected international consulting companies which have their offices in Poland.

The presented main objective is complemented by the following subsidiary objectives:

- identification and characteristics of selected, main directions of research on consulting,
- recognition of current scope of consulting services in risk management forming the offer of the studied international consulting companies,
- recognition of the method of positioning of risk management consulting services in the entire market offer of studied international consulting companies,
- recognition and evaluation of degree of probability of consulting services in terms of risk management offered by the studied international consulting companies.

1. Contemporary directions of consulting studies

Reading of scientific publications presents interesting yet diversified picture of studies carried out in the field of consulting. Subsequent parts of this part of the paper will demonstrate the key present directions in consulting studies.

1.1. Studies on consulting specificity as a service

It can be said that this research direction has originated together with development of consulting and scientific management and it has maintained its continued relevance. Therefore, its significance is fundamental and basic for studies carried out in other trends. As part of the discussed current the interest of researchers is focused firstly on attempts to define consulting. Proposed definitions of consulting expose the following components:

- that it is a service which has certain characteristic features, that means it is consultative and contracted [Ajmal et al. 2009],
- that it is provided by individuals with relevant training and competences [Haverila et al. 2011],
- indispensable manner of providing consulting services which should be objective and independent [Haverila et al. 2011],
- recipient of consulting service, it can be a public or private entity [Ajmal et al. 2009],
- framework scope of consulting service [Ajmal et al. 2009, Haverila et al. 2011, Kumar et al. 2000].

The next vital issue is the effort to define the type of consulting service. At present it is most common to regard consulting as knowledge intensive professional services. This term highlights the professional character of the service

on the one hand and on the other one exposes the fact value generation in the course of providing consulting services takes place owing to co-managing knowledge together with a client what includes both creating knowledge and its application [Ajmal et al. 2009, Haverila et al. 2011].

Studies dedicated to the so called internal consulting form an essential complement to the research carried out as part of the discussed current. As much as originally consulting was associated exclusively with an external service, with time considerable significance and scale of activities of internal consulting have been noticed. Research in this field concerns in particular [Barnes, Scott 2012]: defining specifics of internal consulting, comparisons of internal and external consulting, identification of the positions in organizations which directly or indirectly fulfill consulting roles.

Finally, in the studies on specifics of consulting one can come across also detailed exemplificative research on specifics of selected, specialized services such as e.g. BPR consulting [Archer, Bowker 1995].

1.2.Studies on models of proving consulting services

Consulting services have been provided by specialized consulting companies for over a hundred years. Over this period various practices of providing the mentioned services have been developed. With time, the effort was made to specify these practices in the form of framework models of procedure. These models may take the form of postulated reference solutions (model as a benchmark), or they can result from reconstruction of practices observed in reality (model as mapping).

In the research on models of providing consulting services there can be noted the following regularities [Chung et al. 2006]:

- the models are usually based on key, initial assumption that provision of consulting services has the nature of a project,
- perspectives of two key stakeholders, who are the client and the consulting company, are confronted in these models,
- consulting projects are regarded as intentional activity the efficiency of which should be measurable,
- no universal model of providing consulting services exists which is caused e.g. by the specifics of some specialized consulting services or providing consulting services by a network of companies.

Conceptual integration of models of providing consulting services with models of consultants' roles is also a popular research approach [Ajmal et al. 2009].

Moreover, part of studies concerns exemplifications of models of providing consulting services in the area of narrow specializations such as e.g. management of supply chain [Giannakis 2011] or BPR consulting [Archer, Bowker 1995].

Concurrently to the above discussed studies which basically tackle external consulting, there are also studies carried out on models of internal consulting. These models are based partially on other assumptions resulting at the very least

from different, than in external consulting, formal status of internal consultant or from a different nature of relation with the company management [Barnes, Scott 2012].

Alongside the models studies cover methods used in the course of providing consulting services. The methods referred to concern a series of problems and form a series of groups, including among others management of consulting project, management of relations with client, planning, diagnosis and problem solving. These methods are also subject to evaluation [Archer, Bowker 1995, Giannakis 2011].

1.3. Studies on consulting services sector

Studies on consulting services sector are an important direction of the research. Within this direction there are, among others, the following research problems [Chung et al. 2006]:

- determining the specifics of the consulting services sector differentiating it from other economy sectors,
- resources key from the point of view of their application in consulting companies ensuring their sustainable development,
- organizational and legal forms of conducting consulting activity,
- level of employment and wages in the sector,
- segmentation of consulting companies due to their size and specialization along with trends in this respect,
- development strategies used by the participants of the sector, e.g. strategic alliances.

What is more, there are also studies carried out on the demand for consulting services and changes in this area. Comparison of demand for consulting services in the public and private sector is one of the most important research subjects [Roodhooft, Van den Abbeele 2006].

1.4. Studies on the scope of consulting services and their development

Another direction of the research is related to the scope of the consulting services and their development. The studies include among others:

- evolution of consulting services both in general dimension and with respect to individual services [Biswas, Twitchell 2002],
- role of the leading, global consulting companies in shaping the service offer [Adams, Zanzi 2005],
- impact of global companies from the IT sector, such as IBM and HP, on development of consulting services [Adams, Zanzi 2005],
- comparison of the scope of activity in providing consulting services by leading, global companies [Biswas, Twitchell 2002],

- complementarity relationship between consulting services and other services provided by companies, especially those representing IT sector [Adams, Zanzi 2005],
- diversification of the scope of provided consulting services depending on the ownership form and size of consulting companies [Adams, Zanzi 2005].

The studies discussed above complement scientific enquiries concerning reasons for using consulting services. They attempt to reveal the motivation of management of an organization to hire consultants. The findings indicate among others [Ajmal et al. 2009] continuous pressure on managers with which they try to cope and the need to reduce insecurity with which these managers struggle. There are also the so called critical interpretations which suggest that these are the very consultants who, with their intentional actions, increase anxiety and insecurity among managers thus making them dependent from consultants [Sturdy 1997].

1.5.Studies on success factors and efficiency of consulting projects

These studies include deliberations on the issue of consulting success and its determinants. The following research themes are dealt with among others:

- attempt to specify the meaning of success in consulting and how it can be understood (it usually covers both client's perspective connected with satisfaction after a service and consultant's perspective related to keeping adequate reputation and prospects for future development) [Kumar et al. 2000, McLachlin 1999],
- identification of key success factors in consulting works, hence the factors which contribute above average to achieving objectives in consulting projects [McLachlin 1999],
- searching dimensions of effective relations between consultant and client [Fullerton, West 1996],
- formulating practical directives for operations both for consultants and clients [McLachlin 1999],
- creating, testing and development of methods as well as measurements adapted to evaluation of efficiency and effectiveness of consulting [Ajmal et al. 2009, Kumar et al. 2000],
- identification of components of strategic potential of consulting companies and client companies which contribute to success of consulting projects [Kumar et al. 2000].

In the discussed current of research an important place is taken also by studies dedicated to satisfaction factors among consulting clients. They are all the more important because this satisfaction is regarded as the key condition for success and as its measure. These studies cover among others [Haverila et al. 2011]:

- description of specifics of situation selecting consultants,

- identification and creation of sets of criteria which a client should follow when choosing competent consultants which is considered to be a condition for his future satisfaction,
- identification and creation of sets of criteria which a client should follow when evaluating work of consultants in the ex post formula,
- attempts to specify the term of quality of consulting services and its components,
- conditions for client satisfaction resulting from the scale of activities conducted by them.

1.6. Studies on the client-consultant relation in the course of implementation of consulting projects

The studies tackle the essence of consulting service which is of a highly interactive nature. The research space in this current is filled with the following leading problems:

- attempt to determine the content and structure of relation between consultant and client [Fullerton, West 1996],
- identification and detailed description of roles which consultants play when implementing consulting projects [Ajmal et al. 2009],
- designing comprehensive role models to follow by consultants in relations with clients and study of implications of adopted for implementation role models in management of client relations [Kakabadse et al. 2006],
- organizational learning and change management as a result of relation of client with consultant [Ajmal et al. 2009].

Similarly to the case of several previous research currents, also here the subject of relation between consultant and client in internal consulting is treated in a slightly separate manner [Barnes, Scott 2012]. For in this case we deal with a not typical client but with the so called internal one.

1.7. Studies on consultants' careers

And finally, the last of the currents of consulting studies presented in the hereby paper concerns employees of this sector. The research covers among others:

- studies dedicated to the content and scope of consultants' work, including among others characteristics of working day, functioning in conditions of task schedule, applied work techniques, working time management [De Jong, Van Eekelen 1999],
- study of qualities and competencies necessary for efficient work as a consultant [Fullerton, West 1996, Hind 1995],
- study of consultants' career paths and dynamics and changes in this respect [Adams, Zanzi 2005],

- study of influence of adopted development models of consulting companies on careers of consulting employees, including development of partnership as a special form of career pursuit of consultants [Adams, Zanzi 2005],
- functioning of psychological contracts in consulting sectors in relation to consultants' careers [Adams, Zanzi 2005],
- identification and evaluation of activities of consulting companies related to employee satisfaction measurement [Landriscina 2003].

Additionally, as part of studies on internal consulting analysis includes also skills necessary for employees of various positions so that they are efficient internal consultants [Barnes, Scott 2012, Hind 1995].

2. Methodology of empirical studies

Objectives and subject of studies

Empirical studies carried out by the authors refer to professional consulting services in the field of risk management, provided by renowned international consulting companies.

Key objectives of these studies are:

- Objective 1. Recognition of the current scope of consulting services in terms of risk management forming the offer of international consulting companies.
- Objective 2. Recognition of the method of positioning of consulting services in terms of risk management with regard to the entire market offer of international consulting companies.
- Objective 3. Recognition of the degree of similarity of consulting services in terms of risk management offered by international consulting companies.

Combined with the above objectives the following research questions have been formulated:

- Q1. How do international consulting companies position services in terms of risk management in their entire market offer?
- Q2. What is the subject of the market offer of international consulting companies concerning consulting services in terms of risk management?
- Q3. Does the scope of consulting services related to risk management offered by international consulting companies bear any similarity?

Research procedure

The key, initial stage of empirical studies was to select the international consulting companies the services of which would be the subject of the fundamental research. In the selection procedure it was critical to meet two cardinal criteria:

- firstly – consulting companies the services of which will be the subject of the research should conduct their activities on international scale and hold a strong position on the market (understood as position among the first ten companies in the world with respect to the generated turnover),
- secondly – these companies should have in their offer distinctly marked share of consulting services with regard to risk management.

On the basis of the above criteria the following consulting companies have been selected for the empirical studies:

- Deloitte,
- Ernst & Young (E&Y),
- KPMG,
- PricewaterhouseCoopers (PwC).

In the fundamental research, in turn, analysis covered the content describing methods of the listed consulting companies, which are their market offer, included on the websites of their Polish offices, valid for July 2014. Analysis of the above mentioned content was the basic method of research.

3. Results of empirical studies

3.1. Positioning of risk management consulting services as represented in the market offer of the studied international consulting companies

Table 1 demonstrates the structure of services offered by the studied consulting companies.

Table1. Structural representation of service offer of the studied consulting companies

Deloitte	E&Y	KPMG	PwC
1.Audit 2.Financial consulting 3.Tax consulting 4.Consulting 5. Risk management 6.Law office	1. Business consulting -Risk management 2.Audit services -Management of risk of fraud 3. Tax consulting 4.Transaction consulting 5.Specialized services	1.Audit 2.Taxes 3.Consulting services - Risk management and internal audit 4.Accounting services 5.Legal consulting	1.Audit and accounting services 2.Tax consulting 3.Business consulting 4. Legal consulting 5. Risk management 6.Transactions, fusions and take-overs 7.HR management

Source: prepared by the authors.

On the basis of information presented in Table 1 it can be noticed that the studied consulting companies shape their market offer within several (from 5 to 7) groups of services. When it comes to risk management services certain differences can be noticed related to their positioning in the service offer.

In case of two companies (Deloitte and PwC) risk management forms the main group of services, next to several others. While in case of two other companies (E&Y and KPMG) risk management is regarded as a service which is a component of superior group of services. In case of KPMG risk management is positioned as a component of consulting services. While in case of E&Y risk management services are more dispersed in the offer and place, in general, among business consulting services and additionally management of risk of fraud is an element of audit services. It is also worth noting that risk management services are treated slightly differently by KPMG where it is integrated with internal audit.

In general, the following regularities can be indicated with respect to positioning risk management services in the studied consulting companies:

- In the offer of each of the studied companies risk management services have been clearly featured.
- There are differences in hierarchical status of risk management services. In case of two companies they are regarded as a major group of services, while in case of two other companies as a component of another, superior group of services.
- In case of three companies risk management services exist in the form of a single group of services, while in case of one company they are dispersed among two groups of services.
- Only in case of one company risk management services are combined with other services as one group, in remaining cases they are independent groups of services.

3.2. Scope of risk management consulting services in the studied international consulting companies

Table 2 shows types of consulting services in terms of risk management offered by the studied companies. In the course of research 12 types of services offered by the studied companies have been singled out leaving in the text their original names.

Services related to IT safety are the first group (number 1 and 3 in Table 2). They are offered by three from the studied companies (with the exception of KPMG). These services include consulting with respect to developing and implementation of organizational and technical solutions ensuring protection of data of organization – of the clients.

The second group embraces services connected to internal audit and corporate governance. They are offered by three from the studied companies (with the exception of E&Y). These services refer to consulting with respect to designing and implementation of tools for diagnosis of organization and its processes,

management of corporate risk by supervisory and managing bodies, as well as ensuring compliance with provisions of law.

The third group covers services referring to responsible management which are offered by Deloitte and KPMG. These services are connected with assistance in implementation of CSR principles and standards in order to reduce the risk of activities carried out by clients.

Table2. Types of consulting services in terms of risk management offered by the studied companies

Service	Deloitte	E&Y	KPMG	PwC
1.Audit and safety of IT systems	+	+	-	+
2.Internal audit and corporate governance	+	-	+	+
3.Cyber security: IT safety	+	+	-	+
4.Responsible management	+	-	+	-
5.Management of risk of fraud	+	+	+	-
6.Risk management for financial institutions	+	-	-	-
7. Risk management for energy sector	+	-	-	-
8.Management of business risk	-	+	+	+
9. Management of financial risk	-	+	+	-
10.Efficiency of business processes	-	-	+	+
11.Risk resilience	-	-	-	+
12.Controls	-	-	-	+

Source: prepared by the authors.

The fourth group of services covers management of risk of fraud and is offered by three from the studied companies (with the exception of PwC). These services concern assistances in verification of suspicions of fraud in organizations.

The fifth group of services refers to management of business risk and is also offered by three from the studied companies (with the exception of Deloitte). These services provide integrated solutions for reduction of probability of loss in activity and for increase of probability of achieving satisfactory income.

The sixth group is formed by services of financial risk management offered by E&Y and KPMG. These are consulting services concerning among others decisions clients make on financial markets and finance management.

The seventh group is connected with services for efficiency of business processes. Such services are provided by KPMG and PwC. They refer to help in optimization of processes carried out both within an organization and outsourced.

A separate, eighth, group is formed by services relating to risk resilience offered exclusively by PwC. These services cover developing strategy, models and methods supporting long-term resilience of organization in carried out activities.

It is also PwC which provides controlling services (subsequent, ninth group) which include help in shaping environment and efficient tools for internal control.

Finally, Deloitte offers risk management services addressed to organizations from selected sectors, i.e. financial institutions and representatives of energy sector (tenth group of services). These services are adapted to the specifics of the sector.

3.3. Evaluation of similarity of risk management consulting in the studied international consulting companies

On the basis of carried out research it is possible to evaluate similarities of services provided by the studied companies taking into account two dimensions: positioning of these services in an offer and the scope of services.

With respect to positioning it can be noticed that Deloitte and PwC use nearly identical solutions giving risk management the status of major group of services. E&Y and KPMG have a different approach and position risk management services as a component of a major group of services, which are: a) in case of E&Y – business consulting and audit services and b) in case of KPMG – consulting services. Furthermore, it is worth noting that in companies such as Deloitte, E&Y and PwC risk management appears as an independent service, while in KPMG it co-exists with the services of internal audit.

Evaluation of similarity in terms of offered services allows to reveal an interesting picture of current supply of consulting services in terms of risk management. The following key observations can be formulated:

- Not even one from the twelve specified services is offered by all studied companies.
- The greatest similarity in terms of services offered can be noted in case of five types of services which are available at three from the studied companies. These are: audit and safety of IT systems, internal audit and corporate governance, cybersecurity, management of risk of fraud and management of business risk.
- Moreover, the studies have demonstrated two types of specialization of the researched companies. The first one has a product character and concerns uniqueness of services provided by PwC and related to risk resilience and controlling. The other one has a trade character and is connected with availability at Deloitte services directed at organizations from two chosen sectors.

Further differences emerged in the total number of offered services which ranges from 5 (E&Y), through 6 (KPMG) to 7 (Deloitte and PwC). Also total sets of offered consulting services in terms of risk management differ among the studied companies.

Conclusion

The present paper has been dedicated to the subject of supply of professional consulting services in terms of risk management offered by selected consulting companies.

Yet firstly current trends in consulting studies have been reviewed. This overview allowed to single out seven such currents one from which concerns the scope of consulting services and their development (paragraph 1.4 of the present article). It is in this mentioned current where the empirical studies carried out by the authors are located.

These studies have enabled among others the following findings:

- In the studied international consulting companies, despite existing differences, risk management services are clearly positioned in the main service offer, which can prove their important role.
- The researched international consulting companies offer quite wide range of consulting services in terms of risk management, part of which is offered relatively commonly while another part has a unique character.
- The offer of consulting services in terms of risk management of the studied companies is characterized by similarity. Yet, to some extent this offer shows differences resulting from product or sector specialization typical for individual companies.

The observations made by the authors may serve as an inspiration for further research. An interesting, future research problem would be related to e.g. an attempt to evaluate the impact of using consulting services in terms of risk management offered by consulting companies in organizations (clients) on their market and financial situation.

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Informal economy changes in Poland and in other countries

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Abstract

The article presents the reasons for the emergence of informal economy and proceeds to describe its kinds and manifestations. In the second part it presents a description of positive and adverse results of the functioning of the “grey zone”, presenting various opinions and evaluations of its impact. Then follows a description of the volume and structure of informal economy in Poland and other countries in view of the most recent statistics and assessments. The analysis includes the methods of reduction of the scope and volume of informal economy. In conclusion the article points to the new tendencies in the development of the analysed social and economic process.

Introduction

The non-formal economy – colloquially called a *grey zone* – is an outcome of the entrepreneurs naturally striving after their income increase as well as of their resistance to the government regulations which effect are such behaviours like consciously avoiding paying taxes, customs duties, social securities, environmental fees and other payments to the national and the self-government organizations. Therefore, - as a rule – the non-formal economy shall be restricted and eliminated, some exceptions being considered²⁷. Such exceptions – as far as their range is concerned – are the socially useful services difficult to be sized and generally in minor scale, like - for example – a payable neighbour assistance, private lessons, care of sick and old persons. Also the exceptions in the volume can be accepted whenever the advantage for the budget proceeds resulting from fighting such illegal – but non-recorded – activities is minor²⁸. Thus, allowing for some symptoms of non-formal economy is dictated by economic reasons – i.e. the cost of fighting it being too high as compared to the tax effects – as well as social reasons, meaning improvement of the financial status of unemployed persons and pensioners, which is

²⁷ K. Górka: *Wielkość i struktura gospodarki nieformalnej w Polsce*. In: A. Karwińska, A. Surdej (Ed.): *Wokół zagadnień gospodarki nieformalnej*. AE, Kraków 2004, p. 262.

²⁸ M. Kałaska, J. Witkowski: *Praca w szarej strefie w Polsce.*, „Gospodarka Narodowa, 1996, No 1-2.

specially exposed recently. Therefore, the non-formal economy becomes also a difficult social problem which has to be faced up, and thus the conditions for pathological effects weakened.

From the macroeconomic point of view, an important change made in 1993 in the rules of national product calculation was the system of national accounts SNA-93 being introduced, under which the gross national product includes the effects of any economic activities in producing goods and rendering services, the level of their legality notwithstanding. Therefore, estimating the volume of non-formal economy became more important, and the Central Statistical Office started research in this area. The results of such research are made use of in the national accounts actually since 1996. In the SNA-93 system, the non-formal economy is defined as *underground economy*; in other Anglo-Saxon publications: *hidden economy* or *shadow economy*, and it is divided into *illegal* and *hidden* productions²⁹. The latter – in its turn – can be divided into the hidden production by recorded organizations – through understating their turnover – and the off-record production. Actually, in the national accounts – as a rule – the hidden production is included, and only some elements of illegal production. European Union is now attempting to estimate also the other components of illegal production covered by the so-called *black zone* (drugs, smuggling, prostitution). Apart from the goods and service thus produced, in the non-formal economy counted is also illegal income achievement through bribery, theft and extortions. These are the so-called transfers – income relocation – which are not included in the GNP account, no new value being generated by them. In the new way discussed of GNP calculation, where each type of activity is treated as production, only some categories of goods and services produced for *own needs of households* are considered.

One of the more important symptoms of non-formal economy is that unemployed persons are hired for gainful employment with no formalities required by law. Such employment is generally defined as “black work” (*travail noir*, *Schwartzarbeit*). A certain new version is rendering of mutual services without financial settlement, or a so-called *economy of services*.

The social groups most prone to work in the grey zone are the unemployed persons, pensioners and housewives, as well as immigrants (it is true in Poland too). Among the ones offering the black work, a group of taxpayers important from the viewpoint of the scale and its effects for the budget are the small and medium entrepreneurs and the owners of natural bodies’ companies (family businesses). The government policy is likely to achieve a lot here through so-called deregulation and liberalization of the national economy management system and through reforming the system of social securities as well as through other incentives to *l e g a l i z e* the business activities and to reveal the true turnover. Furthermore, within the recent

²⁹ E. Feige: *Macroeconomic Malaise and the Unobserved Economy*. “Economic Impact”, 1988, issue 4; CC. Williams, J. Windebank: *Informal Employment in the Advanced Economies*. Routledge 1998; F. Schneider, D. Enste: *Shadow Economies: Size, Causes and Consequences*. “Journal of Economic Literature”, 2000, issue 38.

years, a problem becomes the grey zone at big companies, specially at the holdings related to foreign capital, which necessitates matching the law regulations with the new operating conditions and the globalization processes, as well as strengthening the tax and fiscal staff. An important issue pertaining to the black work is also to shape the new rules of social policy under market economy conditions as well as poverty fighting programs and related actions to restrict the social pathology.

This article aims to present the reasons for informal economy arising and its kinds and new tendencies as well as to analyze the volume and structure of underground economy in Poland and other countries. The article is also aimed at assessing the methods of reduction of the scope and volume of informal economy.

Reasons for non-formal economy arising and its symptoms

What is exposed by the entrepreneurs among the reasons for non-formal economy arising and lasting in substantial scale is the growing State interference in the economic life, and the related excess fiscalism – in taxation of incomes and labour – and thus the tax and social burdens, as well as difficulties with credit obtaining. However, the reasons are deeper and more diversified, resulting from the following factors:

- Growing share of services in business activities and in the national product generation, i.e. the sector where black labour hiring and hiding the turnover and income is easier;
- Entrepreneurs not only avoiding high taxes, but also non-observing the lawful regulations on minimum wages, working time, occupational safety conditions, specially in the service sector;
- Too many administration formalities and the regulations not being matched with the liberal economy conditions;
- A pressure on rising competitiveness and on cost – specially labour cost – reduction;
- Growing number of small enterprises in the post-socialist countries, wherein it is generally easier to hide income, and ethical attitudes are weaker;
- Concentration and growth of major companies, like concerns and holdings, where by means of the so-called aggressive – erroneously called creative – accounting and other legal tricks (e.g. incorporating the branches in the so-called tax heavens) the income is unwarrantedly understated and tax payment avoided;
- Defensive response of unemployed persons and families suffering from the fall in real income, specially during economic stagnancy;
- Low level of wages and real incomes as compared to the developed countries;
- Big supply of labour force with growing resources of free time, including the one due to hidden unemployment in agriculture;
- Official working time being shortened;
- Tax and fiscal staff efficiency not being as appropriate;
- Corruption trend and weakening of tax morality.

According to the questionnaire survey by the Central Statistical Office in Poland in 2004, the main reasons for undertaking or arranging off-record work are as follows:

- finding legal work not being possible 57%
- insufficient income 42%
- high social security premiums 19%
- wages on non-contract basis being higher 16%
- taxes and margins on wages being too high 12%

Among the above reasons, not only the *demand* (entrepreneurs' demand for black workers) factors can be seen, but *supply* factors as well, resulting from the unemployment and low wages. Important role is played by imperfect organization and low social awareness as well, since – for example – in the Scandinavian countries and in Austria or Japan taxes are high, but the volume of non-formal economy is still relatively small. Hence, campaigns are worthwhile to make people aware that making use of the grey zone is dangerous for the solidarity system and for the social programs funded by the State budget.

The factors which intensify the non-formal economy favour – among other things – the *corruption* defined as abusing the position in order to get a private benefit. In this area, the hazard in Poland is bigger than in Western Europe – as shown by the Transparency International report placing our country this 2003 on the 64th position among 133 countries classified, and in 2006 on the 61st position among 180 countries (the least corrupted are the Scandinavian countries; the most: Iraq, Nigeria, Somalia and other African countries). In EU, Poland is on 25th position with the score of 4.2 on 10-point scale, ahead of Bulgaria and Romania only. Changes due to EU membership shall bring a significant improvement in this area as well.

The non-formal economy turns to be a lasting effect with some common qualities in different countries; but still it is an ambiguous concept, though always associated with gainful activities carried out illegally or at least on non-recorded basis. Apart from the said division into the hidden and the illegal economy, including the recorded and the non-recorded organizations, it is also divided into the operations *always prosecuted* (e.g. smuggling in large scale, drug production and circulation), *occasionally prosecuted* depending on the turnover volume and on its duration (e.g. small profiteering, repair services on black basis), and *non-prosecuted* (e.g. private lessons, neighbour services). On the other hand, the fast growing area of economic activities on the brink of law and in non-prosecuted operations is associated to the dynamic growth of services. Such type of operations – during the time of growing depersonalization and dehumanization of economic life – has a favourable impact to recovery of more human social relations³⁰. This trend includes the already mentioned economy of services rendered within the good neighbourhood social relations, or – more and more often – between the companies as well (service for service, like “goods for goods” in barter exchange). In illegal operations in their turn, economic

³⁰ K.Z. Sowa: *Gospodarka nieformalna*, In: Encyklopedia Socjologii, Oficyna Naukowa, Warszawa 1998, t. 1, pp. 254-259.

offences inside country are included, as well as smuggling, foreign currency offences and other foreign deals.

Here below, more important symptoms of traditional non-formal economy are listed, which can generally be counted in the criminal operations:

- Understating the turnover by declaring wrong information affecting the value of tax liabilities, non-reporting the subject of taxation, not keeping the tax documentation or keeping it in a negligent way;
- Overstating the *cost of proceeds obtaining* in order to reduce the income tax amount; including the contracts with foreign suppliers not only on goods importation but also on intangible services (e.g. consulting and marketing), quite frequently of sham nature;
- Swindling out of the budget an undue return of goods & service tax (VAT) and taking unfair advantage of tax relieves;
- Evading the obligation to pay fiscal fee;
- Employing the “black” workers, foreigners and unemployed on welfare included;
- Smuggling and counterfeiting lading documents in order to reduce the amount of customs duties, and other taxes and fees;
- Counterfeiting the bills, cheques, bank guarantees and other financial instruments;
- Functioning of unreliable and dishonest parabanking institutions, like loan funds, instalment purchase plan (lately, however, substantially restricted);
- Stealing natural gas, power, water, thermal energy through illegal connection to the network and manipulating the meters.

The system transformation and economy marketization after 1990 extended the range of non-formal economy in post-socialist countries. The number of small private enterprises is growing fast, a considerable portion understating their turnover, hiding some deals and incomes, making use of smuggled supplies and other illegal sources, hiring unemployed persons, taking advantage of the public administration weakness.

Effects of non-formal economy functioning

Growth in the non-formal economy production – though, as a total, being an adverse effect – in general is not replacing the recorded generation of national product, the companies on record enjoying better chances of investing and competing on the market, specially in long term. Although sometimes the cheap products and services of the grey zone may adversely affect the market balance and the economic performance of the companies on record, but it is estimated as a not too big drawback, since the most unfavourable consequences of non-formal economy existence are the falling budget income, the national product dynamics being weaker due to lower productivity in this sector, and pathologies in the management processes and in the work being enhanced. Leaving aside a hierarchy or ranking of such consequences, following *negative effects* – rather numerous and diversified are pointed out below:

- reduction of budget income and the State's financial opportunities, EU budget included (which is generated mainly in relation to the member countries' GNP, a little over 1%),
- deformation of the actual economic processes and of the country image on the foreign markets,
- distortion of statistics and of the macroeconomic ratios,
- understating the social security premiums through – among other things – reporting minimum wages which affects higher tax and premiums from the companies on record,
- due to social welfare for the persons hiding their income, increased State expenses for the social programs,
- entrepreneurs' willingness to invest reduced, trusting the State diminished,
- technical level and productivity lower in most areas of grey zone; "black" workers losing their pension rights,
- epidemiological and environmental hazards due to production under "black work" conditions and to smuggling,
- the companies on record suffer losses because of fake goods, and the creators because of copyrights not being observed,
- unwarranted currency transfers abroad due to the proceeds gaining costs being fictitiously boosted at the companies with foreign capital share,
- purchases of domestic goods diminished and unemployment growing, as well as conditions for imports on record deteriorated because of smuggling from abroad,
- new techniques being inhibited at companies oriented at cheap workers and at low-quality raw materials smuggled,
- criminal bonds arising among the grey zone entrepreneurs and workers, as well as corrupting the official economy workers and workers of national and self-government institutions,
- degradation of moral standards and social pathology intensification.

Employers operating within the non-formal economy look first-of-all for low-educated people who not only accept lower wages but show less professional ambitions. This means a contribution to social pathologies becoming deeper. It turns out that many people do not search for legal work any more, but just for occupation in the great zone. They register themselves as unemployed just to get welfare and mainly a social security ensuring free medical treatment and possibly an allowance or pension. The unemployed are given municipal aid and their children – school outfit and free lunches. Therefore, a worker's family conditions might be worse than in a family of an unemployed who earns some money in the grey zone. Thus, it is another reason to count some symptoms of non-formal economy in the social pathology effects.

Some tax frauds have international implications. Thus, for example, the EU budget is made up by contributions to be defined according to VAT tax proceeds. The scale of frauds in this area is different from one to other member country, which consequence is improper distribution of such obligations.

Non-formal economy has some values to be known in short term generally. In long term, such factors are of rather adverse effect, specially in the countries with a stable and well developed economy. *Favourable effects* are pointed out as follows:

- alleviation of stagnant economy and unemployment consequences by making employment possible and improving the society life standard,
- creation of cheap jobs and training the unemployed people as potential workers for official economy,
- labour-consuming technologies being used ensuring low investment expenses on technical equipment which is an advantage in case of extensive labour supply (however, the situation on Polish labour market has been changed now),
- higher return on the capital – sometimes on labour too – being generally more likely as compared to the companies on record,
- bigger supply of inexpensive goods, due to which the prices stop growing,
- preventing the fall of economic growth rate (under specific circumstances, due to the growing capital consumption of the production being lower).

Evaluation of non-formal economy volume and structure

The first evaluations of non-formal economy in Poland are for the seventies, its volume having then been estimated to account for 3% of the national product approximately. In the eighties, the same ratio reached 5-7%, but in 1988 it grew up 9.1% of GNP according to SNA formula. The estimates for 1990 diverge, generally ranging within 7-18% of GNP (to the Ministry of Finance, 10%); some experts connected to the Central Statistical Office estimated it to account even for 30% and in 1992 for at least 20% of GNP.

Among the authors and the institutions involved in this problem, the most reliable research was conducted by the Department of Statistical and Economic Research of the Central Statistical Office and the Academy of Sciences, where the relation of gross value added in the non-formal economy to GNP value (officially published) was estimated to be 19% in 1992, 20% in 1993, and 17-18% in 1994-95. In 2005, the said ratio was estimated to account for 15-20% of GNP³¹. According to the labor inspection in 2003, there were then 1-1.5 million black workers, which means every second unemployed person. The estimates by the Institute for Market Economy Research indicate, however, 2 million people, 100-150 thousand foreigners included. Such numbers show the grey zone workers to account for 9-15% of the official employment. For 63% of grey zone workers this is the only employment, mainly because of high unemployment rate – meaning finding a legal work being impossible – but also due to pathologies in some social groups.

³¹ L. Zienkowski: *Jak GUS to liczy*, „Gazeta Wyborcza”, 2005, issue 133.

Table 1 *Non-formal economy volume in Poland within 1994-2004*

year	Value added billion PLN	Percentage of GNP
1994	32.7	17.0
1995	43.4-54.7	16.5 (15.2-19.1)
1998	62.0-90.2	15.0 (11.3-16.4)
2000	105.7	15.6
2002	111.6	14.3-15.3
2003	116.5	14.3-15.4
2004	130.0	14.4
2005	137,7-147,5	14-15
2010	212,5-283,3	15-20

Source: *Szara gospodarka w Polsce*, GUS i PAN, Warszawa 1996, p. 28; T. Chorościcki: *Szara strefa w polskiej gospodarce na tle innych krajów*, „Nowe Życie Gospodarcze”, 2007, issue 9 and other materials by Central Statistical Office and own calculations.

According to the said Department of Central Statistical Office and Academy of Sciences, non-formal economy was in its prime in 1993; subsequently its relation to GNP started to fall down³² to 14.3% in 2002, though in global values the growth of value added in grey zone is still recorded (Table 1). For the period of 2001-2003 the estimates are simplified, since originally the ratio assumed by Central Statistical Office in advance was 14.3% of GNP. However, due to the growth of unemployment and to other factors it can be expected that after 1999 the activity of non-formal economy was markedly increased⁷. However, within 2004-2005 the trend was slowed down, thanks to the economic growth and to the anti-corruption measures.

In summary, the share of non-formal economy in Poland since 1980 showed a growing trend from 3-4% up to cá 20% in 1993, and then started to fall slowly down to cá 15%, which however gives rise to controversies and doubts as far as recent years are concerned. Growing trends of the grey zone are seen in other countries as well. Making the international comparisons it shall be emphasized that far reaching assessments have been formulated saying that in the developed countries such zone grew 3 times faster than formal economy⁸. Thus, in OECD countries the non-formal economy share of GNP within 1979-80 accounted for 2-5%, while within the nineties for as much 10-15%; in EU (Greece, Spain and Italy excluded) within the same period the share grew from cá 5% up to 7-15%, and in France alone the recorded growth within 1990-2000 was from 4% up to 10% of GNP. In the European Union, according to various estimates 10-28 million people are black working (most of them foreigners), i.e. 7-19% of the ones legally employed.

³² Por.: L. Zienkowski: *Apogeuem szarej strefy gospodarki*, „Życie Gospodarcze”, 1993, issue 44.

Although the estimates are divergent – sometimes even by 5-30% - it can be assumed that the non-formal economy share in Austria, Japan, Switzerland accounts for cá5-6%, in the USA, Holland, UK and Scandinavian countries cá 10% (though some estimates reach 15-18%), in Belgium, Ireland, France, Germany 12-16%, in Spain and Italy 21-25% and in Greece 28-30%³³. For the latter three countries, there are lower estimates as well. The European Committee evaluations show much lower ratios: e.g. Austria 1.5%; Holland and UK 2% (but for 1995-2000); Denmark, Germany and France cá 6%; Poland 14% (2003); Italy 16-17% (2001); Greece over 20%. In the *post socialist* countries, the role of non-formal economy is more important. Hence, probably – every factor given consideration – prof. Friedrich Schneider from Austria (Linz University) overestimates the said ratio in Poland to account for as much as 27% of GNP, i.e. on the same level as such countries like Greece, Spain and Italy⁹. For Czech Republic and Slovakia, his assessments generally show 18-19% and 24-25% for Hungary. Prof. F. Schneider's estimates shown in the said paper by T. Chrościcki pertaining to non-formal economy share of GNP within 2003-2007 for Japan, Switzerland, Austria and other EU countries seen much too high as well. A separate group are countries like Macedonia, Russia, Ukraine – with the ratio of 45% approximately. As far as *Ukraine* is concerned, the non-formal economy share in 2000-2003 was 43% according to the Government assessments, 51% to Western experts, and even 60-70% to Ukrainian experts. On the other hand, in Russia – according to the Government assessments – cá 300 billion roubles (10 billion USD) are introduced each year into the official turnover from illegal sources. Another group – with highest ratios – are the economically backward countries like – for example – Nigeria and other African countries where the grey zone reaches 60-70% of GNP.

The structure of Polish non-formal economy is illustrated first-of-all by the following percentage shares:

- hidden turnover of the on record companies	70-74%
- off record units	26-30%
including black zone (drugs, prostitution)	1-2%
- smuggling of on and off record units	5-6%

About 70% of grey zone workers are males and most often they are season workers, in the village mainly, they belong to younger workers (45% are below 35 years). On the other hand, females belong to a more stable group of workers. 50% of non-formal economy workers are the ones working on regular basis but searching for extra earnings. Other groups are unemployed people (25%), pensioners (10%), students (10)% and not working people (5%). Most of them (cá 70%) are working at

³³ T. Chrościcki: *Szara strefa w polskiej gospodarce na tle innych krajów*. „Nowe Życie Gospodarcze”, 2007, issue 9.

⁸ Light on the shadows, “The Economist”, 3 May 1997.

⁹ F.Schneider,H.D.Ernest:Shadow Economies: Size,Causes and Consequences.”Journal of Economics Literature”, vol. XXXVIII,2000

the households – where, as a rule, there are no unemployed persons – rendering various services; mainly building, repair and gardening/agriculture services. In such services have been made use of by 1.5 million households, i.e. 12% of the total number of Polish households (in 1995, 16%) spending 100-800 PLN monthly on this account. Another group (15%) are black workers at private companies. They account for 15-20% of the total number of employees there. And finally, the third group (15%) are the ones working on their own. Average wage of persons making extra money in the grey zone was in 2004 – according to the Central Statistical Office research – 392 PLN monthly, but with average employment duration for 2-3 months per year, and 448 PLN (about 110 euro) monthly in the event of persons making their living solely of off-record work.

