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# KNOWLEDGE ECONOMY SOCIETY

REORIENTATION OF PARADIGMS  
AND CONCEPTS OF MANAGEMENT  
IN THE CONTEMPORARY ECONOMY



Edited by  
Bogusz Mikuła, Tomasz Rojek

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OF MANAGEMENT IN THE CONTEMPORARY  
ECONOMY**



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Bogusz Miłkula, Tomasz Rojek

Cracow 2015

## **Reviewer**

*Beata Skowron-Grabowska*

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# Introduction

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The conditionings of the functioning of contemporary organisations, particularly the turbulent environment, strong globalisation processes, demographic changes, the role of innovation, technique and technology, new quality standards, economy based on information and services, intellectualisation of labour, civilisation and social transformations, reorientation of consumer needs, force an approach to enterprise management which should be different than so far.

In order to survive and develop, organisations have to be flexible and quickly adapt to changes undergoing on the market. It requires efficient management and constant improvement from them.

The key aspect of the traditional paradigm of enterprise management was the improvement in its productivity and managing the possessed resources in a specific environment. That gave a possibility to fulfil the goal of survival and development in the periods of economic growth or stabilisation in the period of slump. To make it possible for an enterprise to survive and be successful in the contemporary, new conditions to an enterprise, it is also necessary to develop and implement new concept of managing it.

To substantiate the previous theses, we can claim that today enterprises have to cope with such problems as: offering many various products in small quantities, short delivery cycles, a demand for capacity changing in time, a necessity to individualise the product offer and many others, and at the same time to display adequate innovativeness, not only with regard to products, technologies, management, but also the business model of activities. Therefore, the basic dimension of the evolutionarily shaping paradigm of organisation management is now achieving efficiency, ensuring quality and creating flexibility.

One of the characteristic features of the contemporary enterprise management is the multitude and variety of paradigms and management concepts and related detailed management methods, techniques and tools. The concepts present various attitudes to the factors of management and include various recommendations as for enterprise management, introducing changes in it and organising. At the same time, we can observe numerous signs of interest and support for these concepts, and their application is regarded the determinant of the modernity of management, or even the generally applicable standard. There is also some criticism addressed to them. In consequence, it is difficult to identify mutual relations among these concepts, which is important from the point of view of their application. Moreover, still new concepts appear more and more often, and their multitude and incoherence lead to the state of confusion of both managers trying to implement them and scientists who deal with those concepts.

Therefore, the aim of this publication is to present the knowledge about the selected concepts of the enterprise management process, possibilities to use them in practice, as well as the effect of their application. The publication is a scientific reflection on the contemporary processes of organisation management, the tools of support for those processes and the instruments shaping the resources of those organisations. The book presents the scientific output of various academic centres

and inscribes into the stream of research aiming at the search for tools and solutions ensuring the efficient and effective management of organisation resources on the current stage of market development.

The entirety of the deliberations presented in the publication is divided into the following four parts showing the theoretical, methodological and practical aspects of the presented problems:

1. Challenges and perspectives of the contemporary management. Concepts – strategies – processes.
2. Methodological aspects of the enterprise management process.
3. Contemporary concepts and processes of the development of human resources management in the organisation.
4. Marketing approach to the process of managing the contemporary enterprise. Trends – tools – instruments.

The first part of the publication discusses an important and topical from the point of view of the economic practice problem of current challenges, dilemmas and perspectives of the contemporary management. The authors of the chapters included in this part focus on concepts, strategies and processes possible to be implemented in accordance with the conditions of today's environment of business entities. They also indicate threats and opportunities related to the challenges facing managers. This part is an attempt to analyse the contemporary problems of management and at the same time an attempt to present solutions adequate to the diagnosis of the existing state.

The deliberations included in part two show contemporary methods, determinants and the instruments of support for the organisation management process. The intensified activeness of the owners of enterprises functioning on the global market has brought an increase in the pressure on the economic rationality of enterprises and their effectiveness, which is manifested in achieving financial benefits by the owners. Achieving such benefits requires the application of effective tools and proper instruments of enterprise management. The spread and constant development and improvement of the new economy have provided organisations with a possibility of the broader use of the achievements of the scientific and technological progress. Owing to them, the effectiveness of entities has increased and owing to the change in perceiving economic processes and phenomena, new methods and techniques of management are implemented, and the structures and organisational activities of enterprises are transformed.

The authors of the chapters presented in the third part of this publication refer to the issues related to knowledge and managing human resources in the organisation. Knowledge, constituting a separate resource of an enterprise, contributes to building its competitive advantage. It is connected with changes concerning the role of individual components of assets in creating the value of an organisation. Knowledge – treated as the skills acquired by employees while learning, and experiences gained by them are a unique production factor for the organisation, so-called intellectual factor. Nowadays, efficient knowledge based management in the enterprise brings about the transformation of knowledge into the component of the organisation's market value. It is related to the use of the role which human resources perform in the enterprise, and, what follows, also to the policy of human resources management.

The fourth part of the publication refers to the problem of using marketing tools in the management process. The contents are related to the fact that individual globally-based activities are accompanied by significant changes in general marketing communication. The development of marketing has brought radical changes in the area of enterprise management. Faster and broad-

er access to information and the growth of its amount and quality is caused by the development of information techniques and technologies, as well as the tools of marketing communication. The development has also enabled an increase and the acceleration of the flow of products and capitals. Therefore, new possibilities have occurred for building the image, shaping needs and the ways of satisfying them.

This book has a character of a cognitive and methodological study whose aim is to present and systematise the scientific and practical output concerning the selected thematic areas, to discuss and critically assess this output and to present own reflections and proposals with regard to the analysed issues and problems<sup>1</sup>. While handing over this work to the Readers, we express our conviction that the publication in the presented formulation is fully justified, both for theoretical and cognitive, practical, and didactic reasons. It can be a reference point for new deliberations, inquiries, polemics, analyses and critical discussion over the presented problems. The commitment of a broad circle of Authors enabled to present the discussed issues in a broad and multithreaded way. As the scientific editors of this book we would like to thank all the Authors for accepting the invitation to co-create this publication and sharing the findings of the research conducted by them with the Readers.

Bogusz Mikula, Tomasz Rojek

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<sup>1</sup> This work inscribes into the series of publications under the common title *Knowledge – Economy – Society*, which constitute one of the effects of many years' cooperation between the academic environment of the Faculty of Management at the Cracow University of Economics and employees and doctoral students of other faculties of the University, with representatives of different Polish academic circles, as well as representatives of foreign academic circles. See: *Knowledge – Economy – Society. Challenges of the Contemporary World*, Edited by R. Oczkowska, B. Mikula, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2011; *Knowledge – Economy – Society. Dilemmas of the Contemporary Management*, Edited by A. Malina, R. Oczkowska, T. Rojek, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2012; *Knowledge – Economy – Society. Transfer of Knowledge in the Contemporary Economy*, Edited by P. Lula, B. Mikula, A. Jaki, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2012; *Knowledge – Economy – Society. Global and Regional Challenges of the 21<sup>st</sup> Century Economy*, Edited by P. Lula, B. Mikula, A. Jaki, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2013; *Knowledge – Economy – Society. Challenges of the Contemporary Management*, Edited by A. Malina, R. Oczkowska, T. Rojek, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2013; *Knowledge – Economy – Society. Dilemmas of the Economic Resources Management*, Edited by R. Oczkowska, G. Śmigieliska, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2014; *Knowledge – Economy – Society. Contemporary Tools of Organizational Resources Management*, Edited by P. Lula, T. Rojek, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2014; *Knowledge – Economy – Society. Contemporary Organizations in the Process of Institutional Transformations*, Edited by A. Malina, R. Oczkowska, J. Plichta, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2014; *Knowledge – Economy – Society. Managing Organizations: Concepts and Their Applications*, Edited by A. Jaki, B. Mikula, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2014 and *Knowledge – Economy – Society. Problems of Management and Financing Economic Activity*, Edited by R. Oczkowska, G. Śmigieliska, Faculty of Management of the Cracow University of Economics – Foundation of the Cracow University of Economics, Cracow 2014.



# **PART I**

## **CHALLENGES AND PERSPECTIVES OF THE CONTEMPORARY MANAGEMENT. CONCEPTS – STRATEGIES – PROCESSES**





# Chapter 1

## Communication in the Process of Cooperation<sup>1</sup>

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*Arkadiusz Potocki, Renata Winkler, Paweł Łukasik*

### 1. Introduction

Variability of challenges to be faced by economic systems<sup>2</sup> stimulates growth both in the degree of complexity of tasks performed by an organization and the need for a great operating flexibility of an organization itself. As a result, it is reflected in business practice both as increase in the demand for highly-qualified personnel at the expense of poorly-qualified personnel, and the need for creating teams within an organization. The latter results, first of all, from the fact that the achievement of goals and tasks defined by an organization remains unattainable through individual activities and the fact that on the part of an organization demand for specific skills of employees changes dynamically (both in terms of type of these skills and method, and period of their use). Therefore, since “group work brings dynamics and knowledge that exceeds what may be done by an individual” (Senge, 2002, p. 193), there is a need for cooperation of individuals involved in the execution of a given process and the need for creation of inter-functional teams.

Teamwork requires substantially cooperation, and proper cooperation between people (necessary for the execution of specified values, being a goal pursued by individual and several cooperating people) requires communication. Therefore, the purpose of this paper is to analyze key issues related to the process of communication in the process of cooperation. This analysis will be conducted both in terms of communication in its internal aspect (at the level of cooperation between individuals and group cooperation) and in its external aspect (at the level of cooperating business entities) and supported by the presentation of the results of research conducted under the statutory research of the Department of Organizational Behaviors entitled *Zachowania organizacyjne w kontekście kooperacji (Organizational Behaviors in the Context of Cooperation)* (contract No. 025/WZ-KZO/01/2015/S/5025).

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<sup>1</sup> The publication was financed from the funds granted to the Faculty of Management of the Cracow University of Economics, within the framework of the subsidy for the maintenance of research potential in 2015.

<sup>2</sup> Owing to the pace of transformations in the surrounding economic and social reality and appearing interference of its development.

## 2. Communication and cooperation in an organization – outline of the issue

People will be able to implement actions with a very complex structure only thanks to communication. The process of communication enables coordinating instrumental and interpersonal behaviors of individuals. Without appropriate communication, not only do different resources of a company remain useless; it involves also the risk of wasting optimum use of generating potential of employees. Matching or harmonization of processes, roles or resources require unconditionally effectiveness within the process of communication. Therefore, communication connects diverse levels of activity within an organization and provides contact between particular elements of an organization, enabling therefore functioning of an organization as a whole. It is nothing else but communication that enables all management functions to be performed and determines the essence of most processes occurring within an organization. In the theory of management, effective communication is treated as the key element of success, and the communication itself is perceived in the category of a factor constitutive for the existence of an organization. Even more so, because of the fact that quality of communication in an organization has effect on: motivation of employees and their satisfaction with work, involvement, energy, efficiency and effectiveness (Weinstein, 2002, pp. 281-282), and the fact that creation, obtaining, extraction, application, recording, codifying, transfer and reduction in knowledge remain in a strict relationship with the process execution (Dziuba, 2000, p. 59).

The processes of communication in an organization (both one and two-way, direct and indirect) are examined traditionally in the vertical, horizontal and diagonal system. Depending on the needs, various media and techniques of communication can be used in the above areas. At this point, it should be emphasized that though, on the one hand, the process of communication guarantees functioning of an organization and has a real impact on the processes executed within it, on the other hand, it is determined by a specific system of an organization, in which it is executed. The organizational structure determines form, nature and course of interpersonal exchange used to implement actions, necessary from the point of view of existence of an organization as a whole and the primary objective of its operations. Available channels and transmission media, length of transmission ways and adequate means of transmission (from among means held by the organization) are determined by both spatial distance dividing elements belonging to the organizational substructure and by the nature of interrelations. On the other hand, the scope of present and long-term communication needs of entities employed in an organization is indicated by the scope of attributed tasks. At the same time, it is particularly critical to consider the fact that communication exchange, at the interpersonal, group or organizational level, requires, first of all: communication initiative, proper level of trust, knowledge and use of respective communication techniques and organizational culture which is favorable for openness in communication. Organizational culture has also major importance for cooperation.

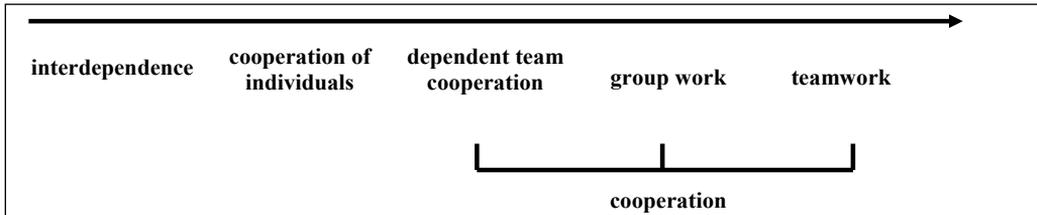
P. Klimas (2014, p. 15), defines *cooperation* generally as “operation together with someone” or “contribution to something” and refers them to:

- multi-entity actions,
- dynamic and separate competence of an organization,
- type of strategy of managing knowledge created, first of all, inside an organization.

On the other hand, J. Stankiewicz and M. Moczulska, analyzing in detail the issues of cooperation in an organization (2015, p. 18), concluded that “...initially, cooperation meant performing

duties in presence of other individuals, and currently, first of all, teamwork”, and the authors treat cooperation as a holistic term. In this evolution, interdependence (namely activity performed by one person among other that perform different tasks) is at the lowest level and teamwork as a form of cooperation is at the highest level. The above concept is presented in a graphic form in Figure 1.

Figure 1. Levels of cooperation



Source: Stankiewicz, Moczulska, 2015, p. 20.

J. Bendkowski (2012, p. 35) determines cooperation with the term “community of activities”, and refers it “...to the process of group learning of people, who are interested in solving a specific problem, and for that purpose cooperate with each other for a longer period in the form of exchanging ideas, looking for solutions and creating new knowledge”. At the same time, it should be emphasized that cooperation takes place not only in the course of teamwork but also during a single mutual supporting with knowledge at work. Another significant element is also the fact that the basis for cooperation is a shared goal, i.e. solving an organizational problem. Therefore, cooperation can be identified in the simplest way as mutual assistance of employees, one to the other, in performing a task entrusted within the scope of duties, and a common task, in the case of teamwork. In both cases, it is about supporting through sharing knowledge. Cooperation requires an organization to create organization appropriate conditions, both socio-organizational and material.

Therefore, in this publication cooperation will be treated also as a plane of strategic management of knowledge, where communication is the main binder of building (creating) knowledge.

### 3. Communication in cooperation in an organization – analysis of conditions

Analyzing, with regard to an organization, the meaning of cooperation and benefits related to teamwork – and previously raised issue of servant role of communication in this process<sup>3</sup> it should be noted that cooperation and accompanying communication serve achieving the main goal of an organization, partial goals, strategic goals and operational goals – thus a bundle of goals<sup>4</sup> (for more information on this subject (see: Potocki, Winkler, Żbikowska 2011, pp. 145 and the following).

<sup>3</sup> People act to a considerable extent by and as a result of communication – emergence, development and duration of any human interaction, structure, organization or, of course, culture would not be possible without communication.

<sup>4</sup> With regard to which we can speak both about the their hierarchization and categorization – and – define actions necessary to achieve them (Kricsfalussy, 2008, pp. 34 and the following).

The specific character of the needs of broadly understood economic organizations implies unarguable shift of the gravity center to human resources as a carrier and source of creativity, knowledge, innovations and a factor which determines the level of effective use of other means and resources owned by an organization. Communication seems a key that enables activating relevantly, focusing and making use of the potential which lies in people, including their needs and creating appropriate working conditions. Open, direct communication is supposed to constitute one of the basic success factors with regard to building trust, creating proper climate for cooperation, building loyalty, commitment, motivation, innovation, counteracting resistance against changes, solving conflicts, determining common objectives, building a common vision, creating relevant thinking models, effectiveness of learning processes. Fulfilling the requirements requested from companies by the market environment requires, in particular, stimulation of internal communication. Because of the above, “technological”, “structural” (functional) and “personal”, with regard to communication, character of dependence of contemporary companies – attention should be devoted obviously to the matters related to technical instruments of support of communication processes, however, at the same time it seems important to highlight the fact that a particular role in developing and sharing knowledge is performed by techniques based on informal group communication such as quality circles or communities of practice.

The implementation of quality circles requires a participatory climate in the organization, good relations between superiors and subordinates and, first of all, beliefs among employees that the implementation of quality circles will bring benefits not only to the organization, but themselves. It is important to ensure support from management, guarantee suitable amount of time and access to information. It is assumed that optimal number of people participating in quality circles is approx. 10 people, while usually they are attended by 3 to 20 people. It is important to use during meetings of quality circles the basic principle of brainstorm concerning ban on criticizing reported ideas (Szwiec, 2008, pp. 67-69).

The positive effects of operation of quality circles include (Potocki, Winkler, Żbikowska, 2003, p. 220):

- improving cooperation between employees and superiors,
- disclosing creative capabilities of employees,
- faster problem solving,
- streamlining lower level employee management.

“Communities of practice are groups of people who share a concern or a passion for something they do and learn how to do it better as they interact regularly” (<http://wenger-trayner.com>). For this reason, they contribute to increasing integration between different company departments, participate in the process of creating new products and services, formulating corporate strategy. They contribute to faster problem solving and dissemination of knowledge throughout the organization (Brdulak, 2003, p. 83). The issue to be assessed is whether and how in organizations team communication methods are used, focused on creative organizational problem solving

#### **4. Conclusions in the light of research results**

The conducted empirical research in companies of the southern Poland showed that managers of these companies in internal communication (focused not only on current task execution, but mainly organizational development) as the main communication channel (41.6%) indicated

e-mail, direct conversation with co-workers was indicated as the second one (26.8%) and 23.4% of the communication time are informal meetings with single employees or informal meetings (see: Makowiec, Potocki, 2015, p. 24). Confronting the above research results, especially with research with regard to the use of team methods of communication in management problem solving in 120 companies from Lesser Poland, translation into the number of organizational changes and innovations implemented in these companies is minute. The research disclosed that over the years 2013-2014 in these companies only 81 changes and 9 innovations were implemented. A major part of these implementations include improvements in communication itself, and innovations consisted in the application of most recent IT technologies.

Talking about cooperation in organizations it is possible to indicate cooperation between organizations (broadly understood cooperation) and cooperation at the lowest level of management, i.e. cooperation between executive positions or organizational units. Cooperation requires an organization to create organization appropriate conditions, both socio-organizational and material.

Under socio-organizational conditions the following may be indicated:

- organizational culture preferring mutual assistance at work and cooperation. In practice, it means support for shared interest groups, dissemination of e.g. consultation talks (see: Potocki, Łukasik, 2014, pp. 63 and the following);
- organizational climate stimulating innovation. The organizational management should prefer climate stimulating innovations, and fostering means also awarding accordingly change leaders, organizing vocational trainings supporting creativity and innovation;
- preferring the paradigm of teamwork in practice;
- participatory style of management. Belief in the possibility of using knowledge of employees, namely departure from autocratic management style and individual problem solving and decision-making;
- conditions for the professional development of employees whose effect will also be promotions to managerial positions, etc.;
- proper internal and external communication. This postulate includes also the issue of IT support of work of teams that solve management problems.

Material conditions, mainly spatial conditions, should enable contacts to employees, on the whole, should foster intellectual teamwork (see: Paliszkievicz, 2007, pp. 15 and the following). This postulate relates to creation of special rooms designed for communities of practice, shared interest groups or consultation talks as well as enabling work of permanent and temporary teams (committees).

## **5. Some aspects of the practice for support of cooperation in selected organizations of Lesser Poland – research results**

The research with regard to the use of team methods of communication in solving management problem was conducted in 158 companies from Lesser Poland. The sample number was determined with the use of the method by T. Yamane (1967, p. 398). It has been assumed that the general population includes more than 100 000 working posts, and, the degree of accuracy is plus/minus 4%, at the confidence level of 0.92. The structure of the examined group of organizations by industries was as follows: industry – 14.5%, construction slightly above 6%, banking and financial services – nearly 14%, other services – 46.9%, other organizations: – 17%.

As regards the size of these companies (in accordance with a typical principle of classification of objects to particular size classes, including the number of the employed), their distribution was as follows: micro – 17%, small – more than 27%, medium-sized – 24%, large – 32%. Therefore, when analyzing the structure of the examined group of organizations medium and large organizations were dominating (the authors are aware that such a structure of the research group does not reflect the profile of the Polish economy, dominated by microenterprises).

The questionnaire designed for the needs of the survey contained closed questions referring to the following issues: using informal meetings and formal meetings and briefings, using, when making decisions, knowledge of co-workers, presence of cooperation in solving complex problems, issues of the knowledge sharing phenomenon, appropriate organization of internal communication, use of IT networks in communication focused on cooperation, functioning within the organizations of quality circles and communities of practice. Answering the questions required assessment of the situation in the surveyed unit.

In the conducted survey it was found that in the surveyed entities informal meetings of employees devoted to discussing problems at work were not regarded as a normal and desired phenomenon, although nearly 62% of these institutions had rooms with conditions for these meetings. In 66% of the surveyed companies formal briefings and meetings are a fixed instrument of cooperation support, but only 36% of the management staff of companies supports functioning of the so-called “communities of practice”. Additionally, nearly 86% of the entities appreciate and use knowledge of co-workers in solving complex management problems, and in 77% of the companies employees cooperate with one another and gladly share their knowledge. Teamwork ability is appreciated in 34% of the surveyed organizations – and 76% of the companies highly appreciate cooperation between organizational units. However, only 33.5% of the companies appreciate cooperation between single employees. In nearly 75% of the surveyed entities, for the purposes of cooperation, internal communication is organized, and in 68% software in the IT network is used for the purposes of cooperation-oriented communication.

## **6. Conclusion**

The complexity of tasks implemented in contemporary organizations requires cooperation based on group communication focused on knowledge sharing and problem solving. It requires building the climate of cooperation, openness and trust and using methods of communication. As it can be concluded from the research on communication, they are used in many organizations. Low innovation of introduced organizational changes and technological changes and an opinion about greater importance of individual successes than group successes remain problematic. Hence in a small percentage of organizations, managers support activity of communities of practice and arrange training aiming to improve cooperation between employees. In spite of the fact in most organizations generally understood cooperation is an appreciated value and participation in meetings is an important form of cooperation for employees. It indicates the need for shaping organizational culture focused on teamwork and innovation in the Polish organizations.

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# Chapter 2

## **Usefulness of Information in Decision-making Processes in an Enterprise**

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*Bogdan Gregor*

### **1. Introduction**

The consequence of fast and profound changes that undergo in an organisation environment is a growing role of information and knowledge in enterprise management. Those changes increase uncertainty and a risk of conducting a business activity. This is a big challenge that enterprises must meet today. The only entities that can succeed are those which are able to adapt to the evolving environment, are flexible in actions, can promptly and appropriately recognize external conditions of functioning, all of which can be ensured by an efficient system of gathering information and its subsequent transformation into knowledge. The aim of this study is an explanation of the essence of information as well as its values and usefulness in making relevant decisions by an enterprise. The presented discussion was based on economic literature and the results of own empirical research.