Value added of non-formal economy is obtained mainly in trading and in repairs (40-50%), as well as in the industry (15-25%) and building (7-10%) and to lesser degree in transport (4-5%), real estate and company service and in other sector of business operations. However, the *employment structure* in non-formal economy looks different:

- building & repair services, and building & plumbing repairs	16-17%
- gardening & agriculture works	24-25%
- neighbourhood services	12-13%
- trading (repairs excluded)	8-9%
- car inspections & repairs	6-7%
- tailoring services	6-7%
- transport services	5-6%
- care of children & elderly persons	4-5%
- private tuition	4%

It is worthwhile to show some examples of development or revealing the non-formal economy symptoms within the recent years. These are not so much the season works, but “permanent” black employment. Thus, in Lodz the workers of the bankrupt textile and clothing enterprises started to produce clothing, underwear, tights, socks and other textile on illegal outwork basis with the participation of companies on record. A similar situation is in the footwear industry, and as a result it is estimated that 37% of footwear is produced in the grey zone. Furniture, however, is manufactured by legal companies in Kalwaria Zebrzydowska, Swarzędz near Poznań and Kępno; part of their turnover being hidden thanks to black labour hired or to making use of off-record sub suppliers and cooperants. In Częstochowa, in the same way devotional objects are manufactured, as well as baby prams and slippers, the work being arranged so that each pray component is done by a different specialist and the pram then assembled at a garage or cellar. Going further, in Świętokrzyskie Voivodship there is a boom in manufacturing tubs, buckets, spades, etc. in the region of metal industry factories. Nearby Radom, in turn, many illegal tanneries are operating. Although they are easy to be located because of typical waste waters, but the environment protection inspectors were tolerant due to high unemployment within the region. In Krakow, illegal production of cigarettes worth of ca 60 million PLN was started, the profit being bigger than from drug trafficking.

In connection with fast growth in tourism – after joining the European Union and with the low-cost airlines started – there is a growing number of illegal accommodations, transports, guides (non-authorized), “green schools” and even money changing offices. In some areas of tourist services, the grey zone is estimated to account for as much as 30-50%. According to the assessment by Małopolska Tourist Organization, the off record accommodation houses in Krakow receive 16% of visitors from Poland and 2.3% of foreign tourists. According to internet information it is estimated that in the center of Krakow about 400 refurbished apartments at the old houses are being let to the tourists (some of them very expensive, even 700 euro per week), while the number reported to the Municipal Office is less than 100.

Among the measures aimed at safe relax, the police control the legality and regularity of catering places and payable parking lots nearby the recreation areas (usually, several hundred in each voivodship). It turns that – as a rule – 1 percent of those operate illegally and commit fiscal offences.

The Main Office for Building Supervision and their inspectors show that about 30% of materials like hollow bricks, brick, masonry and plastering mortars, steel pipes and shaped sections, cement, floors, plastic windows and doors bear no quality marks to confirm their compliance with Polish or EU standard and show various defects, but instead their price is lower; generally, they are a component of non-formal economy. Just to complete the issue, it may be added that at small and medium building companies black work accounts for 40%. According to what is estimated by the Ministry of Economy and Labour, 80-100 thousand persons in Poland are employed as domestic help, out of which as many as 95% work black.

Polish Chamber of Liquefied Petroleum Gas assess that 30% of gas for cars is from the grey zone, by making use of fuel gas which is not liable to excise, and thus the “wheeler-dealer” gets an earning of 0.65 PLN per litre. This is confirmed by the fall in LPG sales from 153 thousand tons in July 2004 down to 148 thousand tons in July 2005, though the number of gas fuelled cars was increased by several hundred thousand! Hence, the Ministry proposed a plan to introduce excise duty for fuel oil and gas instead of – as heretofore – only for Diesel oil and gas to be used as fuel in motor vehicles. The information by the Bureau for Competition & Consumers Protection shows that in 2006-2007 fuel quality at the petrol stations was degraded; the number of petrol samples taken by the Commercial Inspection which turned to be incompliant with the standard grew from 3.65% to 6.29%, and of Diesel fuel from 0.91 up to 1.05%. In case of LPG as much as 30% of samples did not meet the quality specifications, which resulted in extra advantage to the sellers. Recently, biological fuel from rape and plants and fats produced by the farmers and by the owners of the fuel stations and transport companies started to be introduced illegally into the fuel turnover (regulations in this matter are incomplete; even in the event of production for own needs).

Ways to restrict the non-formal economy scope and volume

Ways to fight the non-formal economy depend mainly on its types from the legality viewpoint. Thus, we single out illegal production and services prohibited by law and fought by the police and by the custom officers, as well as hidden production and services allowed by law *being off record* and fought by the tax and fiscal officers. The latter services are rendered both by the business organization being on record but hiding a part of their turnover and by the ones whose business operation is off record and taxes are not paid at all. Among such services, we single out activities occasionally prosecuted should some limits of scale and duration be exceeded, like - for example - domestic production of alcohol, minor profiteering.

However, the borderlines between such types of activities are fleeting, and depend on the economic situation, the social habits and awareness and specific rules during the particular period, as well as on the fiscal services' organization and rights. It can be provided that by matching to the present conditions and potential EU standards Poland shall strive after reducing the non-formal economy share of the national product generation from the present *cá* 15% down to below 10% until 2020, and next down to less than 5% of GNP.

Two main ways to restrict the non-formal economy are known:

- reducing the operating costs of official economy, i.e. the costs of on-record companies by way of restricting legal and economic regulations, and by cutting the fees and taxes,
- raising the operating costs at the grey zone through increased efficiency of the tax and fiscal services and imposing fines for illegal off-record turnover.

The first way means less interference of the State into economy, or the economic freedom being enhanced. It favours lower costs of concessions and permits, as well as lower tax rates, which - in its turn - discourages from taking a risk to escape into the grey zone. In Poland now in spite of the economy liberalization and marketization, still a lot of regulations and restrictions are effective as concessions, licenses, permits, and the labour market is still overregulated, specially concerning the companies hiring more than 5 employees (any attempts to change it were objected by the trade unions). According to the entrepreneurs associated in the Business Centre Club, the Polish economic system includes as many as about 200 areas of business activities liable to various regulations like permits, approvals, authorizations and licenses.

An important factor in increasing the economic freedom shall be the actions of the Bureau for Competition and Consumers Protection whose objective is - among other things - to fight the regulations which might be destructive for the competition of enterprises. Also, an important issue turns to be the tax system. It is well-known that a sophisticated system with high rates is enhancing the willingness to take a risk and to operate in the grey zone, even with the fines being relatively high. On the other hand, a simple system and low rates cut the costs of public administration and of enterprises management, as well as the inclination to operate off record. The Polish tax system drawback are unstable regulations and the so-called *vacatio legis*

missing; as yet, there are no conditions to stabilize them for next 5 years at least. Also, the fiscal services approach with the entrepreneurs is far from satisfactory.

Another way to restrict the non-formal economy is first-of-all related to the organization and functioning of tax, fiscal and customs services as well as of various inspections. Their structure still requires polishing up (including the fiscal offices and Treasury Department fiscal control offices interrelations); and - first-of-all – they do not possess enough legal means, materials (computer hardware, xerocopying machines, bibliography) or human resources, although 1 PLN spent for the fiscal apparatus brings annual gross income of 43-45 PLN. Legal regulations, acts included, are often ambiguous or even in contradiction to each other, or too tolerant. Thus, for example, it is quite common to increase the so-called *revenue cost* in artificial way, which makes possible an inappropriate reduction of business operation income taxation (not so much because of weakness of this category, but due to the ambiguity of regulations and of administration and court procedures, as well as to the fiscal control inspectors not being well prepared). Similar problems are with account settlements of the holdings (companies associated with each other, foreign mother companies included). There are much more ways to cut their tax obligations by the enterprises inappropriately. Tax frauds are an important factor of non-formal economy, and they are quite popular in Poland¹⁰.

The entrepreneurs' actions aimed at incorrect or downright criminal achieving bigger profits are unfortunately quite popular, and start to be studied not only by sociologists and other scientists, but by the economic life institutions as well¹¹. Identification of tax frauds and evaluation of their financial outcome makes struggling with grey zone easier. It is estimated that tax and customs frauds of the on-record enterprises account for 65-70% of the non-formal economy incomes, and hence their restriction and elimination shall be aimed at. Actually, the biggest curtailment of budget receipts is related to manipulating the above mentioned "revenue cost" category and VAT tax, as well to "black" hiring of workers.

The tax and fiscal services are constituted by fiscal offices – on district level mainly – and Treasury Departments on voivodship level (with out-of-town branches) subject to the Minister of Finance, as well by fiscal control offices on voivodship level subject to the General Inspector of Fiscal Control by the Minister of Finance. Thus, the fiscal control authorities are: Minister of Finance, General Inspector of Fiscal Control and the Director of Fiscal Control Office Appeals against the fiscal control office's decision serve to the Treasury Department Director (and against the latter decision – to the court-of-law). *Fiscal offices* are tax authorities and they run control on the grounds of the *tax statute*. Their actions are the main source to gain extra budget incomes. The fiscal offices' objectives are to control the correctness and fairness of taxation base and promptness of tax payments, as well as other tax controls. Moreover, they are engaged in proceedings on taxation of incomes having no coverage in the disclosed and undisclosed sources – which are not too active, as yet – as well as they enforce from the public entrepreneurs and the State Treasury companies payment of profits after taxation with income tax. The Fiscal Office submit to the Fiscal Control Office the information on tax payers (e.g. change of

registered office, payment in arrears), proposals on the objects to be controlled, etc. *Fiscal control office* are organization units of fiscal control, their competences being wider than the ones of fiscal offices. They constitute the so-called “*fiscal police*” and *fiscal intelligence*. The fiscal control authorities are authorized to use the information collected by customs and tax (fiscal offices) authorities, including the secret record, as well as the information and assistance of the public administration and self-government authorities and of the National Criminal Information Centre. They can collect and process the information, personal information included, also with no knowledge or approval of the persons concerned. The goal of the fiscal control is to protect the interests and estate rights of the State Treasury, as well as to secure efficient enforcement of the obligations and other amounts due to the budget and to the national earmarked funds, as well as to check compliance with the public estate management law and to fight the violations of applicable law in the field of foreign goods turnover, etc. 20 issues describing the range of fiscal control are specified by the regulations¹².

The fiscal control inspectors are entitled to check people’s identities, to detain people and vehicles; to search premises, luggage and loads, to control the lading documents under Criminal Proceeding Code and Fiscal Criminal Code, direct coercion means included. Since 2004, in each voivodship the Voivodship Fiscal Body is operating, which is constituted by the directors of treasury department, customs chamber, fiscal control office and the head representing the fiscal office heads from the voivodship area. The Voivode is a participant in the sessions of the Body. The Body objective is consolidation and coordination of the fiscal and customs policy, as well as control activities. Cooperation of the treasury departments and the fiscal control offices is sometimes disturbed by the differences in their opinions, specially when the taxpayers’ appeals are examined. The said authorities are obliged to inform the General Inspector of Financial Information on the circumstances related to funds from illegal sources being introduced into the financial turnover¹³, i.e. the so-called *money laundering*.

One of more important instruments of fiscal control is the *fiscal intelligence*. The fiscal control act amended in 2004 extended the authorizations and provided more detailed regulations pertaining to fiscal intelligence – the job of Fiscal Control Office – and Ministry of Finance organization sections. The fiscal intelligence workers have right to record – using technical means – the events at public spots and to process – when so requested by the General Inspector of Fiscal Control – the data identifying the telecommunication network subscribers, as well as to run *operation control*, when approved by the Attorney General, including control of correspondence, parcel contents, etc. The same rights are of the Internal Security Agency (like in USA and Germany). However, the large competences of the fiscal intelligence – not too much made use of, as yet – give rise to some reservations – specially concerning the use of operation control and surveillance (tapping) in case of prohibited turnover or a damage amounting to 50 minimum wages, i.e. a relatively small amount. It is noteworthy that since May 2004 also the building supervision inspectors who control factories, wholesale stores and shops with building materials

have the same police rights. This kind of checking the quality of building materials and legality of introducing them into circulation enjoys a social support.

Although the organization structures and standard solutions are being improved, functioning of fiscal services still shows various drawbacks. Listing the more important drawbacks of the tax and the fiscal control system shall be started by *business operation monitoring being insufficient*. Although it is intended to create one central database in the National Court Register, still not every entrepreneur is obliged to enter the register. Some troubles are also due to the *ambiguous distribution of competences* between the tax authorities (treasury departments and fiscal offices) and the fiscal control. Along with the act on fiscal control coming into force, the control by tax authorities has been limited to the issues related to defining the tax obligations. An important drawback is that the tax and fiscal services are not well-established in the *legal regulations*. In particular, it is that the phrasing and interpreting of the revenue gaining cost are too flexible.

According to what was already mentioned, the fiscal and fiscal control offices *equipment* is insufficient. Also, their human potential gives rise to a lot of reservations, including the inspectors' knowledge of civil and administration law and of accounting. This is due - among other things - to the inspectors and other control officers not being majored, while the business organizations and their problems are different from one to other; enough to mention their branch and market position. Finally, a serious drawback is the weak position of fiscal legal counsels - mainly for reasons of their remuneration - which outcome are many cases lost in the court, where they are facing very competent taxpayers' advisors and defenders. In other questions - more exposed by the public media - the tax and fiscal services are not only well-deservedly defeated, but also blamed with ruining the resourcefulness and jobs.

The number of fiscal controls is too small (which does not mean that some companies are not harassed by frequent controls by one or several institutions, because of wrong selection). The chance that a company will be controlled within the given fiscal year is about 0.3%, i.e. actually one company per each 300-400 business organization is controlled within a year. Thus, in Poland a company is controlled each 3-4 years in average, while in most EU countries it is each year. Specially small is the number of so-called cross control of invoices, which would enable revealing frauds and grey zone identification. Controls of long-term management are rare as well. Accounting books are examined not looking into the mechanisms of achieving the specific economic performance.

Fiscal offices make insufficient use of *tax information on transactions* coming from the notaries, courts, banks, public and local government administration authorities, as well as from business organizations. The reason is a uniform ITI system missing. Also, cooperation with the General Inspector of Financial Information in preventing the so-called money laundering is unsatisfactory. The offices do not inform the GIFI about their suspicions, though they are lawfully obligated to do it. Fiscal offices bring very few *tax proceedings* to determine the amount of receipts having no coverage by disclosed sources or coming from

undisclosed sources. The tax then accounts for 75% of receipts, and thus can be of considerable impact to the budget revenues. One reason for this can be the fiscal services not being well-established in some kinds of control, mainly concerning the off record operation and carried out together with the police. Hence, such controls are very seldom.

Employment legality is not well controlled, the fiscal services not being too interested, and the General Labour Inspection – which is appointed for it – having no means available. Occasionally, employment controls are carried out by the district labour offices responsible for fighting unemployment.

Unsatisfactory control system can be referred as well to the quality of marketed goods and to the legality of measuring instruments, which is exemplified by the quality of car fuels. Though fuel is being controlled to Western standards covering several specifications, but it is done mainly at the petrol stations (meaning retail), while quality is degraded mainly in wholesale trading.

After 2000, a new program to improve the activities of tax and fiscal services was started in Poland, which is demonstrated by extensive guidelines and manuals. Since 2004, the biggest enterprises, or the so-called big taxpayers, are being served by separate fiscal offices – ostensibly more majored.

New trends in non-formal economy

Borders opened and globalization of economic processes are also in favour of such heretofore marginal effects like massive smuggling in commercial scale, drugs production and trafficking, money forging, ransoms being extorted by well organized criminal groups, increased corruption of public and local government institution officers, swindling out bank credits, inappropriate VAT refund, forging credit cards, gambling and bookmaking by Internet, imitating the goods of well-known brands and companies (9-10% of sales value of many goods; about 2 billion PLN yearly in Poland). Also, a number of mafia-like events grew; with government officers participating, like the groups introducing fake fuel into circulation which arose after 2000. As far as smuggling is concerned, it is estimated to be still big after joining the European Union, but – due to better control – more smugglers are detained by the customs officers.

Internet use resulted in new areas of non-formal economy arising. One of them is “selling fictitious costs” in order to reduce the income tax. Internet ads encourage to buy fictitious invoice for various services which are difficult to be verified (e.g. printing leaflets, consulting, transport). Until 2004, the offering parties went unpunished, but appropriate controls are already carried out by the fiscal services. Another symptom are Internet bidding services and selling various goods there (by means of courier post service and courier companies). Such entrepreneurs are sometimes off record, or they hide some turnover. A special example is Internet gambling. In Poland – though net gambling is banned-about 200 thousand citizens use it. One way to evade the ban are services in Polish set up by bookmaker companies from other EU countries (EU law provides freedom of services which is, by the way, supported by the European Tribunal of Justice). Moreover, gambling is

going on in gaming machines. The market is estimated to be 6 billion PLN yearly, but the fiscal services cannot manage its taxation. Illegal net gambling on large scale takes place – among other places in the USA: at about 100 illegal net casinos (there are legal ones, too); 20-30 million Internet users gamble there monthly, spending 4 billion USD each year. Fast growth of such turnover is expected in most countries.

Changes take place even on private lessons market, growing percentage of students being involved. According to the Ministry of National Education, as many as 10% of primary and secondary school students and 50-60% of high school students use private tuition³⁴. Quite frequently it is corruption-like, since private lessons are given by the same teachers. In the developed countries, there is a trend for such education services to be taken over by registered companies for out-of-school education.

Summary

Non-formal economy is associated to many adverse effects, like even the loss in budget receipts and destructive pathologies of the economic and social environment. On the other hand, it shows some values as well; mainly chance of working for the unemployed. Thus, for example, in Poland the unemployment rate – to international standards – was still recently as much as 16-17% while after deducting 1.3 million black workers out of nearly 3 million unemployed (registering themselves only to be entitled to free medical care and to the prospective pension) the sane rate drops down to 10-11% or less, at present).

Identification of the non-formal economy volume is indispensable from the viewpoint of correct national accounts and GNP calculation. This, in its turn, is important also for the economic policy, the one in EU scale included. Thus, for example, in Spain and specially in Greece and Italy the GNP and the unemployment rates are distorted due to the extensive grey zone, and therefore they enjoy EU aid to larger extent than indicated by the actual economic relations.

In summary, it is noteworthy that the aura around tax and fiscal services is unfriendly. The public media frequently use to revile aloud any failures of the fiscal offices and the OFC, while cheating the fiscal authorities by the entrepreneurs – big business scandals excluded – mostly go unnoticed. In the social awareness and in the

¹⁰ W. Wąsowski: *Kreatywna rachunkowość. Falszowanie sprawozdań finansowych*. Difin, Warsaw 2005;

¹¹ *Nadużycia gospodarcze w polskich firmach – suvery results*. Deloitte, Publ. Rzeczpospolita, Warszawa, 2003; K. Tomaszewski (red.), *Transakcje firm powiązanych*, „Gazeta Prawna” (Dodatek „Podatki”), 2002, issue 165.

¹² Act on fiscal control, of Sept. 28, 1991, JoL 1991, no 100, item 442. Uniform text: JoL 2004, no 8, item 65.

¹³ Act on preventing estate values from illegal or unauthorized sources from being introduced into the financial turnover and on preventing terrorism funding, JoL 2003, no 153, item 1505.

¹⁴ A. Zawadzka.: *Globalne kroki*. „Polityka”, 2007, issue 7.

businessmen's mentality in Poland, it is rather a penchant to take pride in such cheating that is still prevailing, instead of – like in the wealthy countries – a because pride of high amount of taxes paid. However, some harbingers appear already of favourable changes in the social awareness and in the business ethics, leading to a new look on the tax issues and non-formal economy.

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Rentability Within the Security

Financial Bank: Indicators and Performance

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Introduction

Any activity in modern economies requires the existence of risk, respectively, of possible losses, and if this phenomenon banking is one of the exclusive and banks still remain some of the most prosperous institutions. Proceeding from the above, a security problem profitable and safe banking remains a problem on the agenda, which is the goal of the founders of both banking institutions, bank management as well as their clients.

Article

To ensure a safe and profitable activity of commercial banks is no need to meet several conditions including: maintaining capital adequacy, asset quality preservation, adequate training of personnel, providing appropriate information and prevent its leakage, the introduction of financial innovations and new financial technologies etc. The level of compliance of any bank market requirements competitiveness is reflected in profitability and liquidity in an optimal, which is also the main goal of the commercial bank.

Bank profitability involves increasing the investments made by the bank's founders. The investment depends on the size of profit, so the efficiency and equity of resources, and the risks assumed by the bank management in the capitalization of financial resources. So bank profitability is both the aim of the founders of the bank and bank depositors, ie, customers. Usually the founders, shareholders are interested in obtaining a higher profit that can be obtained by: loans, including certain borrowers "dubious", reducing unused balances, investments in long-term securities. Operations shall require excessive risk taking and reduce the bank's liquidity and therefore reduce the chances for proper servicing customers, ensuring the withdrawal of deposits and loan demand for reliable borrowers.

However, in order to maintain a reliable and safe activity, the commercial bank must obtain the maximum revenue possible conditions created. The bank's financial welfare depends directly to profitability. Inadequate incomes induce banks leaders desire to make profits from riskier operations. In the same measure increased profits can be evidence of impairment as a result of bank security increased willingness to take risks or questionable practices. Bank operations, services and products offered by banks should offer advantages pliers, on the other hand, lead to profit of the bank. The results obtained by the bank are equal to revenue minus Expenditures bank that is the bank. Bank to profit when the bank revenues are greater than expenses which he has bank and vice versa: bank losses when the bank expenses are greater than revenue.

Revenue modern commercial bank formed in the amounts received or to be received from interest on loans or other active operations conducted by banks - comisioane the use of client orders, execution of consultancy and other services offered by the bank or some percentage revenue. Gross operating income of the Bank net income minus operating expenses are operational, reflecting the bank's ability to earn income from ordinary banking operations. Operating income includes all income, which reflects the normal operations of the bank, except for headings corresponding exceptional circumstances, prior period adjustments or income not related to normal business of the bank. By nature banking revenues fall into the following categories of income:

- * Percentage revenue consist mainly of interest income, referred dobânzele earned from loans, investment securities, various related operations such as financial leasing, factoring, bank bills etc. These include all the interest rates earned by the bank from any source;

- * Nepercentage income consists primarily of non-interest income, income receipts formed as a result of various commissions services: brokerage operations, trust operations, services consalting, servicing customer accounts, services related to card etc .;

- * Exceptional income or other income, is income earned by the bank from the sale of its fixed assets, the levying of fines or penalties, proceeds from the revaluation of currencies and securities.

Percentage income and ordinary income of the bank is neprocentuale which are obtained as a result of operational activities of the bank, banking services and products. Exceptional revenues are revenues that banks get from various sources which are not normal activities of the bank.

Margin Percentage - is the percentage income after expenses exclusion percentage. It is the main share of bank income.

Bank expenses are amounts paid or to be paid by the bank on resources, bank borrowings by various services that beneficiază bank charges related to the payment of salaries, taxes and other administrative costs. Expenses also be classified according to their nature into three categories:

- * percentage charges or interest expense - the amounts of money paid by bank customers in the form of interest on various types of deposits offered by the bank, the interest paid by the bank for loans from other financial institutions, both

national and international and other interest, the bank is obliged to pay as a result of operations carried out;

* nepercentage expenses or non-interest expenses - represent expenses incurred by the bank in the form of commissions or other payments: costs for providing banking activity material (purchase of equipment, means of TRANSPOR) expenditure for salaries, building maintenance etc .;

* exceptional expenses or other expense categories, which include fines, penalties, taxes and charges, losses from the sale of securities, extraordinary expenses etc.

An important share in the expense category lies bank reserves created and to cover loan losses. From puncture mechanically bank reserves to cover doubtful loans pierderelor formed by transferring a portion of pre-tax income in the category of the reserve fund of the bank and loan portfolio reflects the change in cost over that period.

To investigate the issue of profitability is necessary to consider the two most important criteria - return on assets and net profit percentage ratio to the share capital.

$\text{Return on assets} = \text{Net income before tax} / \text{average assets} * 100\%$ summary.

The indicator is defined as the ratio of income from operating activities to all assets. Many experts consider this relationship as the only indicator to assess the effectiveness of banking.

Profit that remains to the bank depends on the amount of income and expenses, taxes paid to the budget. Comparing the growth rates of the components shown allows us to assess which of the factors had a positive or negative impact on the formation of profit. The profit is the main component for the growth and updating of the base of the bank, the bank's own capital increase, which ensures the stability of capital and bank liquidity, ensuring an appropriate level of dividend growth and development banking. Namely the existence of a safe return demonstrates financial security banking.

Main indicators of bank profitability are:

1. *The rate of interest income.* Expresses the ratio of net interest income (interest earned - Interest paid), on the one hand, and current recovery, on the other hand. Capitalized assets are bank assets that bring profit and can be determined by the difference between the total sum of the following balance sheet and unused assets (house, fixed assets, inventory items, discounts and borrowers other assets).

A high value of this indicator, so a net interest income as high level of asset același expresses a profitable activity. Also, the net interest margin can be obtained at the expense high employment in hazardous activities. A low margin may reflect higher spending to pay interest, and a more cautious attitude of the bank, resulting in lower interest income.

So:

$$R_{vd} = \frac{D_i - D_p}{A_v} * 100 \quad (1)$$

where:

Rvd - rate interest income;

Di - interest earned;

Dp - interest paid;

Av - assets valued

$$A_v = TA - NA \quad (2)$$

where:

TA - total assets;

AN - untapped assets.

2. *The rate of profit.* In the banking sector is calculated as an expression of the ratio of net profit and total revenue. The magnitude of this indicator depends directly on the ratio of income and expenditure of the bank, but not exclusively.

$$R_{pr} = \frac{P_n}{T_v} * 100 \quad (3)$$

where:

Rpr - rate profit;

Pn - net profit;

Tv - total revenue.

3. *Asset utilization rate.* It is an indicator of bank performance associated with the rate of profit. Size of this indicator depends on the size and structure of market interest bank assets. These assets are, however, the most risky, while increasing their share increase bank risk. This increase can not be unlimited because unused active stations are required to conduct normal banking business. Asset utilization rate plays banking revenue share in total balance sheet assets. So:

$$R_{UA} = \frac{TV}{TA} * 100 \quad (4)$$

where:

Rua - asset utilization rate;

TV - total revenue;

TA - total assets.

4. *Rate of return on assets (ROA).* It is an indicator that reflects the effect of managerial ability to use bank resources for profit. It is estimated in the literature that the rate of economic return and is the most relevant indicator of bank efficiency because it expresses the result - net profit - depending on the specific mode of bank intermediation process and optimization of active operations under a given amount of resources .

So:

$$R_{re} = \frac{P_m}{TA} * 100 \quad (5)$$

where:

Rre - economic rate of return;

Prn - net profit;

TA - total assets.

5. *Financial rate of return.* It is a synthetic indicator expressing the ratio between net profit and capital. It is the most significant expression of profit, which considers the results of bank management as a whole and show their commitment to shareholders effect in the Bank. It is desirable that the financial rate of return is greater than the average market interest to make attractive bank shares and the increase of their stock.

$$R_{rf} = \frac{P_m}{C} * 100 \quad (6)$$

where: C - bank capital.

6. *Leverage.* Expresses the ratio between total assets and capital. It is an indicator of the structure which is expressed in units of measure absolute and generally has higher values of 10 reflects the degree to which the use of additional resources serves increase return on equity. This indicator varies inversely with the share of capital in total bank liabilities. The capital share is higher, the credit risk is low, and also leverage. A smaller share of capital means a credit risk and higher leverage.

In conclusion we can say that the primary objective of management in commercial banks, as the goal of any participant of economic activity is to make a profit, respectively, maximizing market value. In particular this task becomes more difficult in modern economies, where practically been erased national borders and local economies are part of the global economy, which presents both advantages and disadvantages. One of the main disadvantages of the globalized economy is shown by the fact that risk transmission occurs in a short time both vertically and horizontally.

It is known that not only the resources available locally operated bank invested by shareholders. A share more impressive is the resources, especially funds attracted from individuals and businesses through the delivery agent storage operations. To honor its obligations both to investors and to customers, banks must make a return sufficient to meet the best interests of the funds and to effectively manage the risk they expose. For these reasons (and others) bank management must pursue maximum effect with minimal effort or to obtain more profit in terms of a minimum risk assumed

- Eternal dilemma banking "risk - profitability". Bank performance are highlighted by a system of economic - financial indicators, whose determination is based on the profit in correlation to the risk and size of these indicators are important not only as a certain value, and evolving over time.

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Strategic risk in company activities – methodological approach

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Introduction

The issues of strategic actions are of fundamental significance in the process of managing each organization. Although the idea of strategic management already has a well-established position, formulas the essence and meaning of which do not give them the quality of separate formulas but make them a kind of supplementary ideas appear around this idea. Taking into account the holistic thinking paradigm in management sciences – they become an integral part of this process. Hence, the article presents (recognizing it as the purpose) the concept of strategic risk regarding the search for methods to minimize this category of risk. The definition of strategic risk as well as its positioning in an organization is currently a challenge for numerous companies operating in a turbulent environment.

Risk in company management

businesses which effectively and efficiently manage their companies need to take conditions present in the environment into account when making decisions. The economy may include circumstances of a deterministic nature (decisions made under conditions of certainty) and non-deterministic nature (decisions made under conditions of uncertainty). The second aspect may result in the lack of the implementation of objectives in the company and thus requires an appropriate approach.

Observing the development of an organization and its environment, it is not difficult to observe the existence of risk. This notion is very complex and may have numerous meanings. Therefore, a clear definition of risk is not easy but we may specify the criteria for using this notion. They include:

- the fact that the result achieved in the future is unknown but it is possible to identify future conditions;
- the knowledge of the probability of particular results to be implemented in future periods³⁵.

³⁵ W. Tarczyński, M. Mojsewicz, *Zarządzanie ryzykiem*, PWE, Warszawa 2001, p. 12.

It may, however, seem that the criteria presented above do not cover the entire essence of risk. This results from the extensive size of domains to which it applies.

Taking into account the company and its management, we may define risk as a basic element of the environment in which the company operates. It is commonly believed that this phenomenon needs to be negative. However, in unit management risk might also occur in the form of positive events. Risk is very widely classified in literature. The basic criteria include:

- effect:
 - specific risk – closely connected with a given area of the unit's activities;
 - systemic risk – the unit does not have impact on the risk since it results from the environment's conditions.
- alternatives:
 - pure risk – the only solution from the situation is the existence of damage;
 - speculative risk – future uncertain events may cause losses or the emergence of profits.
- technological progress:
 - static risk – independent of the development of technology, related, e.g. to natural phenomena, namely storms, hurricanes;
 - dynamic risk – results from civilization progress.
- measurability of consequences:
 - financial risk – may be determined, makes it possible to determine its impact on the financial result;
 - non-financial risk – difficult to be measured directly.
- time:
 - strategic risk – applies to a long period of time and making long-term decisions;
 - operational risk – related to short-term activities³⁶.

Much more attention is paid to risk nowadays. It is necessary to analyze 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 making decisions and executing activities which lead to achieving an acceptable level of risk by this entity³⁷.

Company risk management is included in the entire company management and is an inherent part of its strategy. The following basic stages of risk management may be distinguished:

- risk identification;
- risk measurement;
- risk control;
- monitoring and control.

³⁶ *Leksykon Finansów*, collective work edited by J. Głuchowski, PWE, Warszawa 2011, p. 266.

³⁷ K. Jajuga, *Zarządzanie ryzykiem*, PWN, Warszawa 2009, p. 15.

The first stage consists in determining the kinds of risk, individual for a given business entity. Then, an important stage is to determine the measure defining the level of uncertainty, either in numbers or according to other categories. The next step is to make decisions aimed at determining actions adapting the risk to one specific level. The last presented stage stresses the fact that risk management is a process and not a single action and thus this phenomenon needs to be observed.

Risk management is performed by employees who usually hold higher positions in the company. Heads, managers but also each employee may have various attitudes towards risk. Three main types of employee relation to risk are distinguished:

- aversion to risk;
- inclination to risk;
- indifference to risk.

Companies need to be aware of the fact that risk is related to introducing any change, even the smallest one. The basic sources of risk include:

- the financial sphere, e.g. changes in inflation, interest rates, currency exchange rates;
- operational activities, e.g. employee errors, pause in deliveries;
- technique, e.g. machine and equipment failures;
- trade, e.g. consumer changes, ageing of products;

In general, the sources referred to above may be classified as external and internal factors. On the basis of the FERMA risk management standard, we may identify examples of risk factors³⁸.

The most important type of risk assigned to the time criterion is strategic risk which directly affects the strategy of a given company. It is present in the long-term perspective significantly determining the unit's strategic action plan. The most important hazards in this aspect include:

- changes in the Polish and foreign legislation;
- the occurrence of a new fashion of trends on the market;
- the emergence of new competition;
- changes in demand etc.

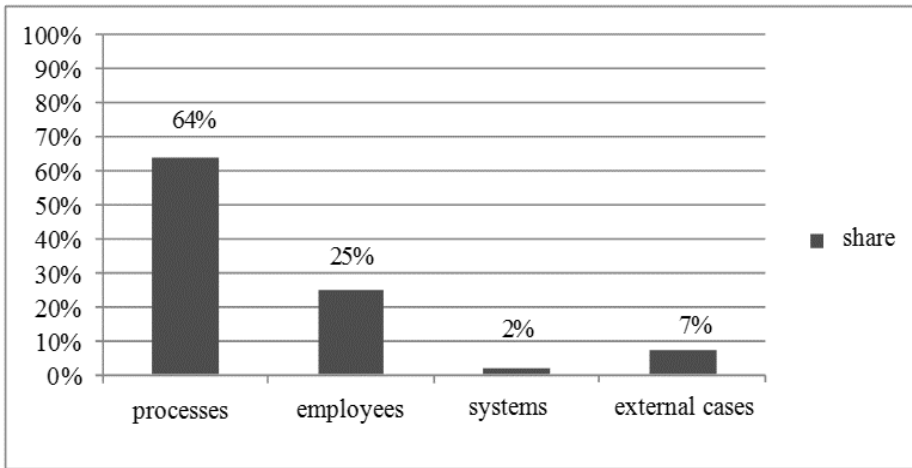
Therefore, management of this type of risk should be of an ambivalent nature since it contains both the risk of profit but also loss. Counteracting the risk of loss may consist not only in reducing the probability but also the size of losses. The risk of profit, on the other hand, should be used to search for the possibility to achieve assumptions resulting from the company's mission in a more comprehensive manner as well as to implement innovative activities resulting in the unit's development. Strengthening the organization should be based on creating realistic scenarios for the future as well as the preparation to face and counteract possible challenges.

Risk belonging to the same category (time criterion) is operational risk. As the same suggests, it applies to all processes taking place in the company, within a shorter period of time. The definition of this type of risk says that this is the

³⁸ FERMA risk management standard, (AIRMIC, IRM 2002), p. 4,
http://www.theirm.org/publications/documents/rm_standard_polish_15_11_04.pdf

possibility of loss which results from the lack of adjustment or the unreliability of internal processes, people and technical systems or from external events. On the basis of the notion above, we may distinguish four main categories of operational risk, namely: processes, employees, systems, external cases. The diagram below presents the share of these categories in operational risk.

Diagram 1. Share of risk categories in operational risk



Source: www.rmahg.org

The main areas of uncertainty which relate to the company's operational activities may include, first of all:

- ensuring the quality of products/services;
- maintaining appropriate relations with customers;
- the availability of certain resources;
- efficiency regarding supplies;
- guaranteeing the required level of safety etc.³⁹.

Strategic risk and operational risk are one of the most important types of uncertainty present in each company. Differences between them result mostly from the period in which they are examined as well as from the nature they may assume since operational risk is considered, first of all, from the negative perspective, while strategic risk also accepts positive aspects.

The impact of risk management on the company's general management process is huge. It involves basic activities belonging to the unit, namely making decisions. Each matter, even a seemingly minor one, may result in positive or negative consequences. Therefore, business entities need to take into account the possibility of the occurrence of risk in order to efficiently manage an organization. This approach suggests that the process of interest in this issue should be continuous

³⁹ A. Dudek, *Organizacja i zarządzanie*, Zeszyty naukowe Politechniki Śląskiej, book 57, pp. 108–190.

and improved so that it provides grounds for the execution of strategic objectives and takes into account strategic risk.

Essence of strategic risk

From the etymological point of view, the concept of strategic risk has natural connotations with the notion of strategy and thinking in categories of actions aimed at a long time perspective. Despite frequent charges as to the restricted possibility of formulating objectives and tasks in the long-term perspective (towards continuous growth in the dynamics of changes of the environment and often already non-extrapolation formulas of their course), it should be stated that, for instance, the lack of attempts to think and act on the basis of long-term vision of strategic development seems a fundamental error. Certainly, it implies the need for both continuous monitoring of changes taking place and undertaking corrective actions, which, after all, characterizes the management process and defines its essence, not only in the sphere of business, but also in relation to non-profit organizations⁴⁰.

A similar situation takes place regarding the need for risk management, both in the strategic dimension (which happens to be stressed relatively rarely) and at the level of operations (which is present much more often). **The notion of strategic risk management** means a process focused on the long-term perspective the objective of which is to predict, identify and monitor as well as constantly correct, by making decisions, situations and events which may have an adverse impact (elimination of threats) on the adopted plan of strategic actions. On the other hand, due to diverse areas of activities, strategic risk may refer in its essence to numerous different areas which, due to growing dynamics of changes, require the use of the strategic risk concept.

On the whole, companies first formulate the strategy and then analyze risks related to its execution and, at the end, attempt to implement a solution reducing or eliminating the identified risks. In this sense, the strategy is defined as a decision-making process regarding performing actions in the future in order to make subsequent decisions under more favorable conditions⁴¹. Risk in literature (mostly regarding finances) is defined as a threat or hazard of suffering losses. In the context of long-term financial decisions such as investments, risk may also be understood as the lack of confidence regarding income from investment truly earned as compared to the expected one⁴². Income lower than expected may prolong the payback period and question the investment's profitability, especially if this project is very innovative or related to new technologies or a temporary trend.

⁴⁰ See in more detail: J. Fudaliński, *Perspektywy rozwoju zarządzania społecznego w sektorze organizacji non profit w Polsce*, Wydawnictwo Difin, Warszawa 2013, p. 102 and further.

⁴¹ M. Wereda-Kolasińska, *Wpływ ryzyka strategicznego na wartość firmy dla akcjonariuszy*, CeDeWu, Warszawa 2011, p. 9.

⁴² T. Jachna, M. Sierpińska, *Metody podejmowania decyzji finansowych*, Wydawnictwo Naukowe PWN, Warszawa 2007, p. 511.

The key factor influencing the level of risk is the lapse of time⁴³. Along with the prolongation of the time perspective (one of the determinants of the strategic dimension of risk management), uncertainty as well as the probability that the expected value will significantly differ from the achieved one increases. This is an argument supporting a serious and detailed approach to this issue in the context of business development plans and their implementation. Companies, taking up investment challenges aimed at e.g. implementing new technologies which will improve the company's activities or solutions which provide competitive advantage also need to include risk, due to the long-term character of these decisions. The longer the period in which the investment plans will be implemented, the greater the emphasis on the most comprehensive consideration of this factor in the company. As a result of the combination of these two notions, the notion of strategic risk was created. When referred to the finance management area, it is defined as risk related to the following investment decisions which, in turn, assume long time frames and uncertain revenues⁴⁴. According to this definition, key investment decisions are always a reflection of the strategy and strategic risk is an inherent element of its execution. Strategic risk may also be defined as a function of the organization's ability to cope with changes in the environment, management quality and decision-making processes⁴⁵. For this reason, strategic risk factors may be divided into:

- external,
- internal.