### **2. The essence of information and its role in contemporary enterprise management**

Every market entity functions in a specific environment, which – as a basic independent variable – multilaterally influences an enterprise. It shapes its future and determines the conditions of its functioning while forcing an enterprise to undertake adaptation measures whose reflection is an organization strategy. Today it is commonly accepted to claim that “what is happening in an organization environment is of greater importance for a company to survive than what is happening within its framework” (Nizard, 1998, p. 11). There are two powerful forces that shape a contemporary economic picture. They include: incredible progress in teleinformation technologies and a developing globalisation process (Kotler, Armstrong, Saunders, Wong, 2002, p. 59). Nowadays an organization environment is characterized by turbulence i.e. changeability, complexity and turmoil. Their dimensions overlap creating a high level of uncertainty and risk in an enterprise activity. Management theory and practice must respond to these challenges. Efficiency of management is determined to a large extent by adaptation abilities of market enti-

ties, which are expressed in flexibility and adaptability as well as, which is gaining even a bigger importance, in prompt decision-making. Due to the pace of transformations in the environment the importance of time factor in business significantly increases. The acceleration of changes in the environment raises the importance of long-term thinking and making strategic decisions that are directed at effective allocation of enterprise resources. In such circumstances time becomes an intrinsic value, a production factor (Dietl, 2000, p. 3). Acceleration of decisions and thereby anticipation of changes in business environment decides on success. All of these contribute to the fact that a new business environment is created, in which information and ability to transform its unique knowledge are key elements of shaping the potential of a competitive contemporary enterprise. Information and knowledge create an added value while raising efficiency and effectiveness of management. In knowledge-based economy they become a place where first of all one thinks and then produces (Płoszajski, 1998, p. 23). Organizations that are aware of it improve their abilities of collecting, processing, storing, using and sharing information. Besides, nowadays enterprise management is increasingly often associated with information management (Morgan, 1997, pp. 89-94). Information is then a complex notion that is relatively difficult to define. There are two approaches mentioned in the economic literature in this respect: by explanation what information is for, and by explanation what information is (Czubala, 2012, p. 245). The first approach includes a definition by J. Kisielicki and H. Sroka (1999, p. 13) stating that: "information is a type of resource that enables to increase knowledge about us and the surrounding world". The latter approach presents a definition by T. Davenport and L. Prusak (1998, p. 5) which states that information is "a set of records of the world's conditions that poses a purposeful, yet, objective description of the reality". On the other hand, P. Sienkiewicz (2011, p. 127) defines information as "a set of facts, events, features, etc. of specific objects (things, processes, systems) contained in communication (a message) and presented in such a way (form) that it enables a recipient to respond to a current situation and to undertake appropriate mental or physical actions". Notions that are synonymous to information are "data" and "knowledge". However, they must be explicitly distinguished. Data means symbols expressed in a form of signs or signals, transferred in an information channel from a sender to a recipient (Garbarski, 2011, p. 92). Before data becomes useful for a recipient, it must be processed into information that shows indications to make a decision. Thus, information emerges as result of organizing, analyzing or transforming data into a form that is comprehensible to a recipient and presents a value in a decision-making process (Romanowska, 2001, p. 163). On the other hand, knowledge can be perceived as the whole of messages and skills that are used by people to solve problems and it comprises both, theoretical and practical elements, as well as rules and recommendations how to behave (Nycz, 2011, p. 18). It is generally assumed that knowledge is information combined with experience, context, interpretation and reflection. Also, it is obtained from information just like information comes from data, and is strictly related to people who are its depositaries whereas information can exist discretely (e.g. in a form of a document, database). Knowledge, contrary to information, is something that develops in the mind of a man through combining data analysis, information, comprehension, intuition and experience (Kaczmarek, Walczak, 2009, p. 16). On the basis of current observations it can be concluded that information is the main element of knowledge and simultaneously its major creator. Information performs manifold functions in an enterprise. In the theory of organization and management there are four functions of information (Penc, 1999, p. 529):

- supporting a management process when it is understood as a sequence of decisions;

- enabling employees to communicate;
- enriching knowledge of individual workers;
- establishing relations with the environment (mainly market environment).

Information performs a specific function in decision-making processes in an enterprise. Information that is characterized by topicality, accuracy, relevance or reliability helps to optimize decisions and at the same time it contributes to improving achieved results. Lack of appropriate information implies a risk of making a wrong decision, which brings negative consequences for an enterprise, sometimes even detrimental ones.

### **3. Usefulness and value of information**

While discussing a meaning of information in enterprise management a fundamental question arises i.e. how effectively collected information influences efficiency of management. In the light of this question in order to define a value of information a notion of usefulness and a value of information should be considered. Usefulness of information is understood as an ability to meet information needs in the context of a certain decision-making process. Useful information (or, of a high level of usefulness) is such that contributes to a real change in distribution of uncertainty related to a specific decision-making situation that allows to make a right decision while, at the same time, reducing a decision-making contradiction of information users (Garbarski, 2011, p. 91). On the other hand, while discussing usefulness of information in decision-making e.g. in the convention of so-called psychological theory of decision-making, it is assumed that any information that reduces partially or totally decision-makers' unawareness, is from their perspective desirable i.e. useful (Sienkiewicz, 2011, p. 129). According to U. Brichler and M. Bütlér (2007, pp. 32-33) usefulness of information is clear in a situation when it allows more probably to evaluate a result of a decision and thanks to it to make more accurate choices. The authors indicate that usefulness of information is a main source of its value. Usefulness of information is sometimes characterized by using various criteria. For example, S. Alter (after: Czaplewski, 2011, p. 23) claims that usefulness of information comprises three elements: quality, availability and presentation. M. Kwieciński (1999, p. 20) as a factor determining quality mentions, among others, reliability and topicality. If information is to be considered useful, it has to represent high quality. While assessing quality of information the most frequently mentioned criteria are (Garbarski, 2011, p. 92): a right choice of sources, relevance of information (compatibility with a range of reported information needs) as well as its topicality, objectivity and reliability. Value of information is a highly subjective notion. As this is a specific extent of meeting expectations by information that appears in a specific time or in data determined by a situation, conditions (Mazurek, 2011, p. 189). Similar subjective treatment of information value is presented in Cramer's model where a value is a result of a user's attitude, information itself as well as a purpose it is to be used for (after: Mazurek, 2011, p. 190). This approach to information causes that its measurement is extremely difficult – every single piece of information is evaluated differently by various decision-makers. W. Samuelson and S. Marks (1998, p. 373) present a concept of Expected Value of Information that serves to indicate a difference between value expected by a decision-maker in case of obtaining additional information and a value obtained without this particular information. Following this concept and trying to learn whether it is worth to invest (both time and money) in obtaining additional data, it may be necessary to calculate expected

value of magnificent information. It makes a difference between a maximum benefit that might be achieved while using magnificent information and a maximum benefit that can be obtained without additional information (Mynarski, 2001, p. 26). In order to conduct such an analysis a tool called a decision tree might be used. This construction contains nodes illustrating specific stages in a decision-making process and branches that indicate specific implementations connected with a choice of a specific decision or occurrence of a specific state of nature. After placing all necessary elements that illustrate a decision-making process in the decision tree the analysis can be performed and expected benefits can be calculated. As a result we obtain knowledge at what cost using additional information is still profitable. Expected value of perfect information is called a cost of uncertainty (Mynarski, 2001, p. 26). There are two types of information that could be used in an enterprise. A specific case is managerial information, i.e. information that enables to realize basic functions of management. Managerial information enables to learn about an organization, to adjust constantly to evolving conditions of environment as well as to make decisions at various stages of management (Unold, 2001, p. 55). Managerial information includes marketing information that is used in the process of marketing management of an organisation and that offers knowledge that will enable to reduce uncertainty of decisions related to implementation of marketing at a strategic and operational level (Czubała, 2012, p. 244). In other words, marketing information can be any information that is useful to understand a situation better and to solve a marketing problem.

Information for marketing needs that comes from primary sources is collected by marketing research that can be defined as “systematic and objective collecting and analyzing information that serves to recognize and solve marketing problems” (Green, Tull, 1982, p. 4). Marketing research creates a sort of bridge between an enterprise and a market. Thanks to marketing research it is possible to reduce a range of subjective reasons for making decisions such as e.g. intuition, routine or emotions of decision-makers and to base their decisions on impartial and exact results.

#### **4. Scope of marketing research and its usefulness in a decision-making process in an enterprise**

Between 2011 and 2013 at the University of Łódź – within statutory tasks of the Department of Marketing – a research project, which was devoted to diagnosis of marketing research undertaken by entrepreneurs, was implemented. It concerned the range, topics, sources and applied methods of gathering information as well as its usefulness in enterprise management. The subsequent part of the study was constrained to a synthetic presentation of the research results in the part concerning primarily evaluation of usefulness of collected information in decision-making processes<sup>1</sup>.

Within the framework of the above-mentioned project two empirical studies were conducted. The first one, of general character, concentrated on diagnosis of marketing research implemented by enterprises within the last two years. The latter one was explicitly narrowed to a certain topic. Thus, the authors concentrated only on methods of obtaining information by a company, including marketing research to support negotiation processes. The spatial range of the two measure-

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<sup>1</sup> The whole of research results including the description of its methodology was presented in the monograph – Gregor B., Kalinowska-Kula M. (2014), *Badania marketingowe na użytek decyzji menedżerskich*, Łódź, Wydawnictwo Uniwersytetu Łódzkiego.

ments comprised the area of Łódź Province. Units for both were selected in a targeted way for the sample using the database of the Statistical Office in Łódź. The research was conducted by means of a personal interview and a research tool was an interviewer questionnaire.

In the first research the sample comprised 420 enterprises but ultimately 235 entities took part in the research. The analysis of the results enables to formulate the following generalizations. Undertaking marketing research by enterprises becomes more and more common. It emerged that 75% of entities, which were included in the sample, conducted marketing research within the last two years. It is a bigger proportion than it was noted in the earlier research conducted by other academic centers (Jaciow, 2004, p. 164). Apparently, it can be a result of various research samples. Nonetheless, it may indicate a growing need for marketing information among market entities. The authors observed a dependence between popularization of research and a size of an enterprise (measured by a number of employees) and a market segment in which it operates. The proportion of enterprises undertaking research was rising together with the growth of an enterprise size. In a group of big enterprises every entity implemented within the last two years at least one marketing research. Research is, first of all, conducted independently by enterprises. What may seem striking is a small proportion of research conducted – as being commissioned by enterprises – by research agencies, mainly in the context of a developing market for research services (Escher, 2014, p. 400) as well as a growing outsourcing trend in numerous spheres of business activity. Implemented research was mostly directed at supplying collected information to make operational and tactical decisions related to shaping marketing mix tools. Only every fifth research was connected with making strategic decisions and every eighth was directed at evaluation of efficiency and effectiveness of implemented marketing actions. This type of research, which is understandable, was conducted by big enterprises. The research concentrated mainly on buyers and competitors. In the first case, the topics most frequently included customers' needs, tastes and expectations as well as evaluation of their satisfaction and opinions about a company. As far as competitors are concerned, the research focused mainly on prices, quality of competitive products and promotional activities. It is worth noting that examination of buyers was a priority aim of the research, regardless of a type of enterprise. It proves that enterprises are customer-oriented and appreciate information about current and potential clients.

Respondents extremely positively evaluated usefulness of conducted research. Eight out of ten enterprises claimed that usefulness of conducted research was very big or big and only 2.3% expressed a negative opinion (very little or little usefulness). A definitely more pessimistic picture emerges from the results of earlier research conducted among enterprises from Warsaw (Kuczevska, 2002, p. 118). Back to our research, the biggest number of answers confirming usefulness of information collected from marketing research (80%) related to enriching marketing knowledge of managers and support for decision-making processes. 75% of enterprises stated that information was useful while creating plans for enterprise activities and 2/3 claimed that it helped to evaluate effects of earlier action as well as to solve current marketing problems. The authors of the research attempted to objectify the extent of usefulness of marketing research conducted by enterprises. In order to do it the whole research process was evaluated, starting from formulating a research problem as a derivative of a specific decision-making problem and finishing with preparing a report from the research and marketing decisions implemented on that basis. A special attention was drawn to considering a marketing problem that forced a need for designing and conducting research. There was an attempt to answer a question how exhaustively and logically decision-makers/managers clarified their need for information in the context of a formu-

lated decision-making problem. An assumption that was made stated that only when a problem is clearly and consistently formulated, research can bring expected results, so it will be useful. There was also an assumption that information collected by an enterprise should be adequate and in line with reported research demand. It was also emphasized whether decisions made by managers are logical in the context of the research results and to what extent managers actually base their actions on collected information. Additionally, while assessing usefulness of the research, the effects of made decisions were taken into consideration, if their identification was possible in such a short period of time. Another considered aspect was the communicativeness of a report from research and whether the results were delivered to decision-makers at the right time. In the group of 175 enterprises (out of the total number of 235 examined entities) that conducted research within the last two years, 183 cases of research were identified and each of them was thoroughly analysed from the point of view of the above-mentioned research procedure. The picture that emerged is less optimistic than the one arising from the evaluation of usefulness made by respondents. Taking an assumed reasoning into consideration the research conducted by enterprises was divided into the research that fulfilled assumed conditions and the other ones. The first group was evaluated as fully useful for enterprises (accounted for 53% of conducted research), the others for various reasons were qualified for the second group of research of limited usefulness (47%). The research that was considered absolutely useful, according to the accepted reasoning, met its basic objectives, satisfying information demand of managers by providing information indispensable to solve a formulated decision-making problem.

After all, what emerges against this background is a less optimistic ascertainment that enterprises cannot fully use opportunities that marketing research offers. While realizing the research process mistakes are frequently made, which influences a value of achieved results and reduces usefulness of conducted research. It is very often much easier to carry out research than to understand its meaning (Aaker, Kumar, Day, 2007, p. 19).

The second above-mentioned research concerned collecting information for negotiation processes. There was an attempt to check how enterprises assure their information support for business negotiations, what sources they use and how negotiators evaluate usefulness of gathered information. The research comprised only medium-sized and big enterprises which more often than small entities conduct business negotiations. 352 enterprises were selected for the sample. Ultimately 285 entities agreed to participate in the research. It was confirmed that in medium-sized and big enterprises business negotiations are a very common practice. More than 93% of examined enterprises conducted negotiations within the last three years and above a half negotiated regularly (some of them a few times a month). There was a great deal of problems that were a subject of business negotiations. Most frequently negotiations concerned prices, quality of offered products, volume and delivery date, terms and conditions of payment. Every third enterprise negotiated solely with national partners, nearly 2/3 with national and foreign partners, and only 3% exclusively with foreign partners. A big interest was noticed in gathering information for negotiation processes, mainly at the stage of preparing for negotiations. The scope of collected information comprised three areas: market environment, a partner's enterprise and a person (persons) representing a partner in negotiations. As far as market environment is concerned the information that was most often collected concerned a level of prices and their relations in a given market as well as conditions offered by competition. Information about a partner's enterprise related mainly to a price offer and terms of payment, payment reliability, guarantee conditions, reliability and timeliness of order execution as well as quality of products and offered

services. Information about a person (persons) representing a partner evoked definitely less interest. In this case information that was relatively frequently gathered concerned a negotiator's position in a company and their competencies. Collecting information in order support negotiation processes proceeded mainly through penetration of widely accessible secondary sources. Only every third enterprise decided to exploit primary sources through implementation of marketing research. The evaluation of meeting information needs of negotiators was positive. More than 22% respondents considered information obtained for this purpose fully sufficient and 73% described it as satisfactory. A negative evaluation (insufficient information) was expressed by only 4.2% of examined enterprises. In the opinion of the majority of entities collected information helped to determine e.g. partner's reliability and financial situation and it also proved useful while choosing a strategy, methods and techniques for negotiations.

## **5. Conclusion**

The discussion presented above proves that a role of information and knowledge in enterprise management is significantly growing. A growth in importance of information and knowledge is a consequence of accelerating changes that are observed in an enterprise environment. These changes increase uncertainty and a risk of business activity. In such a situation organizations must ensure themselves an efficient system of collecting and storing information as well as transforming information into knowledge, which will reduce uncertainty and risk of running business. It becomes an indication to make right decisions. What is of crucial importance is possessing information needed for marketing decisions as it concerns, first of all, relations between a company and the environment (mainly a market) and this environment undergoes constant changes. Marketing research plays a crucial role in creating information attitudes of marketing activities. The empirical research conducted among enterprises proved that undertaking marketing research becomes increasingly common. The research, first of all, focused on providing information for tactical and operational decisions connected with shaping marketing mix tools. It concentrated mostly on buyers and competitors. The respondents positively evaluated usefulness of conducted research whose results were crucial indicators in a decision-making process. However, a thorough verification of the whole research process in the context of a formulated research objective and a decision problem revealed a less optimistic picture. Part of the research was encumbered with substantive or methodological inadequacies, which must have influenced a decrease of use value of information obtained this way.

Enterprises appreciate importance of information in supporting business negotiations. They were mainly interested in information concerning market environment and a partner's enterprise. The respondents positively evaluated the extent of satisfying information needs to conduct successful negotiations.

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# Chapter 3

## **Conditions of Actions and Types of Entrepreneurial Attitudes in the Public Sector<sup>1</sup>**

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*Angelika Wodecka-Hyjek*

### **1. Introduction**

Entrepreneurship as a socio-economic phenomenon, is subjected to evolution, which is reflected in disclosing on certain stages of development, of different forms and types of entrepreneurship. Apart from the economic entrepreneurship, other forms of, entrepreneurship are systematically developing (non-economic entrepreneurship) in the public and social sectors. Entrepreneurship is a special type of people's activity, operating individually or inside an organization, consisting of using opportunities emerging in the environment, by implementing projects that bring economic and/or non-economic effects to their entities and environment. In this context, entrepreneurship in the public sector is a process of creation of a value for a citizen (services user) through non-routine (or even unique) combination of resources, being both under public (social) and private management, used in order to detect and take advantage of development opportunities and prospects and to obtain new results (higher value) (Kraśnicka, 2009, p. 54). In the world literature the public entrepreneurship is defined as "... a process of creation of value for a citizen, by connecting unique combinations of both public and private resources by the usage of all social possibilities..." (Morris, Jones 1999, p. 74) also as "... a process occurring inside of a public organization whose results refer to the undertaken innovative actions regarding the terms of: development or introduction of new services, technologies, management methods and techniques, improvement or upgrading of the existing strategy, undertaking risks or business activity" (Kearney et al., 2009, p. 28).

The attempts of defining and describing the public entrepreneurship issue have been undertaken in the world literature since the middle of the 1980s in the works of, among others: I. Boyett (1987), M.H. Morris and F. Jones (1999), D. Osborne and T. Gebler (1992) or C. Kearney, R.D. Hisrich, F. Roche (2009) and will be continued. Multiplicity of analyses showing entrepreneurship in the category of entrepreneurial process stresses the special character of the business attitude whose distinguishing mark is the focus on opportunities and on demonstrating the acqui-

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<sup>1</sup> Publication financed from funds granted to the Faculty of Management of the Cracow University of Economics as part of subsidies to maintain the research potential for 2015.

sition ability and usage of also these resources and action measures, which are located beyond the disposition area of the entrepreneur and the novelty in the business attitude is expressed by the will of achieving success on the basis of the novelty of product, of services, of the project. It applies to a situation in which a new relation of measures and purpose in the management process is the reason of creation a new value in consequence of a unique combination of resources (Shane, 2003, quot. from Barczyk, 2010, p. 63).

The context of considerations regarding entrepreneurship focuses mainly on the silhouette of the entrepreneur that plays a particular role in the creation of the entrepreneurial process, and its predispositions, characteristics and attributes are ambiguous and arguable.

The purpose of the study is an attempt to present the conditions of action as well as types of entrepreneurial attitudes in the organizations of the public sector whose role was particularly articulated along with a separation of the concept of public entrepreneurship.

## **2. Specific character of entrepreneurial activities in the public sector**

Due to a number of common features of the public organizations sector and mature economic organizations, such as: a high degree of formalization, procedures and roles defined in detail, rigid organizational structures and stiff funding principles, T. Kraśnicka believes that in the search for theoretical basis of the public entrepreneurship the point of reference is the concept of corporate entrepreneurship (Kraśnicka, 2009, pp. 63-64). C. Kearney, R.D. Hisrich, F. Roche also point out the model of corporate entrepreneurship as the most appropriate for the public sector. The substantiation of this suggestion is the perception of entrepreneurship of the public sector as an entrepreneurial process taking place within a public organization whose results refer to the undertaken innovative actions. In this respect emphasis is put on the efforts of particular units and groups and specific conditions of public organization, both internal and external (Kearney et al., 2009, p. 28). The specific character of undertaking entrepreneurial activities in this area is applicable to a diversity of objectives that applies to public organizations and a possibility of conflicts occurrence between goals that result from considering the needs of a wide groups of stakeholder, smaller than in the private sector of autonomy and flexibility of functioning, due to formal and legal determinants or an authoritarian, centralized management.

The specific character of conditions of activity of an organization in the public sector causes the use of entrepreneurial management to be more difficult than in private sector organizations. In this respect, a crucial issue is the role of the manager, who should represent the attitude of an efficient entrepreneur, although independent circumstances can limit his actions to normal administration. However, this problem may constitute a challenge, which is indicated by an analysis of entrepreneurship barriers and methods of overcoming them in the public sector organizations (Tab. 1), suggested by R. Ramamurti (1986). The indicated restrictions such as: multiplicity and ambiguity of goals; limited management autonomy and high potential of interference; high transparency of actions; a particular awarding system; short-term orientation or restrictive personnel policy are still valid, being the cause of changes and an impulse to a creative search for opportunities and their effective use for the implementation of social goals. Changes in public organizations, being normally a result of external pressure, should be inspired by internal entrepreneurs who bind their competences with adopted priorities of the organization, putting empha-

sis on building a new culture oriented towards learning, supporting mobile attitudes looking for innovative solutions.

Table 1. Barriers of entrepreneurship and ways of overcoming them in the organizations of the public sector

<b>Type of barrier</b>	<b>Traditional argumentation</b>	<b>Ways to overcome the barrier</b>
Multiplicity and ambiguity of goals	Limits management	<ul style="list-style-type: none"> <li>• Perfectly defined goals are impossible to achieve</li> <li>• Ambiguity of goals is a source of creative and constructive discussion</li> </ul>
Limited management autonomy and high potential of interference	Discourages from innovation and from entrepreneurial activities	<ul style="list-style-type: none"> <li>• Aspiration to obtain autonomy in action</li> <li>• Reduction of dependence from external factors, especially financial</li> <li>• Substantive argumentation in building the climate for support of ones decisions</li> <li>• Readiness to submit a resignations</li> <li>• The use of ones skills for the sake of effective management</li> </ul>
High transparency of actions	Causes excessively cautious behaviour	<ul style="list-style-type: none"> <li>• Construction of efficient and clear control system</li> <li>• Maintaining impeccable attitude of the public entrepreneur is the basis for shaping the image</li> <li>• Aspiration to achieve public organization's objectives must constitute also a personal goal of the public entrepreneur</li> <li>• Independent media should be a tool of transferring reliable information, shaping image and building relations with the environment</li> </ul>
A particular award system	Penalties for failures and errors and rare rewarding for successes discourages to take risk	<ul style="list-style-type: none"> <li>• Ambiguity of principles or procedures shall be regarded as a source of new opportunities to achieve goals</li> <li>• The use of public funds should be thoroughly justified</li> <li>• Risks and decisions affect public organization which reduces the effects of personal risk</li> </ul>

Short-term orientation	Discourages to make innovative changes, the benefits of which are deferred	<ul style="list-style-type: none"> <li>• The feeling of success inspires to break set principles and decisions</li> <li>• Success achieved in a short time builds positive impression</li> <li>• Realization of long-term strategies should be spread to short-term programs that results will be visible in short time</li> </ul>
Restrictive personnel policy	Limits the leaders capacity to motivate subordinates and to implement program changes	<ul style="list-style-type: none"> <li>• Usage of personal example</li> <li>• Systematically breaking the bureaucratic culture tradition</li> <li>• Searching for the best employees and appreciation of their efforts by motivational non-pay factors</li> <li>• Acquisition of talents from outside</li> </ul>

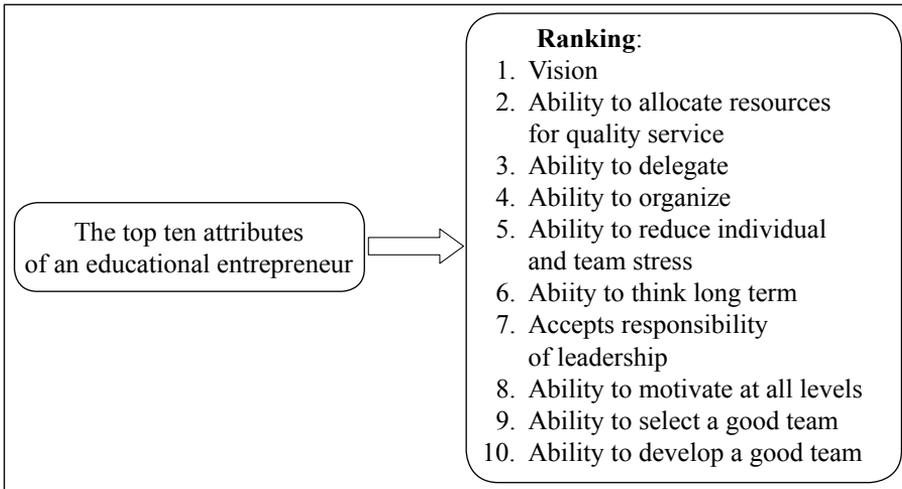
Source: own elaboration on the basis of Ramamurti, 1986, p. 150.

### 3. Entrepreneurs' attributes in the public sector

In the traditional meaning, the person of the entrepreneur was located in the company whose functioning was oriented on generating profits, and the task of the entrepreneur was to risk his own capital in the process of searching for and usage of opportunities to create new income (Schumpeter, 1960). Meanwhile, the area of activities of a public entrepreneur is specific, and the main motive of earning profit in the case of public organizations, is not the main goal. Potential benefits are multifaceted, not necessarily based strictly on profit (e.g. image improvement in public opinion). Encouragement of entrepreneurial activities in this sector is a result of requirements with regard to improvement of effectiveness of public organizations that are obliged to introducing changes, adapting new conditions, introducing innovations or undertaking risk (Wodecka-Hyjek, 2012, p. 41).

I. Boyett (1997) suggests that the public entrepreneur is forced to imitate his equivalent in the private sector, however, specific circumstances of actions force him to match these conditions. It is believed that the identification of entrepreneurship in public sector is a consequence of uncertainty of the environment in which contemporary public organizations operate, which involves the need for decentralization of rights and transferring of available resources to individual institutions. The public entrepreneur must be sensitive towards the needs of a still increasing wide group of stakeholders, as a result of which he is obliged to notice more and more diverse possibilities and ways of satisfying these needs and the most important, these actions should bring him high level of satisfaction with his own work. On the basis of research carried out in the middle of the 1990s, among entrepreneurs in the public sector (education sector), I. Boyett has identified ten most important features of a public entrepreneur (Fig. 1).

Figure 1. The top ten attributes of an educational entrepreneur



Source: own elaboration on the basis of Boyet, 1997, p. 83.

As the most important, she indicated relevant interpretation of a vision of the public organization, then the ability to allocate resources so as to obtain top quality services, then the ability to delegate authority, the ability to organize, capacity to reduce individual and group tension and stress, the ability of long-term planning, the acceptance of liability of management, the ability to motivate employees at each management level the ability of procedure selection and selection of the most effective groups among employees and the ability to support development among employees (Boyett, 1997, p. 83, 90).

Also R. Ramamurti believes that the public entrepreneur, similarly to the private entrepreneur must be a creative person, confident, someone that is persistently working to build his position. His personal characteristics are probably charisma, dedication, definitely optimism, as well as vigour and persistence in action (Ramamurti, 1986, pp. 142-143).

In addition, he should be characterized by high political skills, an ability to expand his power of public relations and mass media usage. He should constantly learn about acquisition and usage of various means to pursue changes, build support of voters, politicians trade unions, private sector and local community. By his action he should be able to combine interests of different groups both political and social (Morris, Jones, 1999, p. 80). These observations were confirmed by F.E. Diefenbach, emphasizing that the public entrepreneur must be characterized by impressive political skills necessary to the acquisition of additional sources of funding and to obtain support from the stakeholders, the ability to use contacts with the environment necessary to conduct changes inside the organization (Diefenbach, 2011, p. 35).

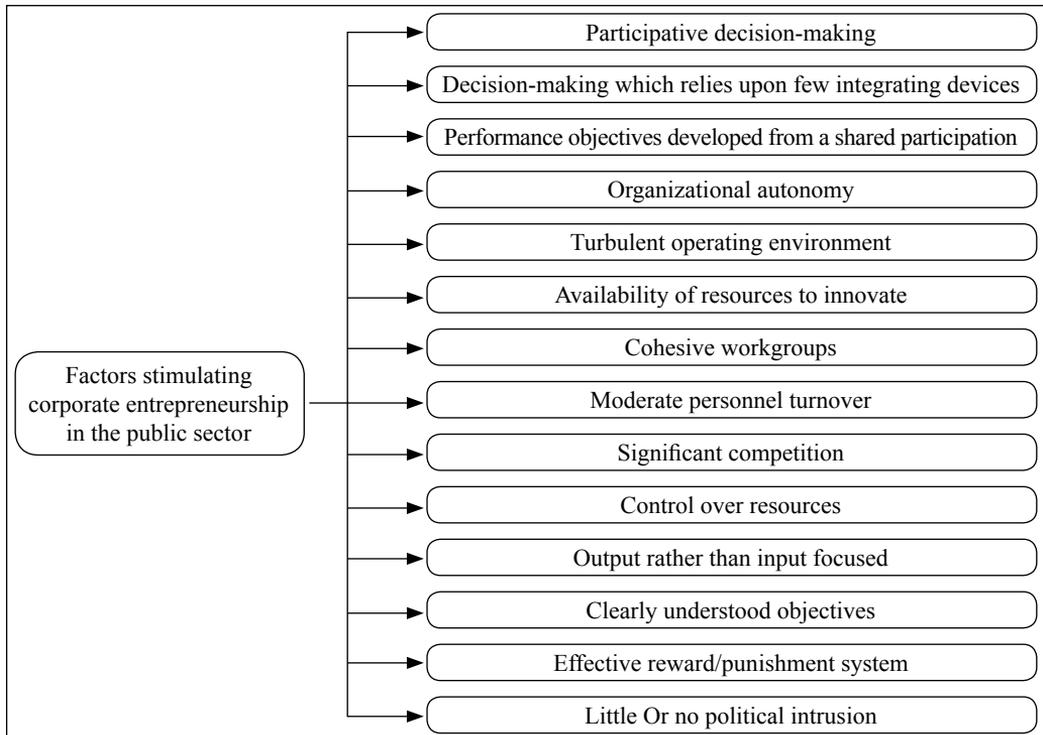
The following context of speculation allows to make the assumption that the public entrepreneur, similarly to the entrepreneur in the Schumpeterian perspective should be creative and innovative in the search for possibilities and opportunities, and should be ready to take risks and consistent in his pursuits to achieve set goals, in spite of existing constraints. He is characterized by both capacity of strategic thinking and tactical ability to undertake action in such a way in order not to waste any chance for innovation in an unfavourable environment.

#### 4. Types of entrepreneurs in the public sector

R.J. Sadler (2000) examining the management of public institutions distinguishes a set of factors stimulating the entrepreneurship in the public sector (Fig. 2).

Concluding, he noticed that in contrast to the private sector, in the public sector the most susceptible to innovations are large organizations, with a hierarchical structure and a relatively rigid organization dominated by a diversity of matters and conflicts of interest where a high ambiguity of goals and smaller control over resources is favourable for entrepreneurship adaptation. What is important is that conducted research proved that a lack control and freedom in administering resources stimulates innovations, and an implementation of innovations requires a disposal of resource. It was also demonstrated that organizations from the public sector function in a more turbulent environment than private companies, they are forced to make decisions by social consultations they are exposed to a dispersion of expectations both from authorities and from the society more and more are focused on results, rather than acquiring funds (Sadler, 2000, pp. 34-36).

Figure 2. Factors stimulating corporate entrepreneurship in the public sector



Source: own elaboration on the basis of Sadler, 2000, p. 35.

Assuming that the essence of entrepreneurship is to look for opportunities and their use to make profit, in the public sector the main goal becomes the creation of public value. S. Zerbinati and V. Souitaris analysing the context of entrepreneurship at the level of local administration

in terms of the process of acquisition of funds from European Union, recognized five types of entrepreneurs in the public sector (Tab. 2). The main goal of their action is the creation of value for citizens by delivering unique combination resources that were made available to them. In order to implement this objective, they risk their career and do not expect any financial profits in return. The classification was made on the basis of three submitted criteria (Zerbinati, Souitaris, 2005, pp. 57-61):

- the factual “background-related” criterion of the career-path (politicians versus public officer),
- three “goal-related” classification criteria (rewards, exit strategy and time horizon of association with the venture),
- “management method-related” criterion – called “personal strengths”.

Table 2. Typology of public entrepreneurs

Type	Back-ground career path	Goals			Management method
		Reward	Exit strategy	Time-horizon	Personal strengths
Professional politician	Politician	<ul style="list-style-type: none"> <li>• Popularity</li> <li>• Political support</li> </ul>	<ul style="list-style-type: none"> <li>• Re-election at higher level</li> </ul>	<ul style="list-style-type: none"> <li>• Medium-term (3-5 years),</li> <li>• Exit dependent on election cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Political contacts</li> </ul>
Spin-off creator	Politician	<ul style="list-style-type: none"> <li>• Social recognition</li> <li>• Independence</li> </ul>	<ul style="list-style-type: none"> <li>• Spin-off</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term (about 1-2 years)</li> <li>• Exit as soon as possible to spin-off</li> </ul>	<ul style="list-style-type: none"> <li>• Political contacts</li> <li>• Local professional contacts</li> </ul>
Business entrepreneur in politics	Politician	<ul style="list-style-type: none"> <li>• Social recognition</li> <li>• Local re-election</li> <li>• Potential fringe benefits for own business</li> </ul>	<ul style="list-style-type: none"> <li>• No clear exit strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term horizon</li> <li>• Rewards dependent of continuous success of project</li> </ul>	<ul style="list-style-type: none"> <li>• Business contacts</li> <li>• Management skill</li> </ul>
Career-driven public officer	Public officer	<ul style="list-style-type: none"> <li>• Career advancement</li> <li>• Professional visibility</li> </ul>	<ul style="list-style-type: none"> <li>• Job opportunity in other organization, with more prestige and responsibility</li> <li>• Internal promotion</li> </ul>	<ul style="list-style-type: none"> <li>• Medium-term (3-5 years); exit dependent on job opportunity</li> </ul>	<ul style="list-style-type: none"> <li>• Professional contacts</li> <li>• Knowledge of internal structures and processes</li> </ul>

Politically ambitious public officer	Public officer	<ul style="list-style-type: none"> <li>• Social recognition</li> <li>• Entry into political career</li> </ul>	<ul style="list-style-type: none"> <li>• Internal promotion</li> <li>• Election for a political post</li> </ul>	<ul style="list-style-type: none"> <li>• Medium-term (3-5 years); exit dependent on election cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Professional contacts</li> <li>• Knowledge of internal structures and processes</li> </ul>
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Source: Zerbinati, Souitaris, 2005, p. 58.

The basis of a career path of the professional politician, the spin-off creator and a business entrepreneur in politics is the political background. The objective of measures of a professional politician is to be re-elected on a higher level, which is dependent upon an electoral cycle. The award for the work performed is popularity and political support, which is also the basic method of management of this type of the entrepreneur. The spin-off creator is directly involved in the implementation of projects along with specially appointed teams, in return he expects social of recognition and independence. As the most successful and effective method of achieving goals he acknowledges contacts with politicians and local professionals. The business entrepreneur in politics does not have a clearly detailed action plan whose shape depends on the possibility to execute intended activities. He will gladly involve private sector entities, creating new projects and using the experience of professionals, in order to efficiently invest the resources entrusted to him. His personal strengths are broad contacts in business and ability to manage.

The career-driven public officer and politically ambitious public officer are public officials, they make reasonable and professional decisions. The career-driven public officer is a self-confident, responsible manager, having appropriate knowledge in management focused on career development. The period of his employment in a given institutions depends on the possibility of receiving a more attractive job offer, and his main assets are professional contacts and high level of know-how concerning the knowledge of structures and processes specific to public organization. The politically ambitious public officer is also a professional and a manager, but subordinated towards his own political party on which depends his further career development. The awards that he seeks for his efforts are social recognition and development of his political career.

It should be emphasized that the distinguished types of entrepreneurial attitudes are the outcome of studies on a limited number of cases which enables the creation of various attitudes and profiles, dependent on circumstances and the specific nature of functioning of a given organization.

## 5. Conclusion

Currently in the public sector one may notice a number of positive changes related to substituting the bureaucratic model of administration by the management model focused on satisfying the needs of citizens who “do not want to be voters nor petitioners, but are expecting that they will be clients and stakeholders” (Hausner, 2008, p. 32). The expectations of a wide group of stakeholders of the public sector become the cause of searching for not only innovative methods of public services provisioning, but also for methods of an effective way of spending public funds. The development of public entrepreneurship is strictly dependent on the extent the administration shall be replaced by principles and tools of management that are binding in the economic

organizations. Although it is difficult to imagine the administrative systems to be completely replaced by management systems, it is desired that in the institutions of the public sector the instruments of entrepreneurial management, became applicable on a wider scale (Kraśnicka, 2002, p. 288).

The contemporary public entrepreneur is motivated by the necessity of reforming the public sector, which is accompanied by permanent deficiency of means necessary for satisfying the constantly growing social needs and the need for increasing efficacy and effectiveness of fulfilment of objectives and tasks, which undoubtedly depends on the creativity and innovation in overcoming problems. He is expected to have an active attitude in administering public resources, search for new income sources in provision of a higher-standard public services and a permanent effort in increasing efficacy and effectiveness of the way public organizations function. In the process of entrepreneurial management the important thing is also the fulfilment of requirements concerning the transparency of undertaken decisions and risk's effects of public funds commitment in innovative solutions whose results, apart from financial control, will be subjected to political and social evaluation. Undoubtedly, the consideration of the distinguished issues may discourage searching for innovation and undertaking entrepreneurial actions, but may also become an inspiration for public organization managers, recognising the needs and benefits of introducing changes in this specific area.

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# Chapter 4

## Evolution of Cooperation in Business<sup>1</sup>

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*Anna Pietruszka-Ortyl*

### 1. Introduction

The tendency to cooperate and seek partners for the implementation of mutual objectives is an immanent feature of the human being. It is manifested not only in relationships at the individual level but has been reflected in business activities for ages.

The first forms of agreements in economic history took the form of strategic alliances that are centuries old although partner relationships in business became the object of increased interest only in the 1960s.

Cooperation between organizations is presently a logical reaction to the turbulence of the environment. Such coalitions are the consequence of activities in knowledge-based economy where numerous skills and resources essential for the company's success are located outside its boundaries and beyond the management's direct control to an extent greater than ever before (Doz, Hamel, 2006, p. 7). The database of strategic arrangements has thus changed – since the 1990s We have been observing a shift of interest towards cooperation ties based on the most protected, core skills, technologies and markets (Sulejewicz, 1997, p. 48), the so-called “soft alliances”.

Therefore, the purpose of the study is to discuss the essence of cooperation from the perspective of management sciences, indicating its levels and forms. The main part of the discussion is dedicated to the presentation of the evolution of interorganizational cooperation in the context of the company's strategy of action (analysis from competition to coopetition) as well as the structure (inference of organizational forms of collaboration – from bilateral alliances to networks of alliances).

### 2. Essence of cooperation from the perspective of management sciences

According to the interpretation of T. Lendrum (2000, p. 7) cooperation is mutual development of successful, long-term, strategic relationships, based on trust, world-class and sustainable

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competitive advantage for all the partners. This term includes relationships which have a further separate and positive impact outside the partnerships.

Therefore G. Hamel, Y.L. Doz and C.K. Prahalad (2002, p. 3) claim that “collaboration is competition in a different form”.

F.A. Kuglin and J. Hook (2002, p. 3) define collaboration as allying or close association, as of nations, countries, groups, organizations for common objective. The authors also try to delineate this term through defining it by the following synonyms: participation, affinity, support, union, relation, collaboration, partnership, coalition, combination, bond, affiliation.

Inspired by the spheres of social life, we may refer the issues of cooperation to three levels – micro, meso and macro. According to this convention, an analysis should cover interaction in the micro area – between units, in the meso area – at the level of groups, as well as in the relations: group – unit, unit – organization, group – organization and in the macro area – between organizations.

Therefore, collaboration at the macro level takes the form of the collaboration of companies. The essence of cooperation at this level comes down to the presence of interorganizational bonds, namely mutual, multi-level impacts. They make companies take one another into account, they adapt to one another and take this into account in their decisions. In organizational terms, these impacts take place at the level of resources, people and actions (Kaczmarek, 2012, p. 142).

Collaboration itself, on the other hand, may be perceived in a dichotomous manner. First, from the perspective of the organization’s strategy but also from the point of view of the organizational structure, form.

### **3. Interorganizational collaboration – from competition to coopeition**

Cooperation relations between companies are centuries old. The first documented economic alliances<sup>2</sup> date back to the 15<sup>th</sup> and the 16<sup>th</sup> century when merchants in Great Britain established *joint ventures* with capitals for trading and mining deposits in overseas colonies. In the 18<sup>th</sup> and the 19<sup>th</sup> century alliances were also established in navigational transport to gradually develop in the 19<sup>th</sup> century (mostly in the mining industry, the chemical industry and the metallurgic industry). The climax of this type of arrangements is the 20<sup>th</sup> century and the beginning of the 21<sup>st</sup> century, especially in high technology (Cygler, 2013, pp. 15-16).

The collaboration strategy is currently one of the most often development options used by organizations. Therefore, strategic alliances often become the road to survival and development chosen by organizations. This form of coalition make it possible to completely change the rules of functioning in the sector in which companies involved in the arrangement operate. As a result of such collaboration, the industry gains a more dynamic and flexible – virtual, character (Chesbrough, Teece, 2002, pp. 152-153).

As a result, alliances predestine specific companies for a quick change of their position in the sector, reorganize control mechanisms for the creation of distinctive skills as well as affect the structure and dynamics of competition (Gomes-Casseres, 1996, pp. 176-177).

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<sup>2</sup> For the majority of authors, the concepts cooperation and alliance are synonyms.

Establishing a partner company on the basis of a strategic alliance is thus recommended in situations in which permanent competitive advantage may be built only after the partners combine their strengths.

The literature on the subject presents clear discrepancies in defining the concept of strategic alliance. However, studying literature makes it possible to distinguish two positions dominating in the theory, namely the wide and the narrow approach to defining strategic alliances.

According to *the wide* understanding, strategic alliances may be concluded both with suppliers and recipients, as well as with present or potential competitors. As a result, they may be both horizontal and vertical (Gulati, 1998, p. 293). This approach implies a wide range of arrangements between partners, starting from agreements between the supplier and the recipient, to a complete merger, while cooperation projects include the actions of companies in the form of *joint ventures*, exchange of licenses, bilateral distribution and promotional agreements, exchange of technology, agreements for the exchange of information, mutual research and development programs or mutual servicing (Hung, 1992, p. 346).

Enthusiasts of the wide position perceive the strategic alliance as a long-term cooperation agreement between at least two companies in order to connect, exchange and/or integrate the partners' specific resources to achieve the assumed objective (Hung, 1992, p. 346).

Representatives of the second, *narrow*, understanding of the definition of the strategic alliance characterize it as an association regarding a limited number of companies constituting actual or potential competitors (Zembura, 2002, p. 18). They clearly indicate its horizontal form.

The review of the definition performed by the author of this study also inspires to choose the opinions of the representatives of the wide position. It has its confirmation in the characteristics of relations of the strategic alliance formula.

Characteristic and peculiar features of strategic arrangements determine the largest number of properties of strategic alliances and thus determine the essence of interorganizational cooperation, namely (Chwistecka-Dudek, Sroka, 2000, p. 24; Cygler, 2000, pp. 34-37; Doz, Hamel, 1998, p. XV; Harbison, Pekar Jr., 1998, p. 18; Lynch, 1993, p. 24; Romanowska, 1997, p. 12; Zembura, 2003, p. 372):

- *they are concluded to implement specific objectives;*
- *they have strategic significance*, an alliance is most often used to implement strategic objectives, including to change the situation in the sector or the entire branch or to maintain or strengthen the competitive position;
- *the basis for their establishment is the principle of partnership* because participants of the alliance should include companies independent of one another, on the terms of equivalence and thus each partner has the right to co-manage the project;
- *allies are organizationally independent*, namely they maintain their legal and organizational autonomy throughout the entire period of cooperation;
- *these collaborations bring mutual responsibilities and benefits;*
- *cooperation is based on the proportionality of the partners' contributions and shares as compared to derived benefits;*
- *they are fragmentary* – they relate only to some activities of the participants to the agreement,
- *the project is integral* which means that changes of specified terms and conditions of the agreement affect changes in other elements of cooperation;
- *they are dynamic;*
- *they are long-term agreements with a limited time frame;*

- *they are an interaction that may include certain elements of competition and collaboration;*
- *they are based on the permanent transfer of assets within the coalition;*
- *they determine comprehensive inflows and consequences from concluding the alliances for the partners because they shape the entire chain of values and all levels of management in parent companies.*

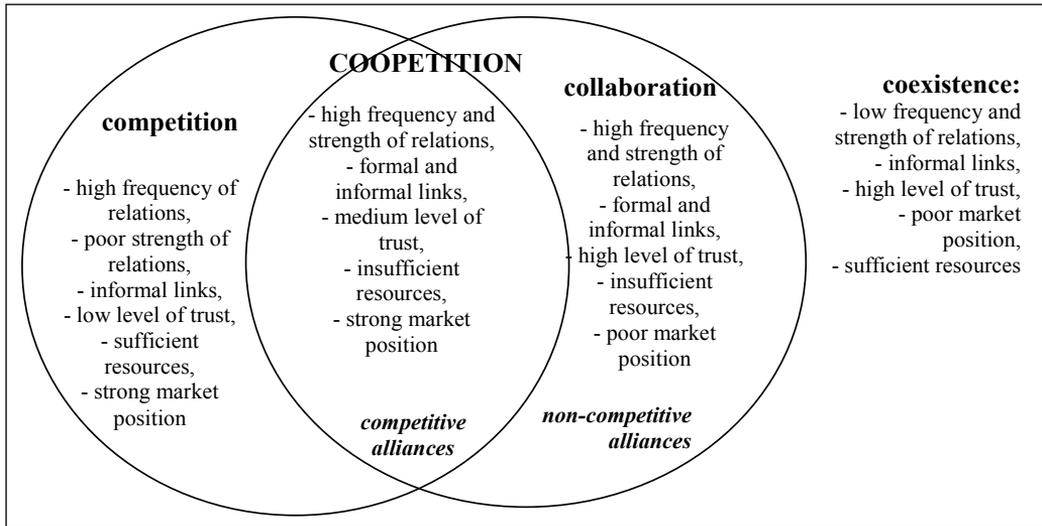
The dynamics of contemporary conditions of the companies' activities also significantly influences the characteristics of currently established strategic alliances. The presence of an increasing number of actors leads to building unique skills determining the competitive advantage of an industry, usually based on rare resources. Companies forced to continuously compete in a technological race and penetrate new markets undertake the process of continuous learning, expansion of the base of intangible resources and are searching for local business partners to face the new reality for that purpose. Therefore, cooperation arrangements currently gain quite new features resulting from the change in the orientation of organization management towards intangible resources:

- *they operate under the conditions of large uncertainty and vagueness;*
- *they evolve in directions difficult to predict;*
- *the methods of generating values and the methods of using them by partners are not completely planned and foreseen (Doz, Hamel, 1998, p. XV);*
- *they are most often established to observe, learn and internalize the partners' know-how (Parise, Sasson, 2002, p. 43);*
- *partners demonstrate great involvement in sharing and generating key competences (Harbison, Pekar Jr., 1998, p. 18);*
- *they give the possibility to conclude multilateral agreements creating network connections (Cygler, 2002, p. 37).*

To sum up, interorganizational cooperation, apart from competition and co-existence, is one of a company's development options, especially under the conditions of knowledge-based economy. It is usually connected with functioning in various alliances. Depending on the adopted perspective, the alliances may be competitive or non-competitive. In the case of the narrow approach to defining the coalition – competition and cooperation are of a separable character. On the other hand, if partnership treated from the wide perspective, competitive alliances are consistent with the concept of co-competition or cooperation between companies established in the late 20<sup>th</sup> century (Fig. 1).

The concept co-competition comes from the combination of the concepts *cooperation* and *competition* and R. Nord is considered its author (Fraś, Świekatowski, 2013, p. 32). It defines the simultaneous relations of competition and collaboration connecting the competitors. The complexity of the phenomenon results from the simultaneous presence of two contradictory logics between the parties: trust and conflict, as well as the presence of a relation of an economic and extra-economic character. Managing these relations is expensive, and achieving the objectives for which co-competition was implemented – uncertain (Cygler, 2013, p. 16, 19). Therefore, the ability to function in cooperative arrangements and building co-competitive advantage is the primary challenge for contemporary companies.

Figure 1. Coopetition between companies as compared to competition and cooperation



Source: own work based on Cygler, 2013, p. 19.

#### 4. Forms of interorganizational cooperation – from bilateral alliances to networks

The analysis of literature on the subject regarding the character of contemporary cooperation arrangements leads to the reflection that alliances have also evolved in time. In the 21<sup>st</sup> century, due to the growth in the significance of intangible resources of the organization, currently determining the source of competitive advantage, the dominating importance and desired status was achieved by the cooperation model based mainly on building long-term and effective partner relations.

When presenting their own classification of strategic alliances, D. Faulkner and C. Bowman present a project of potential and the most probable directions for the evolution of identified arrangements (Faulkner, Bowman, 1996, pp. 132-133):

- successfully developing focused alliances<sup>3</sup> are often transformed into complex alliances<sup>4</sup> when the partners find new areas of cooperation;

<sup>3</sup> A focused alliance is an arrangement concluded between two or more companies the objective of which is to undertake specific actions in response to strictly defined circumstances (Faulkner, Bowman, 1996, p. 130). In the case of the specific nature of the alliance, it is an alliance with expressly outlined boundaries of the arrangement regarding both partners' contributions and benefits.