External risk factors affect a company from the outside in a manner completely independent of its activities on the market. Such factors include, e.g. actions from the competition, technological progress, changes in interest on credits or the introduction of unfavorable government acts. On the other hand, internal risk factors are strictly connected with the company's activities and changes in its structure. A good example may include the omission of changes in the organizational structure as a result of which a company adapts to changes on the market too slowly. However, it is worth emphasizing that both factors are related elements with strong mutual impact. What is going on in the external environment affects the company's internal functioning and vice versa⁴⁶.

Disregarding the division above, the general strategic risk taxonomy is quite complex and includes numerous risk factors. The attempt to present the level of complexity of this issue is presented in figure 1. It shows that the source of strategic risk may be traced back to:

- changes in the competition's market structure,
- technological changes,
- changes in the financial environment,

⁴³ See in more detail: P. Buła, *Zarządzanie ryzykiem w jednostkach gospodarczych. Aspekt uniwersalistyczny*, Cracow Univeristy of Economics, Cracow 2003.

⁴⁴ A. Brummel, G. MacGillivray, *Scenario Planning – A tool for navigating Strategic Risk*, Scenarios to Strategy Inc., 2008, p. 1.

⁴⁵ M. Wereda-Kolasińska, *Wpływ ryzyka...*, op.cit., p. 60.

⁴⁶ M. Wereda-Kolasińska, *Wpływ ryzyka...*, op.cit., p. 56.

- changes in stakeholders' behavior,
- loss of innovation,
- political and legal turbulences.

Figure 1. Strategic risk taxonomy



Source: M. Wereda-Kolasińska, *Wpływ ryzyka...*, op.cit., p. 76.

As shown by the general taxonomy above, not only external and internal changes may be a factor of strategic risk but also the lack of relevant changes in the company's structure or technology in adequate time. The failure to adjust the company's activities to changing market conditions may result in the loss of the previous position or much more serious consequences in the long-term perspective. Developed companies with a well-established market position very often forget about the fact that their competition is constantly working on all possibilities of acquiring a large portion of the market. This problem also relates to companies where the main shareholder is the State Treasury. A great example from the last months is LOT which, as a result of long-term organizational omissions and the underestimation of the importance of certain risks, is on the verge of bankruptcy. Since the beginning of its existence, the company has been unable to deal with the problem of rotation of the Management Board resulting from its being politicized –

the company had 11 CEOs over 8 years. As a result, LOT has serious problems with strategic management and, in consequence, with the profitability of its services⁴⁷.

Strategic risk refers to the entire company, its organizational and legal forms, contractual and equity relations with partners. Referring to strategic management as the process of selecting the company's objectives and strategy, the process of executing and controlling the execution of established objectives, the following types of strategic risk may be distinguished:

- risk of strategic choices,
- risk of implementing strategic decisions,
- risk of forecasting and monitoring changes in the environment and in the company⁴⁸.

This risk division presents the course of the strategic management process including risk at each stage. In this sense, natural connotations, interferences, and relations between the notion of strategic management and risk management appear, but these analogies are completely natural and, in a sense, are an inseparable structure which, at the same time, taking into account the imperative of the application of the strategic risk management concept in the company, makes it possible to achieve the effect of synergy from the point of view of praxeological measures determining the quality of management⁴⁹.

Having knowledge about the level of importance of strategic risk as a factor creating the possibilities of return on investment or long-term strategic activities, they should be identified and assessed. This is a part of generally understood risk management which is defined as a full process of identification, assessment and responding to risk and transferring the results of these processes to appropriate parties in a timely manner⁵⁰.

Methods and techniques of assessing and reducing strategic risk

Identified risk, regardless of its kind, should be assessed according to the above definition for an adequate response. There are many risk assessment methods, and the most important ones include⁵¹:

- seven pillars of strategic risk assessment,

⁴⁷ http://pl.wikipedia.org/wiki/Polskie_Linie_Lotnicze_LOT

⁴⁸ E. Urbanowska-Sojkin, *Ryzyko w wyborach strategicznych w przedsiębiorstwach*, PWE, Warszawa 2013, p. 63.

⁴⁹ See in more detail: Janusz Fudaliński, *Efficiency as a Praxeological Measure and a Category Determining Operation of the Third Sector Organizations – Myth or Practice of Action?* (in:) *Contemporary Economies in the Face of New Challenges, Economic, Social and Legal Aspects*, edited by R. Borowiecki, A. Jaki, T. Rojek, Cracow University of Economics, Cracow 2013, Chapter 6, pp. 67–80.

⁵⁰ *A Guide to Risk Management, Department of the Premier and Cabinet and Queensland Treasury*, VII.2011, p. 7.

⁵¹ See numerous other risk assessment methods, e.g. P. Buła, *Zarządzanie ryzykiem w jednostkach gospodarczych. Aspekt uniwersalistyczny*, Cracow University of Economics, Kraków 2003.

- Value At Risk (VAR),
- strategic risk assessment matrix,
- strategic risk matrix according to PwC,
- CIMA Strategic Scorecard.

The first is based on seven pillars, namely:

- the issue of linking risk management with strategic planning,
- supporting strategic initiatives in areas of communication, analysis or culture,
- the level of skills in management personnel,
- the quality of systems for reporting managerial information,
- the company's attitude towards the implementation of strategic initiatives,
- using resources as part of these initiatives,
- the ease and cost of changes in made strategic decisions.

The assessment of all the areas referred to above is the measure of the level of strategic risk. The more poor assessments in particular pillars, the greater the risk.

On the other hand, the VAR method is based on measuring potential, unforeseen losses in a specified time perspective with a previously determined level of significance, on the basis of past events.

Risk assessment matrix⁵² strategic was created on the basis of the assumption that the degree of strategic risk is a result of the probability of the occurrence of a given risk with the weight and meaning of the consequences of its occurrence (tab. 1).

Table 1. Strategic risk matrix

Degree of strategic risk = probability of occurrence/significance of effect					
Probability	Ranking of consequences				
	A. Insignificant	B. Low	C. Medium	D. Significant	E. Catastrophic
1. Almost certain	Low	Medium	High	Extreme	Extreme
2. Likely	Low	Medium	High	Extreme	Extreme
3. Possible	Low	Low	Medium	High	Extreme
4. Rather unreal	Low	Low	Medium	High	High
5. Rare	Low	Low	Low	Medium	High

Source: M. Wereda-Kolasińska, *Wpływ ryzyka...*, op.cit., p. 81.

⁵² See in more detail: P. Buła, *Risk Assessment Matrix (RAM) – an exemplary practical application to the internal audit of corporate logistic functions*, (in:) *Contemporary Management Challenges in the Transition Period. The Perspectives of Poland and Spain*, scientific editors: P. Buła, H. Łyszczarz, A.M. Ramírez, J. Teczek, Cracow School of Business CUE, Cracow–Granada 2011, pp. 89–99.

The last two methods used to estimate strategic risk are, respectively, the risk matrix suggested by the consulting company PricewaterhouseCoopers and the Strategic Scorecard by the Chartered Institute of Management Accountants. The first one emphasizes, except for the aspect of risk assessment by the matrix, the weight of internal audit, and the second one facilitates making choices by indicating strategic options⁵³. The identification of risk and the attempt to estimate it is the first step on the way to limit uncertain events and their effects in the company. Knowing about actual hazards resulting from the execution of the adopted strategy, a company even unintentionally starts actions which are to prevent or restrict losses in the case of failure. Reducing strategic risk in a company will most certainly be a completely different set of actions since each company and its strategy are characterized by a great number of risks typical only of them, the examples of which may be multiplied. On the contrary, this part of the study focuses on the indication of general principles worth complying with to reduce uncertainty and the effects of the occurrence of a given risk. There are three basic methods to reduce risk in the general perspective:

- reduction,
- retention,
- transfer⁵⁴.

Risk reduction is aimed mainly at reducing the probability of damage and reducing the size of this damage. To a great extent, it is based on actions protecting and counteracting the occurrence of losses. One example includes the compliance with OHS regulations, reducing the risk of loss of qualified workforce as a result of an accident and the risk of loss of their trust towards the degree of safety at the workplace.

Risk retention, on the contrary, consists in maintaining specified financial reserves which, in the case of adverse events, will be able to cover the costs of its effects. Maintaining reserves is connected with freezing liquid assets, namely particular attention should be paid to an accurate analysis of a given risk and its possible financial consequences. This will enable the optimum use of resources with a simultaneous reduction in unnecessary risks.

Meanwhile, risk transfer is simply transferring possible effects of the occurrence of damage to a different entity. This is most often done by business insurance, creating capital subsidiaries as well as protections in agreements, e.g. with subcontractors or shipping agents.

The concept of strategic risk management is used to reduce strategic risk in a company. According to the previously adopted definition in the process presentation of this concept, the last stage of the risk management process is the response to risk, namely the method of reducing or eliminating it. Therefore, we may

⁵³ M. Wereda-Kolasińska, *Wpływ ryzyka...*, op.cit., pp. 79–86.

⁵⁴ See J. Zawila-Niedźwiecki, *Podstawy zarządzania ryzykiem*, Urząd Komisji Nadzoru Finansowego, 2007, p. 27,
http://www.knf.gov.pl/Images/podstawy_zarzadzania_ryzykiem_tcm75-2092.pdf

assume a wider definition determining **risk management in the instrumental sense** as a set of methods used to identify, coordinate, model and bring under control the most important kinds of risks and their sources in the holistic perspective regarding a company as a whole operating in a specific environment⁵⁵. The postulate of a comprehensive (holistic) approach also seems extremely significant in this case⁵⁶. It also applies to using risks as opportunities to accelerate the company's long-term development as a result of a more dynamic adaptation to the market than the competition.

Risk may be reduced:

- actively, namely acting on causes,
- passively, affecting the effects.

In the Polish pragmatics, we are used to remedying the effects of bad decisions, rather than reducing the risk of their occurrence. Thus, numerous Polish entrepreneurs protect themselves first against negative effects which may be related to a long-term investment. Random events may occur in each investment action (fire, theft, employee's death and other) the impact and importance of which will potentially result in casting doubt on the implementation of the entire strategy. Various kinds of protections are used to reduce the effects of these events on the continuity of activities. After the events from 1982, 1997 and 2009, when Poland was hit by floods⁵⁷ and numerous companies lost their entire property in the disaster and withheld destroyed investments, companies began to take the severity of risks involved with activities more seriously. This may be proved by the fact that in 2010 only about 10 to 15% of companies were not insured against the effects of flood. This number, when compared with the percentage of non-insured individuals, was significantly smaller which proves the greater precaution of entrepreneurs than individuals⁵⁸.

All these insurances minimize or neutralize losses which cannot be foreseen and the occurrence of which cannot be excluded. The effects of risk are severe and it is necessary to protect oneself in the case of their occurrence, while it is also necessary to decide which risks are crucial and which may be approached less rigorously. Risk management standards were established for this purpose. They include, among others:

- COSO (The Committee of Sponsoring Organizations of the Threadway Commissions),
- Prince2,

⁵⁵ M. Wereda-Kolasińska, *Wpływ ryzyka...*, op.cit., p. 87.

⁵⁶ See in more detail: P. Buła, J. Fudaliński, M. Gorzelany-Dziadkowiec, *The Concept of Integrated Management within small and medium-sized enterprises sectors*, (in:) *Management Science in Transition Period in South Africa and Poland*, scientific editors: J. Teczek, N. Terblanche, International Management Foundation, Cracow University of Economics, Cracow 2013.

⁵⁷ <http://srodowisko.ekologia.pl/ochrona-srodowiska/Najwieksze-powodzie-w-Polsce-w-XX-i-XXI-wieku,12426.html>

⁵⁸ <http://www.rp.pl/artykul/487488.html>

- ISO 31 000:2012.

The standards referred to above are sets of principles the application of which ensures preventive protection. In the case of COSO, the standard puts emphasis on the management board to create a corporate strategy and objectives based on it. Creating a corporate strategy takes into account the determination of the optimum balance between growth, assumed profits, risk and effective use of resources. On the contrary, Prince2 is a methodology of designing in a controlled environment the methodology of which to determine the risk formula is based on the risk register (risk tolerance, responsibility for risk, risk ownership). Meanwhile, ISO 31 000:2012 is an international risk management standard. It may be used by an organization of any size, executing various projects.

Another important active risk reduction policy is transferring it to other entities. This may be expressed both in contracting subcontractors to perform risky parts of the investment, transferring the risk and its effects to them or in creating new entities to implement a given investment project at the same time separating the risk from the parent company. The second method is based on establishing subsidiaries which are legally systematized in the Code of Commercial Companies.

For this purpose, capital companies are used due to their limitation in liability up to the amount of contribution. The most common legal form used for this purpose is spółka z ograniczoną odpowiedzialnością (limited liability company) since its activities are cheaper as compared to spółka akcyjna (joint-stock company) and has a required feature reducing the transfer of the effects of risk to the entire company (holding). If a production company decides to build a production plant for mechanical parts which were delivered so far from subcontractors and the company only assembled them into ready-made devices, a subsidiary is an ideal solution. First, it protects the investment during its implementation up to the amount of the invested capital and, second, it gives the possibility to quickly sell this part of business in the case of compulsory restructuring, change in strategy or change in the industry. A joint-stock company, due to numerous requirements and high costs, is used as subsidiary only in the case of very large investments where borrowed capital, e.g. from the stock exchange, is necessary. However, when planning a long-term strategy, we should always remember about the sequence of procedure and all the possibilities of risk reduction. Therefore, it is advisable to identify risk, specify its possible effects, its weight across the entire strategy or a single investment and undertake appropriate steps aimed at its reduction.

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Chapter 2

Processes and Structures

New Trends in Information Communication Technology for Management. Organizational Creativity Support Framework

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Abstract

The main purpose of this paper is to explore the new trends in Information Communication Technology (ICT) and to identify the possibilities of their usage in management. Specially, we investigate and discuss what ICT tools are the most appropriate in order to support an organizational creativity. We propose a framework for organizational creativity support and recommend some guidelines for building of organizational creativity support system. We believe that they help our economy and organizations to become more competitive, creative and modern. The study was based mainly on a critical analysis of literature, and reports concerning the information systems design. The results of this research can be used by ICT and business leaders as they plan and develop ICT-enabled organizational creativity.

Introduction

The theory, as well the practice, describe different methods and techniques that are used in management support. In recent years, Information Communication Technology (ICT) has become a critical component for the success of contemporary organization as well as today's economy and society. ICT helps to transform new technologies into business, integrate domestic organizations with global companies, as well as to improve decision-making at all levels of management (Kisielnicki, 2014; Olszak, 2014). It is said that ICT has opened the polish "gate" on the world, including on Europe Union.

The organizations use ICT for the following purposes (Ishikawa, Nakagawa, 2013):

- to collect information about competitors, industries, governments and nations for management strategy;
- to collect and analyze background information, such as information about technology, politics, economy, society and culture;
- to observe the changing business environment and keep track of trends, and
- To monitor the trends of suppliers of materials, exporting nations, competitors and overseas markets.

If we assume that *Noble Price* is the indicator of progress in science, it is hard not to notice that ICT is the most developing domain. The prices in physics and economics present how much was done in the world of computer science and information systems.

The roots of ICT using in management originate mainly from decision support systems, which first emerged in the early 1970s, when managers used computer applications to model business decisions. Over the years, other applications, such as executive information systems (EIS), expert systems, online analytical processing (OLAP), data warehousing, and data mining, became important (Wixom, Watson, and Werner, 2011; Davenport, and Harris, 2007; Chen, Chiang, and Storey, 2012; Olszak, 2013a). These mentioned management information systems are focused mainly on supporting decision-making at different levels of management (operational, tactical, and strategic decisions). We believe that it is a time to search for new solutions and applications that enable organizations to become more creative and competitive at the global and dynamic environment. Thus, we propose to create a framework of an organizational creativity support system (OCSS). OCSS is as a new generation of management information systems. It is focused on acquiring, collecting, processing a huge amount various information, as well on discovering new knowledge in order to improve organization creativity, effectiveness and competitiveness.

In times of widespread ICT using, we cannot question of the historical Drucker's statement that there are not developed countries but are only the countries with not well developed management. In this context, we put two hypotheses in our research paper:

H1: ICT enables uncompetitive organizations to become more competitive on the global market.

H2: The usage of ICT enables the industrial society to transform into knowledge-based society, including overcoming the gap between new countries of UE and others (specially belonging to G7 group).

The aim of this research is to explore the new trends in ICT and to identify the possibilities of their usage in management. Specially, we investigate and discuss what ICT tools are the most appropriate in order to support an organizational creativity. We propose a framework for organizational creativity support system (OCSS) and recommend some guidelines for building of OCSS. We believe that they help our economy and organizations to become more competitive, creative and modern.

The study was based mainly on a critical analysis of literature, and reports concerning the information systems design. The results of this research can be used by ICT and business leaders as they plan and develop ICT-enabled organizational creativity.

Organizational creativity

The organizational creativity is treated as a main vehicle of organizational development (Elsbach, Hargadon, 2006), the basis for staying on the market and innovative success (Shin, Zhou, 2007; Klijn, Tomic, 2010; McLean, 2009). The organizations that support the organizational creativity and adopt the innovative practices, products and services increase their capability to be more competitive (Mumford, Robledo, Hester 2011; Drazin, Glynn, Kazanjian, 1999; Parjanen, 2012). It is stated that s creativity is important, not only for long-term survival of the organization and the struggle with unexpected organizational situations (Robinson and Stern, 1997), but also for the whole social-economic development (Florida, 2002; Hu, 2004).

The term “organizational creativity” is very different explained. It is reported that the outcome of creativity are ideas that are distinguished by novelty and usability (Amabile, 1983; Kao, 1989). Many authors highlight that these ideas are used to achieve some particular aims (Puccio et al., 2011) and they have a significant impact (Arieli, Sagiv, 2011). According to (Gong, et al., 2012; Klijn, Tomic, 2010; Choi, Madjar, Yun, 2010; Zhou, Ren, 2012) the organizational creativity means the capability to generate new and useful ideas that concern some products, services, processes, managerial practices, as well as competitive strategies. It is worth mentioning that the studies on the creativity were always strong associated with the issue of innovations. It is considered that each innovation has its roots in creative ideas. Creative ideas start the innovations, and in contrast, the innovations facilitate the creativity.

In the information systems domain, the studies on ICT-enabled organizational creativity are very fragmentary and rare. So far, a comprehensive framework for OCSS was not proposed and developed.

Some trends in ICT tools

The building of each information system, as well as OCSS, requires different ICT tools using. Having regard, that OCSS should base on huge data bases, warehouses and knowledge repositories and be able to discover new knowledge, ideas, and patterns from such resources, we recommend using ICT tools like: Business Intelligence, Big Data, Cloud Computing and Multi-agent systems. In the following, we argue what value they bring to an organizational creativity support.

Business Intelligence

The Business Intelligence (BI) term is often used as a broad category of technologies, applications, and processes for gathering, storing, accessing, and analysing data to help users make better decisions (Wixom, Watson, 2010). More generally, BI can be understood as a process providing better insight in a company and its chain of actions (Moss, Atre, 2003; Negash, Grey, 2008; Turban et al., 2008). BI can be illustrated as a set of the following essential components (Olszak, 2013a):

- ETL (Extraction-Transformation-Load) tools responsible for data transfer from operational or transaction systems to data warehouses;
- data warehouses, environment to store, aggregate and analyze data;
- analyzing, reporting and presenting tools, such as: OLAP (tools which allow access and which analyze and model business problems and share information that is stored in data warehouses), data mining (tools for determining patterns, generalizations, regularities and rules in data resources), reporting and *ad hoc* inquiry (tools for creating and utilizing different synthetic reports), drill down reports;
- Presentation layers that include customized graphical and multimedia interfaces or dashboards to provide users with information in a comfortable and accessible form.

In order to better explain the role and the value of BI for management and an organizational creativity support, we describe 3 BI ages, called BI 1.0, BI 2.0, and BI 3.0 (Olszak, 2013b).

BI 1.0. falls on seventies and eighties of XX century. It is closely related with the management information systems (MIS), executive information systems (EIS), and decision support systems (DSS) (Turban et al., 2008; Watson and Wixom, 2010). The technologies and applications commonly used in these information systems were grounded in basic statistical methods and simple data mining techniques. Analysed data were mostly structured, collected by companies through various legacy systems and often stored in commercial relational database management systems. The first BI applications were able to process the simple tasks for operational and tactical management. They were also characterized by production the static reporting. The second age of BI (1990-2005) - is associated with father development of advanced data warehouses, OLAP techniques, data mining and first of all with Internet and web technology (web search engines such as Google, Yahoo etc.). These technologies allow organizations to present their business online and interact with their customers directly. In BI 2.0, text and web analytics are commonly used to process and analyze unstructured web contents. Text analytics is required and used because a significant portion of the unstructured content collected by an organization is in textual format, from e-mail communication and corporate documents to web pages and social media content (Chen, Chiang, Storey, 2012). BI 3.0. presents a new emerging era in the evolution of BI. Thanks to web and mobile devices (iPad, iPhone, and other sensor-based Internet-enabled devices equipped with RFID, barcodes, radio tags.) it appears possibility to create innovative

applications, and intelligent business network for everyone. BI 3.0 means a still more growing acceptance of the idea that analysis is a collaborative (not only singular) and social effort. It focuses on a collaborative workgroups (which are self-regulated) and on information outcomes within the confines of core business interaction with customers, employees, regulators etc.

Big Data

Big data refers (Manyika et al., 2011) to datasets whose size is beyond the ability of typical database software tools to capture, store, manage, and analyze. It concerns mainly unstructured information about competitors and customers. According to Ferguson (2012) a term “*big data*” is “associated with the new types of workloads and underlying technologies needed to solve business problems that we could not previously support due to technology limitations, prohibitive cost or both. Big data is therefore not just about data volumes but about analytical workloads that are associated with some combination of data volume, data velocity and data variety that may include complex analytics and complex data types.

It is believed that big data analyzed in combination with traditional enterprise data (most structured and semi-structured), enable organizations not only to better understand their business, but first of all to change it and to have new sources of revenues, more stronger competitive position and greater innovation.

Nelson (2010) argues that the implementation of big data in management will contribute mainly to:

- decisions, facts and context will be developed through crowdsourcing;
- data and reports will incorporate narrative context information supplied by users;
- data will have a more direct linkage with action;
- people will be able to directly act on information;
- business decisions shall be monitored so that interventions and our hypotheses about business tactics will be tagged in the context of the data that measures its effect;
- visualization data and complex relationships will be easier and more intuitive models of info-graphics will become mainstream;
- the ability to detect complex patterns in data through automated analytic routines or intelligent helper models will be built into analytic applications;
- finding information will be easier and search results will provide context so that we know when we have the right results,

Cloud Computing

Some authors state that a technology overcomes some barriers and a culture creates them (Cellary, 2013). In another words, the technology may be treated as a “tool of freedom”, in contrast a culture as a “restriction of freedom”. In this context, a good example is cloud computing- new emerging technology and new research area.

Cloud computing presents a model that provides on demand access to software and hardware resources with minimal management efforts. The main features of cloud computing are: (ISACA, 2009; Li, et al., 2010, Malcom, 2009; Tamer et. al., 2013):

- virtual, dynamic, scalable and massive infrastructure;
- shared, configurable, flexible, dynamic resources;
- accessible via Internet from any device;
- Platform with minimal management or self-management.

Cloud computing is a virtual environment which gives users the facility to access computing power to which they might not otherwise have access due to financial or organizational limitations (Tamer, et. al, 2013). Cloud computing shares its resources among a cloud of service consumers, partners, and vendors. By sharing resources at various levels, this platform offers various services, such as an infrastructure cloud, a software cloud, an application cloud and a business cloud (Cloud., 2010). One of the biggest issues facing cloud computing is data security. Cloud users face security threats both from outside and inside the cloud. Many of the security issues involved in protecting clouds from outside threats are similar to those already facing large data centers. In the cloud, however, this responsibility is divided among potentially many parties, including the cloud users, the cloud vendor, and any third-party vendors that users rely on it for security-sensitive software or configurations (Tamer, et. al., 2013).

According to Wiewiórowski (2013) cloud computing does not require to create completely new legal instruments. Many legal instruments that were built and used for electronic interchange, e-commerce, are appropriate to cloud computing. Nevertheless, cloud computing changes the space of legal instruments using.

It is said that “democratization of the technology”, that brings cloud computing, will result in the on-line life quality, the development of an economy, and innovation. The cloud overcomes the cross-border barriers. It generates the profits for all users of the cloud. However, cloud computing using requires a transparency of data processing, rules and models and the security of intellectual capital. Unfortunately, many organizations, as well countries do not have an appropriate developed strategy in this area. Recently, UE has made some attempts to solve this problem. In September 2012, the European Commission adopted a strategy for ”Unleashing the Potential of Cloud Computing in Europe”. The strategy is designed to speed up and increase the use of cloud computing across all economic sectors. This strategy is the result of an analysis of the overall policy, regulatory and technology landscapes and of a wide consultation with stakeholders, to identify ways to maximize the potential offered by the cloud (Europe..., 2014; About..., 2014).

Multi-agent systems

In information systems domain, the agent is an entity that performs some actions in a particular environment and is aware of the emerging changes. Moreover, it can react to such changes (Poole, Mackworth, 2010). The agent has a set of goals, certain capabilities to perform actions, and some knowledge (or beliefs) about its environment (Wang, Wang, 2005). IBM (2012) defines intelligent agents as “software entities that carry out some set of operations on behalf of a user or another program, with some degree of independence or autonomy, and in so doing, employ some knowledge or representation of user’s goals and desires”. Many authors emphasize the specific properties of the agents. They include (Franklin, Graesser, 1996; Wooldridge, 1997; Wooldridge, Jennings, 1995; Wooldridge, 2009; Sterling, Taveter, 2010; Olszak, Bartuś, 2013; Bellifemine, Caire, Greenwood, 2007; Poole, Mackworth, 2010):

- autonomy - the autonomy means that the agent operates as an independent process, with no direct human intervention and has control over its actions and internal state;
- reactivity – the agent perceives its environment and promptly answers to the perceived environment changes;
- pro-activity - the agent not only reacts to its environment changes, but is able to manifest a goal oriented behavior, and take the initiative;
- social ability - the agent is able to interact with other agents or humans, using an agent communication language;
- self-analysis - the agent is capable of analyzing and explaining its behavior and of detecting its errors or its success;
- learning - adaptation and improvement by interaction with its environment;
- temporally continuous - the agent it runs continuously in its environment, as long as necessary to implement the task;
- mobile - the agent it has an ability to move between different environments.

The capacity of an intelligent agent is limited by its knowledge, its computing resources, and its perspective (Simon, 1957). Therefore, it is required forming communities (agency) of agents. These communities, based on a modular design, can be implemented, where each member of the agency specializes in solving a particular aspect of the problem. The agents must be able to interoperate and coordinate with each other in peer-to-peer interactions (Rudowsky, 2004). This idea of the agents operation is nowadays described as a multi-agent system. Also, multi-agent system is a loosely coupled network of entities that work together to solve a problem that cannot be solved by an individual agent. These entities can show self-organization and complex behavior, even if the individual agent’s strategies are simple (Bolog, Bologna, 2011). Multi-agent system is a network of agents that are reasoning (problem solvers) and cooperating, communicating and negotiating to achieve a specific task. Individual agents are able to adapt their behavior to the changing environment in which they work (Weyns, 2010).

A good example of agents' co-operation is a teamwork in which a group of autonomous agents cooperate, both to develop their own individual goals, as well as for the good of the whole system (Ferber, 1999; Lesser, Abdallah, 2007; Bellifemine, Caire, Greenwood, 2007).

Computer organizational creativity support as a new trend in management information systems development

Seeking the proposal for OCSS we assume that such system should meet the following requirements:

- to generate new knowledge and ideas from existing information and knowledge (Baron 2012);
- be a repository of various knowledge, processes and capabilities needed to realization of different activities in organizations (Basadur, Basadur, Licina 2012);
- a key strategic tool that enables an organization to take the competitive advantage (McLean, 2009).

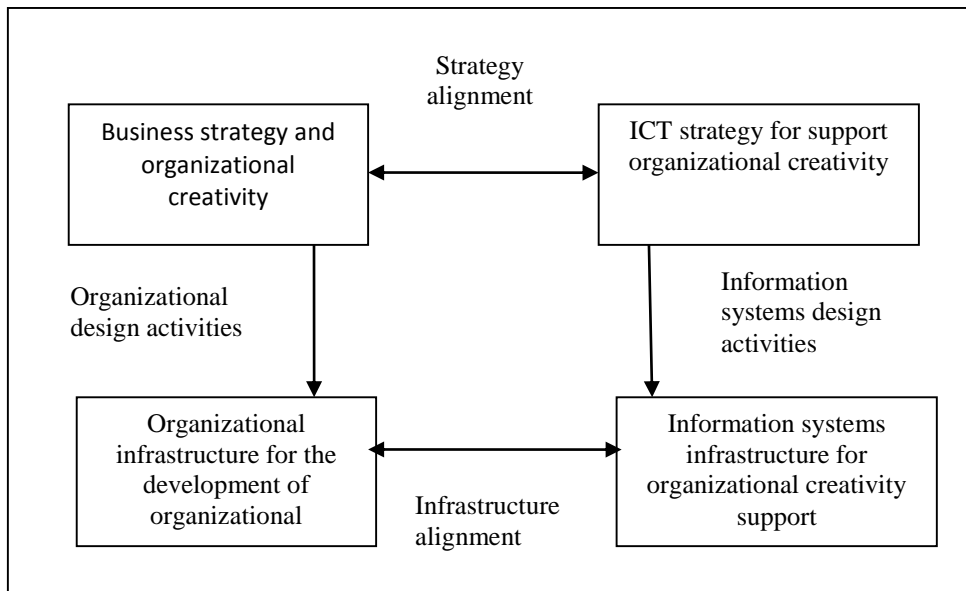
As have been mentioned, organizational creativity means the capability to generate new and useful ideas that concern some products, services, processes, managerial practices, as well as competitive strategies (Zhou, Ren, 2012). Therefore, OCSS should be focused first of all on acquiring, processing, and analyzing a huge amount of information, knowledge, and models. It can be achieved by continuous acquisition of new sources and creation from them new configurations (Sirmon, Hitt, Ireland, Gilbert, 2012; Arora, Nandkumar, 2012; Zahra, Sapienza, Davidsson, 2006). We think that these challenges may be met by ICT tools that were described in the previous section.

Last years, some research studies have been conducted in the area computer organization creativity support. However, they are fragmentary. They refer more to creative problem solving than to the essence of the organizational creativity. In particular, they do not illustrate how to use ICT to support organizational creativity, understood as a strategic process. So far, there is a lack of comprehensive view on the issue of computer support for organizational creativity. This is due to several reasons. Firstly, the paradigm of organizational creativity has not been definitively established. Secondly, information tools and technologies are characterized by a high degree of turbulence. Thirdly, in our country in the field of science and practice, there is too little awareness of the true meaning of organizational creativity and its computer support, as well as the benefits and potential risks resulting from using ICT for organizational creativity. Fourthly, the practice does not have any adequate scientific foundation for designing and using of ICT tools to support and to measure organizational creativity. At the same time, a need to use different ICT to improve the competitiveness and innovativeness of Polish organizations can be increasingly observed.

The framework for organizational creativity support system

Our concept of OCSS is grounded in theories of management, economics, psychology, sociology, and business informatics. It refers specially to: strategic management, resource-based view, knowledge management, organizational effectiveness, business strategy, information systems, as well as to design and implementation of IS. The mentioned theories are used to build the key elements of system for supporting organizational creativity, such as: data bases, data warehouses, and knowledge bases, model bases, case studies, event scenarios, human-computer interfaces. These elements enable an organization in an effective way to explore and use information and knowledge resources, business processes and capabilities. Figure 1 illustrates the relations between business and information technology strategy as well as organizational infrastructure and information systems infrastructure.

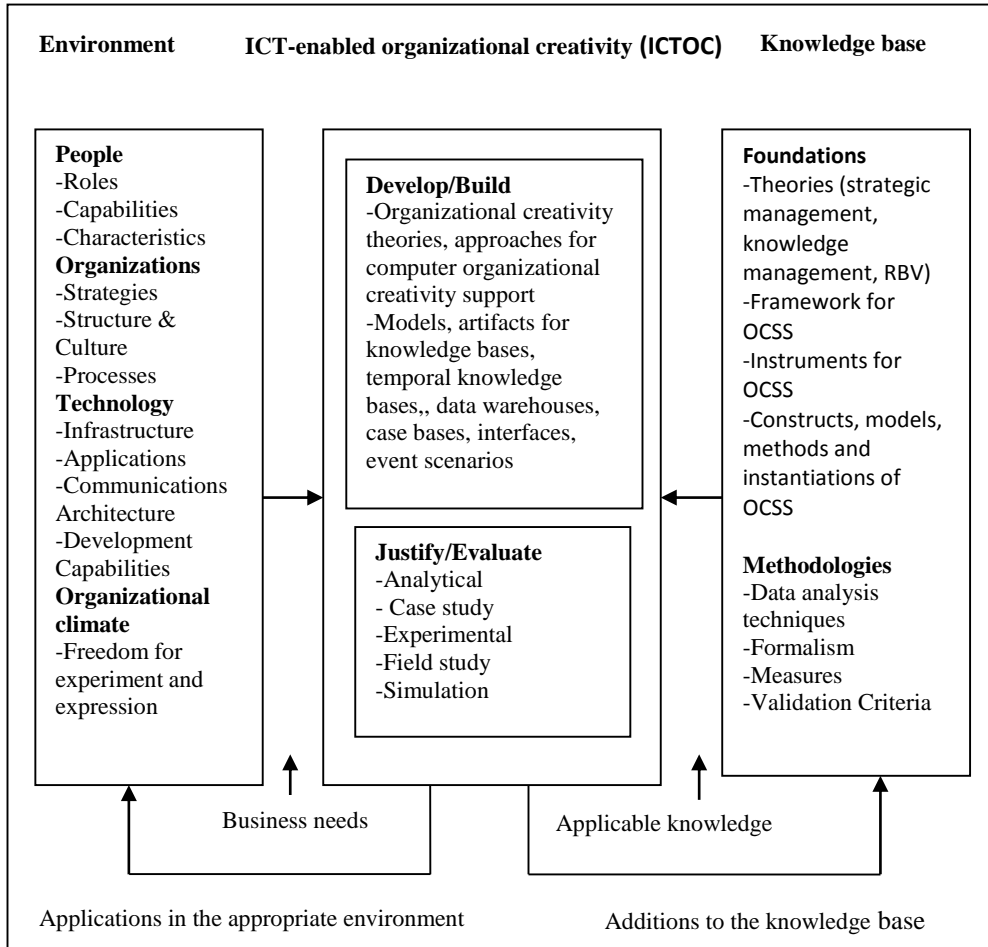
Picture 1. Organizational design and information systems design activities



Source: Elaboraten on : (Hevner et al., 2004).

Considering the relations, presented in figure. 1, we propose the framework of organizational creativity support system (fig. 2)

Picture 2. The framework of organizational creativity support system



Source: Elaborated on: (Hevner, et al., 2004).

OCSS should be associated with different information platforms, knowledge repositories and digital resources. We think that a good example is SYNAT (Kisielnicki, 2012). It is aimed at providing “open access” to different knowledge resources. It is an integrator of knowledge resources and national heritage in digital form. It may be interesting solution to load the proposed organizational creativity support system.

SYNAT integrates knowledge resources, including national bibliography and other bibliographic databases, digital collections, institutional and domain repositories, theses and dissertation databases and high quality web resources for

science, humanities and education (Roszkowski, 2014). It includes inter alia metadata issues, information retrieval models and techniques and modes of information presentation (Kisielnicki, Misiak, 2013).

The SYNAT enables to disseminate knowledge in open access base. Open access, means free, universal, stable and immediate access for each user to digital forms of data, scientific and educational content. The main communication channels which allow the sharing of knowledge in this model is open journals and open repositories. Hypertexts solutions and communication protocols (standards) allow varied operations on resources of searched units - such as combining, eliminating, managing metadata, as well as creating lists. Library catalogues may be merged in one base, searched commonly with other databases in libraries all over the world.

The building the universal system for computer organizational creativity support seems to be possible. However, it may be very expensive. The research teams, as well as the single persons may meet different requirements to such systems. So, we propose to apply the customization approach.

Conclusion

The conclusion from this research is that the framework of OCSS should be based on an integration two research domains: organizational creativity and comprehensive ICTs. Such framework is for us the prerequisite for conducting the father studies in this area. We see the need for more in-depth investigations concerning the possibilities various ICTs, as well as the building and assessment of computer organizational creativity support system. We consider that the tools for building of COSS should be focused mainly on exploration and knowledge exploitation (Lavie, Stettner, Tushman, 2010). The exploitation concerns the using of existing knowledge bases. It is limited to actual resources and refers to their detail analysis. In contrast, the exploration refers to overcoming the bounder of actual knowledge and organizational capabilities. This may refer to new technical capabilities, market experiences, and new relations with the environment.

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Acknowledgment

This paper has been supported by a grant: „*Methodology for Computer Supported Organizational Creativity*” from National Science Centre in Poland, 2013/09B/HS4/00473.

Network approach in management science as a methodological instrument for industrial clusters description

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Abstract

The first part of the article presents the assumptions behind the new, emerging network paradigm in management sciences formulated by J. Stachowicz. The remaining part of the article focuses on the use of methodological assumptions of the paradigm in the creation of modern network organizations, that is clusters. S. Olko has suggested the methodology of research on cluster creation processes, especially creative clusters. The results of the research confirm the usefulness and necessity of implementing network approach to exploring and improving the processes of organizing clusters in Poland, especially clusters in creative industries.

The principles of network paradigm in management sciences

Recent years have been a period of stormy discussion on the development directions of management sciences, as well as on the factors stimulating the development of these sciences. These discussions revolve around the question of whether these studies are on the particular stage of their development - a critical stage, the stage of the emergence of a new paradigm. Paradigm understood as: the commonly shared opinion among practitioners, not just researchers, consultants, but most of all managers, about the essence of organization and management; on cognitive approaches, which should dominate in these sciences, values and hierarchies that should shape behavior in today's organizations. But also about the need to form new, different from the ones commonly used, principles explaining the essence of organization and management, principles constituting research approach to research entities, and the rules of solving practical problems in management, currently familiarized and "unsolvable" in relation to previously recognized and shared at a particular stage of management development theoretical and methodological approaches (paradigms).

The issue of a breakthrough in management sciences was undertaken in the works of the Organization and Management Committee of the Polish Academy of Science. Teams of scientists headed by professor Stanisław Sudoł have already developed a number of theses on the direction of change, theoretical and methodological approaches (paradigms in management sciences). So far the discussion in this area becomes a topical issue - as noted by T. Kuhn - in times of scientific revolutions (in periods of paradigm change) (Kuhn, 1962).

The author's considerations and comments on the new paradigm in our sciences, which are presented in this article, are the result of several years of study; moreover, they might be also considered as contribution to the ongoing discussion about breakthroughs - changes in approach – of paradigms in management sciences (Stachowicz, 2008-2011).