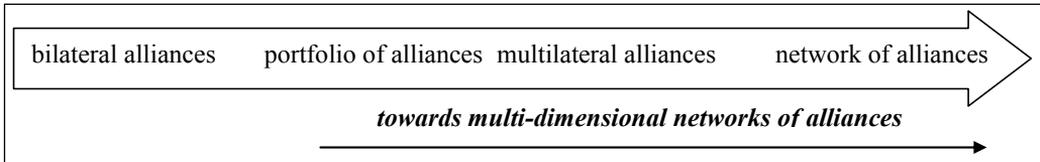
<sup>4</sup> A complex alliance includes the cooperation of companies in several different areas of their primary activities. However, when declaring the participation to cooperate in the wide range of actions partners wish to maintain their individual personality and general aspirations at the same time (Faulkner, Bowman, 1996, p. 130).

- along with the increasingly clear appearance of the scale and complexity of opportunities on the market, alliances created by two partners (bilateral) are often expanded through the invitation of new allies which leads to the establishment of a consortium<sup>5</sup>;
- alliances that initially do not operate on the basis of *joint ventures*<sup>6</sup> often form them later on, in connection with difficulties resulting from the partners' functioning in a partially merged mode but without strictly defined boundaries between cooperating and independent organizations;
- before specifying the boundaries of their cooperation more closely, companies entering the road of partner projects usually choose one of the four of the following forms: *joint venture* with two partners, collaboration between two partners, consortium *joint venture*, a cooperation network.

Currently the primary objective of collaboration is to blur the boundaries between the islands of parent companies, create platforms of mutual cooperation. The emphasis from bilateral arrangements is thus shifted towards multilateral arrangements in the continuum: from bilateral to multilateral (links through third-party partners) to a network of alliances.

Additionally, collaboration between numerous partners may take the form of a network of alliances (links between numerous similar companies), a portfolio of alliances (a set of separate, bilateral alliances) or a network of alliances (Sroka, 2012, p. 53) (Fig. 2).

Figure 2. Evolution of cooperation arrangements between organizations



Source: own work.

To conclude – the main challenge for contemporary organizations are their roots in the resource-based concept and the pursuit to function in a network of relations, preferably non-symmetrical and dominated by the company as the main navigator offering unique, core competences. Therefore, the natural consequence of the evolution of interorganizational cooperation is the emergence of a network of alliances that, being a higher form of development of cooperation arrangements, is substantially different from bilateral alliance arrangements, namely:

- networks of alliances may consist of several or numerous companies differing in size, model of growth, organization, degree of internal competition, management structure;

<sup>5</sup> A consortium is established by several partners to implement a wide project related to a particular task (Chwistecka-Dudek, Sroka, 2000, p. 78).

<sup>6</sup> *Joint venture* consists in establishing a company with a legal personality separate from the partners the shareholders of which are companies determining a set of objectives in a given area of activities. This form of alliance usually includes the implementation of tasks other than the partners' basic activities. Collaboration is a type of alliance used when the allies do not intend to create a separate company to identify boundaries for their contacts and it is a form preferred when the basic activity of one partner belongs to the area covered by the alliance (Faulkner, Bowman, 1996, p. 131).

- companies in the network are connected by agreements for cooperation, while not all of them need to be connected with one another – an indirect connection is possible, through a third-party ally;
- the majority of the “networks of alliances” does not start their activities only after their complete structural shaping, but is built step by step;
- the speed with which networks expand and the scheme according to which new companies are accepted to the network affects its competitiveness on the market;
- the degree of internal competition between partners depends both on the number of members and the structure of relations between them.

## **5. Network perspective of collaboration**

The evolution of the form of cooperation arrangements fits in with the network-holistic trend in management sciences and determines network thinking (Piekarczyk, Zimmiewicz, 2010, p. 28). Its consequence is an intensified interest in the issues of networks that may be perceived as structures describing a specific form of interaction between entities or as forms being new structures created by the said entities in the pursuit of a mutual objective (Niemczyk, Jasiński, 2012, p. 9).

Therefore, by analogy, networks may be analyzed on three basic levels – at the level of the entire network (macro), at the level of particular parts of the network (meso), at the level of particular units of the network (micro). The levels of collaboration analysis in the network perspective may also take the form of researching the community of companies (business network – e.g. researching the network’s competitiveness, reasons for their development, particular structure of cooperation – e.g. analysis of cluster competitiveness), researching individual companies (analysis of business connections) as well as the inference of individual relations (researching features typical of relations, e.g. strategic alliances) (Małys, 2013, p. 48).

The convention of the network approach developing since the 1970s also includes cooptation. A more and more common phenomenon in the contemporary global economy is complex (network) cooptation which may take two forms – relations inside network structures or between them (Cygler, 2013, p. 43).

All these premises thus draw the attention of contemporary researchers towards the emerging omnipresent paradigm of networking, which assumes that the present main point of reference is the complex and multi-dimensional interorganizational network.

According to the network perspective, networks of organization relations are constructive for its identity and status. Networking means not only sharing resources but also sharing risk, especially with new and uncertain projects. Network theories also introduce new ways of coordination into the language of the analysis of interorganizational relations, based on social and informal bonds (Latusek-Jurczak, 2014, p. 61).

However, we should remember that, according to the model by C. Brito and S. de Silva (2009, p. 289), the condition for an effective collaboration is the implementation of four “Cs” – mutual interest, sharing resources, coordination of actions and trust.

## 6. Conclusion

Along with the development of economies and a change in the philosophy for conducting business activities, the methods of functioning on the market have been transformed. First, the concept of cooperation as an alternative for competition emerged (at the micro, meso and macro level) and then a hybrid was created on the basis of competitive alliances – coopetition. Second, the forms of cooperation themselves evolved – from bilateral collaboration to multilateral arrangements in the form networks and webs of alliances. Finally, the paradigm of networking determining network thinking in management emerged – again at all possible levels (units, groups, organizations).

We may thus attempt to draw a conclusion that today we should not discuss the perspective of organizational behaviors, but cooperative behaviors.

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# Chapter 5

## **Financial Potential as an Object of Strategic Management of the Company**

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*Anatolii Mazaraki, Olena Korolova-Kazanska*

### **1. Introduction**

On the modern stage of functioning of enterprises in different economic activities around the world the strategic vision of development has become extremely important role. It ensuring sustainable economic growth for companies in the long term period. In connection with it the methodology of strategic management, which was engendered in the USA and other economic developed countries in 60<sup>th</sup> of XX century, has gained a widespread use in practice of managerial activity.

In recent years many publications of economists were examined different aspects of strategic management. In these publications the methodology of corporate strategy, marketing strategy, innovation strategy formation and implementation is considered in detail. At the same time researchers paid insufficient attention to the issues of development of financial strategy of the company – one of its most important functional strategies.

The dynamic development of the market process that occurs particularly in Ukraine requires a re-orientation of companies' management efforts from ensuring the current results of activity in the plane of providing competitive advantages, the formation of which is a certain guarantee of lasting and effective operation of the business and depends on the quality of the realization of its potential.

In the late 1970s – early 1980s many publications that contain different aspects of the concept of “potential” went out. In the etymological sense the term “potential” comes from the Latin. In dictionaries of foreign words the interpretation of the term are mostly pointed as power, strength (Vasyukova, 1999). According to the Big economic dictionary the potential as an economic category is available opportunities, resources, stocks, tools that can be used to achieve, to implement of something (Borisov, 2009).

But the analysis of publications about problems of potential estimation shows the low level of development on the level of separate industry, and especially at the enterprise level. Some publications only note the fact that the assessment of the potential of individual businesses stayed out of sight of researchers. The majority of publications in potential theory are devoted to such indicator as the economic potential of the company.

## 2. Analysis of recent research and publications

In the studying of the economic content of the concepts of “potential”, “financial strength”, “enterprise strategy” were involved such Ukrainian and foreign scientists as I. Ansoff, R.A. Fatkhutdinov, I.A. Blank, N.S. Krasnokutskaya, G.Y. Goldstein, I. Merzlov, P.R. Niven, Robert Norton, A.S. Fedonin, B.E. Bachevsky. Publications of V.A. Kuntsevych, V.G. Bykov, R.V. Ruda and others are directly dedicated to the methods of analysis and assessment of financial potential of the company.

But a unified concept of the financial potential of the enterprise is not developed still; the existing achievements on this issue are not sufficiently developed.

## 3. The purpose of the work

The purpose of the research in this article is to analyze the basic concepts for interpretation of the essence of financial potential of the company and approaches to its evaluation.

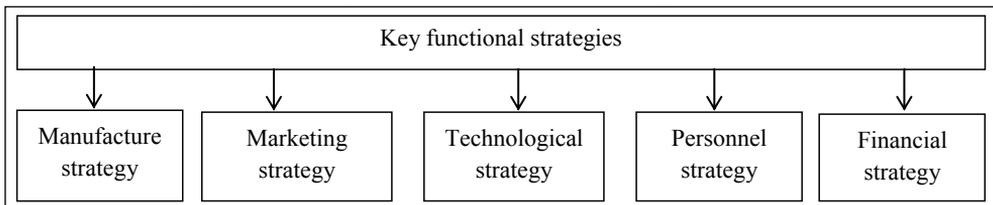
## 4. The theoretical background

The aggregate economic potential of the company is an integrated system that combines inter-related, interdependent elements: the production, financial, employment, innovation, information potentials etc. The essence of the concept of “company’s potential” and the composition of the elements that shape it, are the subject of scientific discussion in recent years. Similarly, there is no clear vision of essence and components of the financial potential of the company, whose role takes one of the key places in the strategic management of the company.

There is a strong intercommunication between the concepts of “company’s strategy”, “financial activity”, “financial strategy” and “financial potential”. Thus, the financial activity of the company is an activity aimed at finding, selecting and attracting financial resources for their effective use to ensure strategic goals of the enterprise.

The overall strategy of the company – a set of specific strategies: manufacture, marketing, technological, personnel, financial (Fig. 1).

Figure 1. Block diagram of the key elements of business strategy



Source: Goldshtain, 2003, p. 25.

Financial strategy – is one of the most important types of functional strategies of the company that provides all the basic directions of its financial activity and financial relations by creating long-term financial goals, choosing the most effective ways of their achieving, adequate correc-

tion areas of formation and use of financial resources when changing environmental conditions (Blank, Sytnik, Korolova-Kazanska, Ganechko, 2009).

Financial potential can be characterized as relations arising in the company about achieving the highest possible financial result on conditions (Merzlov, 2008):

- the possibility of capital raising in the amount necessary for the effective implementation of investment projects;
- the availability of equity sufficient to satisfy the conditions of liquidity and financial stability;
- the profitability of invested capital;
- the availability of effective financial management system that provides transparency of current and future financial condition.

Financial potential is a possibility of the company to attract and to use financial resources. This is the set of capabilities of effective attraction and spending of funds (Ilyina, 2009, pp. 256-261).

Scientists consider the nature of the financial potential of the company mainly in terms of resource concept – as a combination of financial resources, which company may to involve for implementation its strategic and tactical objectives. At the same time the competences approach to determining the nature of potential of the company gained popularity in recent years. Key competences, as defined by K. Prahalad and G. Hamel, a “core of the company” in the form of uncodified (organizational-specific) knowledge that cannot be relayed to another firm (Prahalad, Hamel, 1990, pp. 79-91).

Undoubtedly, the financial potential of the company based on entirely objective conditions – the presence and capabilities of attracting of financial resources.

Financial resources, by I.A. Blank definition, are a set of equity and debt capital in cash that additionally involved and reinvested by the company, intended to finance the future development in the deterministic planning period, the formation and use of which is controlled by the company in accordance with its own foreseeable intended purpose with taking into account the risk factor (Blank, 2010, p. 23).

The effectiveness of combinations of different financial instruments for the implementation of current activity and ensuring needs of development depends on management’s competences in the area of financial activity. Moreover, the expediency of the use and allocation of financial resources for specific development priorities ensuring bound exclusively with such competencies as (Krasnokutskaya, 2010):

1. Knowing of approaches to economic activity financing, their advantages and disadvantages, implications of the use for short and long term outcomes.
2. Experience of financial managers for the application of acquired knowledge, the correct choice of objects of financial monitoring, maintaining the required level of the financial situation of the company, etc.

The methods of evaluation of company’s financial potential will depend on the fact which the economic content is embedded by researchers in determining the nature of the financial potential. The question of assessing the economic potential of the company including its financial potential are debatable today. A unified methodology of the financial potential assessing has not been developed yet. And methodologies that exist are not elaborated. Some researchers consider it sufficient to confine with a system of indicators for assessing the financial situation of the company as one that describes the company’s capital structure. But, in our view, this approach makes it possible to evaluate only one aspect of the financial potential, not describing the strategic position and strategic business opportunities for funding activities.

In this aspect the approach based on the use of the Balanced Scorecard, which adapts to the conditions of assessment exactly financial potential of the company deserves attention. Balanced Scorecard can be defined as a set of carefully chosen indicators which can be measured quantitatively and based on company strategy (Niven, 2005, p. 15). The researchers argue that the activities of the company should be considered simultaneously in four areas: financial results; attitude to customers; internal business processes; staff and skill development. Balanced Scorecard is a very dynamic system, a set of parameters within which can vary depending on the needs of strategic management.

To build a Balanced Scorecard for assessing the financial potential managers need to answer four questions (Ruda, 2011, p. 171):

1. How should we look in the eyes of our shareholders to achieve financial success?
2. How should we look in the eyes of our customers to achieve the desired financial condition?
3. How should we maintain the ability to transform and improve to implement his vision of financial development?
4. Which business processes we have to improve to meet the needs of our shareholders?

Answers to these questions will help determine the four strategic perspectives. According to the Balanced Scorecard the perspective is category of indicators of efficiency. To assess the financial potential the company's Balanced Scorecard uses four standard perspectives (Niven, 2005, pp. 309-311): finance; customers; internal business processes; learning and growth.

The perspective "Finance" shows how the company will increase its shareholder value and will be of benefit to its owners (Niven, 2005, p. 311). Within this perspective, the main criteria of effectiveness are indicators of financial management: total assets, return on net assets, net income, additional economic value (EVA), return on investment (ROI), return on of equity (ROE) and so on.

The perspective "clients" shows what company looks like in terms of its clients and describes its market position. The identifying of the main indicators of efficiency within submitted prospect is very difficult task, which requires detailed analysis of needs. Thus, the value for customers can be sufficiently large number of indicators, including: customer loyalty, market share, the average duration of the relationship with customers, the number of customers, the number of lost customers and so on.

The perspective "internal business processes" is largely determined by perspective "clients", identifies the main processes to be improved and developed to increase competitive advantages. The effectiveness of business processes determines the value of the company offer, which determines the amount of attracted customers and the final financial result. Examples of such criteria of efficiency are: average transaction costs, costs of research and development, break-even period, internal rate of return of new projects and more.

The perspective "learning and growth" reflects the most important elements of culture, technology and skills of company personnel that are required to achieve a certain level of internal processes (Niven, 2005, p. 309). Within this perspective we can formulate an illustrative list of criteria of efficiency: employee turnover, labor productivity, number of hours of training, number of workers with multiple specialties and more.

According to K. Ilyina financial potential of the company includes three aspects: financial potential of stability, financial potential of providing, financial potential of development (Ilyina, 2009, pp. 256-261). The author believes that the capacity to assess the financial potential of stability and financial potential of providing we can use known methods of financial analysis,

the most common of which is coefficient method. To assess the financial potential of stability we need to calculate coefficients of financial stability, liquidity and solvency; to assess the financial potential of providing – indicators of business activity, profitability indexes, creditability indicators. As for financial potential of development, then it is necessary to apply a system of indicators of investment projects assessment, the totality of which creates preconditions for the development of the company.

It should be noted that resource and competency approaches to defining the essence of the financial potential of the company do not contradict each other, but are complementary. In our view, resource concept of potential is the basic concept, and, therefore, the first task of the study is the process of potential research is studying the degree of providing of the company's activity with various resources.

Resource concept of financial potential of the company requires the statistical research of how companies' activity is provided with financial resources. The next part of our study will focus on identifying the main trends in the providing companies' economic activity with financial resources. And special attention will be given to trade activity of Ukraine.

## 5. Practical approach

First, we have analyzed the dynamics of the trade industry in recent years by major indicators. Unfortunately, there is no published official statistics for 2014 that would help identify the impact of negative phenomena taking place in the economic and political life of Ukraine. Thus, the role of trade in economic development of Ukraine can be characterized with data given in Table 1.

Table 1. Some indicators of trade industry development in Ukraine during 2010-2014

Indicators	2010	2011	2012	2013	2014
Gross domestic product (mln UAH)	1,082,569	1,302,079	1,411,238	1,454,931	1,566,728
Including trading	164,826	203,755	216,659	229,117	222,675
– In% of total volume	15.2	15.6	15.4	15.7	14.2
Number of businesses, total (units)	2,183,928	1,701,620	1,600,127	1,722,070	x
Including trading	x	x	843,075	890,658	x
– In% of total amount	x	x	52.7	51.7	x
Number of enterprises (units)	378,810	375,695	364,935	393,327	x
Including trading	110,154	111,638	103,798	110,414	x
– In% of total amount	29.1	29.7	28.4	28.1	x
Volume of sales (mln UAH)	3,596,646.4	4,202,455.2	4,459,818.8	4,334,554.1	x
Including trading	x	1,725,858.4	1,783,736.9	1,782,399.7	x
– In% of total volume	x	41.1	40.0	41.1	x

Source: own work on the base of the official website of the State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>.

The data in Table 1 show the gradual growth of Ukraine's GDP in current prices, which occurred during 2010-2014. The share of trade in total GDP during 2010-2013 had gradually increased, and then in 2014 there was some decreasing of its value. But throughout the studied period trade had ranked the largest share in total GDP. For comparison, the second largest share in total GDP (about 11%) occupies the processing industry.

Analyzing the data in Table 1, we can see that in 2013 the number of businesses in Ukraine decreased compared with the base year 2010, but increased compared to 2011 and 2012 years. Such dynamics is typical also for business entities in the trade, whose share exceeds 50% of total amount of businesses.

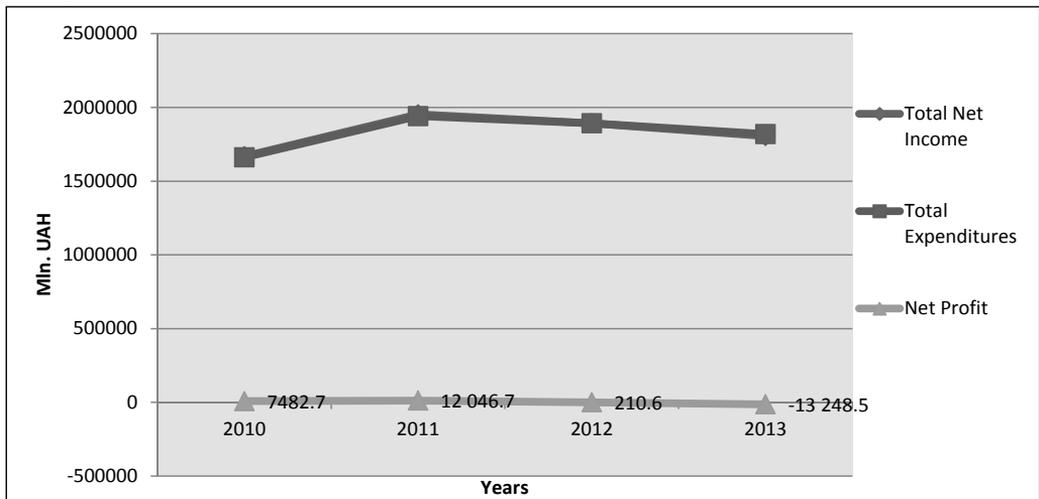
Business entities are divided into enterprises and individual entrepreneurs, whose share in the number of business entities distributed approximately 20%: 80% respectively. In the total number of Ukrainian enterprises the share of trade enterprises is about 30%, while the total number of individual entrepreneurs this indicator is twice more.

The share of volume of sales in trade industry is significant. In recent years it accounted for 40-41% of total sales in Ukraine.

Then we have analyzed the dynamics of the financial results of trade enterprises of Ukraine and compare them with those of the economy as a whole.

Figure 2 demonstrates the dynamics of total net revenue, expenditure and net profit of trade enterprises.

Figure 2. Dynamics of the main indicators of financial results of trade enterprises in Ukraine during 2010-2013 (mln UAH)

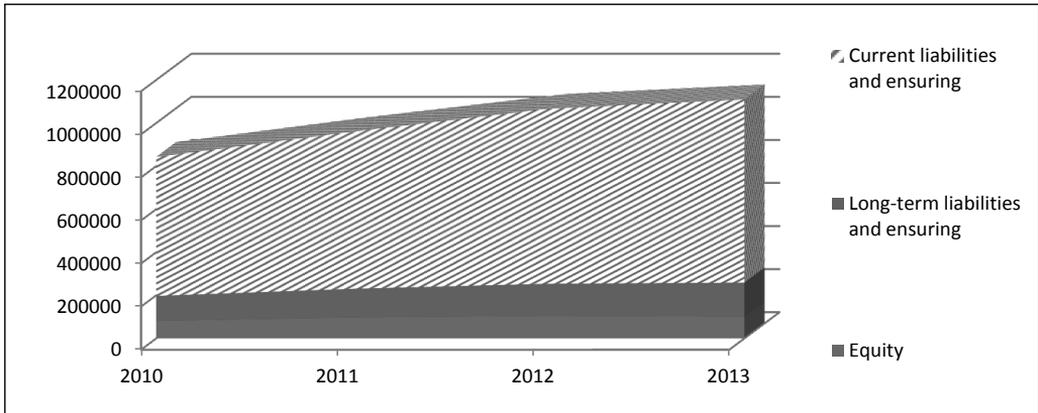


Source: own work on the base of the official website of the State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>.

The Figure shows that expenditures almost coincided with the volume of revenues. This situation caused the formation of a slight amount of net profit by trade enterprises. This rate reached its maximum in 2011, then undergone a sharp reduction. So in 2013 in trade industry was formed loss of more than 13 mln UAH as the result of its economic activity.

Considering that the basis for the formation of financial potential is the degree of sufficiency of financial resources, let's analyze the dynamics of volume and set of Ukrainian trade enterprises capital during 2010-2013 years (Fig. 3, Fig. 4).

Figure 3. Dynamics of volume and composition of capital of trade enterprises in Ukraine during 2010-2013 (mln UAH)

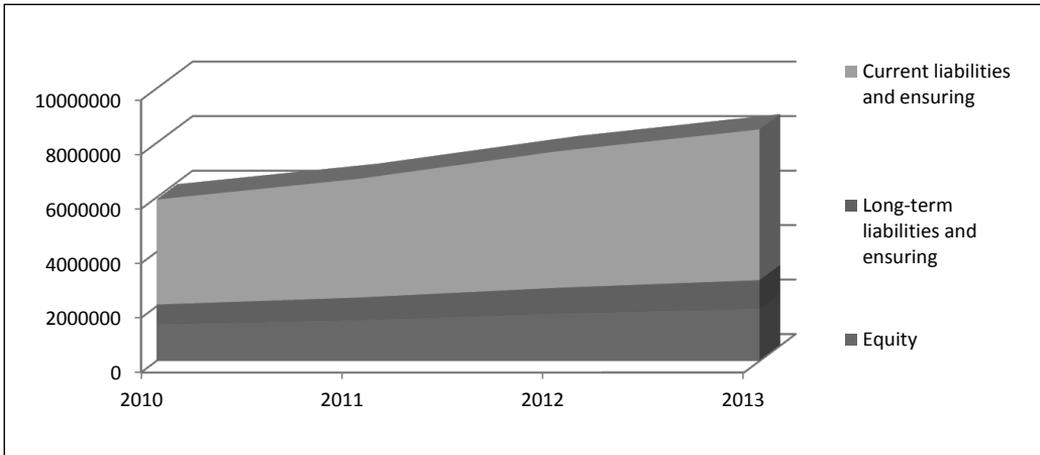


Source: own work on the base of the official website of the State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>.

Figure 3 shows that the amount of trade enterprises capital in Ukraine had a gradual tendency to increase during 2010-2013. But the rate of capital growth was markedly slower than in the economy of Ukraine as a whole (32% and 44% respectively). This indicates an increase in opportunities of industry for financing activities through both own and borrowed sources. But if the growth rate of the total capital was 32%, the volume of equity of trade enterprises increased by only 25%. Also Figure shows that the share of equity in the financing of trade enterprises activity in Ukraine is insignificant. This problem will be studied detailed further.

The situation in Ukrainian economy in general is a bit better, but deficit of own sources of economic activity financing is significant. Thus, the share of equity in total capital, as seen in Figure 4, is about 35%. At that the growth rate of both own and borrowed sources of financing was almost uniform and was about 43%.

Figure 4. Dynamics of volume and composition of business entities capital in Ukraine during 2010-2013 (mln UAH)

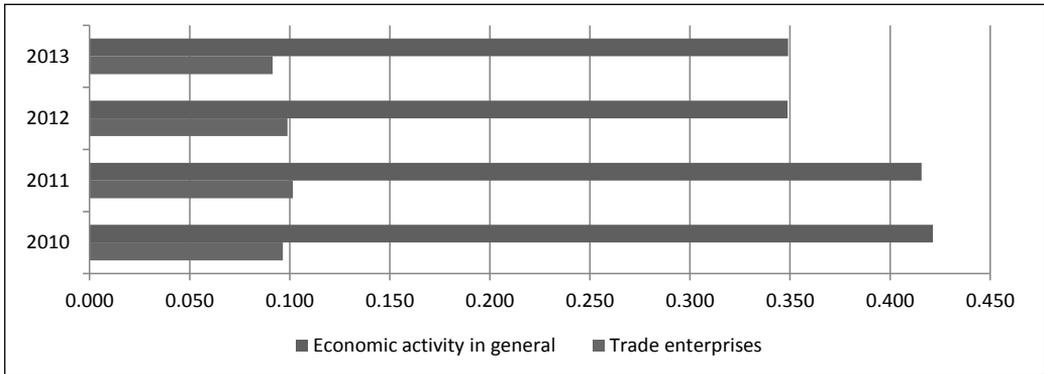


Source: own work.

Also we should to focus on the very small share of long-term debt capital in the financing of enterprises in the economy of Ukraine as a whole, and in the trade industry. In the first case this share is about 20%, and in the second – does not reach 15%. Thus, a feature of financing not only Ukrainian trade enterprises, but also economic activity of Ukraine as a whole is significantly predominant share of current liabilities, i.e. various forms of borrowed financial resources attracted for a period up to 1 year. To finance the operational activity of companies with short operational cycle such type of financing is quite acceptable, but if it is a company with a long operational cycle, or investment activity of any enterprise such source of financing can be used only in limited quantities.

Visually the situation with the structure of sources of financing of Ukrainian enterprises economic activity in general and of Ukrainian trade enterprises, in particular, can be represented using Figures 5, 6 and 7. Figure 5 shows the dynamic of coefficient of equity concentration (coefficient of autonomy), which for a financially stable company must be at least 0.5.

Figure 5. Comparative dynamics of equity concentration coefficient in Ukraine during 2010-2013

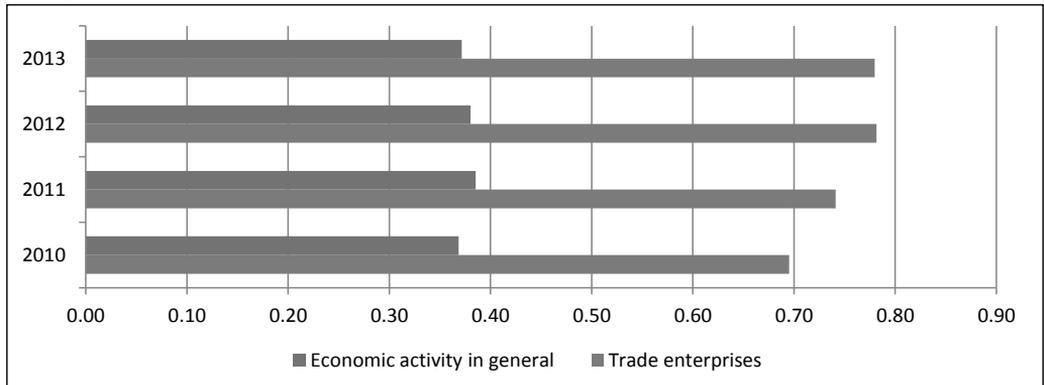


Source: own work on the base of the official website of the State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>.

The Figure shows a significant reduction of equity concentration coefficient over the last four years in Ukrainian economy in general. So, if in 2010 the value of indicator didn't reach the recommended norm, but was close to it, than in 2013 the indicator decreased to 0.35. In trade enterprises own sources of financing cover only 10% of total amount of financial resources. And in 2013 the indicator has gained its minimum for the last 4 years.

Figure 6 shows the comparative dynamics of coefficient of long-term investments structure for trade companies and economic activity of Ukraine in general.

Figure 6. Comparative dynamics of coefficient of long-term investments structure in Ukraine during 2010-2013



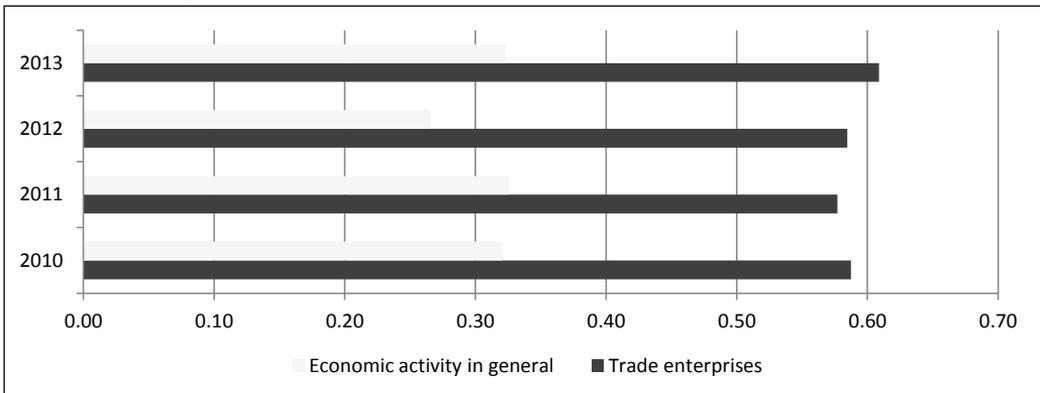
Source: own work on the base of the official website of the State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>.

The coefficient of long-term investments structure characterized the share of long-term borrowed capital in the amount of non-current assets. Its low value may indicate the inability to

attract long-term loans, especially high value indicates the possibility of providing reliable collateral or guarantees, or a high degree of dependence on extraneous investors. In view of low share of fixed assets in the total assets of trade enterprises and rather significant amount of long-term debt, this indicator is more than 2 times higher than on the enterprises of other economic activities. It confirms the high degree of dependence of trade enterprises from lenders.

Coefficient of long-term involvement of borrowed capital, which is 2 times higher in trade industry than in economy of Ukraine in general (Fig. 7), indicating that 60% of long-term sources of funding on trade enterprises falls on a long-term borrowed capital, while for enterprises of other economic activities the share of long-term loans was about 30%, and the rest 70% was equity.

Figure 7. Comparative dynamics of long-term involvement of borrowed capital coefficient in Ukraine during 2010-2013



Source: own work on the base of the official website of the State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>.

At the same time, in the structure of borrowed capital of trade enterprises only 15% is long-term borrowed capital, while for enterprises of other economic activities this indicator is 30%.

## 6. Conclusion

Consequently, the financial potential is the most important characteristics of the financial and economic efficiency and reliability of the company, the object of strategic management of the enterprise. It defines competitiveness of the enterprise and it is the basis of effective implementation of financial interests of all economic activity participants.

One of the major problems in financial potential management of the enterprise is to assess its value and completeness of its realization. Methodical tools of financial potential assessing based on the resource and competence approaches to the interpretation of financial potential.

Methods of assessing based on resource concept are quite simple and involve the use of a standard set of indicators to assess the financial condition of the company. Competence approach to interpreting of financial potential requires an assessment of quantitative and qualitative criteria. Using such criteria not only resource part of the potential can be measured, but also

the efficiency level of relationships between the various elements that form the financial potential of the company.

Assessment and diagnosis of the financial potential of the company should be comprehensive, to cover all processes within the enterprise. An important aspect of financial potential assessment of the company is taking into account external and internal factors of its formation and development. Further researches on problems of the financial potential of the enterprise should be devoted to methodological and methodical bases of its comprehensive assessment and conceptual foundations of its strategic development.

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# Chapter 6

## **Innovation Strategies in Management of Company**

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*Justyna Mróz*

### **1. Introduction**

Innovation is widely perceived as one of the basic elements in building competitive advantage of the company. In some sectors it determines the success or even survival of the company. Being innovative means to have the ability of the organization to constant seeking, introduction and spreading innovations (Pomykalski, 2008, p. 309). The most important factor of successful and rational innovation is the requirement for innovation management as well as creating and implementing innovative strategies. Those factors, apart from cost, are the main barrier for innovation. Organizations which put pressure on swift reaction to changes and adapt innovation strategy, are able to better identify new possibilities and ideas required to their operations. Such organizations constantly seek room for new products on the market. They invest greater amounts into research and development, and also into marketing activities. Their attention is driven to new possibilities in developing the product. Organizations with innovation strategy are the triggers for changes in industries in which they operate.

New ways on how to increase the efficiency of innovation process in economy are sought in countries of well developed market economy. This is mainly connected to elevating efficiency and effectiveness of introducing the scientific research results into economic practice (new products, new organizational structures, new technologies, etc.).

The thesis is divided into three parts. The first one is focused on the nature of innovation, second one on the company's strategies in changing environment and the third one on different innovation strategies.

### **2. The essence of innovation**

Innovative activity encompasses all scientific, technical, organizational, financial and commercial activities that lead to, or are meant to lead to the introduction of innovation. As per the Oslo Manual (2008), some of these activities are innovative by themselves, while others aren't novelties, but are necessary in order to implement innovation. Innovative activity also

includes research and development activity (R&D), which is often not directly related to the development of a specific innovation.

Companies which operate in a highly competitive and turbulent environment should stand out due to a high intensity of innovation and respond to market needs with new products, technologies and forms of marketing. This should be accompanied by an institutionalized mechanism for the creation, propagation and promotion of new solutions, which will cause the company to achieve a permanent and stable system of innovation, and not just random, sporadic innovative activity (Janasz, 1999, pp. 100-101).

Innovation should be an attribute of every company. The first to introduce the concept of innovation in literature was Joseph Schumpeter in 1960. In his opinion, innovation is the introduction of absolute novelties, making changes in existing products, and a new insight into the production processes and organizational solutions. Market practice shows that in terms of marketing, a new product doesn't need to be a complete novelty, technically or technologically. The important thing is that the product is perceived by consumers as new. In order for the product to be perceived as new, it either has to be absolutely innovative, or only slightly altered. The alterations may apply to its taste, color, functional characteristics, new application, or its packaging. A product may also be perceived as new if it was previously available only on other markets, while appearing on the given market for the very first time (Penc-Pietrzak, 1999). We understand innovation to be the following (Schumpeter, 1960, p. 104):

- introducing the manufacturing of new products or improving existing products;
- introducing a new or improved production method;
- creating a new market;
- using a new form of sales or shopping for existing products;
- using new raw materials or semi-finished products;
- introducing a new organization of processes.

The scope of innovation in view of Schumpeter's approach is very broad and includes all types of technical and organizational changes which may take place in business units. Not all authors agree with the opinion that an innovation is the first application of an invention. For the purposes of the Central Statistical Office an innovation occurs when a new or improved product is introduced to the market or if a new or improved process is applied during production, wherein the product or the service are new, at least from the perspective of the implementing company (GUS, 2004). Innovation is an idea, i.e. a procedure or a thing that is new and of better quality. The concept of innovation can be perceived in two principal respects. Some authors see the concept of innovation as changes in production, which lead to new process solutions and the creation of new products; others interpret it in a much broader manner and consider innovation to be all of the processes of research and development, which aim to apply and use the improved solutions in technology and organization (Rudzewicz, Strychalska-Rudzewicz, 2013, p. 11).

Innovations create possibilities for entrepreneurs and managers to make significant changes, launch new activities, provide new services and thus to acquire innovative customers. A successful innovation passes its test when it results in success on the market (Matejuk, 2005, p. 14).

The methods and ways to create value based on innovation require building organizational systems, which would make it possible to grant continuity to innovative activity. Effective innovation management requires managers to constantly think about innovations and search for new ways to implement them. Innovative companies are those which are able to absorb and sell new

products and services. The most important thing is what the customer gets from it and the organization which implements innovations.

An innovation-oriented company engages in the following (Janasz, 2011, p. 46):

- conducting research and development work (or purchases projects in the R&D area in a relatively wide range);
- using considerable financial expenditures for this activity;
- permanently implementing new scientific and technological solutions;
- having a large share of novelties in the volume of its production (services);
- constantly introducing innovations on the markets.

Innovations can occur in any entity, regardless of the sector or the size of the organization. Innovation is primarily affected by the manner of management, the type of entity, the market structure and the nature of research.

### **3. The company's strategy in a changing environment**

In managing a corporation, strategy plays a special role. The strategy is "a long-term concept of the enterprise" (Romanowska, 2004, p. 529). It can therefore be assumed that the essence of enterprise development strategy is making choices which will determine the future of the company. "The strategy can be defined as the concept of the selection of priority projects for the future" (Kaleta, 2006, p. 73). Setting goals for innovation in specific areas of the company should be a regular part of strategic planning. Innovation strategy may affect innovation processes within the company and beyond. The strategy innovation is the procedure in the behavior in time of changes on the plane their relationship with the environment.

According to Hill's and Johnes' (Hill, Johnes, 1992) defines the management strategy to maximize the profit growth in the long term by determining the directions of expansion and competitive markets.

Innovation strategy is an essential component of the overall development strategy of the company and focuses on three areas:

1. Manufacturing, design and commercialization of new products or upgrade existing ones.
2. Designing and implementation of new or improved processes.
3. Designing and implementation of new or improved management systems (or subsystems) (Rudzewicz, Strychalska-Rudzewicz, 2013, p. 44).

A strategy for innovation on an enterprise level concerns the following decisions (Janasz, 2011, p. 48):

- setting the strategic orientation for the entity,
- determining the development policy of the company.

Setting goals for innovation in specific areas of the company should be a permanent of strategic planning. There is no restriction on changes to the offer itself. Other important factors included changes in: distribution channels, pricing strategies, the image of the brand, the experience relating to purchase.

In choosing an appropriate innovation strategy, the company should take a number of internal and external factors into account. Some internal factors includes financial, personal, and material potential, for example current and future market opportunities, the innovative activities of competitors, the possibility of acquiring partners. However it is to be noted that the innovative activity

doesn't only require research and development work and financial expenditures on innovations, but also that the employee's motivation and involvement must be simulated and what's most important, the employee's resistance of workers to change must be broken down.

Innovation shapes the company's strategy, which should be financed in order to form a competitive advantage and create values. A new product strategy can be described as a set of activities aimed at the introduction of a new product on the market. The strategy of creating a new product is perceived by Haffer (2008) to be a coherent concept of activities which must be implemented in order for the company to achieve fundamental long-term goals by actively creating each new form of the product and introducing it to the market. The choice of strategy is performed according to many different criteria and principles depending on the objectives of the company, sector or industry, which the company belongs to. The strategy for product innovation is meant to determine the general direction of its innovation process.

Formulating a strategy is partially designing it, and partially intuitive visionary work. It is associated with transformation and perpetuation, it must include social interactions and independent cognition, cooperation, as well as conflicts (Waćkowski, Żebrowski, 2011).

The company formulates its strategy in order to achieve and maintain its competitive position on the market, and also in order to maximize its worth. Employees who are driven by a broader vision of values can focus on goals and results which are consistent with these values. Therefore, within its strategy, the company should create the ability to flexibly and rapidly adapt to the changing environment and the ability to adapt to uncertain future operating conditions (Rudzewicz, Strychalska-Rudzewicz, 2013, p. 47).

#### **4. Types of innovation strategies**

Many classifications of innovation strategies can be found in literature pertaining to the subject. One of the most well-known is the following division of innovation strategies (Rudolf, Fuchs, Kossut, Workiewicz, Wróblewski, 2006):

**Offensive strategy** – it is based on the introduction of new products, which makes it possible to stay ahead of the competitors, which also translates to technological and market leadership. A company that pursues the offensive strategy must significantly expand their research and development department and incur significant expenditures due to its activities. Companies rarely opt for the offensive strategy in relation to all their manufactured products, as the implementation of all the changes would prove to be too expensive.

**Defensive strategy** – used by companies which do not want to be leaders, but which are not far behind them and are catching up to them (so-called followers). This may result from the lack of certain resources or competences, however despite this, these companies strive to improve and modify their existing products. These companies try to quickly introduce substitutes for new products launched by companies using the offensive strategy, which are meant to better meet the needs of the end users. The basic prerequisites for success in the defensive strategy are: the ability to quickly introduce new products to the market, choosing the right moment to introduce them, and using the appropriate marketing strategy under the given circumstances.

**Imitating strategy** – a company that uses this strategy does not have the resources or competences to innovate, but is looking for advantages in other areas, e.g. efficient management, low costs. Despite this, it recognizes the role of innovation, relying more heavily on its diffusion (es-

pecially in education). Companies which use the imitating strategy usually incur large expenses related to the purchase of licenses and know-how, because they do not introduce their own innovations, but limit themselves to their rapid adaptation. In this case it is especially important for the company to have a good information system in the company as well as an appropriate training program for their own employees.

Dependent strategy – companies modify their product based on signals from the environment (e.g. fashion), but they do not change the technology.

Traditional strategy – relates to the traditional industry branches with elements of handicrafts (e.g. craftsmanship, restaurant ownership), where companies try not to make major changes.

Opportunistic strategy – used by companies, which try to bypass certain provisions, including illegally copying other companies' products.

At the stage of development of alternative variants of the innovation strategy it is important is what the company should do and what is the scope of necessary changes. Election innovative product strategies aim to achieve certain changes in the existing product portfolios. Relationships occurring between the adoption of criteria (marketing orientation, a new product, technological orientation) allows to extract the following types of innovative product strategies (Janasz, 2011, p. 51):

- extension of the product line;
- a new generation of product;
- highlighting the marketing of the product;
- segmentation product differentiation;
- horizontal diversification of the product portfolio;
- conglomerates diversify its product portfolio;
- concentric diversification of the product portfolio;
- application of diversification of the product portfolio.

Product line extension strategy involves the creation of a new product through continuous innovation that meets more needs felt by consumers. This allows the possession by the new technologies. The strategy of the new generation of the product expressed in creating a new product that allows you to better meet specific needs. Functionally modified form of the product is better serving the customer (e.g., a car with power steering).

Marketing strategy highlighting the product does not refer to the product's functionality, but creates a new image. It allows for the perception of the customer as a donor of a new utility

Application strategy of diversification of products used for the production new product innovation and meeting the needs of discontinuous at different levels of product marketing. This occurs due to the application use of the currently used technology.

Differentiated product segmentation strategy boils down to manufacture products in multiple versions (standard, poorer, richer) that meet the diverse needs of current and future customers. Innovations are continuous and dynamic. The strategy of horizontal diversification of the product portfolio is to produce a new product based on the use of completely new technology. It extends the ability to satisfy the needs of consumers through the use of discontinuous innovation.

Conglomerates product diversification strategy boils down to produce a new product that has not been the subject of interest in the entity applying discontinuous innovation. This happens due to the use of completely new technology.

The strategy of concentric diversification of product portfolio consists in creating a new product for a new group of customers based on discontinuous innovation. It allows you to meet

the individualized needs that require the use of new technology that enables mastery of adjacent segments of the market.

Innovation strategies can be divided into two groups: introversion and extraversion.

To introversions strategies include:

1. Strategies attractiveness of the product, the consolidation of market share.
2. Product strategies, important especially in terms of value added.
3. Strategies human capital productivity and capital resources.

Extraversions strategies include:

1. Offensive strategies – refer to objects that have a special position in the market, resulting from significant competitive advantage (priority innovative use of renewable factor);
2. Defensive strategies – concern the market leaders to protect job title
3. Strategies counteroffensive – lead (at a particular time) to modify and develop products in order to prolong their life cycle in the market, the development of “hybrid”, which aim to associate elements of existing and new technologies, the transition to a higher level of sales in relation to a competitor, The financial exhaustion competitors, as well as the “acquisition” of key personnel of competing undertakings.

Given the degree of innovation, imitation can extract strategy or strategy to advance. In this case, you always have to choose a role model (self-development or industrial development another country).

The strategy of imitation – imitation innovation leaders, range of proven ways of development of enterprises.

Timing strategy – linked to creativity, significant cost leadership, large investments.

The benefits of the primacy of the market (first mover advantages):

1. Patents and licenses protect the technologies used to create innovative products, restrained by attacks of competitors. The manufacturer gets an opportunity to benefit from a temporary monopoly on its product.
2. The first commercially available product can be accepted by consumers and used as a synonym group of products, even if their manufacturers are followers. For example, Adidas and Electrolux.
3. Cost of product changes, which will become the standard, both financial and non-financial (time to get used to the new product, discomfort) may be too high for consumers who remain loyal users of the product placed on the market first.

Benefits followers (second mover advantages):

1. Using the investments made by companies introducing products to market first.
2. Lower costs of R&D (Technologies unsecured patents and licenses can be easily copied by imitators).
3. Lower risk of weak demand for new solutions.
4. Reduction of technological and regulatory uncertainties. Companies introducing products based on technologies which have already won the confidence of consumers, they have a greater chance of quick success.

## 5. Conclusion

The growth in complexity and dynamics of company as well as intensification its internal processes forces it to create and implement medium – and long term development plans. Strategy is a long term planning and a type of action directed on organization's growth. It should not focus on fixed frame plans but by being flexible it should adapt to changes resulting from environment. What is more, a strategy should be one step ahead of trends and situation on the market.

The innovation operation of a company is becoming more and more complex phenomenon. The dynamic growth in innovation is often hindered by limited resources of single organizations. Due to this fact, in many cases innovation needs to be supported by internal and external people and institutions. Efficient innovation strategy should be focused on the proper innovation management. It should be directed on client's needs. Efficient operation of modern organizations seems to be impossible, or at least much more difficult, without innovation products. The system that will support creativity, new ideas research and their commercialization should be created and developed.

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# Chapter 7

## **Psychological Determinants of Creating Flexible Organizational Culture**

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*Justyna Pawlak*

### **1. Introduction**

Modern markets require companies to become continuously transforming organizations, which means that they should be able to predict the direction of upcoming changes and adapt to it. As noticed by Cameron and Quinn, the term “stability,” which used to have solely positive connotations, is now more frequently understood as a sign of stagnation rather than solidity. Companies which do not change or evolve are commonly regarded as fossilized (Cameron, Quinn, 2006). This need for unceasing adaptation poses a challenge both to managers and ordinary employees, as they may be resistant to change, which would make adaptation to new conditions difficult. Adaptation includes abandoning old well-known but outdated solutions to elaborate and implement new methods of operation as a response to market and customer needs. It should be emphasized that effective management in the context of change has to be based on understanding human behaviours. Therefore, it is necessary to manage psychological transition of organization members effectively in order to attain successful change initiatives (Armenakis, Bedian, 1999). One of possible options in this situation is to consciously create an organizational culture which on the one hand will enable prompt adaptation to changes in business environment, but on the other hand will support employees in their managing inevitable variability and the need to be able to follow. This paper aims at identifying psychological determinants of forming such a flexible and pro-innovative organizational culture.

### **2. The meaning of flexible organizational culture for its competitiveness**

The term “organizational culture” has been defined in a number of ways. In this paper, it will be understood as a set of values, assumptions and expectations which are considered to be obvious in an organization; a set of traditions, goals, beliefs and attitudes which form the basis of what is said, decided and done in the organization. It is visible both in the process of strategy development and in the course of its implementation, and it provides unwritten rules of conduct which

employees are frequently not fully aware of. The culture is manifested in ways of behaviour and of giving instructions, methods of organizing work, techniques for exercising authority, tastes and dress (Janowska, 2002, pp. 89-90). It is supported with a system of informal structures, rituals and communication patterns. All elements of the culture are interdependent and affect one another (cf. Kuc, 2008, pp. 280-281). To put it shortly and simply then, organizational culture is a set of established values, roles and norms which suggest preferred solutions to emerging problems and situations (Denison, 1990).