Scientific research conducted in a specific scientific community are subordinated to paradigms. Paradigms are research work patterns containing a set of conceptual, metaphysical and methodological assumptions, shared by members of a specific field of study (T. Kuhn, 1962). Through university paradigms, researchers in a particular field formulate and explore scientific theories. Recognition of the same paradigm by a particular group of researchers constitutes a scientific community - a group of people professionally engaged in science. During normal scientific research fundamentals of a particular field are disputed; what takes place is the displacement of the old by the new paradigms and scientific revolutions. In management sciences regarded as practical science it is appropriate to hold discussion on paradigms, yet rather as functionalist paradigms. According to S. Burrelle and G. Morgan (1979) functionalist paradigm are patterns of research containing a set of conceptual and methodological assumptions, particularly taking into account the primacy of realism and positivism and social engineering within the meaning of social reality (including organization).

The paradigm of management (methodological and theoretical approach) is therefore considered as widely shared in the group of management practitioners (scientists, managers, consultants) theorem (the assumptions behind the creation of management patterns) perceptions and understanding of management and organizations for the purpose of solving the practical problems of management, and the needs of constructing theories defining the phenomenon of management and organizations. Management paradigm consists in three groups of claims (the assumptions behind the creation of patterns) perception and understanding of the organization and management, i.e. ontological epistemological and axiological assumptions.

These phenomena have their origins and explanation, as well as instruments to solve them, not so much at the stage of the analysis of their impact on the behavior of the organization as a system in a particular environment, but they are justified if you provoke discussion on their course, causes and effects in relation to specific, individual human behavior in specific organizations; behavior of individuals in social, organizational and cultural conditions, in which people operate, make decisions while learning – in a particular social relations network with other individuals - partners in the organization.

Similarly, it is impossible to analyze and solve management problems at the level of local societies, societies and organizations in whose structure major undertakings (the so-called projects, e.g. infrastructure, health care etc.) are currently taking place without reference to the behavior of particular individuals – decision-makers, contractors responsible for the course of the project. In addition to that, it is impossible to tackle and solve problems posed by modern, global structures of organizations and the flow of finance capital without proper analysis of those specific behaviors or attitudes of individuals (managers, financial advisors etc.) as well as without the evaluation of social relations among these individuals, their credibility and level of trust.

Moreover, problems constituted by ‘politics’ so far reserved for the so-called ‘ruling’ are issues that can be more clearly described through the analysis of social networks relations, formed by particular units on the level of decisions made e.g. in the EU among the politicians dealing with the issues of local societies, organizations etc.

Ontological, epistemological and axiological assumptions of network approach in management sciences are defined as follows:

1. The recognition of human activities as the primary and shaping factor of all social entities (social groups, organizations including companies, societies in general)
2. Recognition of network creation and development processes, social relationships as factors constituting and developing any social units (as previously stated also organizations, institutions, projects etc.)
3. The behavior of people in organizations is constituted by the domination of moral values (empathy, doing good, etc.) The model of an active and learning person within an organization is the Wise Man (*sapiens et honestis*).
4. Recognition of the dominant relationship of cooperation in networks over the ties of competition in the processes of constitution and development of modern organizations.

An organization, understood in terms of network approach, is the result of social activity network (many interrelated social activity networks) in the interpretation of the observer (stakeholder: manager, employee, customer, business partner and researcher) understood and perceived as the state of the process at a certain period of time emphasized and described by characteristics which the observer - the researcher adopts to characterize this condition. These characteristics include: the size of the organization, the number of members, economic value, innovation, effectiveness, efficiency, revenue size, etc. These characteristics are regarded as certain epiphenomena.

Management, on the other hand, is a network of activities (within organizations it is a network of managerial activities) intentionally organizing interaction within the network. It must be emphasized, that groups of those leadership-managerial actions in modern organizations form a new management

function, which is increasingly called network management (the choice of partners, building interpersonal trust).

Methodological basis for solving practical problems of management are network management and network approach to management. In order to justify the thesis of the necessity and purposefulness of a network approach (according to the concept by J. Stachowicz) research on the organization of creative clusters which engage the most diverse environment of individuals was conducted.

The state of cluster organization in Poland

A specific example of a management instrument (or even concept) compatible with the idea of network paradigm is a cluster. The idea of clusters is not a new form of cooperation. As early as at the beginning of the 20th century A. Marshall defined the assumptions behind the functioning of the co-called industrial districts, local groups of producers, whose competitive position results from the fact that they operate together. Research by M. Porter (1990) emphasizing the aspects of cooperation and relations between the members of a cluster initiated the period of rapid evolution of the concept of cluster and empirical attempts to verify this concept. The most often quoted definition of a cluster by M. Porter states that it is: '... a group of companies located in geographical vicinity and related institutions dealing with a particular field, complementary and characterized by similarities. Before that, clusters (districts, agglomerations, geographical clusters, innovative milieu) were the subject of economists' considerations who dealt with regional development.

In her monograph, Knop analyzed various attitudes to the definition and understanding of a cluster through synthesizing them into her own definition:

A cluster is a group of entities coming from different environments: business, science, government and civil society, consciously operating in a certain ecosystem, concentrated on a specific territory and/or around an established specialization. The synergy effect is achieved by the cluster through formal and informal relations, shaped by the potential and social capital of the cluster, which not only describe the functioning of the cluster, but they are formed and developed on the basis of joint actions (including innovative ones), knowledge exchange and competence improvement. (Knop, 2013, p.33).

The cluster type, which seems to be primeval in comparison with other classifications and divisions, depends on which environments cooperate and for what purpose. In order to present the types of clusters, the concept by Roch (2004) and the model of quadruple helix were adopted, while involving civil society in the discussion. Civil society consists of conscious citizens and established non-governmental organizations, which are not profit-oriented and their activity

primarily goes beyond commercial grounds. Bearing in mind these assumptions, the authors (Knop at al., 2013) recognize 6 types of clusters:

- (1) industrial business clusters,
- (2)(3) technology clusters, with or without cooperation with local government,
- (3) knowledge clusters,
- (4) creative clusters,
- (5) social clusters.

A specific type of clusters are creative clusters, which engage all indicated social groups functioning in the environment of the so-called creative industries – entities building their competitiveness on culture products, individual creativity.

A creative cluster is defined as: *‘A group of organizations and people, emerging from local and regional societies, who come from business, science, culture, education, health, entertainment and leisure. The cluster dynamics is based on the region’s identity creation, innovative use of resources and searching (creating) talents, while keeping and developing local and regional values. They constitute a base of resources and creative skills for other clusters and the development of innovation in the region.’*

Table 1. Number of clusters in the regions of Poland

No	Region	Number of clusters			Number of creative clusters*
		own research	innovation portal	Cluster observatory	
1	Dolnośląskie	10	10	2	1
2	Kujawsko-pomorskie	5	5	2	0
3	Lubelskie	22	22	2	2
4	Lubuskie	4	4	1	0
5	Łódzkie	14	11	1	2
6	Małopolskie	11	11	6	4
7	Mazowieckie	13	13	3	2
8	Opolskie	9	4	1	1
9	Podkarpackie	12	12	4	1
10	Podlaskie	14	8	1	1
11	Pomorskie	8	8	6	3
12	Śląskie	26	8	2	5
13	Świętokrzyskie	12	12	0	1
14	Warmińsko-mazurskie	7	7	2	2
15	Wielkopolskie	12	12	5	3
16	Zachodniopomorskie	7	7	3	1
Total:		185	154	41	30

Source: prepared by the author

In order to present the cluster as a new phenomena, which most clearly manifests evidence of a new network paradigm, the authors of the article will present the progress of the development of clusters in Poland and a brief analysis of creative cluster examples. The starting point for the discussion of clusters in a specific geographical area is to determine the scale of the phenomenon. It is difficult insofar as the majority of clusters do not have the legal organizational form, and thus it is impossible to determine their precise number. The researcher may rely on external databases (e.g. innovation portal service, cluster observatory). Table 1 shows the number of clusters in Poland created on the basis of these databases, as well as the authors' own exploration work. In Poland we have no more than 185 resulting clusters, whose existence has been insignificantly reported in the media, including about 30 creative clusters. It should be noted that the given number includes initiatives that are not currently active, but their closing was not officially announced. It is not difficult to note that strong clusters exist in regions with high growth potential, where developed agglomerations with academic centers exist (Warsaw, Krakow, Silesia, Poznan, Tri-City). This also applies to creative clusters.

The presentation of network phenomena in creative clusters is based on the case study method (Yin, 2009). Research conducted as part of the project '*The models of knowledge management in networks and clusters of creative industries in Poland and EU countries*' is based on methodology that analyses three substantive areas:

1. Relations analysis in the network carried out in selected clusters, together with determining the basic indicators of the network structure using the SNA Social Network Analysis method (Borgatti et al., 2013),
2. Defining key competences among the members of the clusters through mapping competence (Bratnicki 2000, Prahalad and Hamel 1990),
3. Defining the structure of activity network (Weick 1979, Czarniawska 2000, Stachowicz, 2011).

Up to the present moment, identification and preliminary descriptive research of case studies have been carried out. The results allow to answer questions about the key competences of creative clusters and the area of activity for the activity network functioning within the cluster. In-depth research conducted with members of the cluster will allow to define extensively and precisely the presented subject areas. On the basis of previously conducted identification and descriptive research we are able to form a general picture of the functioning of creative clusters.

Five selected creative clusters were subject to analysis. They came from various regions of Poland and were diverse in terms of specialization. In particular, the analysis of case studies focused on active clusters, especially during the past three years. List and short description of the clusters (Table 2) allow us to conclude that these are small networks (from 30 to 59 partners), operating in the areas of media, promotion, interactive technology and film. It is quite typical for Polish creative clusters that in the area of the so-called pure culture (arts: theater, painting, sculpture) active clusters cannot be identified.

The creative clusters under analysis have representatives from all areas of the quadruple helix, with the coordinators being usually administrative units or entities

dependent on administration. The degree of networking of basic parameters characterizing the network is small but it has an upward tendency due to the increasing number of relationships in the network, realized projects and increase of trust. The aim of activity networks is to identify and exploit areas of joint projects for the participants, but in none of the analyzed cases these were repeatable actions.

Table 2. Characteristics of the selected cases of creative clusters

No	Cluster	Coordinator/localization	Number of partners	Core competencies	Areas of the network's activity
1.	Creative Communication Cluster	Polish Communication Foundation, Warsaw, www.creativecluster.eu	30	promotion, media	Obtaining funding for the projects
2.	Łódź Media Cluster (Media cluster)	Łódź Media Cluster Foundation, www.mediaklaster.pl	59	film, media	Movie creation through cooperation of environments
3.	Graphic Arts and Advertisement Cluster in Leszno	Graphic Arts and Advertisement Association Leszno, www.poligrafia.leszno.eu	24	poligraphy, advertising, interactive communication	Creating a complementary polygraphy and advertising business offer
4.	Made in Śląsk	Youth Development Association www.madeinslask.pl	37	multimedia & ICT	Joint promotion, a place for cooperation
5.	Multimedia and information system cluster (Multiklaster)	Association multimedia and information system cluster, NowySącz, www.multiklaster.pl	50	multimedia & ICT	Implementing innovation In media technology, a place for cooperation – park brainville

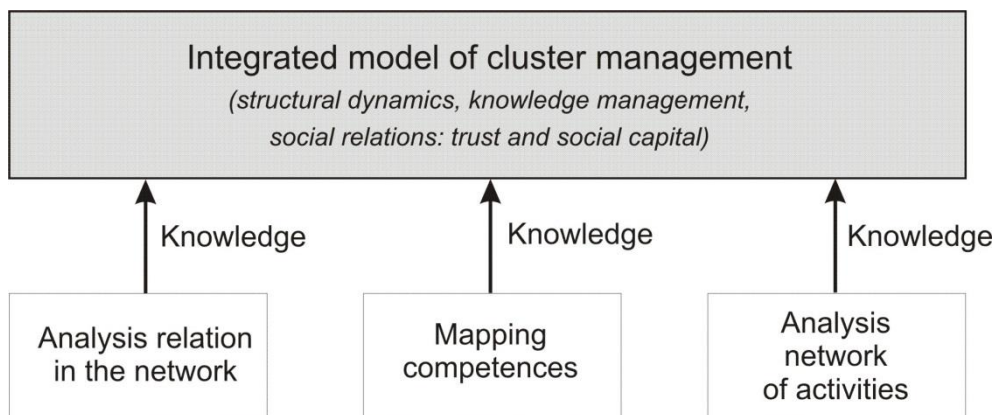
Source: prepared by the authors

All creative clusters presented in the analysis were established as a grassroots initiative inspired by innovative environments: companies, business institutions or non-governmental organizations. This fact regarding the origins of the clusters' existence confirms the self-organization of the network. The role of the administration and local government then comes down to creating a favorable environment for cooperation. It is crucial, for creative clusters, to have an attractive surrounding to operate, that would not only offer the comfort of work but also serve for self-identification and promotion. Only two out of the analyzed clusters have a chance to use this type of infrastructure: cluster Made in Silesia, which is interested in using attractively located post-industrial areas at Dubois Street in Gliwice (former Wire Factory which is to be transformed into a place associated with creativity and culture); Multicluster that since May 2014 may use the infrastructure of Multimedia City Brainville. Other creative clusters act as networks not directly related to the place of their activity.

Detailed research results in the presented networks will be presented after detailed analyzes carried out within the project. Previous analyzes lead the authors to conclude that the suggested three methodological platforms (social network analysis, competence analysis, activity network analysis) have not only a cognitive but also practical dimension. The general logic behind the functioning of this model is presented in Figure 1. This approach can be also supported by the results of previous studies (Knop et al., 2013) and the model used there KST (Knowledge, Structure, Trust) indicating the need to use the current operational knowledge in order to rationalize actions undertaken in the network. Methodological platforms can provide such knowledge through realizing the main premises of network approach, i.e.:

- the dynamics of cluster structure understood as a process and not as a static structure hampering its activity
- rationalization of knowledge management process in the network, thanks to which knowledge resources will be useful for the whole cluster as well as for the individual members
- increase in social relations, especially trust and social capital growth, which reduces the risk of failures of the projects and accelerates the process of identification and realization of joint projects

Picture 1. Model of cluster management using the knowledge from cluster analysis.



Source: prepared by the authors

Conclusions

Theoretical considerations related to the existence of a network paradigm and their practical references related to the functioning of clusters and cluster management will certainly take place in the future. Challenges related to the rational management in the network, taking into account the great number of conditions, will not be reduced by using a network paradigm. The network paradigm provides a constructive framework for scientific analyzes and enables understanding of the institutional network environments, including regional clusters and innovation networks. Detailed conclusions related to the use of the network paradigm can be formulated as follows:

1. Despite the fact that network paradigm emphasizes self-organization and network self-development, it does not limit the role of conscious leadership and the need to manage. Lack of vision and objectives of the clusters are the most common reasons for discontinuation or significant reduction of their activities.
2. Clusters have become a standard form of creating modern network organizations in Poland. It is the result of experiences diagnosed throughout the period of clusters functioning in Poland.
3. Clusters are a typical example of the phenomena that meets all the axiological, ontological and methodological assumptions behind the network paradigm. The described phenomenon of interdependence of the activities undertaken by individual network members are most accurately analyzed through the prism of activity network. It is both scientifically and practically useful to reveal the way in which values are created in an activity network formed by the cluster. The action network shows the essence of value creation both in the cluster itself, as well as among the cluster members who use the available knowledge resources.
4. The presented integrated model of cluster management is a practical approach using the knowledge which is the effect of research. The practical application of the model will be verified in detailed research, which are assumed to confirm the premises and rules of network paradigm.
5. The experience of organizing clusters in Poland has both application and practical value associated with the implementation of the priorities of the Europe 2020 strategy as part of the development strategy of the country and regions.

Acknowledgements

The article presents selected results of the researching project no. 2012/07/B/HS4/03016 entitled "The models of knowledge management in networks and clusters of creative industries in Poland and EU countries" financed by National Science Center.

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From communicating through senses to holistic branding: the experience of the Republic of Moldova

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Abstract

The paper reveals the importance of communication through the senses in the detriment traditional methods of marketing communications, which no longer works in the current market conditions. Are described the notions of neuromarketing, sensory marketing, perceptive marketing.

Defining the components of communication through senses in order of their complexity, we get the notion of holistic branding that represents all the strategies and techniques of building some strong brands with a well-defined sensory identity, able to be identified after removing one or more of the constituent elements thereof. In the analytical part of this paper is made a comparative study of two brands from Republic of Moldova's market: "Tucano Coffee" - local brand and "Robert's Coffee" - international origin, from the perspective of a series of 10 basic criteria that would allow the systematic and qualitative evaluation of the brands (after M. Lindstrom): a) the authenticity; b) the consistency; c) the perfection; d) the sensorial stimulation; e) the rituals; f) the sense of belonging; g) symbols; h) the mystery; i) the sharpness; j) the provided experiences .

In the conclusions is found that the consumer better appreciates "Tucano Coffee", it succeeded to create their coherent sensory identity, perceived positively by its target audience and close to its individual values.

Article

The brand-consumer relation is based on multiple affective or relational ties between the products / services that the brand provides and the advantages that get the client after using it.

As confirmed George Loewenstein, specialist in contemporary economy from Carnegie Mellon University: "The biggest part of the brain is dominated by automatic processes to the detriment of deliberate thought. The most things that take place at the brain's level have an emotional basis, not cognitive." [2, p.35] Thus, the marketing efforts should be directed to the conception and maintenance of snapshots

emotional ties between the customer and the brand. And the strongest emotional ties are created after the sensory stimulation of consumer. So, in the marketing field is highlight a new direction of activity, that of creation of unique sensory experiences for consumer after the interaction with the brand.

Once marketing extrasensory mechanisms no longer have no the desired effect, it creates the necessary premises for capitalizing of a new arsenal of techniques and strategies of interaction with the consumer. These new processes for marketing must act subtle at the subconscious limit in order to make the consumer to be receptive to messages issued. Such an effect may have Sensorial messages that do not have the goal to inform the target audience, but his fidelity and loyalty to the brand/product. Sensorial messages creates emotional associations fragmentation with the brand/product in the consumer's subconscious, stimulating one or more sense organs, so it relies on brand/product recognition by the colors, shapes, smells, sounds, tactile sensations. The key notion, which covers all directions, strategies and techniques of sensory interaction with the consumer, is *communication through the senses*.

A significant contribution to the development of communication through the senses, as marketing direction, brought a science that occurred nearly a decade - Neuromarketing. Neuromarketing after P. Underhill, is a "confluence between medical knowledge, technology and marketing, plus the ability to scan the brain as a procedure of understanding how it is stimulated". [2, p. 11] Neuromarketing research direction is the reaction of the human brain areas at different advertisements. In the science of neuromarketing, M. Lindstrom launches buyology concept - "the multitude of subconscious forces that motivate us to buy." [2, p. 19] Based on this concept, M. Lindstrom performs a neuromarketing research in order to identify what are the real reasons that lead people to buy certain products and brands. In this research it overlaps traditional methods of market research (survey, specialized interview) and functional magnetic resonance imaging in order to assess how certain centers in the brain respond to different factors. These, in fact, constitute the main research methods applied in neuromarketing, which are complemented by the brain scan. Neuromarketing research have demonstrated the effectiveness of the sensory stimulation of consumer, a fact that has conditioned the revaluation of the sensation's importance for the public perception of the product and the aggregation of a large number of techniques focused on human senses under one direction, called sensory marketing.

The sensory marketing, as an idea owes its emergence to M. Lindstrom, it can be defined as "shopping experience" or "Stimulating of the senses of consumer at the point of sale in order to improve the shopping experience." [4] Thus the sensory marketing as strategy involves a number of techniques, each of which is focused on stimulating one of the senses of the consumer. These are: visual marketing, music marketing, fragrance marketing, tactile marketing, touch marketing.

- Visual marketing - consists of visual stimulation of consumer at the point of sale, by choosing the suitable color range, shapes and location in space.
- Music Marketing - is concerned with consumer auditory stimulation and induction of certain provisions by the correct choice of music aired at the place of sale.
- Aroma marketing - is a complex of measures related to the use of flavorings at the point of sale, in order to influence the consumer behavior, to create buying needs and the induction of certain emotions.
- Taste marketing - taste sensations involves the stimulation of taste sensations of the consumer, by expanding / reducing of certain tastes or by generating of specific tastes. This technique is especially characteristic for food brands, restaurants, cafes, but in case of a professional approach it can serve to another specific brands.
- Tactile marketing - is focused on stimulating the consumer skin sensations through the object shape and it's texture, which form the ambience and their physical characteristics.

The combination of environmental factors is performed depending on the goals that the marketing company which used the sensorial marketing had proposed and these can vary from the increased time spent at points of sale, of the number of impulsive shopping, the slowdown of visiting the location, the predisposition toward socialization with staff before implantation of the desire to its consumer in order to return and his emotional integration in the given place.

Another researcher known in the field of neuromarketing is D. Trevisani. He operates with the concept of perceptual marketing and his objective is "to produce, in the perceptual reality of the consumer, a *Gesalt* primarily characterized by harmony, a image of the product in order to represent all the optimal sensations for that subject." [5, p.81] On the first place in perceptive marketing D. Trevisani places target sensation, which is "the optimal sensation that a product can generate, by integrating all perceptual possibilities it offers." [5, p.80] This target sensation should ensure the realization of overall customer satisfaction. Given the aforementioned, the researcher suggests a sensory perception model with 7 component variables. [5, p.81] (Picture 1.).

Picture 1: The model of Perceptual Marketing with 7 variables.



Five of perceptive marketing variables are similar to those of sensory marketing, but only in their definition we must exclude the environment of points of sale and to refer to the product's image. Referring to the other two components, they derive from the complexity of the forms of perception and its superiority compared to sensation, in the hierarchy of cognitive processes.

Therefore the notions of kinesthetic marketing and emotional marketing can be defined as follows:

- Kinesthetic marketing - are all techniques for analysis, planning and projecting of the sensations that the objects in motion produce. "Kinesthetic sensations become relevant for two classes of products:

1. Products are moving during their use (tools, keys, etc.)
2. Moving products in which man enters and takes a certain position for using them (cars, elevators, gym machines, etc.) ". [5, p. 91]

- Affective marketing _ - the researcher refers to some aspects of affective psychic human life namely: ergo genesis which "represents the perception of internal body sensations," [5, p. 91] and emotions.

Based on these, marketing represents the concepts of analysis, planning and distribution of complex emotions generated by the product for its target consumer.

Therefore, after analyzing the concepts of sensory marketing and perceptive marketing, it can be highlighted the defining differences between them:

- 1) Sensory Marketing aims to create a harmonious and comfortable ambience for consumer in the selling points of the product; and perceptive marketing aims to create a recognizable image of the product in the consumer's mind. So sensory marketing has the aim to share the ambience of the place of sale and perceptive marketing - the product itself.
- 2) Sensory marketing is based on the mechanism of sensation, which is why its techniques resumes to stimulating the five senses of man; and perceptive marketing is based on perception mechanism; which is a more complex process and it offers the possibility of creating an emotional perceptual image of the object's structure based on 7 variables. Therefore, sensory marketing creates emotional associations by stimulating the five senses of man, and perceptive marketing associates positive emotions for consumers by using the products.
- 3) Sensory marketing aims mainly to increase sales by inducing positive states of pleasure and comfort in the point of sale, and perceptive marketing - raising the level of memorability of the product by creating multiple perceptual associations.

Despite these conceptual differences, both sensory marketing and perceptive marketing connects with the subconscious of the consumer, creating an unexplained wellbeing, and motivates the consumer to buy more expensive products without any regrets. The majority of consumers, which sensors were influenced, didn't notice any external stimulants. From this perspective, these strategies are attributed to subliminal advertising. M. Lindstrom says that "subliminal messages are defined as visual and auditory elements, or other sensory message that is falling below our level of conscious perception, and can be detected only subconsciously." [2, p. 91]

The same term is defined by Șt. Prutianu as: "low energy excitations, which are levied only at the physiological level and only by the human subject's subconscious (probably at the level of the thalamus) without his conscious participation (at the level of the cortex), so without the subject being aware of it. Subliminal perception can mean therefore the body's reaction to an unconscious captured excitation." [3, p. 230]

Numbers proves the effects of subliminal stimulation of consumer. According to data provided by the Romanian Aroma Mercury Concept company's website: "if the process of buying is accompanied by pleasant sounds, the desire to buy goods increased by 65%, a pleasant taste increases that desire with 23%, a pleasant odor with 40% for soft touch articles with 26% and beautiful on the outside, 46% ". [4]

Defining the components of communication through the senses from the point of view of their complexity, we can say that the concept of holistic branding that represents all the strategies and techniques for building strong brands with a well-defined sensory identity, able to be identified by removing one or more of the constituent elements thereof.

Holistic branding is the future of branding, which is written following the Proposal of Holistic Sale _ (PHS), as predict the marketing specialist M. Lindstrom. "PHS brands are those that not only are based on tradition but also adopt religious characteristics, influencing simultaneously the concept of communication by senses as a holistic way of propagation. Each holistic brand has its own identity, which is expressed in every message, shape, symbol, ritual and tradition, the same as in the case of sports teams or religion." [2, p. 18]

Starting from the idea that the role of branding is to establish a close relation with the consumer, the sensory branding provides the strengthening brand-consumer relationship by developing several essential sensory points for the brand, which will determine an activation of a greater number of sensory memories, which are underlying this relationship.

Thus, as remarked, M. Lindstrom "the purpose of holistic branding is to facilitate the systematic integration of senses in the communication process, in the product and services. This step will stimulate the imagination, will make the product more visible and will strengthen consumer's loyalty to the brand." [2, p. 148]

Thus the holistic branding contributes to the improvement of consumer's level of solidarity to the brand, strengthening the loyalty and the fidelity to him, and emotional involvement in the interaction with the brand.

The marketing world was driven along the history by various concepts in the brand-consumer interaction . They appeared under the influence of economic, political and socio-cultural factors, which determined the profile of consumers and market situation.

Therefore, analyzing the chronological development of brands in marketing context we can highlight the following steps:

I. Unique proposal for sale - each product must present distinctive features on the market.

II. Proposal for Emotional Sale _ - when differences between products were determined by their emotional surplus value.

III. Proposal for Organizational Sale - which put an equal sign between the organization behind the brand and the brand.

IV. Proposal for Sale of the brand - when the brand was positioned above than the product with its physical characteristics.

V. My proposal of Sale - which made the consumers to become owners of the brands, and in such a way they participate to the development of the brand. [2, p. 158]

The future of marketing, in the field of development of the brand is, as was mentioned above, The proposal for holistic sale which involves the sensorial interaction between brand and consumer. This future is determined by continuous evolution in informational technologies field, which makes the informational oversupply and the overuse of visual and auditory analyzers.

In this context is developing the zapping effect, which consist in developing of human capacity to block the unnecessary flow of information so that all the advertising messages turns into background noise and the consumer responds only to messages that pass through the filter of interest being guided by selective attention

. In this context, communication through the senses becomes an effective method of interaction with the consumer, because this interaction is perfected subconsciously, it creates unexplained emotional associations, however durable and it provides disarmament of the filtering mechanisms of consumer to the advertising messages. "The father of the holistic branding" states in this regard the following: "There is a direct emotional connection between the qualities consumers associate with a particular brand, so the time when the consumer is faced with the details and not with the actual ad he is more opened to the perception of the message for two reasons:

1. Subliminal images don't show a visible logo, and the consumers are not aware they are assisting to an advertisement and as a result they give up guard.
2. Subliminal messages establish long-lasting brand associations that resist even without the logo." [2, p. 107]

Thus, in the context of an informational oversaturated market, when people's conscious is occupied with filtering the information, marketing must go the way of sensory interaction: brand – consumer, in order to achieve the marketing purposes and objectives, and the products to continue to meet the consumer's expectations. It's time to end the rational, well-argued and logically structured messages. Contemporary marketing needs senses, emotions, and free, involuntary associations.

Few years ago, LOGO was considered the most important element in the structure of a brand, it represented its identity. Nowadays, "logo is not as strong as companies once believed, as the market becomes increasingly crowded, some simple icons, yet very powerful, gain more ground, creating a global language or a kind of "stenography". [2, p.141]

Based on the experiences registered on the Moldovan market, the analyzed brands had a different approach in developing logos; the approach was determined by the specific of the brand, as well as by the period of occurrence and development.

Picture 2: The logos of the „Robert’s Coffee” and „Tucano Coffee” brands



Logo „Robert’s Cofee”



Logo „Tucano Coffee”

"Robert's Coffee" (opened in August 2009 in Moldova), given that it is a more traditional and conservative brand, it has chosen the image of twig of a coffee bean as their logo, the name being placed in a circle. They have relied on a visual identification with the product they offer. "Tucano Cofee" (released in November 2011 in Moldova) went on a modern vision, choosing the icon of an abstracted image of the head of a bird, named TUCANO. This image doesn't suggest the type of product the brand is offering, but it tells a story that can be logically deduced: TUCANO is one bird that lives in the forests of Central America, the origin of the coffee beans. So, the "Robert's Coffee" logo is straightforward, easy to read and conservative in realization. The "Tucano Cofee" Logo is a modernist, encoded one, and it involves more mental processing operations. The colors used in the logo are representative for each brand separately and can be found in the other key elements of the brand.

The colors represent one of the most powerful visual incentives, because their perception "can have repercussions on other senses. Now, it is undoubtedly everything that passes mainly through the visual channel is affecting other sensory evaluations. [2, p. 137] "In this way, the colors can raise feelings of warmth / coolness, comfort, emotions and mood.

If you were to group these colors, the range of "Tucano Coffee" these would include: brown, blue, pink, orange, yellow - which together create a state of comfort, and shape the three words that state for the brand slogan:

"LOVE. PEACE. COFFEE. In the range of "Robert's Coffee " are found white, brown and green, which complete the conservative and formal picture of the brand. The survey results say that color range used by "Tucano Coffee" induces relaxed atmosphere, spent in the family, which predisposes to a friendly chat and opened interaction, while the color range used by "Robert's Coffee" is cooler, formal and conservative, this kind of atmosphere incite a business meeting. These sensations can be explained by two factors:

In case of "Tucano Coffee", the colors are warm, lively and natural, the purple colors are diluted by clear blue sky and colored spots; and in case of "Robert's Coffee" – cool, settled colors suggest artificiality.

Cultural references - our people is opened to natural, full of life colors, they are creating the comfort zone for its visitors; while cold and artificial colors make them feel frustrated and it creates a feeling that they must conform to a certain code.

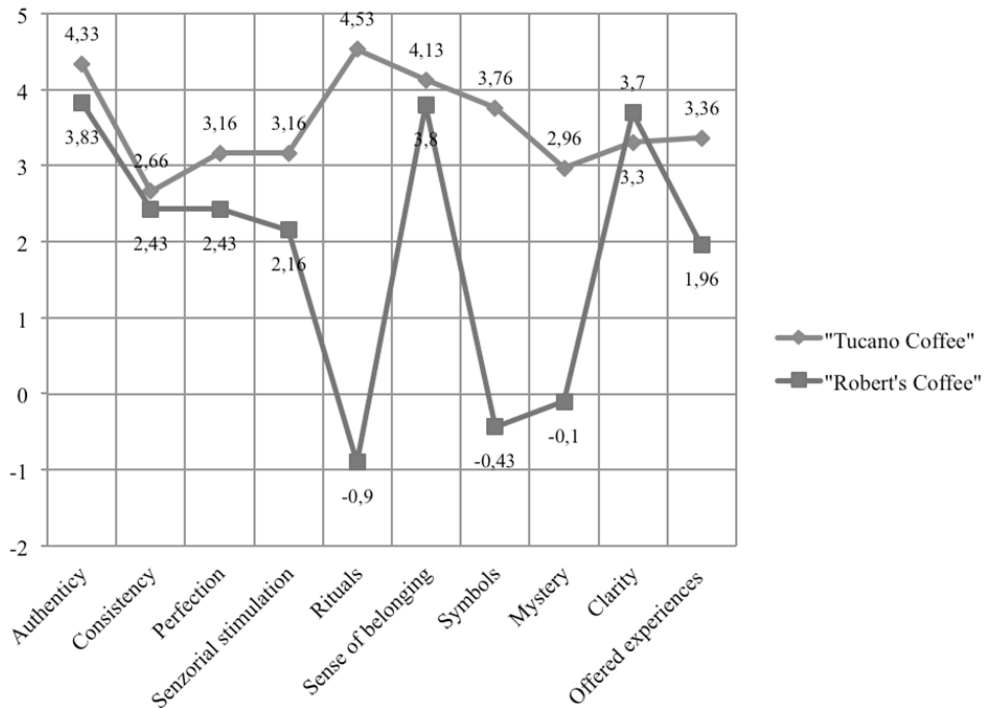
"Branding has always assumed the establishment of the emotional bonds between brand and consumer. As in any relationship, emotions are based on gathering information through the senses. The aim of the holistic branding is to facilitate the systematic integration of senses in the process communication, in the product and services. This will stimulate the imagination, will make the product more visible and enhance consumer loyalty to the brand". [2, p. 147] Starting with this statement, every brand must position itself advantageously in the consumer's mind according to several criteria. Summing up the study presented by M. Lindstrom on *Sensory Brands*, I came to identify 10 basic criteria, which enables the systematic and qualitative evaluation of the brands. These are: a) the authenticity; b) consistency; c) perfection; d) sensory stimulation; e) rituals; f) a sense of belonging; g) symbols; h) the mystery; i) clarity; j) provided experiences.

Based on these criteria, I have analyzed "Tucano Coffee" and "Robert's Coffee" brands according to the semantic differential scale in order to appreciate how well they managed to integrate the five senses in the overall brand image. In this way, after conducting a survey in the spring of 2014 in Chisinau (sample 500 people) the following perceptual map was built:

a) The authenticity of the brand represents one of its vital features. As paradoxical as it can sound, however, things need to be credible, real and true, even if they come from artificial sources. In the context of holistic branding, authenticity formula is limited to the 4R - Relevance, Reality, Recital, Ritual. The real aspect of the brand keeps the way it was perceived. The relevance is the feature that makes the brand to connect to the context in which it was created and used by the consumer. The moment we talk about relevance, the decisive criterion is that it must be reported to the target audience. The brand must be veridical for itself and for the environment in which it has been accustomed to activate. Both brands are real and relevant to their target audience: "Tucano Coffee" has created a distinguished and liberal atmosphere for creative youth, on the other size "Robert's Coffee" - a calm and formal atmosphere for business people who want to make a break in their busy day. The ritual is a formal action, usually continual which connects consumer to the brand. Consumers can develop them instantly when they

accept the brand in their daily lives. The consumers of the both brands have developed individual rituals - visiting the place in the morning or evening, consuming a certain type of coffee or spending time in the company of certain friends.

Picture 3: The total perceptual Map of the brands "Tucano Coffee" and "Robert's Coffee"



The recital is characteristic of the brand that makes it easy to talk about and to be connected with certain emotional experiences, that is why both brands tell the story of their appearance, connected to some historical realities or metaphorical.

The fact that both brands have used these four aspects of authenticity arises from high-accumulated score on this criterion - 4.33 for "Tucano" and 3.83 for "Robert's". The difference of 0.5 points is explained by the fact that "Tucano Coffee" has developed patented rituals (which will be discussed later in detail), while "Robert's" relied on the fact that international tradition will transmit itself.

b) Sensorial consistency does not mean that the brand will not support changes, but the fact that these changes will be consistent with the general concept of the brand and will remain faithful to the fundamental values of the brand: the logo, shapes, colors and sound. An example of consistency may be the flags that indicate the command to "Tucano Coffee". Initially the brand has used flags as bird beak

Tucanos then changed the in others that represent the three symbols of the slogan: the heart, the peace symbol and the shape of coffee beans. They like the first made of wood, only now restore the essence of the brand value. At the Chapter consistency both of brands have registered average values: 2.66 - "Tucano" and 2.43 - "Robert's". This is explained by the lack of sense coherence, since the brands have not adopted a strategy of sensory from the beginning.

c) The perfection lies from the brand's ability to accumulate distinctive features characteristic just for him and that would define his identity, leaving no chance for change. Perfection is the characteristic that defines how satisfied is the client of the brand. In this chapter "Tucano Coffee" surpasses "Robert's Coffee" with almost one point because his audience is more tolerant and satisfied by the comfortable conditions that the brand creates.

d) Sensory stimulation is the criterion, which records essential deviations in consumer perception, from several reasons: 1) sensations are perceived unconsciously, subconsciously being passed only an insignificant part thereof; 2) brands do not take into account the sensorial consistency in their development process. These factors determine the inconsistency of obtained data after research. Even though Figure 3., demonstrates that "Tucano Coffee" stimulates more the consumer's analyzers than "Robert's Coffee" the perceptual maps of the senses activated by brand and of the most relevant senses stimulated, say something else.

Thus, although the taste is less incentive in the case of "Tucano Coffee", it creates the most distinct associations linked to the brand, followed by sight, hearing and smell, sense of touch being located last place in both cases. In the case of "Robert's Coffee" dissonance in perception is not so obvious as in "Tucano Coffee", the only deviation being recorded the interpretation of the sight and hearing.

Although the hearing is stimulated less than sight, this seems to be more relevant in terms of associations created. Processing them in human subconscious, as I mentioned above generates dissonances in the analysis of sensations.

e) Rituals are an important element in establishing the contact between brand and consumer, as well as ensuring the loyalty of the latter. According to the perceptual map in Figure 13 "Tucano Coffee" has a significant competitive advantage to "Robert's Coffee" from the point of view of the cultivation of patented rituals, with a score of 4.53 to -0.9. This is because "Tucano Coffee" has developed a number of patented rituals characteristic just for himself, making it distinct on the market and offer a remarkable experience.

f) The feeling of belonging is a considerable asset for the brand, because from the moment when he developed in the consumer the feeling as a component part of an entity with special values, the brand gains life, it humanizes. Consumers from 'Tucano Coffee' appreciated the feeling of belonging to the brand with 4.13, while those of "Robert's Coffee" with 3.8. Let us try to explain the the cultivation of the sense of belonging through the values the brand propagates. Thus, according to data provided by the company the values behind the "Tucano" brand are: harmony, respect, kindness, smile, socialization, freedom, nonconformity, creativity, originality, rationalization, passion, enthusiasm, healthy lifestyle, humanity,

honesty, flexibility, professionalism. These values establish a connection based on trust, love, peace and understanding between brand and consumer. And the target audience (the age between 16-35 years, middle income and an active way of life) interacts with this brand because it has found a consistency between individual values and those of the brand, and this consistency makes them perceive the brand as an enabling environment for the cultivation of these values. Furthermore "Tucano" consumer's psychological profile is one in training, this people need an environment that will be as being their own in which they can find themselves and to which to assign. "Tucano Coffee" created this environment full of love, harmony and understanding, where consumers can be free regarding their emotions and feelings. Values on which was built "Robert's Coffee's brand_ are totally different, which led to attract another type of consumers (20-45 years old, average income, engaged in services, private sector): simplicity, smoothness, conservatism, elegance, responsiveness, quality, tradition, perfection, exclusivity. Consumers from "Robert's Coffee" have already formed a scale of values, the brand no longer need to educate them or cultivate certain attitudes, but must provide a space in which they will regain the values. Thus customers from 'Robert's' are more autonomous, they already have a sense of belonging to the elite class, so the sense of belonging to the brand is less developed than of consumers from "Tucano Coffee".

g) Symbols are the element that makes the brand to be special they adds an extra value and creates a specific identity to the brand. At this chapter "Tucano Coffee" also surpasses "Robert's Coffee", with a note of 3.76 to 0.43. This is explained by the congruence of the 4 symbols always present in defining the brand. The first symbol is used in logo - TUCANO bird's head -which means the freedom, high flying and makes the thought to go to the Latin Americans mountains where are grown coffee beans that are made up coffee "Tucano". This symbol is very relevant in the context of corporate identity, because it sums up most of the brand values and is still one recognizable and memorable. Three symbols that come complementary to the first are the symbols that define the slogan: "LOVE. PEACE. COFFEE "

Picture 4: The symbols used for the graphical representation of the slogan "Tucano Coffee"



- Heart, symbol of love, highlights cozy and warm atmosphere of the place, staff approach and how the brand makes its mission. It is a universal symbol, generally accepted, that can be recognized despite any cultural references;
- Peace is represented by the symbol created by the hippy generation, which was a pacifist one, promoter of free and unconditional human love. This symbol also is universal, and in addition to the connotation of harmony and peaceful coexistence, suggests liberal atmosphere of the brand.
- Coffee is also recognizable as being a symbol, despite cultural references. This symbol suggests the local specificity, the primary product that it provides and stimulates intense brain activity for coffee addicts, which are the target audience of the brand.