According to Kotter and Heskett (1992), organizational culture has two levels, which differ in terms of their visibility and their resistance to change. At the more visible level, culture represents the behaviour patterns or style of an organization that new employees are automatically encouraged to follow by their fellow employees, for example, we can say that people in one organization are “hard workers”, and in another “very friendly strangers”, etc. Organizational culture, at this level, is tough to change, but not nearly as difficult as at the deeper level of basic values. At the deeper and less visible level, organizational culture refers to values that are shared by the people and that tend to persist over time even when group members change. These beliefs about what is important in life can vary in different companies, e.g. in some organization people care deeply about money, in others about technological innovation, environment or employee well-being. At this level it is really difficult to change organizational culture. One of the reasons of this is the fact that group members are often unaware of many of the values that bind them together (Kotter, Heskett, 1992). Although organizational cultures can be very stable over time and difficult to change, but they are never static. However different crises can sometimes push a group to reevaluate some values, methods of work, beliefs, etc. Changes on market, new client’s needs or new challenges can oblige an organization to the creation of new practices and attitudes (Kotter, Heskett, 1992).

The culture of an organization therefore affects not only its interior and functioning (Smolarek, 2015), but also its relationships with the environment, thus becoming an element of the social image and brand of the company. Hsieh Tonny, CEO of Zappos.com, states that at present, what you do and who you are is far more important than what you say, and a company’s brand is a sum of experiences which others have had with it, which makes the brand a by-product of a company’s organizational culture (in preface to: Conley, 2007). Hence, the kind of culture a company has will also determine the culture’s effectiveness and ability to adapt to changing market needs. The culture may be a favourable factor for developing innovative actions or may block them, a difference which will directly affect building a competitive advantage, since presently the functioning of companies on the global market, with growing competition from knowledge-based economy, mostly depends on the ability to systemically create and implement innovations (Johannessen, Olsen, Lumpkin, 2001, p. 20). Flexible and adaptable culture provides support both to short-term strategies and current activities, and to long-term plans. It also enables development and striving towards positive change in a long-term context. In their book, Kotter and Heskett (1992) included the results of eleven years of research on the performance of 207 companies. They have found that companies with flexible culture, such that easily adapts to the environment, perform much better than those with a rigid culture that cannot be changed rapidly. The results provided by the authors indicate that revenue growth for the former was 682% while it was 166% for the latter, which makes a very significant difference.

### **3. Fear of change**

Considering Kotter and Heskett's results, one may have the impression that every organization as a whole, as well as its individual members, should care about building flexible organizational culture, open to change and new challenges. Yet, as stated by Miller, Wroblewski, and Villafuerte (2014), there is something deeply rooted in our human nature that prevents us from changing our behaviour and thinking. When describing in their work the implementation of Kaizen principles, these authors state that transformation of culture involves emotional growth to a much greater extent than technical maturity. Already in the seventies, when describing the phenomenon of "future shock," Toffler concluded that the need to abandon an established and well-known way of acting results in fear and reluctance in most people (Toffler, 1970). Because of this, resistance may arouse in employees, often unconsciously, and block the effective implementation of changes, even those which are favourable to everyone in the organization (Boohene, Williams, 2012). According to Armenakis and Bedeian, the main reason behind this negative reaction is connected with pressure, stress and uncertainty coming with change (1999).

As confirmed by studies, an important reason why many organizations fail to realize change initiatives is associated with underestimating the influence of change on the individual (Kavanagh, Ashkanasy, 2006). Therefore, neglecting psychological perceptions of employees toward change leads to failure of change initiatives in organizations (Devos, Buelens, Bouckennooghe, 2007). Though, for successful change implementations, it is necessary to manage psychological transition of employees effectively (Armenakis, Bedian, 1999). Kreitner and Kinicki notice that resistance can be passive resignation or deliberate sabotage (2010). According to Lawrence, resistance to change may take the following forms: worse performance, withdrawal from working in a particular team, chronic conflicts, hostility, slowing the pace of work or voicing pseudo-logical reasons why the planned change will not bring the expected results. In addition to fear of change, there may be other reasons for employees' resistance to innovation, like job security, employment levels, loss of job satisfaction, different wage rates, loss of individual control over work and changes to working conditions (Mullins, 2005).

Schlesinger et al. (1999) mention the following reasons for resistance:

1. Politics and struggle for power, when employees are afraid that because of change implementation they will lose something that is of specific value to them. In this situation, resistance is called a political behaviour, since employees concentrate on their own interests rather than the interest of the company as a whole.
2. Incomprehension and lack of trust when – owing to incorrect assessment of the situation or inability to understand all the effects of change – employees have the impression that the balance of losses and benefits from the change will be negative for them. The situation may be made even more difficult by lack of trust leading to further misunderstandings during change implementation.
3. Different assessment of the situation, when a particular change or its effects are viewed differently by managers and employees alone.
4. Anxiety which appears when the employees are afraid that change will entail the need for them to acquire new competences which will be difficult to gain. This anxiety may be made more intense by too rapid or too extensive changes, which the employees cannot keep up with.
5. Other reasons, like pressure, having to admit to error or the superior's attitude (Schlesinger et al, 1999, pp. 362-365).

It can be said then that despite the fact that change is implemented for positive reasons, like following new technologies or remaining competitive, employees often react to change efforts negatively and resist change (Boohene, Williams, 2012).

#### **4. Factors favouring the creation of flexible organizational culture**

Since employees' resistance to change can destroy the most enterprising plans of a company's management, it is essential to enable the creation of such conditions and such a culture of the organization which – rather than forcing through the necessity to be flexible and innovative – will support the employees and encourage them to open to change and to new solutions. As stated by Miller, Wroblewski and Villafuerte, the implementation of an adaptable culture requires specific solutions to be introduced. This kind of attitude demands creating an organization in which there are certain values and principles, such as curiosity, tolerance for experimenting and failure or no blame game (2014). It should be realized that an atmosphere of creativity differs significantly from that which places emphasis on perfectionism. In an organization which is geared towards perfectionism (cf. Czarska, 2003) and has not developed adaptability well enough, the basic principles of the culture include avoiding failure, striving for perfection and seeking approval. According to Miller, Wroblewski and Villafuerte (2014), organizations with no adaptability only care about themselves, paying no attention to others; they are characterized by risk aversion, hermetic and bureaucratic; respect for others and supporting continuous learning are not so important in them. All these features lead to a stiffened attitude, which on the one hand prevents fast adaptation to change in business environment, and on the other hand generates internal pressure and a tendency to perfect already known methods of operation rather than seek new solutions, the latter inevitably exposed to failure or going beyond procedures and accepted patterns. According to Smolarek (2015), innovative and flexible organizational culture favours adaptation to change and is aimed at:

- being able to cope with uncertain situations;
- streamlining communication and decision-making systems;
- perceiving information from the environment as chances to be used rather than threats;
- introducing a system of management which would promote the employees' empowerment and cooperation;
- triggering creativity and pro-innovative activities in employees (Smolarek, 2015).

However, to reach this, the following has to be provided: conscious and planned advancement of knowledge and skills; promotion of sharing knowledge and information; increased tolerance for risk, uncertainty and search; strengthening respect to non-conformist attitudes; introduction of principles of democratic decision-making and conflict solving; supporting group efforts; building an atmosphere of support and respect for innovators; supporting creative ways of thinking and of problem solving; increasing awareness about change implementation (Gadomska-Lila, 2010, p. 14). It should be noted that for many managers, creating such an atmosphere at work is a challenge because this requires, firstly, their consent to non-conformism and open comments about what seems to be obvious, including instructions they give, and secondly, the ability to lead the team in such a way that it does not fall into the other extreme: from excessive focus on

perfect execution of tasks to chaotic search for more and more new solutions without elaborating previous ones.

Popławski also emphasises the importance of appreciating employees, and names the following features of flexible organizational culture, a culture aimed at innovation: supporting ambitions, competitive atmosphere; tolerance for errors; no arrogance or selfish behaviour; controlled risk; making public the authors of success and those who have supported the process; wide participation of employees in creating new solutions; level of education and general knowledge; efficient communication systems (2006, p. 5).

Schlesinger et al., on the others hand, name the following tactics, which they find effective in the long term for facilitating the acceptance of change: good communication, support and participation. The importance of participation is also emphasised by Penc (1998), who claims that employees perform well not because they carry out top-down orders, even the most accurate ones, but mostly because of personal commitment, and the best way to inspire the commitment is to give them an opportunity to decide. An employee who identifies himself with his workplace is much more effective, and if he has a “paternal” attitude to decisions that have been taken, he is more ready to make sacrifices in order to achieve the established goals. Participation in the planning and implementation of change facilitates its acceptance. In those organizations where direct participation is applied, employees are actively engaged in the decision-making process, which enables them to understand what is happening and why, and they can feel like co-designers of the decision about change.

It is worth realizing, and worth persuading the personnel, that each subsequent skill, each attempt at sensible adjustment to changing circumstances build employees’ capital and expand their competence. As Kleiner claims, organizations, as responsible for their employees, should help them amass different kinds of capital – not only financial, connected with their monthly salaries. Such activity enables companies to cement loyalty, make people identify themselves with the company’s goals, and build a stronger company (Kleiner, 2003, p. 29).

Trust is another essential determinant affecting employees’ readiness for change. According to Koźminski, trust is the basic condition of competitive advantage, as it reduces costs of control and results in tolerance, the latter being a condition of innovation and of independent action (Koźminski, 2004, p. 144). As noticed by Leśniewski, it is because of trust that an organization can react fast to changes in a complex and turbulent environment, as trust makes it possible to reduce formalization of action. Trust is important for effective operation and development of a company, both at present and in the future, because it is “a value of an organization which strives to build and form positive relationships with its environment and which aims at reaching long-lasting competitive advantage on the market” (2015, p. 222).

It should be noted that, besides techniques and methods of management, attitude towards employees is also essential. If an organization uses certain mechanisms (e.g. encouragement to participation) only to reduce its employees’ resistance to change, the employees are treated as a fairly complex device which needs special operation. Yet, in order to ensure working conditions which will encourage the employees to full commitment, willingness to cooperate, effective communication, trust, and the resulting openness to change, it is necessary to create such an organization culture which will respect the employees’ subjectivity (Motyka, Pawlak, 2012). This involves, first of all, perceiving the employee not only as one of the resources at the organization’s disposal, but also as a person. This perception, lying at the basis of an organization’s culture, will affect

the way of acting of both the employees and the management, as well as their mutual relationship. This, in turn, will translate into the organization's effectiveness.

## 5. Conclusion

It should be stated in conclusion that any organization which cares about holding competitive advantage has to strive to keep pace with inevitable change and be able to respond to it. However, the flexibility, speed and responsibility of a company depend to a great extent on its employees, their skills, predispositions, attitudes, and their willingness to become innovators rather than being stuck in a rut. Since resistance to change is part of human emotions and tendencies, psychological determinants of one's openness to working out new solutions should be taken into account. It is essential to realize that effective management of change is based on clear understanding of human emotions, behaviour and attitude in the organization. Research shows that one of the reasons why many organizations fail to realize change initiatives is associated with underestimating the influence of change on the individual. Owing to the necessity of facing the challenge of changes, employees may react with uncertainty, frustration or fear and feel disoriented and threatened.

Managers should then take into account the role of their employees' predispositions, and they should be aware of the advantages of creating a flexible organizational culture, one that will not force anything, but will support the willingness of the organization's members to accept changes. Important characteristics of this kind of culture must include subjective treatment of the employees, building trust and commitment, curiosity about what is new, and tolerance for failure as an inevitable element of searching for new solutions. As noticed by (Kotter, Heskett, 1992) changing organizational culture is difficult and makes it necessary first to realize the values and beliefs which underlie it. Only after these have been discovered, can the direction of change be developed, and flexible culture, such that will support the employees, can be implemented in an organization.

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# Chapter 8

## **Social Capital as the Driving Force of Organisations**

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*Elżbieta Kuchta*

### **1. Introduction**

Micromanagement should first of all meet local needs. To that end, it requires constant collaboration between local authorities and citizens, so that people's needs are identified and adequately addressed. Most countries demonstrate spatial differences in the level of economic development, as well as citizens' living and working conditions. According to a recent OECD report, the disparities between the poorest and the wealthiest member states have never been greater. Secretary-General Angel Gurría said that "we have reached a critical point". In the 34 countries under study, the richest 10 per cent of the population now own 9.6 times the assets of the poorest 10 per cent ([www.pb.pl](http://www.pb.pl)). The key element in this case is the human factor, its quality, structure and attitude towards entrepreneurship.

This article discusses the aspect of local activity and its influence on the general functioning of organisations, in particular NGOs. Social capital is generated mainly in societies, foundations and informal groups, and can be then successfully applied to other fields and support entrepreneurs or local authorities. An active society breeds strong and stable organisations that contribute to the development of the whole country. However, even an informal group needs to be properly managed so that it can be efficient and achieve its goals effectively.

### **2. Human capital**

The deliberations on social capital shall start from human capital, which has been of interest to economy for some time. Adam Smith was one of the first economists to notice that a human being can be perceived as capital. In 1958, Jacob Mincer was one of the first to use the term "human capital". A number of approaches use the idea of investing in human capital. In 1962, Gary Becker explained that it is resource allocation that influences real future income. According to him, this kind of investment involves education, healthcare, work experience and getting information on the functioning of the economic system (Cichy, Malaga, 2007, pp. 18-23). One

of the manifestations of human capital investment is, of course, the shaping of management policies that account for local social organisations.

Human capital is mostly understood as “all the possibilities, capabilities, knowledge, skills, motivation (virtual energy) in a society” (Rybak, 2003, p. 39). It is one of the resources in which an organisation needs to invest in order to get the competitive advantage. The process of staff investment is complex and consists mainly of recruitment, training, assessment and incentives. The importance of taking care of these elements has been recently noticed and human resources management has become a popular direction of development. The approach to the personal function has also shifted – from purely operational to strategic (Rybak, 2003, pp. 40-41), which is a positive trend.

The environment of every organisation is different and while creating a human capital management strategy, a number of factors specific for its surrounding (e.g. regional characteristics) or the industry have to be taken into account. There are some universal values important to every employee. Based on questionnaires distributed among 70,000 employees of 50 companies who left work, 7 expectations were discovered:

- training to meet the job requirements,
- support in the professional development,
- promotion opportunities,
- treatment of employees as valuable grown-ups,
- the awareness that their knowledge and experience is used,
- information about company matters and changes,
- fair and adequate remuneration (Fitz-Enz, 2001, p. 238).

### **3. Social capital**

One of the key elements of organisation development is social capital, or “a set of (frequently informal) rules, values and networks of interdependence that facilitate more effective common actions” (Rudnicki, 2008, p. 9). In contrast to human capital, social capital is an approach that perceives human activities as added value, but with more focus on interpersonal relations, in particular reciprocity and trust. It is a sociological term and texts on social capital pay attention to the activities of an individual in the context of the community.

Social capital can also be very useful in economics, as it has been noted that it has a direct influence on the economic growth of a community, because it:

- facilitates negotiations,
- lowers transaction costs,
- accelerates investments processes (reduces the probability of appealing from decisions of administrative authorities),
- reduces corruption,
- increases business partners’ loyalty,
- facilitates long-term investments and knowledge diffusion,
- prevents the abuse of the common good,
- increases solidarity between groups,
- by the development of the third sector, facilitates social control of the authorities (Czapiński, 2013a, p. 285).

In his deliberations on social capital, Francis Fukuyama distinguished between low- and high-trust societies. The former include, *e.g.* the Italians, the French or the Koreans, who feel a strong connection to their family, but not so much to the society as a whole; the latter are represented *e.g.* by the Germans. He justified it with similarities between the Japanese and the German culture: both societies demonstrate a sense of strong civic solidarity resulting from discipline, good organisation and satisfaction from obeying the rules (Fukuyama, 1997, pp. 177-179). Fukuyama's concept is based on the assumption that the economy and familism (the feeling of being connected to the family) play an important role in shaping the bonds in a society. Both elements interact – strong family bonds facilitate the creation of small companies and can hinder the development of large enterprise sector. Fukuyama pointed to three sources of the development of interpersonal relations:

- family and blood ties (a family company is a kind of business activity);
- voluntary organizations – *e.g.* schools, clubs, professional organisations (professionally managed corporations);
- state initiative (state-owned or state-supported enterprises).

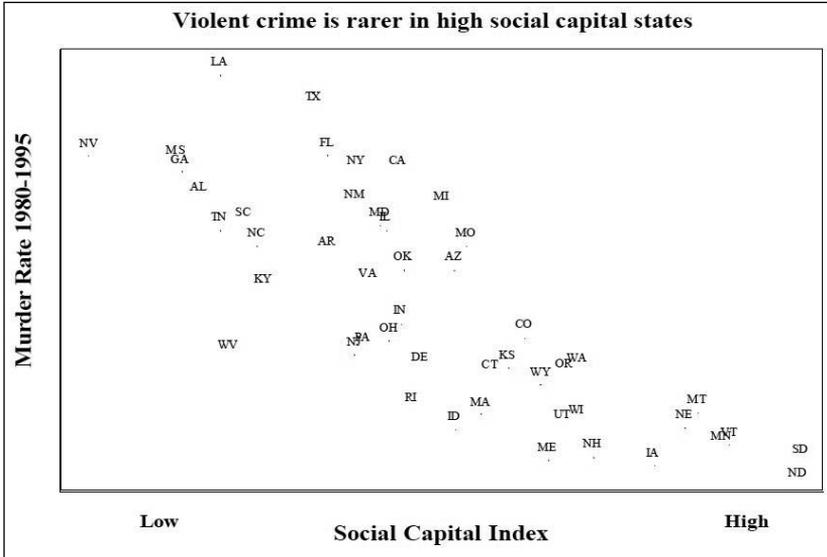
The first and the third sources are interconnected: small scale actions (inability to create large business institutions) and high expectations of state care; whereas the other source is characteristic for societies that are more self-reliant in forming such organisations (Fukuyama, 1997, pp. 77-78).

A number of researchers try to estimate the level of social capital in a given country and in order to do so, they come up with various measures and indicators. Robert Putnam said that the Social Capital Index consists of:

- involvement in the community life,
- public involvement (*e.g.* participation in elections),
- volunteering,
- informal involvement (*e.g.* visiting friends),
- trust.

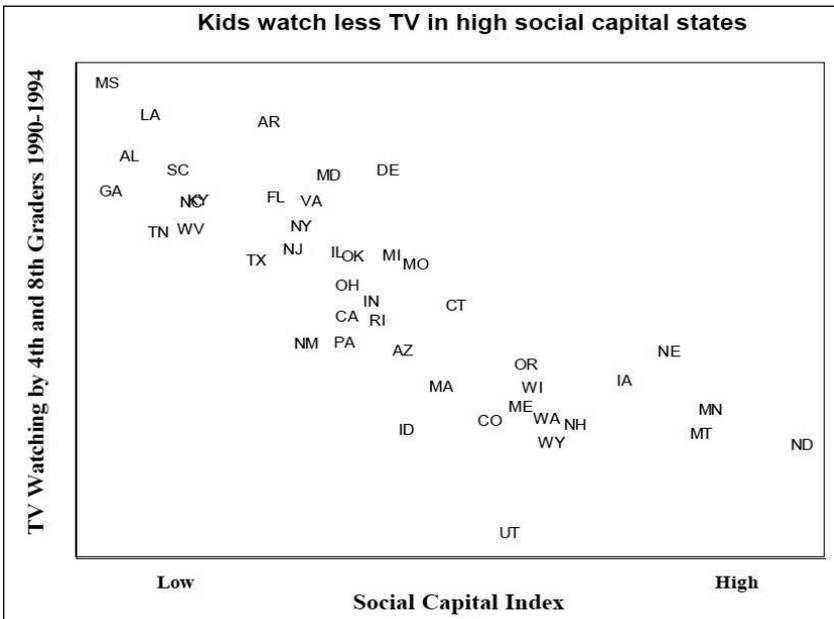
On the other hand, Francis Fukuyama focused on the crime rate, family breakdown and trust as factors weakening social capital. Putnam came to similar conclusions based on a comparison of the results of his Social Capital Index with the crime rate in the United States. Figure 1 presents the clear dependence between these two factors: the lower the social capital, the higher the crime rate. Figure 2 presents another interesting dependence, especially in the context of discussion about power of media.

Figure 1. Comparison of the Social Capital Index with the crime rate in individual USA States – Robert Putnam’s research



Source: Putnam, 2001, p. 26.

Figure 2. Comparison of the Social Capital Index with the TV watching rate in individual USA States – Robert Putnam’s research



Source: Putnam, 2001, p. 25.

## 4. Situation in Poland

Human capital has been referred to as a significant development aspect in various documents. One of them is the *Human Capital Development Strategy 2020*, whose main aim is the development of human capital “by reaching to the potential of people so that they could fully participate in the social, political and economic life on all stages of their lives” (www.mpips.gov.pl). It is important to pay attention to related issues and emphasise good practices and most of all to implement them. One of the indicators of the possible success of the *Human Capital Development Strategy 2020* shall be HDI (the Human Development Index). In 2011, Poland ranked 39, and the goal for 2020 is no lower than 35.

The development of a civic society is influenced by both social capital and the level of social trust. Poland notes low levels of both of these indicators. In the European Social Survey, Poland was last in terms of social trust. We are also rated last in Europe in terms of volunteering. For the sake of comparison: in the Netherlands, 57% of the citizens volunteer, whereas in Poland – only 9% (a 2011 Eurobarometer study). But there is an upward trend, which I will discuss further in the article.

Despite poor results in various ratings, some positive tendencies are observable. In his *2013 Social Diagnosis*, Czapiński remarks that over the years, Poles’ indifference to violations of the public good is decreasing. For the purpose of the survey run for the *Social Diagnosis*, the author created a scale of concern for the common good. It involves the assessment of the following behaviours: tax or fare evasion, illegal unemployment or disability benefits claim and insurance compensation fraud. In 2007, 27.8% of responders stated that they do not care at all that someone evades taxes, whereas in 2013, the percentage decreased to 22.9%. A similar tendency is observed in all other behaviour categories. The indicator of concern for the common good (the higher the indicator, the greater the concern) in selected socio-demographic groups is shown in Table 1. Based on the presented statistical data, it may be concluded that countryside demonstrates less concern for the common good. However, the researchers came to a conclusion that it is the level of education that has the most influence on the perception of community values. Statistically, more people with a university degree live in the cities, which affected the research results (Czapiński, 2013b, pp. 268-269). This is yet another proof of the importance of civic education<sup>1</sup> in building a civic society. Social studies classes are insufficient and do not build the sense of community that should be shaped from an early age.

Table 1. Concern for the common good

Socio-demographic group	Average
Place of residence	
Cities over 500K	2.87
Cities 200K-500K	2.91
Cities 100K-200K	2.86
Cities 20K-100K	2.69
Cities < 20K	2.65
Countryside	2.59
Level of education	
Primary school or lower	2.52

<sup>1</sup> Institutionalised (organised by schools and universities) forms of teaching citizenship and responsibility for the country.

Basic vocational school	2.59
High school	2.75
Graduate and postgraduate	2.91

Source: Czapiński, Panek, 2013, p. 269.

The percentage of citizens belonging to voluntary organisations is one of the simplest ways of measuring citizens' activity. The dependency is similar to concern for the common good: the higher the education level, the greater the willingness to act for the community, which translates into membership in organisations. In 2012, 13.7% of Polish interviewees declared membership in "organisations, societies, parties, committees, councils, religious groups, associations or unions" (Sulek, 2013, p. 278). There was a slight increase of the indicator from 12.2% in 2003 (Sulek, 2013, p. 279).

Table 2 presents two units of measurement that are most common in this context: voluntary organisation participation and trusting others. Surely, the two indicators alone are insufficient to determine the social capital level in Poland, but they can point to some trends. It is evident that the prevailing attitudes are passiveness (no participation in any organisation) and limited trust (the response "you can't be too careful").

Table 2. Comparison of data from the Social Diagnosis of participation in organisations and trust. As of 2012

Province	Participation in organisations				Trust		
	Yes, one	Yes, two	Yes, three or more	No	Most people can be trusted	You can't be too careful	Hard to say
Dolnośląskie	195	48	18	1,485	176	1,401	167
Kujawsko-Pomorskie	111	25	17	1,283	169	1,134	136
Lubelskie	218	45	15	1,506	237	1,361	182
Lubuskie	104	28	10	681	80	653	86
Łódzkie	176	30	12	1,638	174	1,450	230
Małopolskie	195	44	14	1,634	196	1,499	190
Mazowieckie	310	62	25	2,785	533	2,347	300
Opolskie	98	29	8	677	83	629	99
Podkarpackie	186	43	22	1,329	166	1,227	187
Podlaskie	80	35	5	915	128	817	90
Pomorskie	149	41	21	1,256	187	1,160	117
Śląskie	300	69	22	2,405	372	2,122	303
Świętokrzyskie	108	24	12	1,243	176	1,008	210
Warmińsko-Mazurskie	62	20	1	1,250	258	964	99
Wielkopolskie	199	57	20	1,887	178	1,703	278
Zachodnio-Pomorskie	97	19	9	899	125	796	102

Source: own elaboration based on data from the Social Diagnosis, [www.diagnoza.com](http://www.diagnoza.com).