So, if we were to conclude, "Tucano Coffee" made a successful merger between used symbols, which resulted in the appreciation of these universal symbols, as distinct images and characteristic for this brand. "Robert's Coffee" did not use the symbolic potential of the brand, stopping to the picture of coffee swag used in its logo and strengthen the brand name of its founder. The coffee swag is representative for brand identity, because it defines its specifics, but it does not represent the whole brand, with all its values. The Founder's name - Robert Pauling - became the secular holder of the history of the brand and of its tradition. In this way, the brand should be associated with a man who established the basis of the interaction with the consumer, however, for the Moldovan public this name remains unknown to the customers, which don't associate the name "Robert's" with a historical character. Nevertheless, as a whole, it explains why "Tucano Coffee" has a gain of nearly 4 points over "Robert's Coffee" according to the criterion of symbolism.

h) The mystery is a feature of the brand, which envelops you with a fog of questions, the answer to which must be sought and deducted while interacting with it. "The more mystical character the brand is growing, the stronger the brand becomes, and its products have more chances of being searched and admired." [2, p. 260] Mystery is another criterion; the "Tucano Coffee" recorded higher mark than "Robert's Coffee", higher with a value of 2.96. "Robert's Coffee" was ranked to -0.1. This position can be explained by several factors, both by external nature and internal: 1) "Robert's Coffee" has a longer history, which contributed to the fact that the brand is known in the market, while "Tucano Coffee" is only at the beginning of the path, which leads to more questions about the origin of the brand's specifics, and so on; 2) The atmosphere created in the "Tucano Coffee" leaves some space for interpretation and free association, while "Robert's Coffee" went on the idea of a conservative area in which man must meet an established brand. These two factors generate the biggest differences in the marketing policy of the two brands.

i) Clarity is a distinct feature that shows how the brand is perceived. Or, in other words, how coherent are the aspects of the brand in conjunction with the impression left upon the consumers. Under this criterion, both brands were positioned at the lower limit of the positive pole. The value of 0.4 points gained by the "Robert's Coffee" proved it is clearer than "Tucano Coffee" because its identity turns to be steadfastly by tradition, while "Tucano Coffee" presents a mix of cultures close to the emotional valence and geographical coordinates, however they are apart from each other.

j) The offered experiences are the criterion using which ones can appreciate how useful and remarkable has become the brand in consumers' lives. "Robert's Coffee" offers to its customers tradition, history and sense of belonging to the elite origin, he does not interact with the consumer, it only gives what he needs, which is why it registered a score of 1.96 at this level. "Tucano Coffee" is meant to be a brand that evolves in the interaction with its customers. He offers the unique experience of self-service and proposes consumers to get in touch with the unique experience of "Tucano Coffee Academy", which makes it distinct and brings a score of 3.36 in this prospect.

Conclusion

According to the research, the sensorial profile of the "Tucano Coffee" brand was appreciated with the score of 3.53, while the brand "Robert's Coffee" with 1.88, which leads us to conclude that the "Tucano Coffee" managed to create a coherent sensorial identity, it was positive perceived by its target customers and it is close to its individual values. Despite its international experience and secular tradition, "Robert's Coffee" failed to integrate into its consumer personality and to become inseparable part of its value system.

Finally, I should mention that adaptation to social, economic and political circumstances of the market is one of the successful elements of any marketing

strategy. In the case of communication through the senses it can be added the publics' cultural references, because the perception of the sensorial stimulants differs from one culture to another. Thus, the sensory branding strategy should be based on cultural elements of Moldova, as long as the conclusions drawn from the studies done in foreign countries are not always suitable to our reality.

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Genetic codification of the system as an element of strategic adaptation and renewal capacity of a company

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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.

Abstract

Dynamics of conditions of companies' operation in the contemporary world, widely identified discontinuation processes strengthened by technological progress and revolutionary social changes affect radical change in directions and development opportunities of companies that could be observed over the last decades of the 20th and the 21st century. It is understandable that these changes influence the formation of new challenges on the part of concepts and methods of management. They also cause the necessity to change the approach towards dynamics of implementation of these processes. The complexity of changes taking place in the area of the exo-and endogenic space of a company's operations forced to face the problem of the need to penetrate deeper into the structure of the system and the relations inside. As a result of research in this area the term of a DNA code of an organisation was devised, which, by defining the quality and ways of internal relations, defines the ability to absorb changes and create an effective strategy. The goal of the study is to indicate the role of genetic codification of a company in creating the adaptation potential and strategic renewal resulting from the ability to update the company's strategy.

Multidimensionality of the development space of a contemporary company

Conditions for creation and development of companies undergo continuous evolution. 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 endogenous conditions of growth and development of an organisation creating in each case a unique potential of a company. This space, often defined as an internal environment of the system, is created by a whole set of factors of material and not material nature forming a specific value of resources that are the basis for achieving appropriate renewal potential for 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. They are, due to their source of origin, completely different generators of challenges that are to be faced by 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 opportunities 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 preset and long-term manner? Should the organisations in their decisions be restricted only to short horizon of time, 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 ceased because of awareness of rapid outdateding 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 other than traditional manner of giving answers to the above questions. The direction that seems to be correct is related to search for proper structure of the organisational system interior enabling generation of appropriate reaction motor enabling effective challenges solving outlined above that contemporary companies have to face.

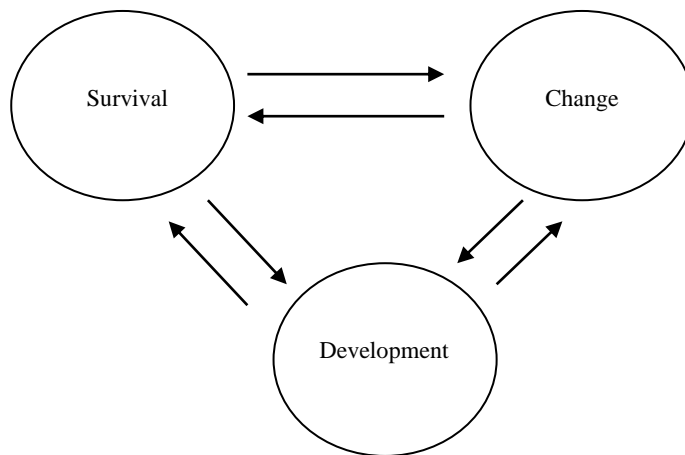
It is certain that organisations, just like all living systems, are governed by the laws of entropy. No activities ensuring appropriate development potential must lead in consequence to fall of a given system, including special types of organisations being a company. The main generator of development 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, not the ability of diagnosis and analysis of what is the goal of selecting a proper strategy seems essential, but more the ability to identify possible directions of changes in the future at simultaneous creation of a system able to absorb and creative creation of their future. The instrumental ability thus seems 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 far separate dimension with regard to conditions prevailing in near past. An important challenge for companies as well as researchers looking 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 directions 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 upon logic summed up in the saying: *"survival is a challenge of a company, survival is possible only thanks to*

properly selected change, proper changes enable development, development is the basis for survival" (Fig. 1)

A challenge for the contemporary practice and management science is not thus an organisation itself, but its multidimensionality and the need to achieve suitable degree of internal and external integration. It is supposed to counteract negative effects, such as: system fossilisation, excessive formalisation, growth in the management sphere. Contemporary organisations regardless of their size must show the features of enterprising, creative, flexible and variable systems. It may be assumed that mastering these features is the basis for maintaining efficiency of the system in contemporary operating conditions.

Figure 1. Constellation of existence factors of a contemporary organisation



Source: Prepared by the author.

However, an important aspect of the above pragmatics of thinking about challenges for management in the contemporary organisation is the awareness that using set schemes of thinking in particular in strategy aspect, may not bring appropriate effects on the side of creating 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, adjustment of organisational culture, etc. On the other hand, unfortunately we may observe frequently 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 keeping on the market or even bankruptcy. The reason for this condition lays thus in something more than only the aforementioned instrumental capacity of using management tools in strategic space of the system.

Along with the company's development, growth and crises, its awareness of existence is shaped exemplified in the capacity to absorb changes. Unfortunately, as a consequence, in spite of the fact that there is awareness of complex organisational transformation, efforts for higher effectiveness, consisting in the use of various instruments and techniques and energetic introduction of changes strategy, they are often wasted. The presently widely conducted research in the world in a quite unambiguous manner indicates that successes are achieved mainly by organisations that are able to ensure simultaneous and coordinated changes in all the areas of functioning. Designing a proper internal structure of an organisation should make it possible to create a system capable of reconfiguration processes. These processes should be understood as creating mechanisms which, taking into consideration the complexity of an organisation, can enable generating desired changes, providing an opportunity for development, which is the guarantee of presence of the negative entropy phenomenon and survival capacity.

The main reasons for achieving such a condition are ascribed to the areas residing deeply in the so-called DNA of an organisation. The indicated strategic field of conditions to survive determines what kind of changes must arise to further implement the development of a company. These changes can be implemented only on appropriate ground. This ground is a properly constructed interior of an organisation the core of which contains the so-called specific substantive competencies which make it possible for the company to obtain an adequate level of flexibility of actions, absorption of changes as well as creativity of solutions

Designing such a structure needs to take place in awareness of the fact that in the organisation's functioning at present, we are dealing with a substantial number of seemingly contradictory phenomena that we are forced to reconcile in the field of organisation.

Paradoxes in the strategic space of management in the contemporary organisation

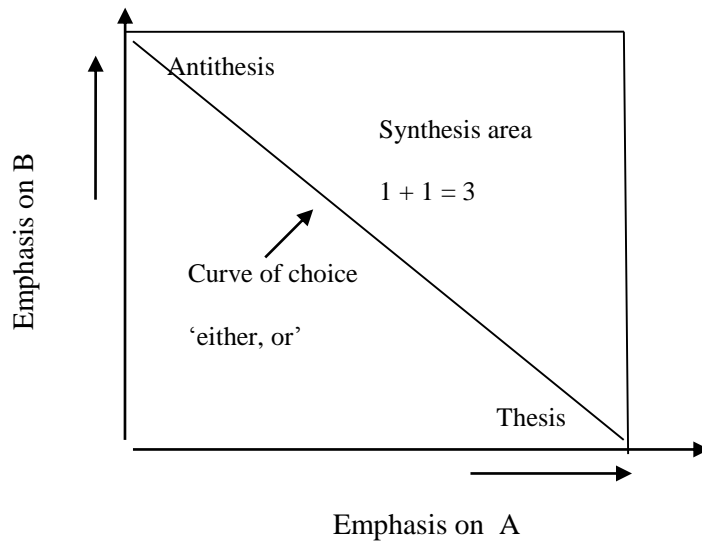
Years of development of companies showed that the so-called "areas of success" of companies are not something constant. They change along with change in their environment and internal potential of the organisation itself. In pursuit of possibly best results, companies were forced to constantly search for new ways to obtain a proper competitive advantage and success understood as a condition of temporary and subsequent balance achieved in the space of their existence. Success understood in such a way is no longer only pursuit and reward for correct management, but it is a necessity, which becomes the guarantee to survive.

A company is rather, today, a sailing ship heading through the infinity of ocean of possibilities and hazards managed only by the direction on the selected horizon, rather than moving through set ways with a team of obedient horses. Therefore, no wonder that classic approaches to management in a strategic aspect have simply become insufficient. We can thus observe natural need for developing a new approach that breaks away from traditional logic of thinking about management based on search for a specific solution consistent with the adopted method of interpretation and defining reality. In other words, seeking universal solutions in conditions of such a great complexity of conditions in which an organisation should act and develop is becoming unjustified. At the present more the ability of an organisation to absorb knowledge and ability to its synthesis inside the system is more of a challenge and then its creative use. In this process the foundation however, is a unique potential of the organisation to openness on new challenges and the related need to look for solutions. The priority is the generated readiness of the organisation to: learn, generate changes, creativity and flexibility. The indicated abilities generated by the system and effectively developed among members of an organisation enable strategy synthesis with actual conditions in which at a given time the organisation is found. A strategy is thus created in the space of what is, rather than in the space of projection and wishes of the management and decision-makers.

In 2005 a book was published by B. deWit and R. Meyer entitled: "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. Each pair of contradictions generates tension inside each system, as they seem to exclude that one and the other cannot be reconciled. We can speak about the phenomenon of presence of paradoxes which in today's reality are becoming the basic problem necessary to be solved in daily practice of management affecting the effectiveness of the accepted solutions.

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 "and, and". This issue is illustrated by the figure below (Fig. 2).

Figure 2. Strategy synthesis



Source: B. De Wit and R. Meyer entitled: Synteza strategii. Tworzenie przewagi konkurencyjnej przez analizowanie paradoksów, PWE, Warszawa 2007, p. 38

The essence of contemporary management in the field of synthesis and strategy implementation consists in struggle with these tensions and contradictions that we have to deal with in contemporary organisations. It is an effect surely resulting from advancement of the available knowledge, its complexity and diversity. It influences the situation when we more often face the need to choose solutions including choices based on the need to conjunct the possible solutions, rather than normal alternative elections. B. De Wit and R. Meyer formulated ten basic paradoxes in contemporary space of strategic level management (Fig. 3).

Figure 3. Structure of paradoxes in the space of company's strategic dimension management.

Area of dilemmas in the strategic space	Paradoxes	Perspectives of development challenges
Strategic thinking	logic vs. creativity	rational reasoning versus generative reasoning
Strategy formation	deliberateness vs. emergence	strategic planning versus strategic incrementalism
Strategic change	revolution vs. evolution	discontinuous renewal versus continuous renewal
Business level strategy	markets vs. resources	exogeneity versus endogeneity
Corporate level strategy	responsiveness vs. synergy	portfolio organisation versus integrated organisation
Network level strategy	competition vs. cooperation	discrete organisation versus embedded organisation
Industry context	compliance vs. choice	industry dynamics versus industry leadership
Organisational context	control vs. chaos	organisational leadership versus organisational dynamics
International context	globalisation vs. localisation	global convergence versus international diversity
Organisational purpose	profitability vs. responsibility	shareholder value versus stakeholder value

Source: B. De Wit and R. Meyer entitled: *Synteza strategii. Tworzenie przewagi konkurencyjnej przez analizowanie paradoksów*, PWE, Warszawa 2007, p. 33.

The indicated paradoxes are concentrated around the most important strategic decisions areas in the contemporary world. They form specific challenges for an organisation. They may be summarised as basic dilemmas every organisation must refer to and more importantly every organisation must find. It is necessary to emphasise again that the problem consists in the need to find solutions located in the space of conflicting and not easy to reconcile factors or phenomena which in order to find an effective solution force the managers to dilemmas synthesis. We are thus facing not a normal decision-making problem between two or a greater number of possible options alternative with respect to each other, but the need for appropriate configuration of organisational space able to absorb changes and thus renewal.

The possibility to apply the approach based on synthesis creates as a consequence specific perspective so far unconsidered or even impossible for identification in the development of an organisation. However, in order to use these perspectives it is necessary to have a proper structure of an organisation.

Areas of genetic codification of a company

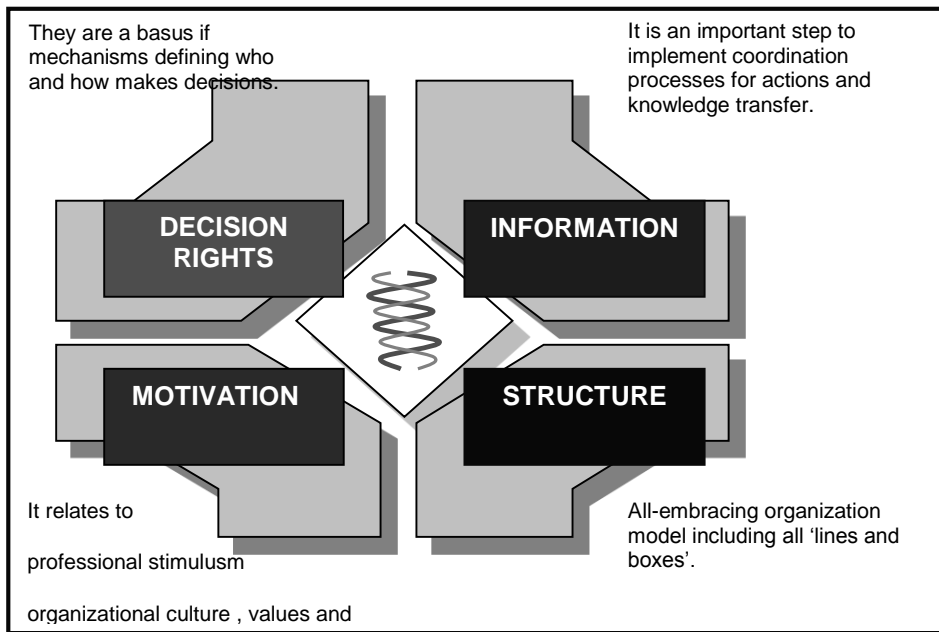
Continuing the discussion, it can be noted that a problematic issue is the aspect of elements affecting the ability to generate proper development potential and creation of changes. It is about achieving some particular competences ensuring appropriate motor of an organisation, which will result in generation of capacity to identify and creative synthesis of perspectives and challenges in the company's development. Achieving appropriate ability of influence synthesis, on the one hand, enables appropriate identification of challenges to be faced by the organisation, and, on the other hand more complex approach at the process of creating and, as a consequence, strategy implementation. However, only the claim that the indicated motor ability of an organisation enables the ability of strategic renewal and development is still insufficient. It is all about an attempt to indicate at least the direction to solve the problem.

Certain indications can be already found in statements that appropriate integration of an organisation in areas of solving exo-and endogenous challenges is necessary. One of common models of looking at building an integrated development is the concept based on the so-called DNA of an organisation. It assumes that every organisation, like living organisms, has its characteristic DNA code. The difference is that in organisations possibilities of its modification are even infinite. It influences the possibility of searching for specified recipe for success characteristic for a specific entity.

One of its examples is the model developed by G. Neilson, B. A. Pasternack, D. Mendes. The authors recognised that every organisation has an individual DNA code that is built of four units. These units are a combination and recombination of separate identities and personalities of an organisation. The genome component of an organisation according to the concept are: decision-making system, information flow system, motivation system and entity structure. These elements to a large extent determine the possibility for the organisation to interpret the external and internal environment. They generate development ability or can also effectively limit it.

A justified statement, which is confirmed by research in this direction is the fact that elements creating DNA of an organisation are a key to great accomplishments and opportunities for an organisation to generate appropriate results. The success of a company and its results depend on providing answers to questions: how to modify the company's operations through DNA elements of an organisation, complete strategy and adapt to changes. The organisational DNA may be modified and it should be modified so as to provide appropriate potential of an organisation. It is under strong impact of each person individually working in an organisation with simultaneous impact on the possibilities of work of each of these units (Fig. 4).

Figure 4. Construction of the organisational DNA code structure



Source: G. Neilson, B. A. Pasternack Results. *Keep what's good, fix what's wrong, and unlock great performance*, Crown Business, New York 2005, p. 6.

At present, many researchers do not perceive extraordinary innovations in the DNA concept. However, the reasons for such a condition may be sought in two aspects. The first one concerns the problem of dependencies between particular elements of the DNA genome of a company in relevant adjustment and harmonisation, rather than normal exercising influence. The second applies to importing areas of a company's operation to the problem of necessity of their definition not through the prism of what they could be or we would like them to be,

but what they really are. It concerns the problem of the need to break away from or possibly liberate from the limitations of traditional organisation interpreting. In such a way of looking at the system, we focus more on what organisations generate and what the impacts between factors constituting the system are rather than what the dependencies and relations in a specific organisation are.

Looking at the units forming the DNA genome of an organisation it can be said that the driving force of a well prospering organisation are appropriate people characterised by appropriate values and adequately motivated armed with proper information, performing their activities in the space created by properly selected structure. The main challenge for an organisation is thus appropriate and all the time individual adjustment of all these elements creating as a result consistent management system of an organisation, the foundation of which is actual knowledge about an organisation.

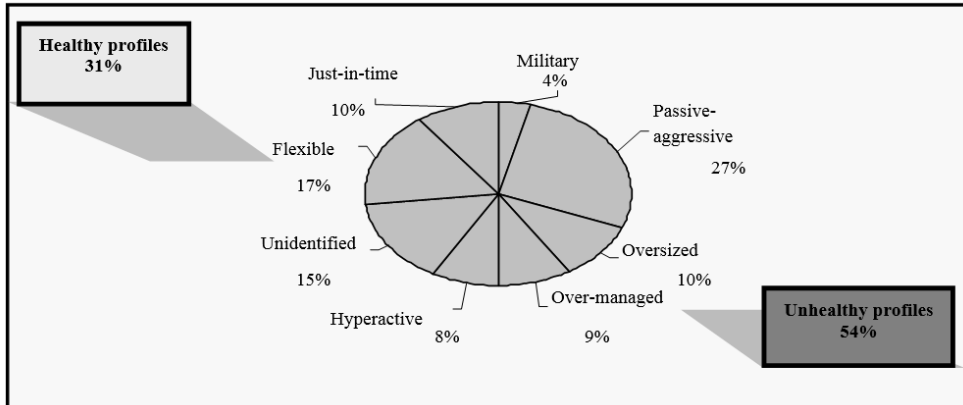
The impact of genetic codification on adjustment and strategic renewal potential of a company

The basis for the development of a contemporary company is thus the ability to make strategic choices and initiate changes in a comprehensive and above all - conscious manner. The recommended awareness is an expression of the company's potential, manifesting itself in the ability to make possible and feasible decisions making it possible to build effective business systems forming the potential for system development in a creative and controlled manner. Therefore, the ability of an organisation and executives themselves to build consistent and ambitious systems expressed in appropriate structure of the system based on conscious selection and connection of factors constituting organisational DNA is the starting point for the development and building success of an organisation.

It is necessary to bear in mind the fact that no unit of the DNA code specific for a given company exists alone. They are interrelated and their coherence and appropriate coordination directly affects the organisation's performance (G. Neilson, B. A. Pasternack, 2005). Having such assumptions, a question arises: "What types of organisations in terms of compliance level of their DNA can we encounter?" An attempt to answer the question was made by Booz Allen Hamilton. As a result of research conducted between December 2003 and January 2005 based on the results of surveys with answer to questions provided by nearly 30000 companies and organisations, taking into account four DNA units and the quality of adjustment,

7 possible types of organisations were created that we can encounter in the environment (Fig. 5).

Figure. 5. Seven organisational profiles in the aspect of the possessed DNA along with their percentage distribution of presence in the environment.



Source: G. Neilson, B. A. Pasternack *Results. Keep what's good, fix what's wrong, and unlock great performance*, Crown Business, New York 2005, p. 271.

The identified organisations are the image of various nature of an organisation. Different capacity to cope with challenges of the environment and encumbered with various degree of susceptibility to go into problems owing to endogenous conditions. Research shows that from among seven identified organisations only three may be considered healthy and these are: flexible-type organisations, just-in-time and military-type organisations. The remaining four are types encumbered in advance with more serious defects that determine their dysfunctions. The aforementioned dysfunctions are reflected in the lack of possibility to achieve satisfactory level of efficiency for an organisation. The cause is poor knowledge about the conditions of development, improper level of integration and wrong management systems. An important issue in this situation seems knowledge reduced to the answer to several difficult questions: What determines whether the company is effective or not? What basic factors determine the organisation's effectiveness of actions? When we claim that some organisation is effective, what indicators do we have in mind?

The ability of proper company's genotype configuration creating the basis for efficiently operating system enables creating a specific formula for success for a given case. The foundations of this formula is for sure the potential to adjust, consisting in the already repeatedly mentioned absorption of significant impact elements resulting from changes taking place in the sphere of exo-and endogenous factors sphere. At the same time it is the ability consisting in creating a proper strategy ensuring achieving the next level of a company's renewal generated as a result of synthesis of particular areas of impact. The indicated ability of synthesis in areas of organisation challenges defined by the widespread paradoxes helps the system to devise strategies, which due to the dynamics of changes are updated strategies. The updated strategy is the direction, which owing to the system's vision and its possibilities along with external conditions may be really implemented.

An important problem, the solution of which is sought by organizations or should be sought in management at the strategic level is the selection and location in decision-making processes on the border between what may be implemented by an organisation and what an organisation is. It enables making some selection and adopting a given orientation, which results from what can be completed and the definition of readiness for appropriate involvement in the strategy realised and undertaking long-term strategic activities. The basis for the development of a contemporary company is thus surely the ability to make strategic choices and initiating changes in a comprehensive and above all - conscious manner. The recommended awareness is an expression of the company's potential, manifesting itself in making possible and feasible decisions allowing to build effective business systems creating their development in a conscious and controlled manner. Therefore, the ability of an organisation executives themselves to build consistent and ambitious systems expressed in appropriate genetic codification is the starting point for so understood development and building success of an organisation. A challenge for contemporary companies is, without a doubt, the need for implementing multi-dimensional changes. The need for these changes result from the extending development gap, which affects not only the general and broadly understood operating conditions in the environment, but in an unambiguous manner determines necessary changes in different subsystems of a company, including people themselves as entities that constitute a specific system in a particular manner. The capacity to changes itself became an immanent feature of contemporary efficient systems. The indicated ability to design and implement changes can be brought down to a skill determined as flexibility of action. However, it goes beyond only acceptance of the need for change and, as a consequence, accepting "some" solution. Flexibility referred to at this point has far more broader meaning. This is flexibility

of: thinking, solutions, action and work. Flexibility understood in this way is an environment necessary to create innovation potential. The latter notion cannot be perceived only through the dimension of its narrow meaning, either. Innovation is understood as a potential for creative search for solutions in the area of foundations and principles of system functioning.

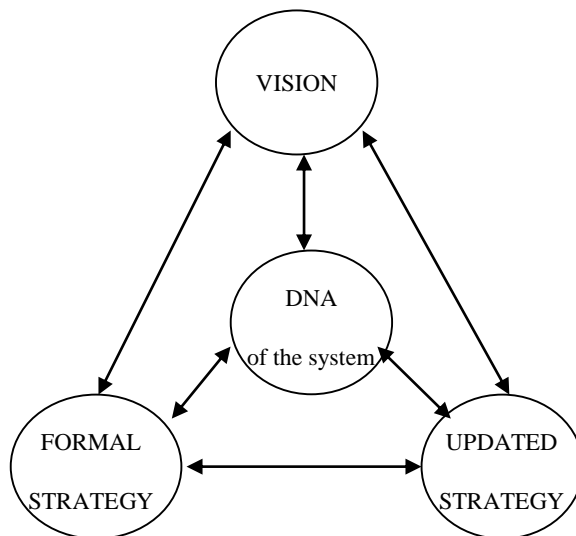
Looking at this problem from the perspective of consistency of the business management system, a challenge is thus selection and location in decision-making processes on the border between what may be implemented by an organisation, and what it actually is. It is associated inseparably with the ability to design the future as well as the pragmatism of assessment of capabilities of an enterprise. As a result, you can choose and accept a specific orientation, which results from what can be achieved and from the definition of the ability to provide appropriate involvement in the pursued strategy and undertake long-term strategic activities. As a result, we can get the possibility to legitimate appropriate strategy.

This state is obtained not by using some secret strategy or a particular market situation, but simply as a result of very well fulfilled basic organisational tasks observed in appropriate system's DNA code construction. The potential of companies to stay on the market and develop, understood exactly as this excellence of management results difficult to be scratched from continuous capacity for construction, action innovation and systems changes. Such a system may be called a system having the capacity to adjust and renew (T.J. Peters, R.H. Waterman 2000). With regard to practical solutions it enables solving the main problem in the strategic sphere of a company. It is about obtaining the so-called higher strategic compliance between expectations in the sphere of strategy, and what actually can and should be implemented.

The formal strategy which is primary in the conditions of dynamism and complexity of the contemporary environment and high risk inaptness may not be updated in activities of an organization. At that time, two dimensions of the company strategy emerge in the system. The formal strategy, of which employees are aware, environment, competitors, etc, thanks to operational efficiency of the entire organizational and management system, is supplemented with the so-called updated strategy, which is, in turn, reaction of an organization to any changes within an organization as well as the environment. The updated strategy is the effect of the held potential of a company in the sphere of previously defined flexibility and innovativeness of action and thinking of a company. However, it should be borne in mind that the formal strategy was originally assumed and it was an element of implementation to the management system. Any assumptions and expectations were

made in relation to it. The updated strategy is, however, current reaction to what we can do owing to own potential and opportunities of the environment. At this point, we should realize how highly uncomfortable this situation is. On the one hand, we are dealing with what we expected, as well as what we wanted to pursue originally; on the other hand, we have what we can and are able to potentially implement. The most difficult aspect in this situation is the decision-making problem arisen. The issue is not forced implementation of a new strategy of action, which, in consequence, must be adopted, but achievement of a state where a new strategy is a natural consequence of what we wanted to do, including current potential and possibilities. The moving spirit enabling achieving such a consensus is possessing properly configured DNA code of the system. The indicated DNA code enables the existence of change potential as well as the ability of current reconstruction of strategy at simultaneous maintaining appropriate involvement in the process of necessary changes absorption. It should be also remembered that in the event when DNA shows disharmony in configuration it will absolutely affect the possibility of proper functioning of the whole system, most commonly observed in improper strategy selection and its update. The consequence of the above is limitation of a company's ability in the field of proper perception of the future and observing related new challenges and necessary changes (Fig. 6).

Fig 6. Coherence of the formal and updated strategy in respect of the DNA system.



Source: Prepared by the author.

Genetic codification is thus an element, which significantly affects the capacity of an organisation to synthesis of exo-endogenous elements affecting the possibility of its development. The correct DNA code being the effect of appropriate configuration of elements in the organisation and creating appropriate space enabling efficient relations between them will affect the quality of company's functioning. The result of this quality will in turn be the ability to adjust and renew the system. Proper genetic codification is also an important element, which by creating relevant aspirations, objectives, motivation, solutions and work model, enables building potential and modifying the implemented strategy whose need is a certain state in the today's business operation conditions.

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Considerations on financial autonomy in the Republic of Moldova

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Abstract:

Financial autonomy of higher education institutions in the Republic of Moldova is at its initial stage. The present article briefly describes the peculiarities that have been identified for this type of autonomy and confirms that the situation is at an early stage. The obvious achievements in this regard are the placement of money in commercial banks and the possibility to obtain interest and keep the balance from year to year. This article also presents some research results achieved within the project EUniAM - Enhancing the University Autonomy in Moldova with reference to the situation of the financial autonomy in the Republic of Moldova.

Article

Under the conditions of university autonomy, the financing strategy of higher education is one of the main tools for implementing government policies on national education. Moldovan universities operate under the conditions of university autonomy and more recently, from January 1st 2013 also of financial autonomy. We propose to analyze and discuss the peculiarities and indicators of financial autonomy used in the context of higher education in Moldova. Analyzing a number of governmental and ministerial documents, as well as some internal documents of public universities allowed us to develop a comprehensive picture – frame – regarding the level at which financial autonomy is now manifested and regulated in the higher education sector in Moldova.

We started with the definition of financial autonomy, as it is perceived in Moldova and the way it appears in the country's normative acts. A definition is given in the draft of the Public Policy proposal, initiated by the Ministry of Education, “*Developing managerial capacities of universities by expanding university autonomy*”. Here is mentioned that *financial autonomy* is the “freedom of the university to ensure income and to allocate financial resources, to set tuition fees, campus accommodation fees, services charges, to finance and co-finance university research, to use and store financial resources, using own procedures for their efficient management.” [3, page 7]

Regulations on operation under financial autonomy of higher education institutions define financial autonomy as “the Institution’s right to organize independently its activity and perform financial self-management, carry on its activity without any ideological, political or religious interference, take a series of competences and duties in accordance with national strategic options and guidelines for the development of higher education, postgraduate and research, development and innovation established by law and policy documents [1, point 6]. This document also mentions the need to correlate financial autonomy to the principles of public accountability for the quality of the whole range of training activities, research and services carried out by the Institution with effective management of funds and state property.

Both, the Law on Education and the Government Decision regarding the functioning of state institutions of higher education in conditions of financial autonomy, mention that financial autonomy is achieved through: management of financial resources, including those allocated from the state budget through bank accounts; management of financial resources from various sources and infrastructure as established by the Institutional Development Plan and by this Regulation; placement of available resources balance, performed over estimate, in the bank account at a bank deposit, excluding external grants; establishment of the amount of tuition and accommodation fees according to the Government approved methodology, as well as fees for service provided and work performed against payment, coordinated with the founder; determination of programmes and institutional offer capacity; social support of students and staff; offering scholarships for studies and research; determination of institution’s internal structure and budget approval; infrastructure management, Institution capacity building; raising financial resources by participation in research and investment projects based on cooperation with various national and international partners, including public-private partnerships; creation of units and subdivisions for research and innovation, development, design, services and production activities; foundation of legal entities unions and professional associations according to the Law.

Further discussion will be worn around the developing framework and supported by a number of situations that will exemplify the critical points of the discussion.

Ways of financing higher education.

Higher education in the Republic of Moldova is now in transition period towards financial autonomy. Funds available to them are extremely insufficient to enable them to compete with European universities; it is impossible to compete with universities which spend for the same degree programs ten times more than the universities of Moldova.

Speaking about the current mechanism for funding higher education we will focus on two temporal components: until January 1st, 2013, when universities did not have university autonomy, and after January 1st, 2013, when they are in the transition period of 2 years. Although at this specific component differences are minimal because the funding mechanism for higher education has remained practically unchanged.

Public higher education is financed by public and own sources. Funding from the state budget takes place according to the state order (number of budget seats offered to students at I cycle, bachelor and II cycle, master). This principle applies to both mentioned periods. State order is determined by the needs of the state in certain specialties, in correlation with the number of graduates, cost per student, financial possibilities of the state, in coordination with the Ministry of Labour, Social Protection and Family and the Ministry of Finance. Having reached the required number for each specialty and having it approved by Government Decision in each year, the Ministry of Education deduces these places for each public university that trains specialists in the field, according to their own principles, without having a transparency in this respect.

Financing from the Ministry of Education of the Republic of Moldova is not based on the needs presented by the institution of higher education (based on the number of budget financed students and health standards), but on the possibilities of the state budget.

The state budget is financing higher education institutions, firstly, taking into account the following priorities: Labour remuneration, as approved units; Contributions to the state social insurance budget; Scholarships for students (taking into account their number); Partial financing of current expenditure on utility services - Payment for goods and services. The remaining costs are covered from sources accumulated from paid services, i.e. special means. [2, pag.211]

Revenue administration and their use is provided by each institution of higher education based on the income and expenditure budget prepared under equilibrium conditions, in accordance with the criteria established by the Ministry of Education.

Revenue and expenditure budget comprises financial resources required for achieving the objectives set out in the strategic plan of each higher education institution during the financial year.

The main source of funding for public universities is the budgetary means. At the proposal of the Ministry of Education, the Government approves funding standards of higher education institutions. Funding norms are indexed in line with inflation rate. Besides the basic financing of higher education from the Ministry of Education there can be some additional allocations from the state budget with special purpose: [2, pag.213]

- ✓ Complementary financing granted on competitive basis according to the criteria established by the Ministry of Education, for facilities development and other capital expenditures, capital reparations, as well as grants to student dormitories and canteens;
- ✓ Scholarships for students and trainees, including for foreign students, studying in Moldova through intergovernmental cooperation, as appropriate;
- ✓ Social protection measures for students provided by law, for example, transport facilities for students;
- ✓ Investment objectives;
- ✓ Implementation of co-financed projects out of external sources.

Another area of higher education activity is research. Certain amounts of money are allocated for research and innovation from the state budget obtained on a competition basis, organized by the empowered structure.

Methodology for allocating financial resources.

The fundamental principle that underlies the annual funding methodology is “money follows the student”, which means, in our conditions, that public universities are first distributed the places from the state budget funding for specialties, after which, depending on the number and the area, is allocated the amount of money from the state budget.

Sources of private funding and the monitoring.

Additionally to the sources of public universities obtained from the state budget in accordance with the regulations in force, universities may have other sources of income:

- Funds obtained from contracted research and innovation services performed on a contract basis.
- Funds obtained from scientific research conducted under international research and development projects.
- Funds obtained from tuition or training applied to student of cycles I and II, integrated studies, residents, clinical practitioners, doctorate students, as well as continuous training / lifelong learning.
- Interest on bank deposits of available funds.
- Donations and sponsorships.
- Lease and rental contracts.

Under current conditions, universities are not limited to the budgetary resources, which, in fact are insufficient and identify and exploit special resources, supplement by personal efforts the necessary funds. Besides the revenues from institution's activities (income from tuition fees), universities accumulate income leasing the public property, which mostly cover the expenses for the study buildings (for utilities) and improving material and technical base. All universities' revenues are classified according to the functions of budget allocations, while expenditures – by spending items and paragraphs according to budget classification.

Government support to higher education institutions gives the right to control the use of its financial resources. State allocation of funds to Universities disregards certain performance indicators of research and training activities. Being funded both by state and from its own sources, University is managing its budget in accordance with the objectives, policies and programs approved by the Senate, respecting all legal requirements in this regard. The control of the use of funds is performed by the Senate of the higher education institution, by the founder (Ministry of Education or other Ministry) through reports submitted regularly. Also, every 3 years the Audit and Control Service under the Ministry of Finance controls the use of financial resources. Periodically the Court of Accounts performs audit controls.

University autonomy in establishing tuition fees.

At present, Universities can establish the amount of tuition fees, accommodation fees in dormitories, according to the methodology approved by the Government (currently not yet defined) as well as for and for services provided and work performed against payment. These are approved by the Senate and coordinated with the founder. Tuition fee for contract-base candidates is counted based on the actual costs related to the educational process, except for expenses for payment of scholarships and maintenance costs of dormitories. Tuition fee includes charges calculated under the rules and regulations in force, tariffs and prices forecasted for the period, and in their absence – the average real expenditure according to the reports.

Tuition fees, incurred by legal persons can additionally contain expenditures for scholarships.

The amount of the tuition fee for the part-time studies is set to 50 percent lower than that for full-time attendance, depending on the study framework.

The changes of tuition fee for specialties and study years are reviewed by the university senates and submitted to the Government for approval. Unfortunately, the Government has not accepted any increase in tuition fees since 2008, when the last increase took place. Meanwhile, the costs for insuring the educational process have increased.

Reporting unused funds from one year to another. Here we again refer to the two periods: before January 1st, 2013 and thereafter. Until January 1st, 2013, the Ministry of Finance had been monthly reporting to the Government on state budget execution. Since the universities' budget was part of the state budget, this required universities to fully utilize resources planned for that month, even though the university did not have necessity in the use of funds. However, it was possible to redirect them to another month, but the procedure was difficult and long (about 10 days).

If during the execution of the state budget the deficit was increasing, the Ministry of Finance, under the provisions of the above Law, could block the spending, excluding staff remuneration costs and partially those for utilities without informing universities about it. So, the funds could not be reported from one year to another.

The situation has changed after January 1st, 2013, when universities were *granted the right* to report unused funds during one financial year to another. Moreover, universities have the right to place their available financial resources in commercial banks and obtain interest, which is considered as a source of income.

Universities' ability to own the buildings. Ownership managed by the institution is State ownership and its management is provided by the Ministry of Education or other ministries, under which the university is subordinated (Ministry of Health, Ministry of Culture, Ministry of Agriculture and Food Industry). Universities can provide lease of state property in coordination with the founder.

Conclusion.

The present analysis with reference to the situation in the Republic of Moldova regarding the university autonomy, the financial autonomy component conducted during 2013 has allowed us to highlight some key points.

First, we have identified and formally defined two periods: before January 1st, 2013 and beginning with January 1st, 2013. This delimitation was imposed by the approval of the Government Decision no. 983 of 22.12.2012 on the functioning of higher education institutions in terms of financial autonomy. This means that beginning with January 1st, 2013 Public universities in the Republic of Moldova began to work under the conditions of financial autonomy for a transitional period of two years.

During this period there exists a well-developed financing mechanism of public universities (the private ones do not obtain funding from the state), but it has remained practically unchanged also during the transition period.

Another area of higher education activity is research. The state budget allocates certain amounts of money for research and innovation, obtained on a competition basis organized by the empowered entity. During the recent years the Academy of Sciences was responsible for allocating money for research for the winning projects. Funding of doctoral studies has been also carried out by this organization. Namely the way of financing research and doctorate has been the subject of many discussions between universities and the ASM.

The fundamental principle that underlies the annual funding methodology is “financing follows the student”, which means, in our conditions, that first public universities are allocated places with state budget financing for specialties, after which, depending on the number of students and field of study, is allocated the amount of money from the state budget, as mentioned above.

The change that has occurred in this regard since January 1st, 2013 is that money is not allocated on expenditure items, but per student. But the methodology is far from being perfect. The problem that arises now is how to calculate the costs of preparing a student? At the moment, although the procedure is not transparent, calculation is based on historic spending. Another problem we have identified is that budgetary allocations are carried out, focusing on quantity and not on quality.

Some positive aspects that we would like to mention is the fact that universities are required to submit reports on the use of budget funds on items of expenditure, allocation is made as a lump sum, and that there is no need to spend the money according to particular destination, universities having freedom but also responsibility.

A change that has been felt during this period and appreciated positively by the university is the possibility to report the unused funds from one period to another. This is particularly important for the revenues obtained from own sources. Until January 1st, 2013, Universities could not do this. All money remaining at the end of the year was transferred to the state budget. This fact did not allow universities to plan any investment activity or to develop any strategic plans and make realistic calculations in achieving them.

Another change for the better is the management of financial resources through bank accounts and not the treasury. This offers the possibility to place available money in commercial banks and obtain interest.

Another moment we want to draw our attention that has remained unchanged is the lack of flexibility in determining the services that can be offered by the university. A new service can only be provided after the Government decision. Many questions also arise in the calculation accommodation fee. The formula does not include the costs for dormitories' reparations, that should be funded separately but, unfortunately, it happens rarely and only in some Universities. Students pay only 40% of the accommodation fee for dormitories and the other 60% - the state.

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Evolution of Organizational Structures of Transnational Companies

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Abstract

The article is the product of the research and didactic activities related to one of the aspects of the International Business Management course. The author has systematized and developed the steps of the evolution of organizational structures of transnational companies under the impact of informatization, globalization and localization megatrends.

Article

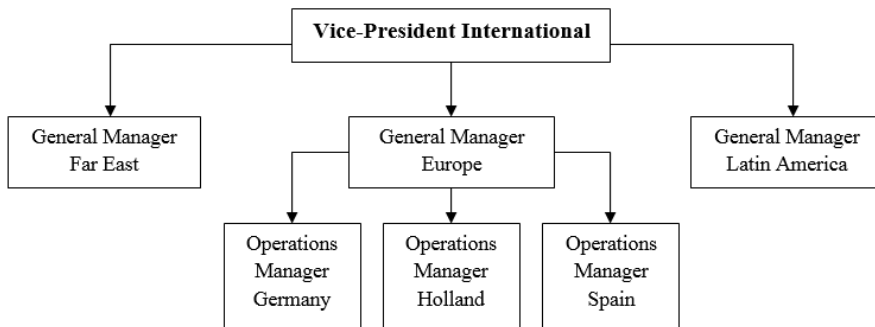
Informatization, Globalization and Localization represent some key megatrends – fundamental directions of the development – of the contemporary world economy and international business. Informatization refers to the passage from the industrial society to the postindustrial (informational) one, and determines the changes in economic system, all kinds of technologies (production, management etc.) as well as the shifts in investment policies. The ICTs are the technologies of informatization. Due to their application in the world economy, the global economy appeared as well as such a new type of economy as informational and virtual one. Informatization has conditioned the appearance of Globalization megatrend. Both gave birth to the transnational companies (TNCs). Both are promoted by the TNCs and produced a significant impact upon their organizational strategies and design. Flexibility in organizational structure of the TNCs is a response to the extremely dynamic reality caused by the megatrends. It makes the TNCs highly competitive at the world market.

Classically, for the development of organizational design under the internationalization of business, a Vice-president of the International Division of a company may choose from among, at least, three options: to structure the division by regions, product or function. The specific of this process under globalization is that the structuring in regions, product and function is globalized as it does not refer just to the domestic market any more. If the Vice-president International votes for

structuring the Division **by geographical regions**, the organizational design will look like in figure 1.

Vice-President International coordinates the activities of General Managers who are responsible for operations at the specific regional markets. A General Manager coordinates activities of Operations Manager, in case a regional market is structured by country markets. The scheme suits both export/import operations (commercial, distribution profile of the company) and production operations (production profile). API Foils Inc. can serve as an example of such organizational design.

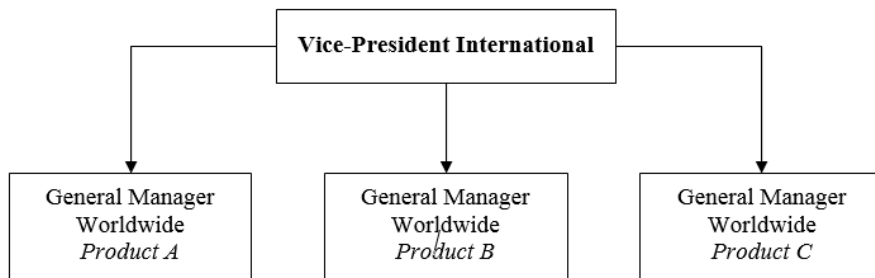
Figure 1. Organizational design by regions



Source: Adapted on the basis of [1]

In case of structuring the International Division **by product**, the design will be like in figure 2.

Figure 2. Organizational design by worldwide product

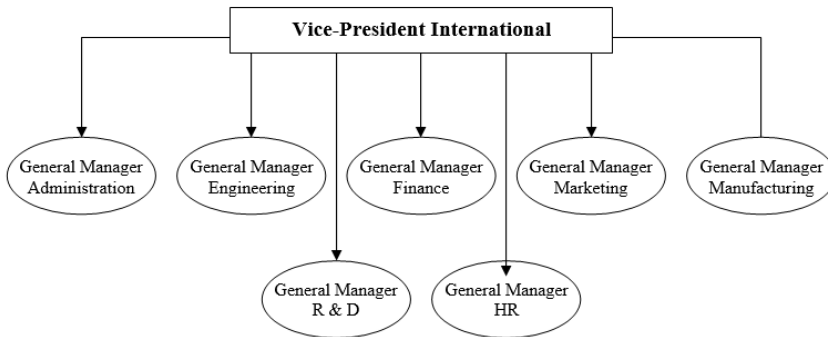


Source: [2]

Unlike domestic product, the worldwide product distinguishes by its standardized and globalized characteristics. It means it has to do for both domestic and global market without adaptation. The Coca-Cola Co. used such a design at its stage of global company.

Organizational structure **by function** is shown in figure 3.

Figure 3. Organizational design by globalized functions

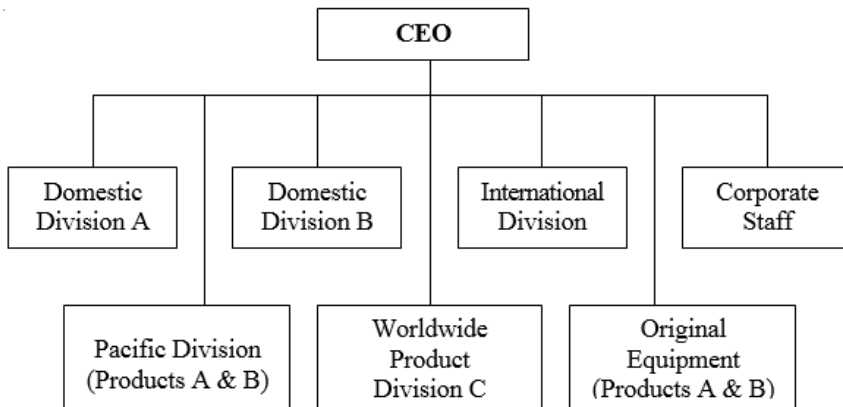


Source: [2]

Unlike the simple organizational structure by function for a domestic or international market, the structure in figure 3 is designed for a global market. Functions are globalized to capitalize on worldwide knowledge-sharing and to achieve economies of scale while, at the same time, retaining the flexibility to tailor individual products to individual markets. Thus, in late 1998, General Motors (GM) restructured its worldwide automobile operations into a single global operation: GM Automotive (Dorel Paraschiv, 2005).

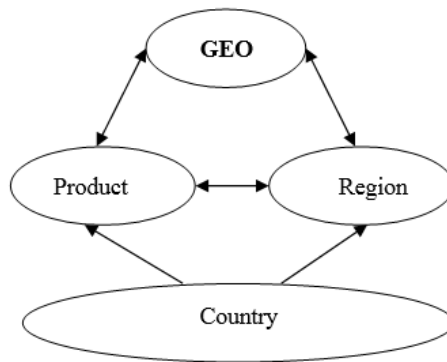
In order to become more flexible at the global market and make an organizational design to be a part of intellectual capital, the international and transnational companies developed the mixed forms.

The hybrid form is often the result of a regionally organized company having introduced a new and different product line that management believes can best be handled by a worldwide product division (figure 4).

Figure 4. The hybrid form of organizational design

Source: [2]

The hybrid form may also result from the firm's selling to a sizable, homogeneous class of customers. Special divisions for coping with sales to the military or to original equipment manufacturers are often established at the same level as regional or product divisions (Paraschiv D., 2005).

Figure 5. The matrix structure

Source: [2]

The **matrix structure** has evolved from a managerial attempt to match regional product, and functional expertise while still maintaining clear line of authority.

The general scheme is shown by figure 5. Matrix structure was specially invented by McKinsey, a management-consulting firm that specializes in organizational design for the Anglo-Dutch Company Royal Dutch-Shell, the world

largest no state-owned oil company with activities in more than 130 countries. This structure has manifested the break of classical principles: a head of each operating company reports to two bosses here. Both bosses have equal influence and status within the organization.

Shell Company succeeded to get an advantage from this structure. Since each operating company had two bosses to satisfy, decision making typically followed a pattern of consensus building. Although, the decision-making process was slow, it was reserved for only the most important decisions (such as major new capital investments). The result was substantial decentralization: the heads of the individual operating companies were given much freedom in running their own operations. That decentralization helped Shell respond to local differences in government regulations, competitive conditions, and consumer tastes.

At present, Shell is among the companies that has given a respond to a global market competition and tends to apply a transnational strategy in its international business, deepening, so far, its decentralization owing to structuring in nets.

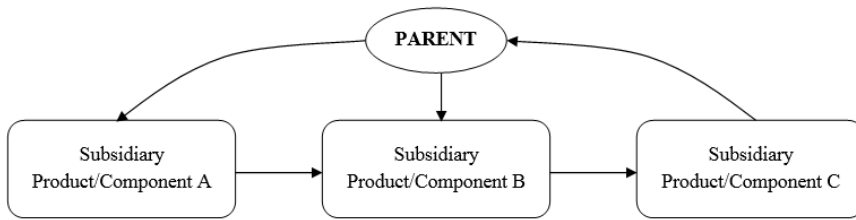
Another basis for the evolution of the organizational structures of the TNC has been created by two kind of pressure upon the international business: ***globalization*** and ***localization***.

The first encourages an international perspective through the creation of a globalized, standardized product or service. Satellite television and international media contribute to homogenizing consumer tastes. The second strengthens the nation state interest. Tradition and religion contribute to cultural differences in consumer preferences. To maintain culture means to keep nation. This makes governments to subsidize local production over imports or foreign investments (Beamish P., 1991).

These kinds of pressure entail few kinds of business strategy and the respective organizational structure that bring a difference into the TNCs from the managerial prospective.

The TNC as a *Global company/corporation* is based on a ***Global strategy*** which consists in designing and developing a product to international specifications, producing it in large-scale modern factories to high-quality standards and selling in world market at a very competitive price (Lecraw D., 1991).

As for global organizational design, corporate subsidiaries are an integrated part of global organization and often play no strategic role. There is a specialized production of a single model or component for use through the corporation (figure 6). The design and specification of what produced is not usually handled by the subsidiary as it is not aimed primarily at the subsidiaries' market. It supposes to be a worldwide product for a global market. Subsidiaries are similar with the parts of a gigantic conveyer. The global design is distinguished by its centralization. The coordination between a center (parent) and subsidiaries is critical.

Figure 6. Organizational design of a global company

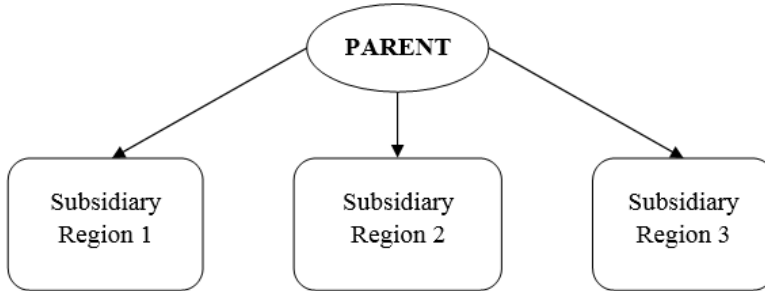
Source: adapted on the basis of [1]

The subsidiary autonomy is low. The parent executives are sent to run subsidiary operations for two- three year term. Specialization is at the heart of global company. Subsidiaries are obedient and are evaluated as cost centers. The global strategy and structure do for industries in which pressure toward globalization is high: aircraft, cameras, consumer electronics, computers, pharmaceuticals, automobiles (Dorel Paraschiv, 2005).

The TNC as a *Multinational Company/Corporation (MNC)* is based on **Multinational Strategy** (Beamish P., 1991) known also as **Multidomestic Strategy** (Paraschiv D., 2005) that consists in developing products for the parent company own market (country, region) and then offering them for sale or adaptation by their overseas subsidiaries which have the capacity to absorb parent company's technology and adapt the resulting products to local conditions and tastes. This technological capacity can grow over time into the own R & D of local subsidiaries that allows them independent product innovation. Duplication and autonomy are at the heart of multinational strategy. These are technologies and skills that cross the boundaries not products in multinational model. The model was born in era of high tariff protection. But not only tariffs, the cultural preferences as well can create impediments in trade. The Barby-doll case can serve as an example here. After facing with problems at Japanese market, the Barby-doll producer company was compelled to switch from its global strategy to the multinational one. There appeared Japanese Barby, African Barby and so on. In general, in order to become more competitive, many global companies addressed to the adaptation of their global products to the local markets (McDonalds, for ex.) or to the creation of the specific products for some domestic markets (Coca Cola Co, for ex.).

Subsidiaries in multidomestic model are organized by region or country rather than by product line (figure 7). They are evaluated by profit center criteria.

Figure 7. Organizational design of a multinational/multidomestic company



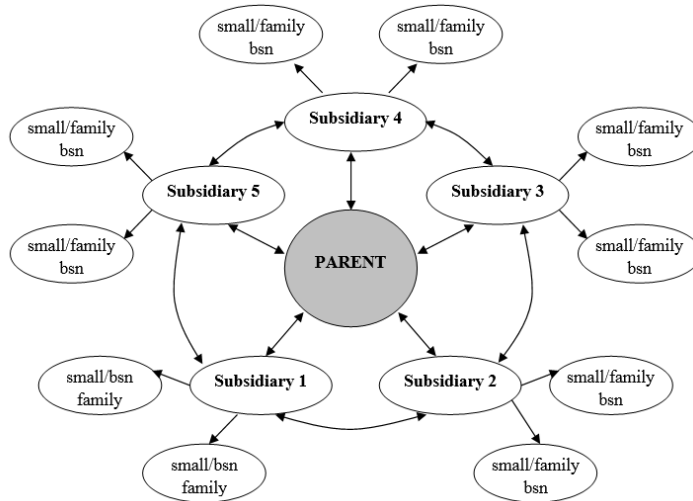
Source: [2]

The subsidiary autonomy is high. Local nationals are appointed as country/region managers on the basis of a long-term contract. Each subsidiary formulates its own internal strategy and the role of the country/region manager is similar to that of parent CEO, except for being limited by its geographical sphere of activity. The multinational strategy and structure go well with industries in which pressure toward localization is high: steel, clothing, packaged foods etc. (Paul Beamish, 1991); Dorel Paraschiv, 2005).

The TNCs which tend to create a perspective and long-run competitive advantage on the basis of organizational design, build it leaning upon a **Transnational strategy**. It seeks an optimal blend of global efficiency and local responsiveness. Its organizational structure is similar to matrix organization that shares responsibility between product division and geographic areas. Initiatives arise in subsidiaries as well as parent and inter subsidiary linkages are encouraged (Lecraw D., 1991, Paraschiv D., 2005). By implementing the transnational strategy, a transnational company evolves into two main organizational structures: *International Corporation* and *Transnational Corporation*. If compared with the previous two ones, one can notice that both global and multinational companies are both essentially centralized. Their subsidiaries relate to a Head of the company more than to other companies or nations in the group. *International Corporation* moves out the influence from its center to regions and nations, playing coordinative role rather than instructive or evaluating.

Besides, the subsidiaries often subcontract small business, including the family one, creating so far an organizational structure as a net based on value – added chains (figure 8).

Figure 8. Organizational design of a transnational company as an international corporation



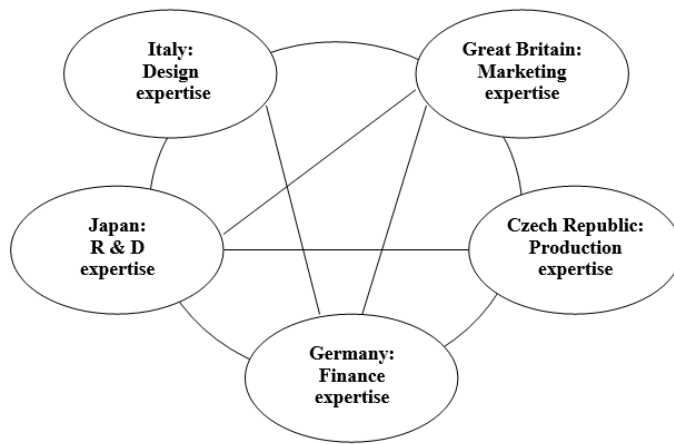
Source: elaborated by the author

Subsidiaries can turn to become the **Strategic Business Units (SBUs)** which are conceptualized as self-contained business entities with clearly defined markets, specific competitors, the ability to carry out their business mission and size appropriate for control by a single manager.

Top-management teams are like a microcosm of the system (with Germans, Dutch, French, Italian and Japanese executives at company HQ), when considerable business are located in those countries. They are not delegates or representatives but full-time contributors to multicultural management (Trompenaars F., 1998).

The transnational strategy and structure do for telecommunications, aerospace and electronics. Pharmaceutical and cosmetics companies tend to them. Shell, Ericsson, Omron, Procter & Gamble are considered as the contemporary examples of international corporations.

Transnational Corporation is regarded to be a structure of an advanced present and future and is associated with mature informational society. It is polycentric rather than coordinated from the center (Trompenaars F., 1998). It implies a flatter corporate structure. It consists of several centers of specialized excellence that create value-added chain and net (figure 9). No physical HQ just virtual direct communication of the CEOs of the centers of competence.

Figure 9. Organizational design of a transnational corporation

Source: elaborated by the author

IKEA can be brought as an example here. In general, transnational corporation is a product of both globalization and informatization of business and manifests itself in different forms. It can be **Virtual Corporation**, also known as a **Network Corporation**. It creates a chain of added-values and delivers it to consumers using **outsourcing**, i.e. specialized expertise provided by the profiled companies. Nokia is an example of a virtual corporation. It outsources majority of its business operations: design, marketing, chip fabrication. That competitive strategy and structure allowed the company to become one of the world's largest telephone companies in less than two years. Another kind of virtual corporation is called **Modular Corporation**. It is characteristic for a group of construction firms, each with special area of expertise. The firms establish a consortium for a project term. After finishing the job (for instance, construction of a road or an airfield), the consortium would disband (Paraschiv D., 2005).

Under informatization, the transnational corporation can also take such organizational form as **Horizontal Corporation**. It has been adopted by some large technology-oriented global companies in highly competitive industries like electronics, computers etc. Employees worldwide create, develop and market the company's products or services through a carefully cultivated system of interrelationship. For example, marketing team in Great Britain communicates directly with production team in Brazil without having to go through the home office in Germany. In horizontal organization the greater decision-making responsibility so far is put in the hands of middle managers. Besides, the teams can be drawn from different departments to solve a business or organizational problem. Therefore, such an organizational form can be characteristic to the innovation business projects as well.

Summing it up, one can conclude that, first, the TNCs are not identical with respect to their organizational design; secondly, shifts in organizational structure of the TNCs reflect their response to the megatrends of international business – informatization, globalization and localization; thirdly, evolution of organizational design of the TNCs displays the process of searching for competitive advantages at the global and local markets and, in general, flexibility of the TNCs in their ways of strengthening their competitiveness.

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Opportunities and risks of outsourcing process management in Moldova

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Abstract

Outsourcing is the most revolutionary management concept of the XXI'st century. Along with globalization appear advantages as well as disadvantages of outsourcing especially for developing countries.

Moldova could become one of the most preferred choices among global organization when it comes to outsourcing. Many countries have ranked Moldova as a choice, when outsourcing software and IT services. Key advantages when outsourcing to Moldova: High-quality and cost-effective services, availability of skilled, talented and experienced professionals, wide range of services, save on time, effort and infrastructure by outsourcing, maximize revenue and minimize expenses, quick turnaround time, minimum support structure required, favorable legal and tax regimes, quality of life for expatriates, effective communication and program control mechanisms.

Article

International business environment is more and more dynamic and changing. The global company thinks plans and operates on a truly global basis; in other words, it transcends international boundaries.

Today's consumer is much more widely traveled compared to even a decade ago. Combined with an increasingly global media network, today's consumer is exposed to global lifestyles, products and brands. Increased affluence and education on the part of customers have also served to reinforce much more cosmopolitan attitudes and lifestyles.

There is no doubt that the trend towards globalization has been one of the most significant developments in international business during the last decade. More and more companies have become, and many more would like to become, global in their operations.

The evolution of the global economy along the 20th century and beginning of the 21st century is seen threw the perspective of very dynamic and intense laws of the market economy, of the science and engineering progress, the global division

of labor, the capital internationalization and finally globalization of the world economy. Globalization itself involves increasing the interdependencies between the national states in different fields of activity: economic, political, social and cultural. Along with globalization appeared various phenomenon that facilitated and improved different aspects of the economic system.

Nowadays, most of the companies and enterprises have realized that if they want to succeed in the competitive international marketing, the lonely struggle in a certain region leads to no effects any more, that is a waste of time, and they have to increase their availability to the global market.

With the development of globalization and internationalization outsourcing as an instrument of new management concept is paid more and more attentions by enterprises. Outsourcing can be defined as the hiring of an outside company to perform a task that would otherwise be performed internally by a company, organization or government agency generally with the goal of lowering costs and/or streamlining work flow.

Outsourcing is one of the most effective methods to resolve the problems produced in the global market. Outsourcing is the greatest organizational and industrial shift of the 21st century. However, outsourcing is also a controversial and emotional topic among business leaders and workers in the global business community. When you apply an outsourcing business strategy, it can improve your organization's operational efficiency by leveraging a supplier's capabilities to deliver quality solutions rapidly, at lower cost. With globalization, suppliers in developing countries can offer a highly skilled workforce at significantly lower labor rates, forcing organizations to leverage low-cost providers if they want to compete in the global marketplace. Companies also use outsourcing to gain a competitive advantage, creating value for the business customer and ultimately for the consumer.

The evolution of the technology infrastructure has made possible changes in the work force and working methods, such as teleworking, home offices, and flexible working practices. All these factors have contributed to the increase in virtual corporations. Global networking on the Internet has made worldwide outsourcing possible for firms of all sizes.

Outsourcing has emerged a few thousand years ago with the production and sales of food, tools and other household appliances. As soon as small communities and societies began to form, people with specialized professions began to trade with each other for goods and services. In effect it can be said that each worker was outsourcing some activities to others. The history of outsourcing shows that even in the industrial age, a few thousand years later, very few companies outsourced any of their operations. Companies in the 1800s and 1900s were vertically integrated organizations, taking care of their own production, mining, and manufacturing from raw materials to finished goods as well as then shipping the goods to company owned retail outlets. These companies were often self-insured, handled their own taxes, employed their own lawyers, as well as designed and built their own buildings without outside assistance.

The history of outsourcing shows that through specialization contracting began to be more popular, especially in the service industry. This in turn led to the first wave of outsourcing during the industrial revolution pushing the large-scale growth of services such as insurance services, architecture and engineering services, among many others.

Through the development of infrastructure as transportation and logistics improved, the costs decreased and offshore manufacturing increased. As the education and skills on lower wage countries developed, outsourcing manufacturers gained more value. More recently, in the US during 1970s, it was common for computer companies to export their payrolls to outside service providers for processing. This continued into the 1980s, when accounting services, payroll, billing, and word processing all became outsourced work. (1)

Towards the end of modern day outsourcing, the trend has moved into the world of information technology, data transcription and call center operations.

Outsourcing was not formally identified as a business strategy until 1989. However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. The use of external suppliers for some essential but ancillary services might be termed the baseline stage in the evolution of outsourcing. Outsourcing support services is the next stage. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business. Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance, and the like as a matter of “good housekeeping”. Outsourcing refers to work done by people other than a corporation’s full-time employees. In the 1980s, outsourcing expanded to include the goal of using only external resources and services to develop and manage all IT activities. The primary motivations were cost savings, the desire to avoid or defer high risk capital investments in new technologies, and the need to focus on the core business processes of the organization. Now, outsourcing can refer to any of the above options, as well as to highly defined contracts that “out-task” relatively small blocks of service, and to manage services contracts in which an organization monitors service provisions and alters their characteristics in real time. Outsourcing individual business functions is now a more common activity than outsourcing an organization’s entire IT infrastructure and management.

The current stage in the evolution of outsourcing is the development of strategic partnerships. Until recently it had been axiomatic that no organization would outsource core competencies, those functions that give the company a strategic advantage or make it unique. Often a core competency is also defined as any function that gets close to customers.

The focus today is less on ownership and more on developing strategic partnerships to bring about enhanced results. Consequently, organizations are likely to select outsourcing more on the basis of who can deliver more effective results for a specific function than on whether the function is core or commodity. Companies

have always hired contractors for particular types of work, or to level-off peaks and troughs in their workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own. However, the difference between simply supplementing resources by “subcontracting” and actual outsourcing is that the latter involves substantial restructuring of particular business activities including, often, the transfer of staff from a host company to a specialist, usually smaller, company with the required core competencies. (2)

The last two decades have seen a reshaping of the international economy together with integrating worldwide financial markets into a single global market place. Developing countries are being drawn into this process starting from different points and moving at various speeds. The growing economic openness expressed in the globalization of independent economic systems has created problems as well as opportunities that cross formal borders in new and unexpected ways.

Traditionally in outsourcing (onshore), the question of location is subordinate to choosing the most qualified provider. Small projects are often the exception, as the economics of travel and communication can dominate the budget, and consequently the service provider must be local. Typically, for more complex projects, the pool of qualified providers is too small to limit by focusing on only one geographical area. Furthermore, other than logistical considerations, there is no particular advantage or disadvantage bestowed upon a company based in a definitive city, state or province. However, these scenarios are not true in off-shoring, as a country can bestow unique benefits (or penalties).

While there are numerous differentiating characteristics of countries, the most important characteristics fall into one of two categories. The first category is purely exogenous, or those characteristics that define pervasive environmental factors upon which any service provider can do little to impact or mitigate relative to the services that they deliver. The second set of factors are semi-exogenous and any individual company can (at least partly) offset the expression and impact of these factors within their own company through strategy, investments, hiring decisions, and/or employee development practices.(2)

In many respects, Moldova today is at a crossroads: the country is the poorest on the European continent, but is not without endowments, notably its soil and climate, its location as a bridge between the expanding European Union and the countries of the Commonwealth of Independent States (CIS), and a skilled and inexpensive labor force.

Agricultural production suffered as the rush to decollectivize resulted in the fragmentation of landholdings, along with an inability to cope with the collapse of traditional market relationships. Likewise, there has been no systematic attempt through sustained regulatory reform to leverage the competitive advantage as the land bridge between the European Union (EU) and the CIS. Other key facts about Moldova are: 6 free economic zones, one international port at Giurgiulesti, 3 industrial parks and one hub airport at Marculesti.

Moldova's economy remains stuck between the static structures of the past and an emerging private enterprise sector. Private enterprises, many with foreign partners, have emerged in part from the restructuring and privatization of state-

owned enterprises. Many of today's (privately owned) small and medium-sized enterprises started as survival mechanisms, and there is wide variation in their competitive performance, primarily with respect to domestic markets. Yet successors to the large-scale enterprises of the Soviet era, whether with foreign majority partners or continuing under state ownership, often occupy positions of market power that hamper the growth of market linkages needed for competitive clusters.

Cooperation among entrepreneurs and enterprise managers in related or competing activities tends to be low, not unusual for a low-trust environment with a government disposed towards excessive levels of surveillance and interference. Lack of trust has been a major factor in bringing structural reform to a virtual standstill. At the same time however, there are informal support arrangements among competitors with respect to joint sourcing of inputs, flexible payment terms, or joint marketing (such as a single showroom for shoes from competing manufacturers).

There are many challenges that still exist as Moldova struggles to emerge from the former communist regime. Erratic government, unstable economy, lack of managerial talent, and poor consumer protection and intellectual property laws continue to cause problems. However, look for Moldova to become a more stable business economy in the next 5-7 years (and a more stable choice for offshoring).

Over the next few years we expect to see Moldavian suppliers bidding on more contracts, as they already registered an increase in personnel working in research and development than in other years. The current cost structure in Moldova offers substantial price performance benefits for customers in achieving their software development requirements.

Certainly, all these realizations become more and more modest in the comparative analysis with other states, the fact which impose the necessity of effort.

Competitiveness means different things to different people. For Moldova, it simply stands for a firm's ability to meet (or exceed) productivity standards in the marketplace on a sustained basis. Productivity, in turn, is the ratio of the value of a good or service—what consumers are willing to pay for it—to the value of all resources used in its production. Productivity growth flows from innovation. The outsourcing of research and development and innovation both nationally and internationally has become an important phenomenon across a range of sectors including the automobile, telecommunications, hardware and software industries. It has significant implications for research and development managers. It may be driven by research and development management and technology strategy considerations or alternatively by business strategy. The rapid evolution of information and communication technologies (ICTs) has created the potential to locate research and development activities almost anywhere in the world. The globalization of research and development has advantages and disadvantages and with creative strategic effort can dramatically change research and development projects, programs and collaborative research and development networks. The rate of innovation—not just major leaps forward, but particularly small incremental improvements in product and process—in turn depend on incentives and capacity.

Incentives are largely determined by the business environment, shaped by both policy and customs.

Today, outsourcing has almost become the order of the day. More and more global companies are choosing to outsource today for a number of reasons, such as, cost-effective services, increased efficiency, increased productivity, shared risks, reduced operating costs, increased quality, better services and more time to focus on core competencies. These are just a few of the reasons why organizations are outsourcing today. Moldova can be an ideal place to outsource to, because Moldova offers several advantages.

Outsourcing to Moldova can give to a certain organization a competitive edge. The following are a list of reasons why companies should outsource to Moldova.

1. Cost-effective services. The number one reason why global organizations should outsource to Moldova is because Moldova offers cost-effective services. Outsourcing to Moldova can help an organization save more than half of operating costs. Moldova has a large, educated, trained and technically skilled manpower and this number only keeps growing every year. Unlike the west, where technical talent is rare, Moldova has a large pool of highly-skilled professionals. Having a large technically skilled manpower has enabled Moldova to provide cost-effective services without compromising on quality. Outsourcing to Moldova, can help you save on your operating costs, while increasing your productivity, quality and efficiency.

2. High-quality services. By outsourcing a company can get expert and skilled services. This benefit of outsourcing has been the key reason why several outsourcers opt for outsourcing. The function that a company is outsourcing may not be her core competency but she can find an outsourcing partner who is specialized in that particular business process. This is yet another benefit of outsourcing, because if the company performs all her business processes in-house, she will not be able to provide specialized and skilled services.

Outsourcing two Moldova can offer a wide range of specialized business process outsourcing solutions to global clients. In Moldova could be created teams that offer outsourced services across a range of services which include Call Center, Data Management and Engineering Services, Healthcare Services, Financial Services, Software Services and Research and Analysis Services.

Moldova has the largest English-speaking audience she also has a highly educated manpower that is talented, educated, experienced, technically-skilled and computer literate. Outsource to Moldova and be assured of high-quality services.

3. Time Zone Advantages. Outsourcing to countries such as India has a time zone advantage. Organizations who wish to provide their customer with 365 days customer support or helpdesk services can outsource to Moldova. Work is continued by the outsourcing partner even after the employees go home. This enables the work to be completed much faster and gives the business a competitive advantage. This is one of the benefits of offshore outsourcing.

4. The Moldovan Advantage. Cost-effective services are one of the primary advantages that Moldova offers, but it is not the only advantage of outsourcing to

Moldova. Outsourcing to Moldova can give access to professional and skilled outsourcing solutions within a fast turnaround time. By outsourcing to Moldova, an organization can concentrate on core business activities and save on time, effort, manpower and infrastructure. Outsource to Moldova and give your organization a competitive advantage.

Key advantages when outsourcing to Moldova: High-quality and cost-effective services, availability of skilled, talented and experienced professionals, wide range of services, save on time, effort and infrastructure by outsourcing, maximize revenue and minimize expenses, quick turnaround time, minimum Support Structure required, favorable IP Legal and Tax Regimes, quality of life for expatriates, effective Communication and Program Control mechanisms.

Moldova could become one of the most preferred choice among global organization when it comes to outsourcing. Many countries have ranked Moldova as a choice, when outsourcing software and IT services.

The universities are quite well equipped and have free broadband cable and fiber-optic connection to the world wide web which ensures that students have access to the latest technologies in the field of specialization. The Moldovan students early engage into the freelance work and thus they gain the experience while they study.

After the graduation students have a chance to gain new experience in over 3,000 IT-companies registered in Moldova. Considering the number of Moldovan inhabitants of 3.5 million people, the concentration of IT-companies in Moldova can be regarded high. (4)

Among the leaders of the IT business in Moldova are the following companies: Orange Moldova, Moldcell, Moldtelecom, Endava etc.

Moldova is officially the lowest cost nearshoring location in Central and Eastern Europe. A fully loaded cost of an average software developer in Moldova is below \$3000 per month, and this includes office space and other overhead costs. Here is more about Moldovan software development outsourcing industry.

According to Serghei Goloborodico of Pentalog office in Chisinau, IT and software development outsourcing industry accounts for 10 percent of the budget contributions. (5)

Finally, comparing all the results and statistics above, two regions in Moldova are the most attractive for offshore development centers so far. These regions are Chisinau and Balti. But from the financial point of view Chisinau is the leading city in Moldova thanks to the comparatively low prices for property renting or buying and high number of qualified IT-specialists. These facts mean that

IT-market in Chisinau is progressing. Chisinau has ideal conditions for foreign companies to establish their child-companies or remote centers of software development. Chisinau is the most attractive region for the offshore and outsourcing activity in Moldova.

Moldova can be a pioneer in providing outsourcing solutions and could provide a range of outsourcing services to countries across the globe. Outsourcing to Moldova can help organization's benefits from cost-effective services, high-quality services, reduced operating costs, greater flexibility and faster-time-to-market

amongst others. Another reason why outsourcing to Moldova could improve an organization's business sense is that Moldova has low labor costs and significant technology evolution.

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The issues of shaping the procurement function in the sector of non-profit organizations – fiction or challenge and a real problem?

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Abstract

The study focuses on the analysis of development projects regarding the sector of non-profit organizations, paying attention to the fact of continuously progressing professionalization of management in this area.

In connection with the growing meaning of the sector as well as an increase in functions and tasks attributed for implementation, the study also presents a proposal of a professional perspective of the procurement (purchase) function the implementation of which would make it possible to increase the effectiveness of management in this area. The study uses the available theoretical knowledge and data regarding purchasing, including models of the procurement function.