The NGO sector in Poland has been recently developing dynamically, which is reflected in the results of research conducted by the Klon/Jawor Association in 2012 and described in the publication *Basic facts on NGOs*. NGOs are gaining experience and continue to operate. Ten years ago, less than 1/10 of NGOs could boast over 15 years of experience. Presently, over 1/4 of organisations have such a long history (Przewłocka, Adamiak, Herbst, 2013, p. 6). Other trends noted in the publication include:

- structural sector changes,
- increased popularity of volunteering and people management issues,
- decreased role of philanthropy,
- shift in financing sources,
- financial problems,
- self-government relations standstill,
- increased cooperation within the sector,
- increasing (yet still small) emphasis on operational quality improvement (Przewłocka, Adamiak, Herbst, 2013, pp. 6-14).

One of the more curious conclusions of the Klon/Jawor Association report is the focus on growing interest in volunteering despite poor results of the study of volunteers' number in Poland. It is based on observations of the dynamically developing third sector in Poland. The number of NGOs increases and their operations involve mainly volunteering and social work of their members. Almost 40% of organisations have employees, though with limited working time. On the other hand, NGOs have problems with finding new volunteers, with over half of them naming lack of volunteers interested in their operations as one of their primary issues. However, organisations frequently do not take the right steps to that end and they see the source of the problem externally. This reveals a serious problem with HR management.

## **5. Conclusion**

The success of organisations depends on a number of factors related to the organisational culture, management style or available resources. Analyses tend to focus only on material resources, but we cannot forget the foundation of development provided by intellectual resources and the concern for the common good.

Unfortunately, there are not enough development and social capital management strategies. The lack is particularly evident in Poland, where NGOs with potential and a will to act face problems with structure, staff management or long-term development strategy planning. The current training offer is insufficient and often too expensive for young organisations with limited budget. In addition, the right direction of social capital management will significantly contribute to strengthening the sense of responsibility for the nearest surrounding, thus providing the substitutability of generations in organisations that often face labour problems. In consequence, such an approach will result in efficient organisations that will be even more effective in their goal pursuit.

We are facing a challenge of understanding the importance of the problem and taking the right measures. A social capital management strategy should become a pillar of a long-term development policy. The effort of preparing adequate local management programs and policies accounting for the character of a given region is worth taking in order to really influence the development of an organisation and in consequence of the whole country.

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# Chapter 9

## **Significance of Trust in Project Management**

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*Ewa Kozieln*

### **1. Introduction**

In the contemporary world trust has reappeared as a subject of interest for scholars representing various sciences, i.e. philosophy, sociology, ethics, economics and management. Trust is analyzed at the level of nations, organizations and specific human relations.

In 1972 the Nobel Peace Prize laureate in economics, K. Arrow, stressed that trust had significant pragmatic value and contributes to the system effectiveness growth (Grudzewski et al., 2007, p. 10).

In the article particular attention is paid to the problem of trust in the scope of project management. The article aims at building a model of trust for the projects being completed as well as specification of factors shaping the culture of trust which impact the efficiency of project performance. For that purpose the method of direct interview and a questionnaire was used.

### **2. Substance of trust**

Trust is an important attribute of complex relations occurring among societies, organizations and people in the global, international and local scale. Interpretation of a phenomenon of trust varies. Currently it is a subject of analysis for researchers representing various sciences. A phenomenon of trust in recent years has also become a subject of interest in the scope of management sciences and related fields. Trust is discussed in papers from the scope of marketing, organizational behaviors, Public Relations, IT systems, etc.

Generally trust may be interpreted as a relation occurring between two entities of which one is a trusting partner and the other one a trustee. Conditions in which this relationship lasts are characterized by risk and uncertainty. Risk refers not only to jointly undertaken actions but also refers to persons cooperating with one another, who differ with traits of character, knowledge and skills (Sztompka, 2005, p. 326).

Table 1 presents the selected definitions of a phenomenon of trust.

Table 1. Definitions of trust

<b>Author</b>	<b>Trust means</b>
Griffin (1967)	relying on a person's behaviour to achieve the desired aim in an uncertain situation
Larzelere, Huston (1980)	level of faith of a given individual in another's person's (persons') honesty
Pruitt, Carnevale (1993)	expectation that a given individual will cooperate in the future
Gambetta (1990)	probability that a person performs a task correctly and further cooperation will be possible
Carnevale, Weschler (1992)	expectation of ethical, honest behaviour
Sabel (1993)	mutual conviction that none of cooperating persons will take advantage of another party's weak points
Mayer, Davis, Schoorman (1995)	readiness to rely on another party in performing the task even when monitoring and controlling is abandoned
Rousseau, Sitkin, Burt, Camerer (1998)	mental status based on positive expectations of the undertaken cooperation
Anderson, Narus (1990)	bilateral conviction of the companies that the undertaken action will lead to positive results
Sitkin, Roth (1992)	conviction that a given individual possesses competences necessary to perform a task
Nieścior	in the field of widely perceived economics it means a relation between the organization and a Society, however in a narrow perception it is perceived as a relation between various cooperating organizations
Sztompka (2002)	expectations expressed in an expectation from a partner that mutual relations will be advantageous
Hardin (2002)	treating trust as a cognitive category

Source: Griffin, 1967, p. 104; Larzelere, 1980, p. 595; Grudzewski, 2007, p. 33; Mayer, 1995, p. 709; Rousseau, 1998, p. 393; Nieścior, 2000, pp. 23-24; Sztompka, 2002, p. 312.

The characteristic traits of trust in presented definitions are: competences, honesty, ethical behavior and predictability of actions. Trust has a positive overtone, however, the lack thereof or creating a semblance of trust causes difficult situations, even situations of crisis. For that reason, behavior based on mutual trust is desired in relations between cooperating organizations and cooperating persons. Sztompka combines trust with the undertaken action (Sztompka, 2007, p. 312). In turn, Hardin presents a different approach, thinking that trust is of cognitive character (Hardin, 2009, p. 42). In practice both approaches prevent a more complete interpretation of occurring situations.

Sources of trust are the following:

1. Values which boost the conviction on a trustee's honesty.
2. Acquaintances arising from prior, jointly undertaken actions.
3. Calculations indicating advantages, and arising from joint cooperation (Grudzewski, 2007, p. 36).

Trust is analyzed in the following five dimensions:

1. Personal dimension of a person's individual capacity to have trust.
2. Agreement based on cooperation via trust in other persons' competences.
3. Communication dimension by creating the honest and open system of sharing information.
4. Contents-related dimension including knowledge, competences and skills.
5. Organizational culture of teams which are homogeneous or heterogeneous in respect to their value systems.

Narrowing down the analysis of a phenomenon of trust to the scope of project management one must draw the attention to the following issues, concerning:

- personal aspect connected with capacity and readiness of a person to cooperate, based on knowledge, competence and skills;
- ethical aspect based on setting up the ethical code for project organizations in which such types of behaviour are stressed which are characterized by loyalty and honesty during completion of projects. Ethics is an important project management tool because persons performing the project, for example with the international scope, did not know each other previously and their cooperation is of a periodical character for the duration of project performance;
- joint, targeted activities based on the responsibility for the undertaken challenge such as a project;
- international relations: the leader to project team members, a team to the leader, members of project team to one another, relations inside the organization and other organizations inter-related within the scope of the project;
- process of achieving, enhancement and maintenance of trust during the performance of the project.

Summarizing the role of trust in project management, it is worth stressing that it is trust and not distrust which contributes to efficient project management. Sizable value of trust decides upon the project value. Capital of trust, apart from financial trust or capital of knowledge is unique, similarly like the project itself. Temporariness of the project yields the tendency of perception of trust as a dynamic phenomenon, which changes over time, what means that a project may be performed with varied intensity from full trust to the lack thereof. Trust, from the point of view of achieving benefits connected with the project, is a critical factor.

### **3. Modeling of trust**

Building models makes it possible to bring the reality closer and become acquainted with it. Model is based on an assumption that it will be compliant with the behavior in a real system. In the literature concerning this subject there are many models which are of cognitive significance and which can explain reality despite its simplification.

In the literature of the subject a phenomenon of trust is analyzed by many researchers who on the basis of conducted research form models of trust. These concepts differ by a number of recognized elements as well as the subject of analysis. Some of the models of trust are criticized for a limited number of factors recognized in them. However, despite these remarks a phenomenon of trust was noticed in contemporary business relationships and it is very significant.

Current business models are oriented on creation of relations among employees, organizations and clients based on trust. Trust in persons, organizations and products is built by high level of social capital, management systems, communication platforms, relation means and value systems.

One of models of trust is a dynamic model of trust by Blomqvist. It is based on research conducted in small, medium and large corporations. It includes four elements: abilities, reputation of a corporation, value system and behaviour. The above elements of trust create a dynamic system perceived in three dimensions: past, present time and the past (see Tab. 2) (Mc Knight, Cummings, Chervany, 1995, pp. 437-490).

Table 2. Dynamic model of system of trust

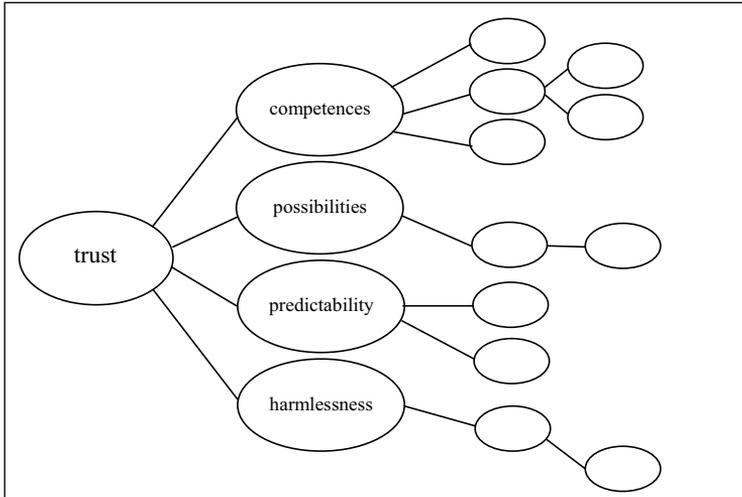
<b>Time</b> <b>Elements</b> <b>of the system of trust</b>	<b>Past</b>	<b>Present time</b>	<b>Future</b>
<ul style="list-style-type: none"> <li>• abilities</li> <li>• reputation</li> <li>• corporations</li> <li>• system of values</li> <li>• behaviour</li> </ul>	Elements of the system of trust shaped by history of functioning of a corporation	Current relations creating the system of trust	Changes in the systems of trust arising from varied and unpredictable conditions of a corporation

Source: own work.

In the integrative model of trust formed by Mayer, Davis and Schoorman trust is interpreted as a trait which is to encourage to trust other people. Authors of the model draw the attention to the fact that the trust is connected with perception of risk in relations to people, organizations and things. In the model there were three distinguishing elements: capability, warm-heartedness and honesty. They have influence on the tendency to trust when approving a certain level of risk (Mayer, Davis, Schoormana, 1995, p. 709).

Cristiano Castelfranchi is an author of social and cognitive model of trust which treats trust as a cognitive category in a psychological framework. In the model there were four basic elements of trust: competences, possibilities, predictability and harmlessness. This model has an open character, what means that it may be supplemented with subsequent elements depending on a level of detail of a research scope as well as identification of various cognitive elements. Castelfranchi explains a phenomenon of trust in mental categories, as well as the behaviour arising from earlier relations between a trusting party and a trustee, which are based on a principle of not exposing a trusting party to danger (see Fig. 1) (Castelfranchi, Falcone, 2000, p. 803).

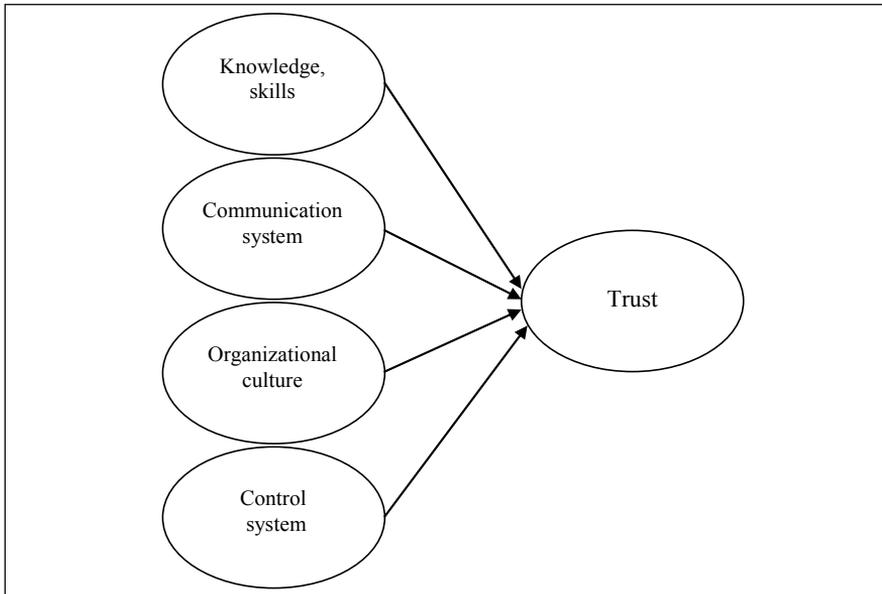
Figure 1. Social and cognitive model of trust



Source: own work.

Based on the analysis of models of trust described in literature the model of trust for completion of projects was proposed. In case of projects trust is of significant character, because members of project teams are aware that the final effect of complex projects depends on cooperation of interdisciplinary teams.

Figure 2. Model of trust for projects



Source: own work.

Based on a questionnaire four significant areas of trust have been specified, such as (see Fig. 2):

1. Knowledge, skills and experience of project team members. They are of essential importance for performance of the project. It is particularly important to create new knowledge which is an effect of creative actions of many cooperating persons. Moreover, members of project teams must demonstrate a tendency for development through cooperation as well as to be ready to share their knowledge. Apart from conceptual and technical skills it is equally important to have interpersonal skills which pertain to direct relations among persons, teams and organizations performing a project. Bonds among a project team should be based on mutual trust in the scope of knowledge and skills.
2. Communication system which must be based on trust. It particularly pertains to communicating accurate and credible information which is made available and effectively transmitted via traditional and modern means of communication. Effectiveness of transmitting information (specialist knowledge) impacts quality and timeliness of project completion.
3. Organizational culture in a local dimension and in particular in international dimension which despite differences in value systems and norms appearing within a society as well as between various nations should not be an obstacle in undertaking joint enterprises. Contemporary project organizations should aim at building the culture of trust.
4. Control system which has a character of formalized assessment of functioning of an organization. Trust and control are of a complementary character, especially in the scope of self-control.

#### **4. Objective, scope and methodology of research**

Research methodology included the following stages:

1. Specification of the purpose and subject of research.
2. Gathering information.
3. Conceptualization of the model of trust for completion of projects.
4. Identification of factors shaping culture of trust in completion of projects.

The general purpose of research was the construction of a model of trust for projects being completed.

Detailed purposes were the following:

- analysis of elements of a model of trust for completed projects,
- specification of factors shaping the culture of trust.

The research focused on were scientific and implementation projects with the global outreach.

Information for the conducted research was obtained on the basis of direct interview and questionnaires. Hofstede method was used for culture identification.

Research included 61 persons being the project team members who participated in completion of various projects in the European Organization of Nuclear Research (CERN)<sup>1</sup> in Geneva and in e-projects of international scope. Scientists from various research centers in the world who had specialist knowledge from various fields participated in the projects being completed. Cooperation took place in project teams divided into departments, groups and sections depending on

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<sup>1</sup> CERN cooperates with scholars from 500 institutes from 80 countries. CERN is an example of a project organization where theoretical research is performed, however, where priority is granted to highly experimental experiences.

complexity of a project. The characteristic feature of teams was their national, linguistic, cultural diversity, different systems of values and norms as well as knowledge.

Persons performing projects held various functions. In some projects they were leaders and in some other projects they were project team members. These were the persons holding university technical degree of various scope of specialist knowledge as well as having vast competence trust. The proposed model (item 2) was applied to analyze a phenomenon of trust in a project team. In this model for each of these four elements questions were formed and the analysis of replies allowed to form the following remarks and conclusions.

*Knowledge, skills and experience* are basic criteria of selection of members for a project team. In an interdisciplinary team trust is basically based on conceptual abilities. Team members are aware that only acting jointly, by exchange of knowledge are they able to achieve the project target. All members jointly agreed that contents-based trust is of particular importance for effective completion of the project.

*Communication system* means transmitting information using various forms of its communication. Effective communication system basing on current, credible and understandable information as well as a channel of its communication impacts the increase of trust of team members. Manner of communication includes a traditional form of direct talks and discussions on scheduled and informal meetings as well as via Internet, Intranet and videoconferences. Despite electronic communication in CERN functioning in the exemplary manner, respondents found that the direct talk creates the most advantageous climate for trust. Direct contact of project team members enables for: effective communication of credible, confidential information, shortening the time necessary to reach a solution via dispersing doubts, solving conflicts as well as encouragement for open exchange of opinions.

*Organizational culture* of project teams changes along with accepting new members or appointing new teams. These teams are culturally diversified although decisively European culture dominates. Hofstede concepts were applied to analyze culture. Hofstede singled out the following four elements:

- distance of knowledge (from bottom to top),
- individualism and collectivism,
- femininity and masculinity,
- avoidance of uncertainty (from a weak to a strong one).

Organizational culture of project teams is characterized by:

- small distance of power, because the conditions for trust based on mutual relations were created,
- collectivity, not only in a team, but also in relations with other project teams engaged in the completion of the project,
- masculinity expressed by striving to obtain specific results defined by the purpose of a project (it is worth mentioning that members of project teams were exclusively male),
- insignificant avoidance of uncertainty, what arises from the essence of research projects, which are unique and risky enterprises.

*Controlling system* of project completion using the parameters of time and costs is performed via the EVM method (Earned Value Method). This method allows not only for specification of a degree of advancement of a project but also enables for optimal use of resources. This, in turn, positively impacts the relations of project teams (trust based on relations). Also, the sig-

nificance of self-control was stressed, as self-control stimulates to conscious undertaking of intellectual effort, what is also connected with prestige of the project.

Moreover, project team members confirmed their readiness to bestow trust on new team members or new teams, assuming that they can effectively contribute to meet new challenges (general trust). Despite the fact that strong technical bond exists between teams, larger trust in a team can be felt (detailed trust).

While performing innovative projects both for the leader and for project team members, trust is of essential value. Trust is built based on the character of the leader and relationship with team members. The following most characteristic traits of the team leader emerged: openness to new ideas, creativity, intelligence, competence, honesty, justice, organization, activity and ability to support and relaxation of tension. The leader is perceived as a role of team activities integrator directed to the project team which cares for obtaining necessary resources for completion of the project. For team members the relations based on trust exceed the framework of formal dependencies.

Trust remains under the influence of organizational factors, e.g. organizational structure. Project team members underlined the fact that flexible, decentralized structures of low level of formalization (project, network) create trust.

Next, the factors were identified which shape the culture of trust in completing the project were presented in Table 3.

Table 3. Factors shaping the culture of trust in completion of a project

<b>Factors which are advantageous for building the culture of trust</b>	<b>Factors which make it difficult to build culture of trust</b>
flexibility	hierarchy
autonomy	chaos
responsibility	lack of responsibility
universalism	particularism
openness to new ideas, joy of creation	arbitrariness, suppression of initiatives
openness in mutual relations based on sincerity and honesty	relations based on lies
concentration on challenges and specific tasks	concentration on Power
shared objectives	particular objectives
authentic leadership	formalism of management
creation of joint system of values	adjusting to the current value system

Source: own work.

## 4. Conclusion

Trust is a specific value in social and economic relations. Building trust between people and organizations may effectively increase the chances for success. The most effective cooperation is based on trust, not on distrust. Building trust is a continuous process because gaining trust does not guarantee its maintenance. In collective activities trust enables for more effective achieve-

ment of objectives. Trust is combined with social trust which is the most important resource of each organization.

New task and also a challenge to modern organization, including also project organization, will be the building the culture of trust. Leaders should see benefits arising from cooperation based on trust which:

- develop creative thinking,
- encourage cooperation,
- influence coordination and controlling of actions within the organization,
- are beneficial for sharing and therefore to creating new knowledge,
- encourage to good exchange of information,
- encourage to improve management methods,
- improve the effectiveness of activity of organization,
- constitute one of the key elements of development and success of organization,
- increase the capacity of an organization to survive and leave a crisis situation.

It is worth considering whether the effective way of development for modern organizations, not only project organizations, should not pertain to their growth by trust? The reply to this question in a context of complex relations of diverse entities may be found in the future. Problem of trust is an ongoing issue and at the same time it is an open issue, which remains in a sphere of discussion.

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# Chapter 10

## **Applying the Concept of a Business Model in Analysis of the Dynamics of Added Value Generation within Capital Group**

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*Jolanta Wartini-Twardowska*

### **1. Introduction**

The business model concept, which is becoming more and more recognised, was applied to study the dynamics of generating added value in groups (Amit, Zott, 2001, p. 511; Johnson et al., 2012, p. 120; Demil, Lecocq, 2010, p. 232; Morris et al., 2006, p. 36; Osterwalder, et al., 2012, p.18; Slywotzky et al., 2000, p. 54). A business model reflects global relations between its particular elements, which can be used to evaluate the relations between the elements of various business models of business entities that form a potential group.

The method of identifying business models (developed on the basis of the MIS sector) put forward by J. Wartini-Twardowska is the starting point for analysing the added value of groups (Wartini-Twardowska, 2014, pp. 127-318). It was used to formulate the theory explaining the generation of added value as a result of combining companies into groups<sup>1</sup>.

A comparative analysis of the attributes of business models made it possible to create a picture of opportunities and threats (risks) related to the effective combination of business entities in a group. As a result, one is able to prepare a satisfactory product, or service, offer for the end customer while considering certain risks, and such an offer will translate into the added value of a group. The explanation for the approach to the analysis of outcomes of business combinations (in the form of added value) was given using the sector of management information system (MIS) producers as an example, as there is a growing conviction that the competitive edge of an organisation results from unique applications of IT resources in finding creative solutions for an organisation's business problems. Such unique applications are perceived as a reason for the growing importance of specialist services (e.g. advisory, project-related or service-related services) in the process of generating added value in the MIS sector.

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<sup>1</sup> A parent company and its subsidiaries. Cf. International Financial Reporting Standard 10.

## 2. Methodology of the study

The study consisted of three stages. The first stage involved identifying a business model according to the methodology proposed by J. Wartini-Twardowska (2014, pp. 127-149). The classification criteria were as follows: the links of the sector's value chain; and basic competitive strategies applied by companies of the sector.

The objective of the second stage of the study was to find common traits for all entities that participated in a survey which classified them into specific types of business models. This was done based on a sample of 250 manufacturers from the sector of management information systems (MIS). The survey was conducted using the iterative method, which involved verifying the results of the classification after each sample of 50 further companies participating in the survey. The assumption was that the study would be carried out until subsequent incoming surveys no longer brought any significant changes to the classification of business models.

The survey was based on the business model proposed by A. Osterwalder, Y. Pigneur et al. The findings of the survey were supplemented with direct interviews as well as consultations with experts from the industry<sup>2</sup> whenever doubts concerning the interpretation of findings needed to be clarified. The final values of the attributes of business models were estimated using the median value as the representative measure for the obtained results (cf. Tab. 2-9). On the other hand, the values for a group of attributes were estimated using the arithmetic mean of the values of attributes in a given group. Finally, the description of each business model was developed. This description was expressed through the values of 162 attributes (the most significant attributes and their values are presented in Tab. 2-9).

Using business models identified in such a manner, one could analyse opportunities and threats (as well as strengths and weaknesses) related to the process of combining companies with heterogeneous business models into groups. As a result, on the basis of the analysis of key transactions between various business models of the sector, the author's unique risk indicator checklist was created. In the author's opinion, such a checklist is essential in the study of the synergy effect for enterprises forming groups or in the case of their transformations.

Four hypotheses were formulated:

1. For a given sector, there is a finite number of elementary business models. On the basis of such models, business entities try to build their unique business architecture. Such models can be identified by reproducing an offered value proposition in two dimensions: the links of the sector's value chain on which the activities of the business entities of a group are focused; and the competitive strategy.
2. The identification of elementary business models of a sector allows a portfolio of characteristic processes to be created. As a result, one can identify key success factors of a group based on heterogenic business models.
3. Risk indicator checklists comprising key elements of and relationships within a business model structure may become tools which effectively support decision-making in the process of business combinations.