Introduction

The issues of third sector organizations management are multi-dimensional. Apart from natural aspects clearly differentiating the management process in the third sector from two other¹, apart from probably the most heavily stressed social element, attention should also be paid to aspects strictly focused on the professionalism of managerial functions. While we may relatively often come across views calling for improvement² of the management process of non-profit organization in a holistic perspective, specific indications appear relatively rarely on

¹ Although it should be definitely assumed that these differences exist, in many cases we may rely on a benchmark formula in areas and on the basis of experience related to solutions applied in these sectors which, in consequence, contributed to the increase in the effectiveness of management as well as were an answer to the continuously occurring changes in the environment of these organizations giving, at the same time, an impulse for a transition from short-term growth to long-term development: see in more detail: B. Nogalski, *Nauki o zarządzaniu wobec wyzwań współczesności*, *Współczesne Zarządzanie*, 2007, no. 1

² See Wach, K. (2014). *The Role of Knowledge in the Internationalisation Process: An Empirical Investigation among Polish Businesses* (chapter 7) In: D. Kiendl-Wendner & K. Wach, (eds), *International Competitiveness in Visegrad Countries: Macro and Micro Perspectives*. Graz: Fachhochschule Joanneum, pp. 143-157

this background. Thus, the purpose of the article is to indicate not only the role and importance of the procurement function³ but also to stress the fact of its professionalization in the third sector and review the model solutions existing in this area. As a consequence, an attempt was made to present the solution in the analyzed problem by presenting the procurement model regarding third sector organizations the application of which may contribute to the rationalization and, at the same time, professionalization of actions focused on improving the process of managing third sector organizations.

Outline of the idea of non-profit organizations management

Model solutions regarding possibilities to apply modern tools directing the non-profit management process towards professionalization are also becoming stronger. Although the differences related to this distinctness of forming the product–service offer seem obvious, in fact, the bundle of objectives remains similar. Non-governmental organizations also aim at improving their offer and possibly professional operation. However, subject to the fact that they are, to a greater extent, focused on the process the effect of which may be, and often are, individual products.

Hence, the attempt to apply, or (which may be stated more clearly), the application, equally with the business sphere, of methodological solutions or entire concepts and ideas used as contemporary management trends to the non-profit organization sector. R. S. Kaplan and D. P. Norton⁴, based on the idea of the balanced scorecard⁵, put forth a concept of shaping certain patterns of strategic actions, specifying their graphic form as the "strategy map" which in its essence is supposed to combine various elements of the balanced scorecard into a cause and effect chain, integrating the expected results with factors which facilitate obtaining them. As a result of research works, it was clearly stated that strategy maps are applicable and bring measurable effects in the activities of companies operating in the sphere of business and they also turned out to be equally useful for non-profit organizations as a concept. This may prove, on the one hand, the existence, the attempts to apply verified solutions in the sphere of business to the sector of non-profit organizations but, on the other hand, this also proves the inevitability or the need, at the stage of shaping the concepts to consider the third sector, the related needs and, towards its growing role in the global scale, to create solutions taking into account the special nature of non-profit organizations.

³ The importance, role of the procurement function seems to defend itself, although publications emphasizing these issues regarding third sector organizations are rare.

⁴ Harvard Business Review on Advances In Strategy, R. S. Kaplan i D. P. Norton, Masz problem z wypracowaniem własnej strategii? Przedstaw ją w formie mapy, Harvard Business School Publishing, Polish editio copyright 2006 by Wydawnictwo Helion, Gliwice 2006, 83 and further

⁵ see R. S. Kaplan and D. P. Norton, Strategiczna karta wyników, Wydawnictwo Naukowe PWN, Warsaw 2001

Traditionally, non-governmental organizations were not willing to pay the highest attention to the effectiveness of their actions⁶, management efficiency and quality⁷. The focus on program activities and the implementation of the social mission was supposed to serve as a justification. This began to change in the 1980s. Then, a distinct relocation regarding numerous social functions from the state administration organizations to non-governmental organizations took place in Anglo-Saxon countries⁸. This change in policy resulted from the conclusion that social needs would be better satisfied by organizations which are closer to these needs in local communities. Moreover, state administration often lacked specific skills and knowledge and the separation of the role of the employer from the role of the contractor was supposed to foster additional transparency of action and effectiveness⁹. Although the sector of non-profit organizations undoubtedly should not be treated as a substitute of the state and the administration¹⁰.

Non-profit organizations, due to their social nature and autonomy towards the mechanisms of administrative or market profit maximization are characterized by great innovativeness - they often try to solve various problems in an innovative manner - as well as flexibility of actions.¹¹

In recent years non-governmental organizations have also been significantly developing contacts with business. Due to promoting the idea of corporate social responsibility, modern companies more and more often take care not only of their business but also of ethics, ecology and the social interest. The business sector is getting closer to the non-governmental sector and establishes cooperation with it by financing social initiatives as well as implementing employee voluntary service programs. This gradually intensifying cooperation also requires the use of similar standards in various spheres of activities, including the procurement sphere¹².

⁶ See in more detail: J. Fudaliński, *Perspektywy rozwoju zarządzania społecznego w sektorze organizacji non profit w Polsce*, Difin, Warsaw 2013, J. Fudaliński, *Efficiency as a Praxeological Measure And a Category Determining Operation Of the Third Sector Organizations – Myth Or Practice Of Action? in: Contemporary Economies In the Face Of New Challenges, Economic, Social And Legal Aspects, Cracow University of Economics, Kraków 2013*

⁷ P. F. Drucker, *Zarządzanie organizacją pozarządową. Teoria i praktyka*. Fundusz Współpracy, Program Phare Dialog Społeczny – NGOs, Warsaw, 1995, p. 119

⁸ M. Gumkowska, *Wolontariat, filantropia i 1%.* Raport z badań 2005. Stowarzyszenie Klon/Jawor, Warsaw, 2005, p. 4, 20

⁹ M. Gumkowska, J. Herbst, *Podstawowe fakty o organizacjach pozarządowych – raport z badania 2004.* Klon/Jawor Association, Warsaw, 2005, p. 7

¹⁰ See J. Hausner, *Zarządzanie publiczne*, op. cit. p. 92

¹¹ WWW. Sic.to/indexpl.php?page=1723 28.12.13

¹² It should also be noted that more and more emphasis is put on the existence and functioning of social enterprises (the so-called fourth sector) the activities of which do not significantly differ from the sphere of business organizations, except for the re-direction of the stream of potentially acquired profit towards social objectives, generally speaking.

The idea of professionalization of the procurement function

The need for the evolution of the procurement function was foreseen by Peter Krajlic as early as in 1983. However, more than 25 years later, numerous companies still remain at an early stage of the transformation of tactical purchases into strategic purchasing management. This is surprising, because numerous research projects confirm the impact consisting in the fact that such transformation of the procurement department could bring profits by means of an improvement in effectiveness, regardless of the industry and the region. Furthermore, the best patterns in purchasing have already been widely examined and the procurement function in leading organizations has a strategic nature which means that it significantly affects the implementation of the company's strategy. However, numerous companies have not implemented these practices so far. The procurement function still remains at the tactical level. At the same time, attention should be paid to the lack of research on the development of the procurement function in non-profit organizations. These are subject to similar mechanisms of development as companies and thus we should believe with high probability that non-profit organizations will be very similar to companies also regarding the development of the procurement function. According to one of the first reports on the procurement function in Poland ¹³ The majority of Polish companies and organizations from the public and non-profit sector remain in the initial phase of the development of the procurement function and the size of the organization, the length of operation on the market as well as the territorial range are positively and strongly correlated with the nature of the procurement function.

Recent research absolutely indicates why so many organizations nowadays have not evolved above the basic supply role. First, the conclusions by Ellram, Zsidisin, Siferd, and Stanly suggest that where the management of organizations does not pay attention to the efficiency and effectiveness of operation, efficient procurement is impossible. One of the more important procurement features (both production and non-production procurement) is the fact that it increases the efficiency of operation of the entire organization. Secondly, the research by Das and Narasimhan proves that the basic source of effectiveness of procurement and purchasing (PSM) are holistic procurement competences. This probably indicates that numerous companies try to implement the best professional practices individually, instead of developing a plan of a complex holistic development of procurement in the long-term perspective in order to improve procurement competences. Third, even if PSM departments try to transform, other functional departments in the organization defend themselves against the acceptance of the strategic role of the procurement function which will probably be also related to the organizational culture and the type of industry.

¹³ Kardasz H, Rola i ranga zakupów w polskich przedsiębiorstwach, MarketPlanet, Harward Business Review, Warsaw 2007

The larger part of these potential barriers seems to refer, either directly or indirectly, to soft factors such as perception, attention, mentality in the organization.

Appropriate questions for managers include: Where are Procurement Departments positioned as compared to other departments in the company? What do they have to focus on to provide the maximum value for the organization?

The purchase/procurement function in an organization may operate at the strategic level, the purely operational-administrative level or somewhere in between. Sometimes, the notion purchasing¹⁴ is used to indicate the transaction or operational role, while supply management or procurement is used to indicate the strategic role of this function. The purchase-procurement function in non-profit organizations may be on various levels. What is more, the level of development of the procurement function will specify how the procurement function will be able to manage the suppliers. The higher the level of the organization of the procurement function, the greater the orientation of the procurement function on strategic suppliers which will be presented in detail in the next chapter when the Krajlic model will be discussed.

The first models of the development of the procurement function were presented by Van Weele¹⁵, Stannack, Reck and Long in the 1980s and, accordingly, in the 1990s¹⁶.

In the case of the Reck and Long model, they enumerated phases of the development of the procurement function with the following profile included in table 1.

¹⁴ Purchasing and procurement have two different meanings. For the needs of translation, it has been assumed that purchasing means supply (operational function, focus on transactions), while procurement has a broader meaning and refers to all activities related to purchasing.

¹⁵ Van Weele, A. (1984). "Purchasing Performance Measurement and Evaluation." *Journal of Purchasing and Materials Management*(Fall),

¹⁶ Reck, R. and B. Long (1988). "Purchasing: A Competitive Weapon." *Journal of Purchasing and Materials Management*(Fall),

Table 1. Model of the development of the procurement function according to Reck and Long

Model	Profile of procurement model
Phase I Passive	<p>The procurement function does not have a strategic importance itself. Procurement departments execute the basic purchasing needs.</p> <p>The largest relative amount of time is devoted to routine operations.</p> <p>The basic parameter for selecting the supplier is price and availability.</p> <p>Relations with suppliers are of no importance</p>
Phase II Independent	<p>Procurement techniques and processes are used to implement the procurement function.</p> <p>A purchasing strategy is created or already is present but it is not associated with the company's strategy</p> <p>Work is improved at the operational level</p> <p>Relations with suppliers are of no greater importance</p> <p>Savings are the most important thing</p>
Phase III Supporting	<p>The procurement function supports the implementation of the company's competitive strategy</p> <p>Suppliers are considered to be the company's resource, emphasis is put on their experience and motivation,</p> <p>Markets, products and suppliers are continuously monitored and analyzed</p>
Phase IV Integrating	<p>The procurement strategy is associated with the company's competitiveness strategy.</p> <p>Saving is replaced by rationalizing</p> <p>Very high competences of employees of procurement departments.</p> <p>Operational procurement tasks are outsourced</p> <p>Policies and procedures are very developed</p> <p>Changing a supplier is very difficult, expensive and lengthy – global suppliers</p> <p>Large dependence on the supplier is frequent</p> <p>Suppliers support the company's strategy and relations are of a critical importance for the company.</p>

Source: Reck, R. and B. Long (1988). "Purchasing: A Competitive Weapon." Journal of Purchasing and Materials Management(Fall)

Van Weele describes the development of the procurement function in a very similar manner (table 2).

Table 2. Model of the development of the procurement function according to Van Weele

Model	Profile of procurement model
Model I Transaction orientation model	<p>The most important parameters for selecting a supplier who offers deliveries of products at the most beneficial price, quantity and quality delivered at the right time.</p> <p>Procurement is treated as support for production and logistics, the structure is often dispersed in the organization.</p> <p>The most important objective of procurement is ensuring the continuity of deliveries.</p> <p>Procurement actions are a response to the appearing demand for a given product/service/material.</p> <p>Lack of planning and building long-term relations with suppliers</p>
Model II Commercial orientation model	<p>The procurement department is often centralized.</p> <p>Procurement is seen as a source of generating savings.</p> <p>Negotiations are often of a "position" nature</p> <p>Relations with suppliers are hardly important.</p>
Model III Strategic orientation model	<p>Relations with critical suppliers are of particular importance in the procurement department.</p> <p>Suppliers are treated as the company's strategic resource.</p> <p>Relations with suppliers are managed on the basis of a common creation of development strategies for particular assortment groups (commodities)</p> <p>KPI (TCO) is developed.</p>

Source: prepared by the author on the basis of: A. Van Weele: : Purchasing & Supply Chain Management, Thomson Learning 2004

There is an enormous quantity of literature examining the relations between Strategic Procurement (PSM, and various measures of effectiveness. Some of them discover significant relations between specific procurement practices and results. Others confirm the positive impact of strategic procurement practices on tactical and

operational procurement objectives¹⁷ The third trend of research examines the impact of procurement practices (PSM) on the corporation's comprehensive results, at the same time partially assuming more complex reasons for structuring in the areas of various thought-logical structures¹⁸.

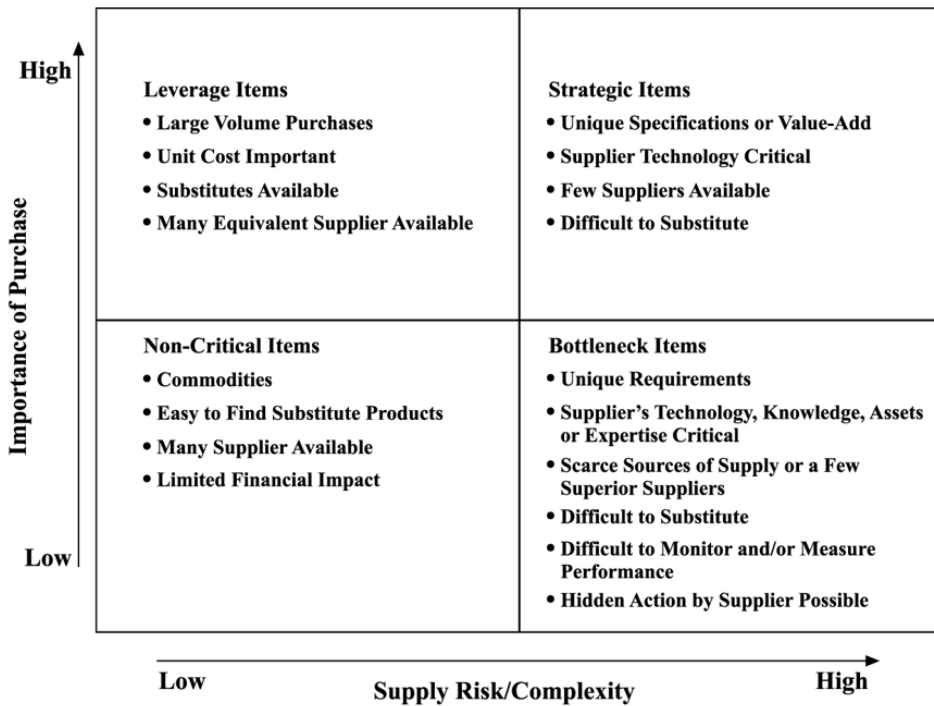
A long time ago, logisticians and researchers of SCM noticed the advantage of "borrowing" and implementing theories from other disciplines¹⁹. The complexity of the current system and the phenomenon of supply chain management cannot be clearly explained using one theory. Therefore, in order to provide more in-depth knowledge about the new theoretical framework, a wide variety of literature related to the discussed subject was consulted: strategic management, marketing and social sciences. In particular, four significant perspectives of the theoretical Structure of Strategic Performance (SSP), Resource-based View of the Company (RBV), Transaction Costs Economics (TCE) and social network analysis are considered to be particularly important due to the motives discovered in our quality research. While preparing the complex framework, a two-stage approach was proposed.

The models of the procurement function development referred to above are significant for the possibility to apply the Kraljic model in procurement management. The Kraljic model presents possible procurement strategies, the method of using resource in managing suppliers and it determines the procurement approach, depending on the size of procurement and the complexity of purchased services/goods or procurement categories. Procurement burdened with low risk and regarding, in total, low expenses do not require a lot of caution from the management and do not have a strategic potential. Expenses necessary for managing this procurement group are minimized, thus there is no need for sophisticated tools and knowledge in the organization on purchased services or goods within this category, e.g. office supplies. The other pole of the Kraljic matrix includes the so-called strategic procurement, namely one burdened with a high risk as well as large expenses. Managing this procurement category requires a lot of attention and expenses, often in the form of time, knowledge, resources needed for efficient and effective management of this category. Often, the procurement risk is defined by means of identifying the dependence on suppliers or the probability of interrupting deliveries, e.g. purchasing rare metals in the production of processors requires a very good knowledge of the market, the culture of China (the main manufacturer), deposits, regulations etc.

¹⁷ Stock, Gregory N., Noel P. Greis, and John D. Kasarda (1998), "Logistics, Strategy and Structure: A Conceptual Framework," *International Journal of Operations & Production Management*, Vol. 18, No. 1, pp. 43-51.

¹⁸ Rich, Nick and Peter Hines (1997), "Supply-Chain Management and Time-Based Competition: The Role of the Supplier Association," *International Journal of Physical Distribution and Logistics Management*, Vol. 27, No. 3, pp. 210-215.

¹⁹ Frankel, Robert, Yemisi A. Bolumole, Reham A. Eltantawy, Antony Paulraj, and Gregory T. Gundlach (2008), "The Domain and Scope of SCM's Foundational Disciplines—Insights and Issues to Advance Research," *Journal of Business Logistics*, Vol. 29, No. 1, pp. 20-26.

Fig. 1 Procurement categories in the Kraljic model

Source: Wendy L. Tate, Lisa M. Ellram, (2009) "Offshore outsourcing: a managerial framework", *Journal of Business & Industrial Marketing*, Vol. 24 Iss: 3/4, pp. 256–268

If we compare two models: the development of the procurement function (Reck and Long, Van Welle etc.) with the procurement management model by Kraljic, it seems obvious that managing strategic suppliers is possible only at a late stage of the development of the procurement function, namely the Integrating or the Supporting phase (according to Reck and Long) or the commercial or strategic orientation model.

Place of the procurement function in the process of organization strategic management

The SSP framework is widely used in the field of strategic management. Its basic principle is that the company's strategy is driven by the development of organizational structures and processes²⁰. Adjusting the company's strategy and structure leads to better results since the structure provides necessary systems and necessary processes for the strategy's successful implementation. The practitioners

²⁰ Galunic, D. Charles and Kathleen M. Eisenhardt (1994), "Renewing the Strategy-Structure-Performance Paradigm," *Research in Organizational Behavior*, Vol. 16, pp. 215-224.

of management, as well as academic employees of SCM²¹, expanded the SSP framework to the supply chain. Christopher suggests that competitiveness is located rather at the level of the supply chain and not at the level of the organization²². From the point of view of non-profit organizations, we may be under an impression that this phenomenon may not have such importance since numerous organizations of this type, in the opinion of their management, "do well on the market". However, challenges of the contemporary conditions of activities do not leave any doubts: the professionalization of management in the short or long perspective, also within the area of various functions, necessary for effective action, will become inevitable.

Of course, it is possible to assume that these organizations will manage costs less effectively as compared to large organizations in which the procurement function is appropriately better developed but it seems that the concept by Chow, Heaven, and Henriksson²³ ideally matches the needs of this study. These authors described the need for a proper organizational structure in a company and suggested that finding the best structure depends on the situation and circumstances in which a given organization finds itself. The success of the process of supply chain integration depends on whether it is possible to propose a strategy matching the company's structure. This would mean that small organizations will constantly have undeveloped supply chains or, according to the Reck and Long model, they will only provide typical functions indicated in Phase I – Passive. In other words, if we look at non-profit organizations in order to search for and analyze procurement structures and refer these discussions to the twelve largest Polish entities of the third sector, it should be stated that these organizations exist for a relatively short period of time, have a domestic territorial range as well as trade in relatively low budgets²⁴. As compared to foreign NGOs, this is e.g.:

- World Food Programme (WFP):
- United Nations High Commissioner for Refugees (UNHCR):
- United Nations Children's Fund (UNICEF):
- United Nations Development Programme (UNDP):

it should be stated that the listed organizations have a relatively well-developed procurement function through:

- a centralized procurement function in the form of a separated procurement department,
- procurement policies,
- clear procedures,
- prepared supplier assessment criteria,

²¹ Supply Chain Management

²² Christopher, Martin L. (2005), *Logistics and Supply Chain Management*, London, UK: Prentice Hall

²³ Chow, Garland, Trevor D. Heaven, and Lennart E. Henriksson (1995), "Strategy, Structure and Performance: A Framework for Logistics Research," *Logistics and Transportation Review*, Vol. 3, No. 4, pp. 285-308

²⁴ Below USD 100 million.

- a high index of coverage with a procurement policy, reaching
- procurement tools, namely procurement systems,
- developed ethical codes for conducting business²⁵

The resource-based view (RBV) perceives the company as a bundle of various resources and suggests that companies are able to generate profits or competitive advantage by developing unique resources and skills²⁶. First of all, a company should thus focus on cultivating and developing these skills which allow it to obtain competitive advantage, are difficult to copy by its competitors. All other skills or functions in a company which do not form these unique resources or skills should be outsourced outside the company. In the procurement approach, the applied "make or buy" technique ²⁷ refers, in fact, to the answer to the question whether generating a particular service or satisfying a given need will take place at the cheaper expense as part of resources available at the company or whether it will be more effective to delegate the execution of a particular service to an external company. The purchase function may be treated as a unique skill according to the RBV theory. This situation is quite rare in business practice, interesting examples include: Wall Mart, Dell or IKEA, where it is believed that the procurement function is of critical importance for the entire value chain and thus contributes to obtaining competitive advantage on the market.

Strategic aspects of the procurement function in the process of managing non-profit organizations

Most often the procurement function helps an organization effectively allocate its resources and use them. In NGOs this may be of critical importance due to the continuous deficiency of resources. Thus, the need to use them effectively is particularly important. The need of a rarely efficient procurement function is also justified by the instability of revenues which affects the lack of possibilities to create specialized functional structures such as transport, marketing, finance etc. and thus outsourcing and purchasing services outside at the suppliers' is definitely more frequent and more efficient. The statement above mainly applies to small NGOs, including Polish NGOs in most cases. Effectiveness for a company means the possibility to achieve competitive advantage on the market by developing unique possibilities to generate added value in the value chain²⁸, and thus the possibility of survival. However, for NGOs, the lack of appropriate effectiveness is not tantamount to obtaining competitive advantage in the long perspective, and only better and more effective management of resources. This results from the fact that these

²⁵ The so-called Standards of Business Conducts

²⁶ Day, George S. (1994), "The Capabilities of Market-Driven Organizations," *Journal of Marketing*, Vol. 58, No. 4, pp. 37-52

²⁷ create or buy

²⁸ Bowersox, Donald J., David J. Closs, and Theodore P. Stank (2000), "Ten Mega-Trends That Will Revolutionize Supply Chain Logistics," *Journal of Business Logistics*, Vol. 21, No. 2, pp. 1-16

organizations do not act under conditions of extreme competitiveness as in the case of commercial companies. It should be pointed out that, after all, the catalog of tasks and functions implemented by the sector of non-profit organizations is continuously expanding and, as a consequence, affects the presence of natural phenomena of a competitive nature. In this context, therefore, we may speak both about competing within the sector of non-governmental organizations for the implementation of specific tasks and the emergence of subjective interactions in the triad: public sector – business sector – sector of non-profit organizations. Currently it is difficult to clearly specify the borderline separating these three basic sectors. This is conditioned by the model of relations shaped between them from the perspective of particular countries but also by intensifying globalization processes which intermingle within the scope of functions, roles and tasks to be implemented attributed to these sectors.

While traditional literature on RBV focuses on the company's internal resources, representatives of the world of science began putting emphasis on the meaning of external resources from the perspective of the network²⁹.

In 2009, a project was launched in the USA which focused on creating a proper network of suppliers supporting NGOs as part of which a website was established where all NGOs may make consolidated purchases from the suppliers who decided to co-operate with the platform <http://www.nonprofitpurchasinggroup.org/>. In Poland the process of creating relations with suppliers has a rather informal nature, examples include the foundations of Janina Ochojska, Jurek Owskiak etc. Rooting a company in the network of external relations has a significant impact on the company's results. For this reason, the relevance of RBV for the process of supply chain integration becomes obvious, due to involvement of both internal and external resources.

Resources are the key factor in the RBV theory. The acquisition of resources will thus be critical for the company's success. In connection with the above, the supply chain integration by integration, smoothening (optimization of resources) as well as an appropriate use of resources, both external and internal ones, aims at increasing efficiency and effectiveness and leads to obtaining competitive advantage.

The strategy is mainly the organizational action plan to achieve the organization's main objective. Strategy results directly from strategic priorities of the organization's activities which have their source in the awareness, possibilities and needs which are a kind of challenge for the management personnel. Changes in the organizational structure which should reflect the context and the idea of the architecture of strategic intentions also become a derivative of actions understood in such a manner. A company may develop various strategic priorities such as, e.g. the leadership of costs or diversity³⁰;

²⁹ Gulati, Ranjay, Nitin Nohria, and Akbar Zaheer (2000), "Strategic Networks," *Strategic Management Journal*, Vol. 21, No. 3, pp. 203-215

³⁰ see Porter, Michael E. (1980), *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: The Free Press

The considerations referred to above provide the following implications for NGOs in the context of building an appropriate procurement model.

First, the procurement function for NGOs is as important as for companies and increases the effectiveness of used resources.

Secondly, comparing the models by Krajlic with the models of the development of the procurement function (Reck and Long et al.), it should be assumed that organizations with low development of the procurement function are not able to effectively manage procurement and their procurement function is of an operational nature and is limited only to non-strategic procurement categories.

Based on the models of the development of the procurement function, it should also be assumed that the dominating procurement model present on the market is the transaction orientation model, namely regarding an early phase of the development of the procurement function (passive phase according to Reck and Long) in which the main procurement categories are non-strategic procurement according to the Krajlic model. This model is typical of small NGOs. Based on the example of large NGOs, the dominant model is the strategic orientation model, typical of large international NGOs, in which emphasis is put on managing strategic procurement categories, namely with a high percentage share within the structure of expenses and encumbered with a relatively high risk

The main factors deciding about the choice of an appropriate procurement model are thus the size of the organization and its development which may be indirectly determined by the stage of the procurement function development as well as their complex nature and risk related to purchased goods and services. In this matter, the Krajlic model which determines appropriate procurement strategies for respective procurement may be useful. For procurement with low value and a low level of complexity and risk, the best model is the transaction procurement model, and the strategic procurement model is the optimum model for procurement with a high level of complexity and risk and a high value.

Regarding NGOs, these two extreme models appear to be the most popular ones.

An important conclusion for NGOs will be the fact that one of the bigger problems when developing procurement function of NGOs is the so-called procurement critical mass which is the value of procurement in the annual perspective which determines the grounds for investing in the developing the procurement function in the organization which would enable the passage from the Passive stage or the transaction model focused on non-strategic procurement management to procurement of a strategic nature. Investing in the development of the procurement function means, in great simplification, employing a purchasing specialist and creating appropriate procurement tools the constituent part of which, above all, are ERP systems dedicated for procurement.

Bearing in mind the above, it should be assumed that the critical procurement mass in which investing in building procurement structures of a strategic nature becomes profitable is shaped at the level of at least ~ PLN 25 million. If we thus assume that NGOs are also subject to the same market mechanisms as commercial companies to a large extent and the data above would be applicable for NGOs, the

level of expenses at which investing in developing the procurement function becomes profitable is, unfortunately, on a relatively high level. It should be remembered that the critical procurement mass applies to the expenses for services and goods under procurement control which means that it includes only procurement which goes through the decision-making process of a separated procurement structure, e.g. the procurement department. In practice, approx. 75-90% of the company's expenses (except for payroll) is subject to procurement departments which means that it is beneficial to invest in building strategic procurement structures only when the company's procurement expenses reach the level of PLN 33 million. Another factor affecting the nature of the procurement department according to the Kraljic model is the risk and the complex nature of procurement. The risk and the complex nature are defined by assessing the dependence on suppliers and the possibility to change the supplier within a short period of time which comes down to the strength with which the supplier's functioning is reflected in the functioning of the purchasing organization. The complex nature and risk of procurement in NGOs is relatively low, due to the nature of purchased goods and services which may constitute another obstacle in building developed procurement structures.

The theoretical discussion above may have the following practical implications for persons managing NGOs in the context of making decisions on an appropriately effective building of the procurement function (figure 2).

Figure 2. Suggested procurement model for Polish NGOs

		Risk and complex nature of procurement	
from		Low	High
Procurement expenses (million PLN)	- zł	Transaction model	Transaction model
	5 zł		
	10 zł		
	15 zł		
	20 zł		
	25 zł	Intermediate model	
	30 zł	Intermediate model	
	35 zł		
	40 zł		
	45 zł		
50 zł			
55 zł	Strategic model		
60 zł			

Source: prepared by the author

In NGOs with expenses in the scope of the procurement policy (critical mass) below PLN 30 million annually, a transaction procurement model is proposed, namely focusing on purely operational, simple procurement, not encumbered with a high procurement risk which is suggested by the Krajlic model and staying in the passive phase or the independent phase according to the Reck and Long model. For procurement expenses above PLN 40 million annually, the model of strategic procurement is proposed in which it is worth investing in the development of the procurement function, namely to develop procurement to the supporting or the integrating phase according to the Reck and Long model and pay attention to procurement encumbered with high risk and expenses. Due to the fact that the dependence on suppliers and the complex nature of NGOs in most cases is low, the procurement risk, as a factor affecting the selection of the appropriate procurement model, may have secondary meaning.

Final conclusions

The growth in the importance of the sector of non-profit organizations, its significant development dynamics, the increasing number of tasks to be implemented result in basic changes in the formula of their actions.

Transferring numerous functions and directing public funds to non-governmental organizations created completely new operating conditions for them. On the one hand, it strengthened and raised the importance of the sector, on the other hand, it created new requirements as to the method of conducting activities. Along with public funds, strict requirements appeared related to reporting, effectiveness and quality. The management model for a non-governmental organization began to change and resulted in the need to think from the point of view of professional solutions, taking into account the most advanced achievements in a given area, also concerning the implementation of the procurement (purchase) function the dynamic growth of which has been observed in recent years.

The maturing process of the third sector takes place as a result of its professionalization, manifesting itself also in the formalization of organizational structures. The basis for professionalization processes of social entities is the intention of a complete use of resources in these organizations which is supposed to contribute to the growth in their effectiveness. Professionalization is understood as the growth in professional substantive knowledge regarding the implemented projects, as well as improving the level of knowledge and technical skills which enable efficient management of the organization.

The procurement function seems, in this context, particularly important, though hardly noticeable. When analyzing the experience of countries where the sector of non-profit organizations has a well-established structure, we may clearly see the need for the professionalization of the procurement function. The idea of using simple benchmarking formulas encourages the acceptance of solutions verified on the ground of practice regarding similar sectors of activity. As a result, it is important to promote solutions already positively verified by practice of the activity

and/or create those which in the future may increase the effectiveness of organizations, also non-profit ones.

In the above deliberations, attention should be paid to the lack of appropriate literature regarding the procurement function of NGOs which is a large obstacle in assessing the accuracy of the statements above, especially the applicability of borrowings from commercial companies, for instance regarding the determination of the profitability of investing in procurement structures. This suggests the need for a deeper and further research on the type and nature of purchased goods and services in terms of risk and complexity, which is presently unknown. Such issues as the lack of knowledge about the quality and the importance of creating networks in the supply chain of NGOs, in the context of informal relations which may have positive and high importance for the price level of purchased goods and services also remain significant.

Therefore, the suggestions above regarding the selection of a proper strategy for the development of the procurement function and the choice of the procurement model should be treated as a "signpost" for practitioners managing NGOs rather than as the final remedy.

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Project Management Maturity Model in the Development of the Organization

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Abstract

The article demonstrates achieving levels of project management maturity and presents study research in company Q on construction levels of project management maturity while creating a new product. The results relate to five areas: common knowledge, common processes, a single methodology, the types of benchmarking and the use of the idea of continuous improvement within the company. Identify research gaps in the maturity of design, knowledge, process gaps in the test design company, which provides guidance and recommendations for the future.

Introduction

Today the organizations which build maturity in project management have a high degree of change. Changes in the design environment, organization, strategy and changes which require from the project team dynamic action. The increasing uncertainty due to rapid change and trends are forcing to action, adapted to the business, organizational and design. Enterprises need to quickly respond to customer needs, respond quickly to market opportunities and eliminate that do not add value to work as quickly as possible. [Szpitter 2012]. The purpose of this article is to present the study of the one polish furniture sector company. Qualitative research was conducted in the creation of project management maturity in the organization. The article presents the problem of achieving levels of project management maturity. This was the level of maturity in the common language, structure of common processes, building a singular methodology and scope of the types of benchmarking and continuous improvement. This article discusses the question of the essence of project management maturity model taking into the different levels and overlapping some of levels. Then presents the results of diagnostic tests of project management maturity in the tested enterprise Q.

Maturity in Project Management

Not all companies recognize that the time frame can be shortened by performing strategic planning for project management. The simple use of project management, even for an extended period of time, does not lead to excellence. Instead it can result in repetitive mistakes and what's worse, learning from your own mistakes rather than from the mistakes of others [Szpitter 2013, pp. 106-108]. The foundation for achieving excellence in project management can best be described as the project management maturity model, which is comprised of five levels (as shown Figure 1). Each of the five levels represents a different degree of maturity in project management [Kerzner, 2005, pp. 40-42]:

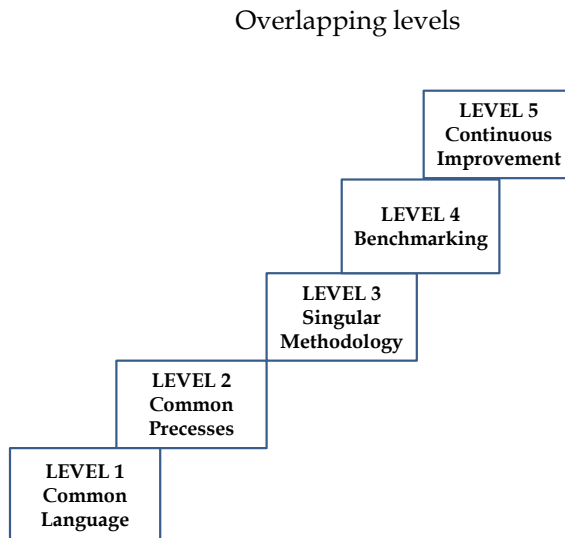
- **Level 1: Common Language** - In this level of maturity the organization first recognizes the importance of project management. Level 1 of the assessment will evaluate your own knowledge of project management and the degree to which your organization understands the fundamental concepts of project management. Level 1 is based upon knowledge of the fundamental principles of project management and the associated terminology (figure 1). Level 1 can be fulfilled through a good understanding of the guide to the project management body of knowledge prepared by the Project Management Institute.
- **Level 2: Common Processes** - In this level, the organization recognizes that common processes need to be defined and developed such that successes on one project can be repeated on other projects. Also included in this level is the recognition that project management principles can be applied to and support other methodologies employed by the company. In this level of maturity the organization makes an effort to use project management and to develop processes and methodologies to support its effective use. Also in this Level is the fact that certain behavioral expectations of organizational personnel are necessary for the repetitive execution of the methodology (figure 1). Level 2 of the assessment will evaluate how effectively your organization has achieved common processes for project management.
- **Level 3: Singular Methodology** - In this level of maturity the organization recognizes that synergistic effect of combining all corporate methodologies into a singular methodology, the center of which is project management. The synergistic effects also make process control easier with a singular methodology than with multiple methodologies. Companies that have reached Level 3 are totally committed to the concept of project management (figure 1). Level 3 of the assessment will evaluate how committed your organization is and whether you have adopted a singular project management methodology.
- **Level 4: Benchmarking** - This level contains the recognition that process improvement is necessary to maintain a competitive advantage. Benchmarking must be performed on a continuous basis. The company must decide whom to benchmark and what to benchmark. In this level of maturity the organization uses benchmarking to continuously compare project management practices to recognized leaders to gain information to help them improve their performance. Benchmarking is a continuous effort of analysis and evaluation. For project

management benchmarking, the critical success factors are usually the key business processes and how they are integrated. If these key success factors do not exist, then the organization's efforts are hindered (figure 1). Level 4 of the assessment will determine to what degree your organization is using a structured approach to benchmarking.

- Level 5: Continuous Improvement - In this level the organization evaluates the information obtained through benchmarking and must then decide whether or not this information will enhance the singular methodology. In this level of maturity, the organization evaluates the information learned during benchmarking and implements the changes necessary to improve the project management process. The organization realizes that excellence in project management is a never-ending journey. Level 5 of the assessment will determine if your organization has embraced continuous improvement and has reached an advanced state of project management maturity (figure 1).

There exists a common misbelieve that all work must be accomplished sequentially. This not necessarily true. Certain levels can and do overlap. The magnitude of the overlap is based upon the amount of risk the organization is willing to tolerate.

Figure 1. The five overlapping levels of maturity in project management



Source: Kerzner H., (2005), p. 42-44.

Overlapping of several of the levels can take place, as shown in figure 1. Level 1 must still be completed before Level 2 can be completed. Overlapping of several of the levels can take place [Kerzner 2005, pp. 43-44]:

- Overlap of Level 1 and Level 2: This overlap will occur because the organization can begin the development of project management processes either while refinements are being made to the common language or during training;
- Overlap of Level 3 and Level 4: This overlap occurs because, while the organization is developing a singular methodology, plans are being made as to the process for improving the methodology;
- Overlap of Level 4 and Level 5: As the organization becomes more and more committed to benchmarking and continuous improvement, the speed by which the organization wants changes to be made can cause these two levels to have significant overlap. The feedback from Level 5 back to Level 4 and Level 3, as shown in figure 1, implies that these three levels from a continuous improvement cycle and it may even be possible for all three of these levels to overlap.

The results of the study in enterprise Q

The study results on maturity project management in the innovation process into tested enterprise Q, consisted of 5 different surveys correspond to the five levels of project management maturity. A total of 183 questions were asked four respondents (company employees), the employees directly involved in the basic process that is subjected to the test of the new product development (furniture sector).

Examined company Q has 80 employees, which means that it belongs to the category of medium-sized companies. A total of 4 employees directly involved in the innovation of the product that is product manager, brand manager, designers, developers and managers of marketing and sales. Each of the ten employees responded to the questionnaire research and they were employees of both the strategic level and the tactical and operational.

First level the project management maturity of examined company Q - the level of a common language - presented in table 1.

Table 1. First level of knowledge areas of project management in the comp. Q

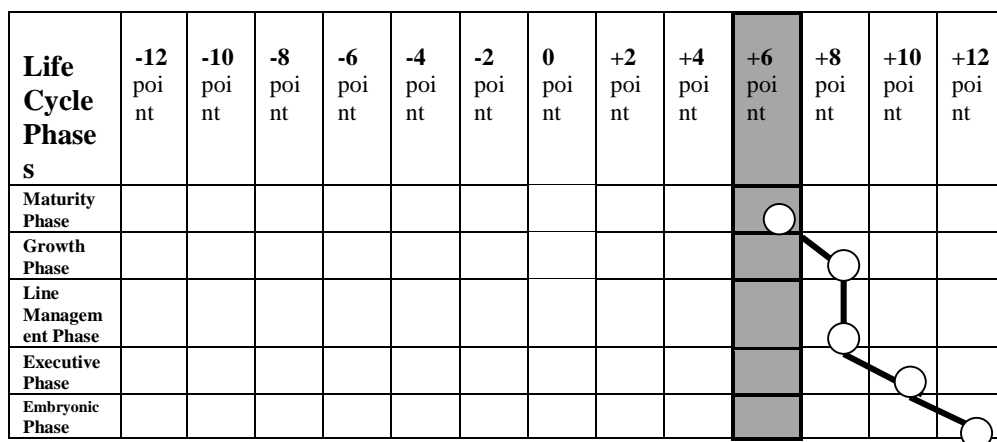
Categories of project knowledge areas	Scores
Project Scope Management	80
Project Time Management	80
Project Cost Management	70
Project Quality Management	80
Project Human Resource Management	80
Project Risk Management	80
Project Communications Management	80
Project Procurement Management	60
Sum total:	610

Source: A.A. Szpitter own study based on the research

The company received a score of 60 points and more points in each of the eight categories mean that there are reasonable project knowledge of the basic principles of project management. The enterprise Q achieved the mature in project management at first level. A total score 610 in all categories indicate that the examined organization appears well positioned to begin work on level 2.

Second level the project management maturity of examined company Q - the level of common processes – presented table 2.

Table 2. Life cycle phases of the level of a common processes in company Q



Source: A.A. Szpitter own study based on the research

Legend: ○ means the company Q profile.

The company Q achieved the level 2 of the project management maturity. The common processes are developed in each of five live cycle phases: the embryonic phase, phase acceptance of chief executives and line management approval phase, growth phase, maturity phase (score above +6 points).

The company Q recognizes the need for project management, the potential benefits and applications of project management to the various parts of the business, and some of the changes necessary to implement project management. The implementation of project management is beneficial in many areas of business. Chief executives supported by project management also understand the role of the project sponsor and effectively carry out this function. Line managers are trained in project management and staff visibly support the project management process, also keep their promises made project managers in connection with the partial products. Company software is used to monitor the progress of the projects. Line managers support allowing workers to improve operations and training of project management. The chief executives demonstrate a willingness to modify the methods of operation in order to achieve the project management maturity. There are not problems with taking effective measures to minimize the growth of the project scope. There are the

integration of both control costs and deadlines for project management and project status reporting system. In the company Q is a training program of project management and staff have been trained in project management. The project management is seen as a separate profession just like regular job to do the duties.

Third level the project management maturity of examined company Q – the level of singular methodology – presented in table 3.

Table 3. Areas of singular methodology of enterprise Q

Areas of singular methodology	Scores
Integrated Processes	31
Culture	33
Management Support	30
Training and Education	33
Informal Project Management	34
Behavioral Excellence	35
Sum total:	196

Source: A.A. Szpitter own study based on the research

The company Q uses actively: risk management, applied financial risks, technical risk and scheduling risks. Risk management methodology is structured by rules, procedures and forms of documents, about 75% of the projects implemented in accordance with the principles of risk management. In the company there are 2 methodology of project management. Corporate culture allows to change the scope of the project at any point in the project life cycle and is used formal change control process. Corporate culture is based on rules, procedures and guidelines. Project teams have empowerment. The organizational structure is traditional, predominantly vertical. The project manager obtains resources by negotiating with line managers for the deliverables rather than people. Line manager in the company Q is trying to share the responsibility with the project manager. Line manager is responsible for the integrity of the technical aspects of projects with final results. Project manager obtains its power through the project sponsor in the form of a project charter. The company conducted a 14 internal training courses associated with the project, up to 25% of courses focused more on behavioral skills (quality) than quantitative (techniques, methods in projects). The company Q believes that: project management is a profession, training should be performed if there exists a return on investment. The training program should be an expression of consensus between the expectations of employees and managers rank. There were 25% training related to project management, which includes in its content of specific, documented business experience in implementing projects in the past. More than 50% of executives participated in training programs or meetings, during which they were shown the benefits of maturity in project management. Employees are promoted to management because they know how to make sound business decisions.

Approximately 10-20% of the project manager's time each week is spent preparing reports. Less competent employees may be effective if assigned to the right team. The staff assigned to the project team will be assessed by the line manager. The people assigned as project manager are usually non-management employees. Project managers are encouraged to take risks. That company achieved third level of maturity (196 points).

Fourth level the project management maturity of examined company Q – the level of benchmarking – is presented in table 4.

Table 4. Quantitative and qualitative benchmarking company Q

Type of benchmarking	Scores
Quantitative benchmarking	+26
Qualitative benchmarking	+13
Sum total:	+39

Source: A.A. Szpitter own study based on the research

Score greater than +26 points imply that company is committed to quantitative benchmarking and score greater than +13 points in qualitative benchmarking means that the company used benchmarking to improve a methodology to develop new product (furniture). The result of benchmarking shows that the company paid attention to build a culture of project management methodologies. Total score +39 in benchmarking quantitative and qualitative indicates that the company achieved satisfactory results from the use of benchmarking in organization. Benchmarking in the company Q is used to different areas. Benchmarking allowed to find companies with tighter cost control processes, with better impact analysis during scope change control. Benchmarking efforts allowed to find other companies that are performing resource constraint analyses and focused the attention on the way in which consumers manage other companies in the scope of the change management process. Benchmarking efforts look at the way other companies involve their customer during risk management activities.

Fifth level the project management maturity of examined company Q - the level of continuous improvement - is presented in table 5.

Table 5. The level of continuous improvement of the enterprise Q

Name	Scores
Continuous improvement	+2

Source: A.A. Szpitter own study based on the research

The company Q achieved score +2 points. It means the organization is not committed to supporting the idea of continuous improvement. The company have not made improvements for example: not speed up the integration of activities, not eliminate some of reports and documentation, not improve methodology closer to customers, not reduce the number of checkpoints in the project management methodology, not develop a culture focused on informal project management, not change the ways of communicating with consumers, not make changes in behavior resulting in changes in organizational project management methodology.

Conclusion

This article presents the study results of company's five level maturity project management. The issue of exploring project management maturity in the organization is in five area: common knowledge, structure of common processes, build a single methodology, the types of benchmarking and the use of the idea of continuous improvement. From the perspective of product innovation process tested was diagnosed with major problems and obstacles in company Q to achieve the level of project management maturity in terms of project knowledge, performance construction of common processes and methodologies to build one of the organizations using benchmarking and continuous improvement mechanisms within the organization. Reaching maturity in project management will enable the respondent company to support the product innovation process.

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Implementation of Quality Standards and Business Performance for European Tourism

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Abstract

The article treats the importance of implementing the quality standards and principles and business performance for European tourism. It highlights the contribution of Europe in terms of international tourism, as the first world tourism destination and the current state of play concerning the legislation at EU level regulating the information provided to consumers on the quality of tourism services. It focuses on the results of consultations with the interested parties and impact assessments of policy options with regard to tourism quality. Finally, the article analyses the application of the European tourism quality standards and principles.

Article

Tourism represents the third largest socioeconomic activity in the European Union (EU) in terms of contribution to GDP and employment, after the trade and distribution and construction sectors. It is one of the few economic sectors which register continuous growth, in spite of economic and financial difficulties, presenting thereby a great potential to contribute to "Europe 2020", the EU's growth strategy for a smart, sustainable and inclusive EU economy.

With some 1.8 million businesses, primarily SMEs, this sector³¹ employs approximately 3.3 % of EU workforce (about 8 million jobs) and generates about 2.9% of EU GDP. Taking into account the sectors linked to it³², its indirect contribution is even greater: it is estimated to provide around 8.5% of all jobs (approximately 18.8 million people employed) and generates about 7.9% of the European Union's GDP [6]. Despite increasing competition from other regions of the world, the EU is the world's No 1 tourist destination, with 563 384.8 million international arrivals in 2013, with 52% of all international arrivals [5].

With the adoption of the Lisbon Treaty, the EU has now been given the competence to complement the action of the Member States in the tourism sector, in

³¹ Traditional suppliers of travel and tourism services (hotels, restaurants, travel agencies, car hire, charter airlines, tourist coaches, cruise vessels, etc.) offering goods and services directly to visitors.

³² In particular distribution, construction, transport companies in general (air, rail, maritime, bus/coach, etc.) and the cultural sector (including cultural and creative industries).

particular by promoting the competitiveness of Union undertakings in that sector. In response to the new powers granted to it and to the need for new measures to stimulate EU growth, the Commission adopted a Communication in 2010 on *a new political framework for tourism in Europe* [3]. This framework outlines an ambitious set of actions aiming at (a) stimulating competitiveness in the European tourism sector; (b) promoting the development of sustainable, responsible and high-quality tourism; (c) consolidating the image and profile of Europe as home to sustainable and high-quality destinations; and (d) maximizing the potential of EU policies and financial instruments for developing tourism.

Action 13 of the Communication explicitly *envisages the development of a European Tourism Quality Label*, "based on existing national experience, to increase consumer security and confidence in tourism products and reward rigorous efforts by tourism professionals whose aim is quality of tourism service for customer satisfaction".

In its reaction to this Communication, the European Parliament called on the Commission "[...] to assess, in cooperation with tourism stakeholders, the feasibility of a European quality tourism label, [...] in order to create an umbrella label complementary to national labels and recognized on an opt-in basis." [4]

The 2009 study on the competitiveness of the EU tourism industry has found that even though the total number of international arrivals in Europe is still growing, Europe has been losing market share lately against new, emerging destinations worldwide. Moreover, globalization, the Internet and rapidly changing consumer behavior, as well as a growing concern about the environmental footprint of tourism activities have a strong impact on the industry [1].

In such an increasingly competitive market, the significance of quality has grown for tourism businesses, which are ever more aware of the importance of quality as a source of competitive advantage. Therefore access to reliable, up-to-date, accurate and relevant information on the quality of a particular tourism service is essential for tourists in order to differentiate among competing products and to make an informed choice.

This may be particularly accentuated in case of tourists arriving from another EU Member State, where uncertainties may be highlighted by linguistic difficulties, where information is not available in a language that the consumer understands.

Furthermore, given the current economic crisis, the EU must do all in its power to attract third country visitors. Ensuring that these visitors can rely on receiving a certain quality level of service across the EU is of paramount importance.

The information provided to consumers on the quality of tourism services has a role to play in attracting third country visitors, which has a huge and so far largely untapped potential to boost tourist arrivals to EU destinations and to enhance the competitiveness of EU tourism. In 2013 foreign visitor spending amounted to €368 billion (\$489.25 billion) [5]. According to recent estimations these figures are likely to increase up to 20.4 million jobs and €427 billion in 2022 [10].

Therefore the current initiative must also be seen in the context of the Commission' initiative to brand Europe in third countries and within this the

“Destination Europe 2020” initiative³³, as well as the EU visa policy which facilitates the travel of non-EU nationals to the EU to help Europe remain the world’s No 1 tourist destination.

In this respect, on 28 April 2014 Moldovan citizens were granted visa-free entry to 26 Schengen Area countries as well as Bulgaria, Croatia, Cyprus and Romania, countries that are applying the Schengen policy and also Monaco, San Marino and Vatican City, countries that have no immigration control, according to the *Regulation* (EU) no 259/2014 of the European Parliament and of the Council of 3 April 2014 [9]. Visa waiver applies only to holders of biometric passports. In 2014, Moldovan citizens had visa-free or visa on arrival access to 89 countries and territories.

Currently there is no specific legislation at EU level regulating the information provided to consumers on the quality of tourism services. Certain existing information tools, such as on-line evaluation and comparison websites, can help consumers in their decision-making process provided they display transparent and reliable information.

Certain Member States operate national, sub-national or regional public quality schemes within their territories on a voluntary basis. There is also a wide variety of industry initiatives at regional, national or transnational level, which mostly focus on service quality aspects specific to their respective tourism sub-sectors or geographic area.

As it has been confirmed by the market analysis carried out in the context of the assessment of policy options accompanying this proposal [2], these quality schemes show significant diversity and therefore very little consistency when compared in respect of their sectoral scope, geographical coverage, governance, assessment methodology and evaluation criteria.

The vast number and diversity of the existing private and public quality schemes result in a highly fragmented market in terms of the evaluation of tourism service quality.

As a consequence of this fragmentation, cross-border tourists are not provided with consistent information to easily understand what the various quality schemes represent and to differentiate between competing services. This leads to confusion. This then limits the quality schemes' capacity to effectively inform consumers about the quality level of the tourism services offered, which impairs the consumers' ability to make informed choices particularly when travelling to another Member State or from third countries, as is the case of the Republic of Moldova. Hence, they do not reward those businesses that invest in quality. This situation discourages the industry, particularly SMEs with limited financial resources, from doing so. As a result, the EU tourism industry is prevented from fully capitalizing on its competitive advantage in service quality and fulfilling its economic potential by raising the visibility of its service quality. Tourism stakeholders have not so far been

³³ Carried out under an ad-hoc grant in cooperation with the European Travel Commission, with the overall objective of defining a branding and marketing strategy for Destination Europe http://ec.europa.eu/enterprise/sectors/tourism/international/index_en.htm

successful in cooperating at EU level to reduce the inconsistency across the EU between existing or future quality schemes and there are no indications that any private or public initiative that would improve this situation is likely to emerge. Therefore it is most urgently needed to address fragmentation of the market at several levels. The existing fragmentation among quality evaluation systems generate confusion and can negatively affect the competitiveness of European tourism.

Following the adoption of the 2010 Communication, the Commission started gathering information on the existing quality schemes with the help of Member States and industry stakeholders. Two workshops were organized during the course of 2011 to exchange information on the existing experiences and to exchange ideas about possible common quality principles for tourism services. Early 2011, the Commission set up an informal expert group with the participation of managers of existing public and private quality schemes and consumer representatives to provide assistance in the development of a draft concept. The vast majority of stakeholders participating in the workshops and the informal expert group agreed that the EU initiative should follow a bottom-up approach, building on and recognizing the existing and future initiatives by the Member States and the industry. However, with regards to what the common principles should include, the stakeholders expressed diverse views. Furthermore, the inclusion of environmental sustainability issues in the principles also triggered some different views among stakeholders.

A targeted consultation was carried out in September-October 2011, seeking the views of a wider circle of stakeholders, consisting of the main European tourism associations and federations, related industry associations, consumer organizations as well as the Members States' authorities. This consultation produced the same results in terms of stakeholders' positions as the preliminary workshops described above.

Member States were also consulted during the regular meetings of the Commission's Tourism Advisory Committee and expressed divergent opinions: some Member States expressed strong support for the initiative, opposing obligations on public administrations to participate in the governance of such EU initiative, mainly reasoning with non-compliance with the principle of subsidiarity and the restrictions of the legal basis, as well as limited resources of the national authorities.

To widen the consultation of stakeholders and collection of expertise, the Commission organized an open conference in January 2012 [7]. The discussions at the conference reflected no change in the views and positions of the private and public stakeholders.

A public consultation was carried out between May and July 2012 through "Your Voice in Europe", DG Enterprise and Industry website on Europa and e-mails sent to a wide range of private and public stakeholders as well as Member States' representatives. Professional associations and federations and public administrations made up 90% of the more than 150 respondents. The remaining 10% were tourism enterprises, two thirds of which participate in a quality scheme. Tourism trade unions and the representatives of consumers were also actively involved in the consultation process. Most respondents agreed with the Commission's definition of the problem

and with the need for an initiative by the EU in this area. The public consultation results are published on the Commission's website [8].

In the framework of the assessment of policy options a background study was conducted on the experience of businesses about participating in a quality scheme, where the input of the managers of a representative sample of the existing quality schemes and their member businesses provided useful insight to the assessment of the impacts of the proposed initiative.

The Commission assessed various policy options in view of improving the consistency among the existing and future quality schemes and as a result the information provided to consumers.

Altogether seven policy options were considered among which four were examined in the assessment. These include the option of no policy change, an industry-driven self-regulatory option and two options involving EU intervention. The latter two options examined the impacts of the possibility of including in the concept certain principles, such as those related to environmental sustainability aspects. The estimated economic, social and environmental impacts of each option were assessed based on their effectiveness in fulfilling the policy objectives, their cost-efficiency and their consistency with other EU policies.

The assessment paid particular attention to the fact that, participation by industry in either the option proposing self-regulation or the one suggesting EU intervention would be voluntary. Thorough consideration was also given to the conservation of the uniqueness and diversity of the European tourism offer, especially in view of the vast variety of tourism sub-sectors to which European service quality principles could be applied.

The assessment does not conclude on one sole favorable option as the comparison of options showed equal effectiveness, efficiency and consistency both for the option including only service quality-related principles and for the one extending information to other aspects, such as environmental sustainability.

The current situation concerning the evaluation of tourism service quality in Europe is not conducive to an adequate level playing field in the EU Industry. The inconsistency of quality evaluation schemes for tourism services at national and regional level confuses the consumers and creates obstacles to the internal market.

An EU framework pursuing the general interest of promoting the Union's tourism competitiveness would be more effective in terms of cross-border visibility and credibility. This can be achieved by complementing the work already undertaken by public and private tourism actors, encouraging and creating a favorable environment for them to combine their efforts. European Tourism Quality Principles can better be promoted by EU action, both in the Member States and towards travelers from third countries, as part of the overall EU promotional strategy in tourism.

The European Tourism Quality Principles are applicable to tourism services offered in the Union directly to consumers and are recommended to be followed by public and private organisations providing services in the field of tourism.

The initiative aims to improve information to consumers, especially to those who travel to another Member State or from a third country, on the quality of tourism services, allowing quality-sensitive consumers to make better informed choices. This in turn strengthens incentives for EU tourism businesses, particularly for SMEs, to further invest in quality. It aims to do so by improving consistency in the quality of tourism services at EU level by setting European principles for tourism organizations to comply with.

The added value of the initiative will be many-fold: a) tourism organizations that follow these Principles will be able to benefit from promotional and awareness raising action carried out by the Commission. This will lead to increased visibility, which will enhance their capacity to reach out to consumers and will provide them with the possibility to extend their activities to markets that they otherwise could not reach, in particular in third countries; b) For consumers, the added value will be the reassurance that certain European quality principles will be fulfilled, no matter which Member State they visit. Finally, highlighting and emphasizing on the high quality of European tourism services will contribute to the overall EU strategy of improving tourism flows of travelers within and from outside Europe, complementing the efforts of facilitating visa requirements for third-country tourists as well as branding Europe as a set of sustainable and high-quality destinations.

Ultimately, this will contribute to the improved competitiveness of the sector and boost its capacity to create economic growth and jobs, to the benefit of Member States and the overall EU economy.

In order to achieve a better consistency of the quality of the tourism services across the EU, the European Tourism Quality Principles can be applied, without sub-sectoral restriction, to all those public or private tourism organizations that operate at national, regional, local or transnational level, offering tourism services in the Union to consumers.

In accordance with the principle of subsidiarity, Member States will be invited to coordinate, monitor and promote the European Tourism Quality Principles in respect of their territories.

Member States will also be recommended to cooperate between each other in respect of transnational tourism organizations. They will also be invited to cooperate with the Commission within the framework of the Tourism Advisory Committee, in order to facilitate the monitoring and assessment of the initiative.

The Programme for the Competitiveness of Enterprises and SMEs (COSME) 2014-2020, sets the specific objective to improve the framework conditions of the competitiveness and sustainability of Union enterprises in the tourism sector. With the objective of improving the image and profile of Europe as a sustainable, responsible and high-quality destination, the Commission will undertake information, communication and promotional activities, including the creation of a dedicated website providing information on the European Tourism Quality Principles. The Commission will also facilitate the exchange of best practice and experiences.

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Market Entry Strategies: Key Issues

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Abstract

The business world of today calls for expanding sales and profits in order to achieve ever-increasing earnings. Business owners and managers must look for any available opportunities to keep their market share and expand into new markets. What happens when their local market becomes saturated? The savvy leader is inclined to search abroad for any and all potential new markets for their product or service. New markets offer the possibility of increasing total revenue and/or decreasing the costs of goods sold, thereby increasing profits. Entering new markets may also allow a company to follow its existing customers abroad, attack competitors in their home markets, guarantee a continued supply of raw materials, acquire technology or ingenuity, diversify geographically, or satisfy the stockholder's desire to expand. Selecting a mode for entering or expanding in a foreign market is one of the most crucial strategic decisions that can be made by a company. Weighing all factors and choosing the proper mode of entry can result in huge competitive advantages, while making a poor decision can lead to the demise of the company.

Market entry strategies: key issues

Many companies realize that the likelihood of their success or the success of certain segments of their business is dependent on thorough and effective planning. A plan that outlines how a particular company will introduce goods and services to a particular consumer base is referred to as a market entry strategy. Such a plan generally includes a wide range of information, such as market research, similar product availability, and estimated costs and returns.

Some businesses may get tips or use models from other businesses to help them develop their market entry strategies. However, applying a generic strategy or one developed by another business is not likely to be effective. Market entry strategies generally need to be personalized. Varying factors, such as the economic climate, the service that is being offered, and the market being entered can greatly affect the outcome.

“Market” is generally a very loose term. It can refer to a particular segment of a local community or it can refer to an entire foreign country. The definition of this term in a particular instance is an important factor when developing or applying a market entry strategy.

There are many other things that a good market entry strategy should consider. When a business considers offering a product or service, it is important to know who the competitors are. It is also best to have information about consumers’ attitudes toward those competitors. An effective strategy should also address legal issues. This becomes especially important when dealing with international trade, specialized products such as hazardous materials, or regulated services such as finances.

A market entry strategy can be beneficial in a number of ways. For example, since the operation has been thoroughly thought through, the chances of uncertainties arising are reduced. A good plan generally outlines the risks associated with any operation.

Such a plan also provides a realistic basis for financial figures. This can prevent a company from over-budgeting, or more dangerously, under-budgeting for a particular venture. The financial analysis that is included in the strategy should consider growth. Since markets are usually in flux, it is important to consider not only what the financial factors are at present, but also what they will be in the future.

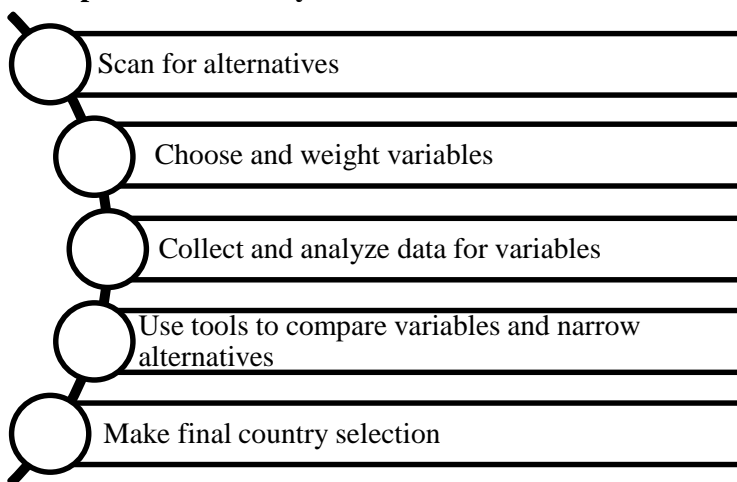
Firms pursue internationalization strategies for a variety of reasons. Some motives are strategic in nature, while others are reactive. An example of a strategic, or proactive, motive is to tap foreign market opportunities or acquire new knowledge. An example of a reactive motive is the need to serve a key customer that has expanded abroad. Nine specific motives include:

- Seek opportunities for growth through market diversification;
- Earn higher margins and profits;
- Gain new ideas about products, services, and business methods;
- Better serve key customers that have relocated abroad;
- Be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products;
- Gain access to lower-cost or better-value factors of production;
- Develop economies of scale in sourcing, production, marketing, and R&D;
- Confront international competitors more effectively or thwart the growth of competition in the home market;
- Invest in a potentially rewarding relationship with a foreign partner;
- At the broadest level, companies internationalize to enhance competitive advantage and to seek growth and profit opportunities.

A firm contemplating foreign expansion must make four decisions: Which markets to enter? When to enter these markets? What is the scale of entry? Which is the best mode of entry?

The process of selecting, penetrating and then developing an international market is a difficult one, which many companies still identify as an Achilles' heel in their global capabilities (see Picture 1). In fundamental terms, entering a new country-market is very like a start-up situation, with no sales, no marketing infrastructure in place, and little or no knowledge of the market. Despite this, companies usually treat this situation as if it were an extension of their business, a source of incremental revenues for existing products and services. Two aspects of the typical approach are particularly striking. First, companies often pursue this new business opportunity with a focus on minimizing risk and investment—the complete opposite of the approach usually advocated for genuine start-up situations. Second, from a marketing perspective, many companies break the founding principle of marketing—that a firm should start by analyzing the market, and then, and only then, decide on its offer in terms of products, services, and marketing programs. In fact, it is far more common to see international markets as opportunities to increase sales of existing products and so to adopt a “sales push” rather than a market-driven approach. Given this overall approach, it is not surprising that performance is often disappointing. The profitability in international markets has lagged behind average firm profitability for much of the last two decades (the “foreign investment profitability gap”). This may well be because of “top-line obsession,” a focus on revenue growth rather than profitability growth. The link between this perspective and a view of international sales as incremental business is self-evident. And, after all, many firms enter new country-markets through the indirect channel of a local independent distributor or agent, in which case the multinationals will not know their costs and therefore their operating profitability in the markets. Although more mature firms are altering the way they enter and penetrate new international markets, the mixed results in the post-2001 recession demonstrate that this remains a challenging phase of internationalization.

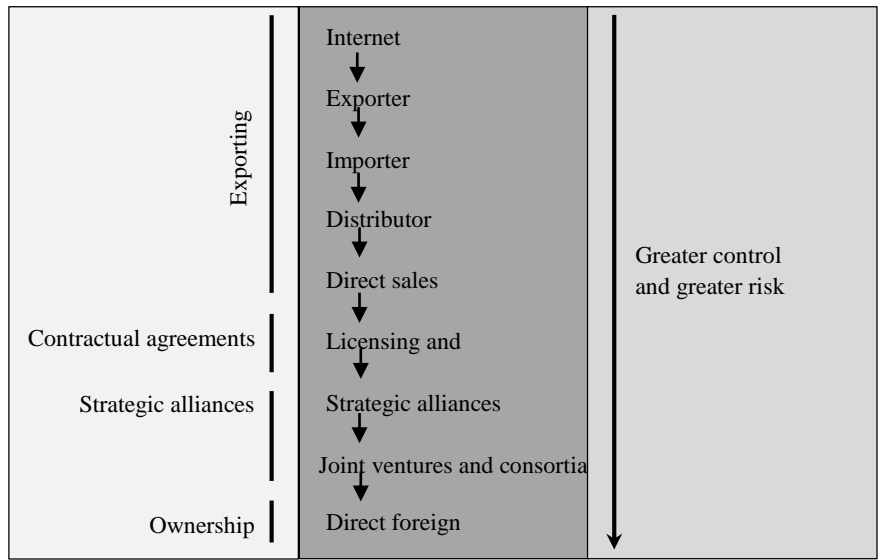
Picture 1. The process of country evaluation and selection



Source: prepared by the author.

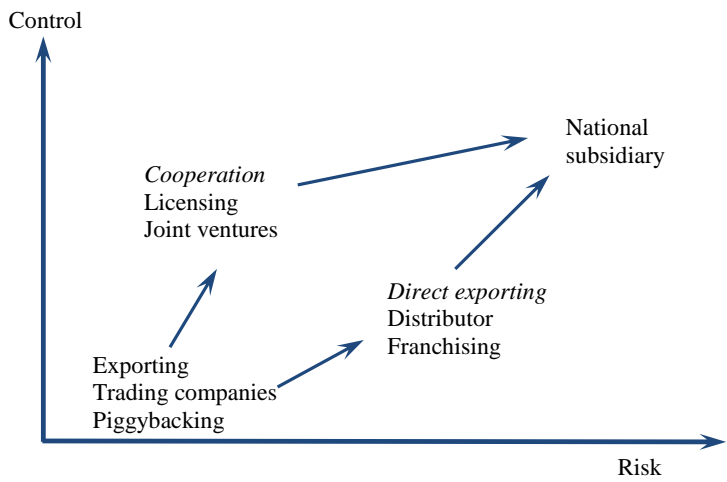
There are a variety of ways in which a company can enter a foreign market (see Picture 2). No one market entry strategy works for all international markets. Direct exporting may be the most appropriate strategy in one market while in another you may need to set up a joint venture and in another you may well license your manufacturing. The alternative modes of entry can therefore be distinguished by where each falls on the risk-control trade-off (see Picture 3).

Picture 2. Foreign market entry modes



Source: prepared by the author.

Picture 3. The Market Entry Mode Decision



Source: prepared by the author.

There will be a number of factors that will influence the choice of strategy, including, but not limited to, tariff rates, the degree of adaptation of your product required, marketing and transportation costs. While these factors may well increase the costs, it is expected the increase in sales will offset these costs. The following strategies are the main entry options open to a firm.

E-commerce: using inter-networked computers to create and transform business relationships. Applications provide business solutions that improve the quality of goods and services, increase the speed of service delivery, and reduce the cost of business operations. A new methodology of doing business in three focal areas: “Business-to-business”, “Business-to-consumer”, “Intra-business”. It is most commonly associated with buying and selling information, products, and services via the Internet, but it is also used to transfer and share information within organizations through intranets to improve decision-making and eliminate duplication of effort. The new paradigm of E-Commerce is built not just on transactions, but also on building, sustaining, and improving relationships, both existing and potential.

Advantages: 1) Quick, easy way to increase market share; if correct marketing methodologies are employed. 2) Easy way to gain a “presence” in international markets. 3) After capital costs paid off, productivity, and therefore, profits increase. 4) Enables greater economies of scale.

Disadvantages: 1) Hardware and software are essential, and these are big expenses. 2) Distribution must be very efficient. 3) Website needs constant updates, which leads to extra labor, training, and retraining costs. 4) True costs of Ebusiness difficult to calculate. 5) Much less trust than “click and brick” entities.

Direct exporting is selling directly into the market you have chosen using in the first instance you own resources. Many companies, once they have established a sales program turn to agents and/or distributors to represent them further in that market. Agents and distributors work closely with you in representing your interests. They become the face of your company and thus it is important that your choice of agents and distributors is handled in much the same way you would hire a key staff person. Direct exporting is advantageous when there is limited sales potential in target country; little product adaptation is required; distribution channels are close to plants; there are high target-country production costs; there are liberal import policies and high political risk exists.

Advantages: 1) No investment in foreign production facilities is required. 2) Maintain more control; minimized risk and investment; speedy entry. 3) Maximize economies of scale; to prevent competitors from gaining ‘first-mover’ advantages in new markets. 4) Sell excess production capacity. 5) Gain information about foreign

competition. 6) Stabilize seasonal market fluctuations. 7) Reduces dependence on existing markets.

Disadvantages: 1) More expensive due to tariffs, marketing expenses, transport costs. 2) Sometimes difficult to coordinate the cooperation of exporter, importer, transport provider, and government. 3) Limited access to local information; company viewed as “outsider”. 4) Need to develop customer base and logistics of moving the goods overseas. 5) May be difficult to overcome trade barriers. 6) May lose control over product's pricing and marketing. 7) Task of finding customers.

Licensing is a relatively sophisticated arrangement where a firm transfers the rights to the use of a product or service to another firm. It is a particularly useful strategy if the purchaser of the license has a relatively large market share in the market you want to enter. Licenses can be for marketing or production. It is advantageous when import and investment barriers exist, when legal protection is possible in the target environment, when there is otherwise, a low sales potential in target country or a large cultural distance is present.

Advantages: 1) Quick and easy entry into foreign markets: allows a company to “jump” border and tariff barriers. 2) With lower capital requirements. 3) Potential for a large ROI; returns are realized fairly quickly. 4) Risks are very low with this mode of market entry: You can enter with an established product; avoid most “uncontrollable” risks, and have fewer financial and legal risks.

Disadvantages: 1) Control by the licensee is low. 2) The licensee may become a competitor. 3) Intellectual property may be lost. 4) License period is usually limited. 5) Poor management of quality, for example, can damage brand reputation in other license territories.

Franchising is a typical North American process for rapid market expansion, but it is gaining traction in other parts of the world. Franchising works well for firms that have a repeatable business model (eg. food outlets) that can be easily transferred into other markets. Two caveats are required when considering using the franchise model. The first is that your business model should either be very unique or have strong brand recognition that can be utilized internationally and secondly you may be creating your future competition in your franchisee.

Partnering is almost a necessity when entering foreign markets and in some parts of the world (e.g. Asia) it may be required. Partnering can take a variety of forms from a simple co-marketing arrangement to a sophisticated strategic alliance for manufacturing. Partnering is a particularly useful strategy in those markets where the culture, both business and social, is substantively different than your own as local partners bring local market knowledge, contacts and if chosen wisely customers.

Joint ventures are a particular form of partnership that involves the creation of a third independently managed company. It is the 1+1=3 process. Two companies

agree to work together in a particular market, either geographic or product, and create a third company to undertake this. Risks and profits are normally shared equally.

Advantages: 1) Sharing of risk. 2) Joint financial strength. 3) May be the only mean of entry in some countries.

Disadvantages: 1) Partners do not have full control of management. 2) May be impossible to recover capital if need be. 3) Partners may have different views on expected benefits.

Buying a company. In some markets buying an existing local company may be the most appropriate entry strategy. This may be because the company has substantial market share, are a direct competitor to you or due to government regulations this is the only option for your firm to enter the market. It is certainly the most costly and determining the true value of a firm in a foreign market will require substantial due diligence. On the plus side, this entry strategy will immediately provide you the status of being a local company and you will receive the benefits of local market knowledge, an established customer base and be treated by the local government as a local firm.

Piggybacking is a particularly unique way of entering the international arena. If you have a particularly interesting and unique product or service that you sell to large domestic firms that are currently involved in foreign markets you may want to approach them to see if your product or service can be included in their inventory for international markets. This reduces your risk and costs because you are essentially selling domestically and the larger firm is marketing your product or service for you internationally.

Advantages: 1) International experience not required. 2) Fast entry to the international market. 3) Little to no increased financial commitment; generally low risk.

Disadvantages: 1) Low control by the exporting business. 2) Possible choice of wrong market, wrong distributor. 3) Inadequate market feedback. 4) Potentially lower sales. 5) Higher risk in general.

Turnkey projects are particular to companies that provide services, such as environmental consulting, architecture, construction and engineering. A turnkey project is where the facility is built from the ground up and turned over to the client ready to go – turn the key and the plant is operational. This is a very good way to enter foreign markets as the client is normally a government and often the project is being financed by an international financial agency, such as the World Bank, so the risk of not being paid is eliminated.

Greenfield investments require the greatest involvement in international business. A greenfield investment is where you buy the land, build the facility and operate the business on an ongoing basis in a foreign market. It is certainly the most

costly and holds the highest risk, but some markets may require you to undertake the cost and risk due to government regulations, transportation costs, and the ability to access technology or skilled labor.

Advantages: 1) Economies of scale and scope in production, marketing, finance, research and development, transportation, and purchasing. 2) Greater control in all aspects. 3) Best long term strategy. 4) Commitment to market. 5) Vendor financing often available. 6) Work with authorities from the beginning. 7) Control over your brand. 8) Control over staff. 9) Press opportunities.

Disadvantages: 1) Higher expense. 2) Competition in these markets can be difficult to overcome. 3) Entry into these markets can take years to happen. 4) Barriers to entry can be costly. 5) Governmental regulations may put these multinational enterprises at a disadvantage in a short term.

Foreign direct investment: the direct ownership of facilities in the target country. It may be made through the acquisition of an existing entity or the establishment of a new enterprise. There is a high degree of commitment and high level of resources. This entry mode is advantageous when there are import barriers; there is a small cultural distance; assets cannot be fairly priced; there are high sales potential; low political risk exists.

Advantages: 1) Provides high degree of control in the operations. 2) The ability to better know the consumers and competitive environment. 3) Provides jobs in target country. 4) Provides the scale economies and efficiencies of production when across several markets. 5) Benefit of the comparative advantage of different economies such as the supply of labor or raw materials. 6) Has value of technology ownership (minimizes technology spillovers); considered an “insider”.

Disadvantages: 1) Higher risks; this entry strategy has the highest capital and management costs. 2) Greater difficulty in managing local resources. 3) The largest array of uncontrollable factors affects the foreign direct investor, including currency and exchange risks, performance requirement risks, discriminatory tax, and licensing requirements.

In addition to the issues noted above, there are a host of other issues the firm will need to be aware of before making the final decision as to which market(s) to enter. It is important to keep in mind that a government’s role is to protect its citizens and business first and, if they feel their firms cannot compete against foreign competition, they will impose restraints that the firm will have to take into consideration.

First and foremost you need to determine what levels of tariff (basically a tax on imported goods) are imposed on your product for entry into the market. You should also determine if there are any quota levels for your kind of product and if there is still room within that quota for your product.

Governments also sometimes provide subsidies to their local firms to help them compete against foreign competition and can also impose strict standards on product quality or insist on local content being part of your product. Each of these can and will add costs to your final price and may make you uncompetitive in that market(s).

Finally, ensure that your product is priced fairly and competitively, so that you are not accused of dumping. Dumping at its most basic is selling your product into a market at below production cost to gain market entry and market share. The penalties for dumping can be quite severe from financial to outright banishment from that market.

Summary

Frequently, the probability of choosing wrong market entry strategy is higher when the company has taken an opportunistic approach to market entry and has viewed the country as no more than a potential source of incremental sales of existing products that can be achieved with minimal risk or investment. The remedy is obviously to prepare a more rigorous plan for market development. The central managerial trade-off between the alternative modes of market entry is that between risk and control. Low intensity modes of entry minimize risk. Thus, contracting with a local distributor requires no investment in the country-market in the form of offices, distribution facilities, sales personnel, or marketing campaigns. Under the normal arrangement, whereby the distributor takes title to the goods (i.e., buys them) as they leave the production facility of the international company, there is not even a credit risk, assuming that the distributor has offered a letter of credit from its bank. This arrangement also minimizes control, however, since the international company will have little or no involvement in most elements of the marketing plan, including how much to spend on marketing, distribution arrangements, and service standards. In particular, it should be noted that effective control over marketing operations is impossible without timely and accurate market information, such as customer behavior, market shares, price levels, and so on. In many cases, low-intensity modes of market participation cut off the international firm from this information, since third-party distributors or agents jealously guard the identity and buying patterns of their customers for fear of disintermediation. Such control can only be obtained via higher-intensity modes of market participation, involving investments in local executives, distribution, and marketing programs. This is truly a trade-off in that companies cannot have it all, but must find compromise solutions. The fact is that control only comes from involvement, and involvement only comes from investment.

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Acknowledgements

- Committee on Organizational and Management Sciences of the Polish Academy of Sciences
- Academy of Economic Studies of Moldova
- Cracow University of Economics
- Conference Scientific Committee
- Conference Organizational Committee, Department of International Management, Cracow University of Economics
- Cracow School of Business at Cracow University of Economics
- International Management Foundation, Cracow

Project carried out under statutory research in the Department.