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<sup>2</sup> The expert group comprised selected representatives of business circles (CEOs and/or presidents of IT companies) and scholars from the Upper Silesian Information Forum (Górnośląskie Forum Informatyczne, GFI) at Katowice School of Economics (Górnośląska Wyższa Szkoła Handlowa w Katowicach), and from "Rytm Śląska" and BPO clusters.

4. Simulations of the structure of relations are a critical aspect of the study of changes in the group’s added value. The identification of major transactions within a group is the prerequisite of the creation of such simulations.

### 3. Results of empirical studies

The search for such common traits of typical business models of the MIS sector presented in Table 1 results in the identification, for each model, of key attributes with the highest values. To point out similarities and differences between business models, the author applied the most important characteristic traits presented in Tables 2-9.

Table 1. Conceptual framework for the identification of typical business models of the MIS sector

Sector’s value chain Competitive strategy		1	2	3	4	5
		Design	Production	Distribution	Implementation	Maintenance
1	Customer integration	1.1. independent IT advisor (ADV)	2.1. independent software vendor (1SV)	3.1. added value reseller (AYR)	4.1. integrator (TNT)	5.1. help desk (HDK)
2	Effects of economies of scale and/or experience effect	1.2. auditor (AUD)	2.2. software development company (SDC)	3.2. distributor (DIS)	4.2. freelancer (FRL)	5.2. IT on demand (ITD)
3	Innovations	1.3. business consultant (BCS)	2.3. IT Lab (LAB)	3.3. challenger (CHL)	4.3. software house (STH)	5.3. service provider (SPR)

Source: Wartini-Twardowska, 2014, p. 132.

Attributes were identified on the basis of elements grouped in the following categories: customer value proposition (24 attributes); distribution channels (11 attributes); sale support and relationships (13 attributes); resources (26 attributes); key processes (14 attributes). The generation of the added value for three selected business models is described in the following section.

#### 3.1. Customer value proposition

Customer value proposition was analysed in terms of three categories: functional values, economic values and psychological values. The study showed that functional values are preferred mostly in models focused on the provision of technical service to customers, i.e. in SPR and HDK models. INT, AVR, AUD or BCS models highlight functional values on a par with economic values. Functional values are relatively the least important in SDC and CHL models (cf. Tab. 2). In the former model, both economic values and psychological values dominate on an equal basis;

and in the latter model, only psychological values resulting from the effect of introducing new products to the market dominate.

Economic values are crucial in IDV, FRL and ITD models (cf. Tab. 3). Offered economic values are relatively the least important in AUD models and in innovation-oriented models (LAB). Psychological values dominate mainly in CHL models and in LAB (cf. Tab. 3). They are also important in BCS and SDC models, and in companies providing programming services (STH). On the other hand, psychological values are not very important in DIS and FRL models, or in companies with a business profile focused on the provision of technical service.

### ***3.2. Distribution channels***

Distribution channels were analysed in terms of two criteria: the dominating influence (proprietary and third party channels), and a product's intended purpose (cf. Tab. 4).

The proprietary direct channel is the dominating distribution channel for the identified business models of the analysed sector. The third party partner channel is an exception here; it is preferred in SDC and FRL models. On the other hand, in DIS models, the partner channel along with the proprietary channel are the dominating structures in distribution channels.

The proprietary direct channel based on a proprietary network of distribution points is also preferred in service-based models, i.e. ITD and SPR (cf. Tab. 4). In other models, this channel is definitely less important. In light of the study, the proprietary indirect channel (created only in SDC models) and the third party single-level channel (where products/services are sold to the end customer directly through a distributor) are the rarest distribution channels. In the majority of business models, end customers who use offered solutions to meet their own needs are the basic recipients of products and/or services. DIS models are the only exception here; these mainly offer components for the production of the final solution for the end customer. On the other hand, in SDC models, both the sale of components and the sale of complete business solutions are equally important.

Table 2. Customer values – functional values for identified business models

Values	IT Business Models														
	ADV	AUD	BCS	ISV	SDC	LAB	AVR	DIS	CHI.	INT	FRL	STH	HDK	ITD	SPR
<b>Fimitioniml values</b>	••	••••	••••	••••	••	••••	••••	••	••	••	••	••••	•	••	••
Tailoring the offer; customising a product/service to a customer's specific needs	••••	•	••••	••••	••	••••	••••	•	••	••••	••	••••	••••	••	••••
Standard of a product/service (e.g. based on the best industrial practices)	••••	••••	••	•	••••	••	••••	••••	•	••••	••••	••	••••	•	••
Complete character of a product/ service offer	•••	•	••	•••	••	••	••	••	•	••••	•••	•••	••	•••	•••
Co-creation of a solution by a customer; participation in the product development process (presumption)	••	••	••••	••	••	••••	••••	••	••	•	••	••	••	••	••
Ergonomy of a product	•	••••	••••	••	••	••	••	••	••	•	•	•	•	•	•
Universality of the applications of a purchased product and/or service	••	••	••	••	••	••••	•	••	••	•	••	••	••	••	••
Specialist service; customer support at the stage of development and operation of a solution	•	••••	••••	•	••	•	•	•	•	••	•	•	•	•	••••
Cooperation flexibility/availability	••••	•	••	•••	••	•	•	•	•	•••	•••	••••	••••	••	••
Effective solution of a customer's business problems	•••	••••	••••	••	••	•••	••	•	••	•••	••	••	••	••	••••
Free selection and/or change of vendor by a customer/relatively low cost of vendor change	••••	••••	••	••	••	•	•	••••	•	••	••••	••	••	••	•
Guarantee of continuity of cooperation	••	••	••	••	••••	••	••	•	•	•	•	•	••	••	•••
Safety	•	••••	•	••	••••	••	••	•	•	•	•	•	••	•	•••

Source: own source.

Table 3. Customer values – economic and psychological values for identified business models

Values	IT Business Models														
	ADV	AUD	BCS	ISV	SDC	LAB	AVR	DIS	CHL	INT	FRL	STH	HDK	ITD	SPR
Economic values	••	•	••	•••	•••	•	••	••	••	•••	••	•••	••	•••	••
Low purchase/selling price of a product/service	••••			••••	••		•	••••			••••	••	••		•
Low total costs of purchasing/producing and maintaining a solution (TCO)	••	••	••	••	••	••	••	••	•	•	••	••	••	••	•
High quality of a product/service	••••	••••	••	•	••	••	••	•	•	••	••	••	••••	••	••
Solution scalability; adapting the range of rendered services and/or performed functions to the customer's current needs	••	••	••	••	••	••	••	••	••••	••	••	••	••••	••	••••
Product and/or service availability; quick implementation/delivery	••	••	••	••	••	••	••••	••	••	••	••	•	••	••	•
Profitability of mutual relations	••	••	••				••	•	•	••	••	••	••	••	
Access to a vendor's specialist expertise; transfer of knowledge to the customer	••	••	••••	••••	••	••	••••	•	••••	••••	••••	•	•		••••
Flexible forms of cooperation financing (loans, leases, etc.)					••		•	••	•	••••					
Psychological values	•	••••	••••	••	••••	••••	•	••	••	•	••	••	•	•	•
Brand; prestige related to the possession of a solution and/or to cooperation with a renowned vendor/manufacturer		••	••••	•	••••	••	•	••	••		•			••	••
Vendor's reputation on the market; testimonials	••••	••••	••	••	••		••••	•	••	•	••••	••	••	••••	••
Solution uniqueness; product and/or service modernity; prestige related to "being the first" on the market			••••	•	••	••	•	••	••	•	••••				
Affiliation with the community of a prestigious group of product and/or service users	•	•	•	•	••••	•	••	••	••						

Source: own source.

Table 4. Major distribution channels for identified business models

Distribution channels	IT Business Models														
	ADV	AUD	BCS	ISV	SDC	LAB	AVR	DIS	CHL	INT	FRL	STH	HDK	ITD	SPR
<b>Major distribution channels</b>															
Proprietary direct channel – direct sale to the end customer	000	•	•	•	•••••	••	•	•••••	••	•	•••••	•	•	••	••
Proprietary direct channel – sale to the end customer through a proprietary network of business affiliates and/or retail outlets		0	0	0	000			0	0	00		0		00	00
Third party partner channel – sale through a network of business partners directly to the end customer				0	000	0	0	000			000	00	0	0	0
<b>Major third party distribution channels</b>															
End customer using IT solutions	0000	0000	0000	•	•••••	••	••	•••••	•			••		•	••
Technological partners using offered IT solutions as a component enhancing the value of their own products on the market				00	0000	0	0	0000	0			0000		0	00
Product partners for whom the offered IT solution becomes a software and or hardware component of the end solution					00	000	00	0000	0			00			00
Business partners; the offered product is to be redistributed					0000			00	00						

Source: own source.

### **3.3. Sale support and relationships**

One-to-one sale as a sale support method based on dedicated account managers dominates in the majority of business models, except for SDC models (cf. Tab. 5). Activity in the area of public relations and publicity is also essential in communication with customers. The importance of such activity is definitely smaller in FRL models. The following analysed sale support methods are relatively the least important: sale automation; product placement; and promotion in social media.

Direct relationships are maintained the most frequently with a customer's IT services and the boards of directors of companies, but in a slightly smaller number of models (cf. Tab. 5). Maintaining contacts at the operating management level and through a network of business partners is relatively the least important in the process of developing customer relations.

### **3.4. Resources**

The importance of resources for each business model was analysed for four categories: physical and financial resources; intellectual resources; human resources; and other intangible resources (cf. Tab. 6). As the analysis shows, physical and financial resources are the least important in the process of building the structure of resources of business models of the MIS sector. Such types of resources are more essential only for distributors (DIS) who allocate financial resources to the deliveries of computer applications and IT infrastructure (software and hardware), and ITD and INT models.

Human resources are the most important in models focused on specialist service (SPR), for companies implementing technologically advanced solutions (AVR and CHL), and ISV models (cf. Tab. 6). On the other hand, human resources are relatively the least important in distribution models such as DIS, HDK and ADV (cf. Tab. 7). Intellectual resources dominate in 'business advisor' models (BCS, AUD, ADV) and in models focused on the development and implementation of innovative solutions (LAB, CHL, STH – cf. Tab. 6). Alternatively, intellectual resources are the least important in FRL and ITD models. Other intellectual resources dominate in SDC, ITD and INT models. A model in which intellectual resources are of marginal significance in the overall structure of resources was not found.

### **3.5. Processes**

The analysis of the importance of business processes in particular business models of the MIS sector was carried out for four groups of processes: recognising market needs; solving business problems; production and distribution of solutions; and customer service and support. Processes related to the recognition of markets are highly important in almost all business models. They dominate in models of advisors and consultants, in models of producers and in models focused on service support. Only ISV and LAB models are exceptions here. In these models, the processes related to recognising a market and winning new customers are not key processes.

The production and distribution of IT solutions is the domain of the models of producers and distributors (ISV, SDC, DIS, AVR, CHL, STH – cf. Tab. 8). On the other hand, the process of solving customers' business problems can be found in models of business advisors and consultants and in models of integrators and specialist service companies. The last group of processes, customer service support processes, are characteristic for ISV, HDK and ITD models.

Table 5. Relationships for identified business models

Sale support – relationships	IT Business Models														
	ADV	AUD	BCS	ISV	SDC	LAB	AVR	DIS	CHL	INT	FRL	STH	HDK	ITD	SPR
Sale support	•	••	•••	•••	••••	••	•••	••••	•••	••••	•	•••	••	••••	•••
One-to-one sale, personal communication, sale support offered by a dedicated account manager	○○○○	○○○	○○○○	○○○○	○○	○○○○	○○○○	○○○○	○○○○	○○○○	○○○○	○○○○	○○○○	○○○	○○○○
Sale automation, providing the possibility of taking advantage of the offer on one's own (Internet)		○		○	○○○○		○							○○	
Advertising (mass media, catalogues, brochures, exhibitions)				○○	○○○○		○	○				○		○○○○	○○
Public relations and publicity (mass media, conferences, seminars, publications, annual reports, newsletters, articles, etc.)	○○	○○○○	○○○○	○○	○○○○	○○○	○○	○○○○	○○○○	○○○○	○	○○○	○○○	○○○○	○○
Sale promotion (fairs, exhibitions, price reductions, presentations for customers, thematic conferences)	○	○	○○	○○○	○○○○	○○	○○	○○○○	○○○○	○○○○	○	○○	○	○○○○	○○
Prosumption – close cooperation with the customer at the stage of designing, developing and maintaining a solution	○○		○○○○	○○		○○○○	○○		○○○	○○○		○○○○	○		○
<b>Relationships</b>	••••	••	••	••••	••	••	•••	••	••••	••	••	•••	••	•••	•••
Direct relationship maintained with the end customer and the boards of directors of companies	○○○○	○○	○○○○	○○○○	○○	○○○○	○○	○○○○	○○○○			○○	○○	○○○○	○
Direct relationship maintained with the end customer at the middle management level	○	○○○○	○	○○○○	○		○○○	○○	○○	○○	○○	○○○			○
Direct relationship maintained at the customer's IT level	○○	○○○	○	○○○○	○○	○○	○○○○	○○	○○○○	○○	○○	○○○○	○○○○	○○○○	○○○○
Indirect relationship maintained with the end customer through a network of partners (trade, business, product, etc. partners)				○○	○○○○		○○				○○○○			○	

Source: own source.

Table 6. Physical, financial and intellectual resources for identified business models

Resources	IT Business Models														
	ADV	AUD	BCS	ISV	SDC	LAB	AVR	DIS	CHL	INT	FRL	STH	HDK	ITD	SPR
Physical and financial resources				●	●●	●●	●●	●●●●	●	●●●		●●	●	●●●	●●
IT infrastructure (proprietary server room, proprietary advanced hardware and software solutions)				○○	○○○○	○	○○		○	○○		○○○○	○	○○○○	○
Logistics systems, spare parts warehouses, etc.					○○			○○○○		○○○			○		○○○
Financial self-sufficiency	○	○○	○○	○○○	○○	○○	○○○	○○	○○	○○	○○	○○	○○	○○	○
Access to flexible sources of financing (operation and/or investment activities)					○○	○○○○	○	○○○○	○○	○○○○		○○		○○○	○○○
<b>Intellectual resources</b>	●●●●	●●●●	●●●●	●●●●	●●●●	●●●●	●●●●	●●	●●●●	●●●●	●●●●	●●●●	●●●●	●●	●●●●
Employees' qualifications; stable middle management	○○○	○○○	○○○○	○○○	○○○	○○○○	○○○○	○	○○○○	○○	○○○○	○○○○	○○○○	○○○○	○○○○
Knowledge and knowledge management system; employees' motivation		○	○○○○	○○	○○○○	○○	○○		○○○	○○○		○○○○	○	○	○○○
Corporate standards and values; employees' identification with their organisation's objectives	○○○	○○○○	○○○○	○○	○○○	○○	○	○○○	○	○	○	○○	○○○	○	○○
Access to high-class specialists; creative R&D teams	○○○○		○○○	○○	○	○○○	○○		○○○○	○○○○		○○	○	○	○○○○
Access to low-cost efficient employees; improving operations-related and/or fast customer service procedures		○○○○	○	○○	○		○	○○○○	○	○		○○○	○○○	○	

Source: own source.

Table 7. Intangible and human resources for identified business models

Resources	IT Business Models														
	ADV	AUD	BCS	ISV	SDC	LAB	AVR	DIS	CHL	INT	FRL	STH	HDK	ITD	SPR
Intangible resources	●●	●●●	●●●	●●●	●●●	●●	●●●	●●	●●	●●●	●	●●●	●●●	●●●	●●
Experience and reputation on the market; promoted brand (of a company and/or product, technology)	○○○	○○○	○○○○	○○	○○○○	○	○○○○	○○	○○○○	○○○○	○○○	○○	○○	○○○○	○○
Corporate bases of knowledge and cases; procedures for solving complex problems; project management standards		○○	○○○	○○	○○○○		○○	○	○○○○		○	○○○○	○	○○○○	○○
Specialist expertise	○○	○	○○○○	○○	○	○○○○	○○	○	○○○○	○	○○○○	○○		○	○○○○
Proprietary licences; qualifications and/or procedures allowing for the maintenance and development of proprietary software; research findings				○○○○	○○○○	○○○○	○					○○○			
Databases of market and customer information; active CRM systems; competition information systems	○	○○○○	○○	○○	○○○○		○○	○	○○○○	○○	○	○○	○○	○○○○	○
Long-term customer relations; loyal customer base	○○○○	○	○○○○	○○○○	○	○○○	○○○○	○○	○○○○	○○○○	○○	○○	○○○○	○○	○○○○
Long-term agreements with vendors (e.g. access to third party licences, know-how, patents)				○○		○	○○○	○○○○	○○	○○○○	○	○	○○○	○○○	○○○
Business continuity systems and procedures		○	○○	○○	○○○○		○	○	○	○		○○	○○	○○○○	○
<b>Human resources</b>	●	●●	●●	●●●	●●●	●●●	●●●	●	●●●	●●	●●	●●●	●●	●●●	●●●
Sales representatives		○○○○		○○	○○○○		○○○	○○○○	○	○○○○	○○	○○	○	○○○○	○○○
Project managers, customer assistants	○○	○○	○○○	○○○○	○		○○○○		○○	○○○○		○○	○	○○	○○
Experts in particular fields	○	○○	○○○○	○○		○○○○	○○		○○○○	○	○○○○	○○	○○	○	○○○○
Business analysts (consultants)		○○○	○○○○	○○○○	○○	○○	○○○○		○○○○	○○	○○○	○○○○	○	○○	○○
IT solutions architects, designers			○○	○○	○○○○	○○○○	○○		○○	○○○		○○○○		○○○○	○○○
Programmers, IT solutions testers				○○○○	○○○○	○○○○	○○	○○	○○○	○○		○○○○		○○	
IT solutions administrators, maintenance staff				○○		○	○	○				○○○	○	○○○○	○○○○
Maintenance staff				○○	○○○○		○○					○○	○○○○	○○	○○○○

Source: own source.

Table 8. Processes for identified business models

Processes	IT Business Models														
	ADV	AUD	BCS	ISV	SDC	LAB	AVR	DJS	CHL	INT	FRL	STH	HDK	ITD	SPR
Recognising market/customer needs	●●●	●●●●	●●●●	●●●	●●●●	●●	●●	●●●●	●●●●	●●●●	●●●	●●●	●●●●	●●●●	●●●
Knowledge of development trends; knowledge and customer relations management; establishing market information systems	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Maintaining relations with end customers	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Developing sale support services (sale financing services, etc.)	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
<b>Solving customers' business problems</b>	●●●	●	●●●	●●	●	●	●●	●●	●●	●●●●	●●●	●●	●	●●	●●
Supply chain management; integrating IT solutions for a customer	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Designing business solutions; consultancy; training	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Implementing business solutions on the basis of selected technologies and/or IT platforms	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Managing third party implementation projects at the customer's location	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
<b>Production and distribution of IT solutions</b>	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Designing and developing IT products (software, infrastructure)	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Improving business solution implementation processes at the customer's location	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Product innovation; implementing solutions supporting the reengineering of a customer's key business processes	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Managing the (proprietary and/or third party) distribution network	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Technical service	●	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Ongoing customer support; provision of technical service	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Maintaining a customer's IT resources (software and/or IT infrastructure)	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Managing and hiring resources to implement IT projects (human resources – programmers, consultants; and/or tangible resources – IT infrastructure)	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○

Source: own source.

#### 4. Diagnostic syndrome – the importance for the forecasting of added value of groups

After defining and measuring the traits differentiating business models of the MIS sector, the author intends to explain and determine the method of generating benefits from the economic combination of businesses, and to indicate the method, degree and areas of generating economic added value, which are shaped by business architecture. The diagnostic syndrome, characteristic of the picture of a specific combination of business models, is caused by the mutual influence of attributes (measurable and non-measurable) upon the risk of generating added value of a complex organisation. The risk indicators checklist may justify decisions concerning the building or transformation of a group's structure. The attributes included in such a checklist will ensure the biggest possible diagnostic capacity, which can be helpful in the evaluation of the potential risk of the analysed phenomenon. Further, on the basis of the checklist, one is able to develop simulations of the most economically effective business combinations. Due to such an approach, one is able to single out business models to be combined.

The analysis of key transactions between various business models of the sector became the basis for the sample risk indicators checklist. The checklist developed for this study referred to the structure and dynamics of revenue and is a fragment of a comprehensive analysis of two selected business models, i.e. AVR and INT (cf. Tab. 9).

The structure of AVR's revenue differs to some extent from the structure of INT's revenue, as INT is involved in the provision of products and services (particularly integration services), and AVR provides technical service. An insignificant change in the structure of AVR's revenue resulting from the fact that INT's offer is not very attractive to AVR's customers, is the weakness of the combination of these two business models. On the other hand, a very considerable increase in AVR's revenue on the market of customers serviced by INT is the strength of this combination. The significant change of revenue as a result of entering a new market of customers is noticeable for both AVR and INT<sup>3</sup>.

Table 9. Revenue structure and change – checklist

Revenue structure and change	AVR/INT*	INT/AVR*
To what extent does the reseller's (integrator's) revenue structure overlap with the integrator's (reseller's) revenue structure?	••	••
How will the reseller's (integrator's) revenue structure change as a result of the establishment of a group?		••
How will the reseller's (integrator's) revenue change in their present customer segments?	•	•••
How will the reseller's (integrator's) revenue change in the customer segments serviced by the reseller (integrator)?	••••	•
To what extent does the reseller's (integrator's) revenue structure overlap with the integrator's (reseller's) revenue structure?	••	••

\* Importance (0-4)

Source: own elaboration on based Wartini-Twardowska, 2015, p. 589.

<sup>3</sup> A more detailed description indicating positive aspects of combining INT and AVR business models is available in Wartini-Twardowska, 2015, pp. 586-589.

The author harmonises the generation of the added value of groups with Woolcock's assertion regarding the high importance of exchange and its influence upon the commitment of the parent company to the development of strategic subsidiaries. Due to exchanges between consolidated companies, mutual trust is enhanced, the introduction or maintenance of various incentives is encouraged, the risk of the marginalisation of subsidiaries is mitigated and transaction costs are lower (Woolcock, 1998, p. 163). The establishment or enhancement of relations between subsidiaries and business entities from outside a group (particularly, the expansion of effective autonomy) may impair relations within a group and result in greater disagreement with the objectives of the parent company, and may also lead to external anchoring<sup>4</sup>. The parent company controls and integrates multiple complementary (supplementary) assets, processes, etc. of subsidiaries, which together form the internal market of a group<sup>5</sup>. Relations between organisations facilitate the exploitation of local competitive edges and the development of entrepreneurship for subsidiaries, which results in improved performance (Birkinshaw et al., 2005, p. 235).

If long-term relations in a group are deemed as highly important, the creation of the end product in a group calls for the application and coordination of contributions from other consolidated companies (their products/services<sup>6</sup>). Due to relations between organisations, unique combinations of the nine elements of a business model are created, and therefore, competitors find it difficult to emulate a group. The combined action of different entities is becoming more important as a result of the generation of internal and external value<sup>7</sup>. Internal value results from sequential or simultaneous addition of contributions to the collective development of an offer by participants in the exchange. The combination of intra-group activities or resources co-creates added value for the customer, which is further translated into the added value of a complex organisation.

A company operating on the basis of INT business model (business model 4.1) sells implementation services to the end customer. INT purchases software licences for the end customer directly from a smaller SDC (business model 2.1). In the case of larger SDC, software licences are sold through DIS and/or AVR business model. INT provides implementation services in the cooperation with AVR as a subcontractor. INT charges the reseller with a commission for finding and winning new customers.

AVR and, more rarely, INT also purchase software and hardware to meet their own needs. AVR and SDC may instruct INT to render integration services in order to build their own ad-

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<sup>4</sup> Accordingly, subsidiaries are exposed to conflicts, as they must both observe the values and rules of their group, and therefore the parent company, and take into account values highlighted by companies from outside the group (Gammelgaard et al., 2011, p. 375). Placing too much emphasis on the conclusion of agreements between subsidiaries and institutions from outside the group of consolidated companies may suggest that there are problems with the implementation of the parent company's practices within these subsidiaries. The emergence of considerable institutional differences (differences between the parent company and subsidiaries due to arrangements made by subsidiaries with third party companies – the problem of institutional dualism) can be considered an example of the aforementioned problems (Kostova, Roth, 2002, pp. 218-219).

<sup>5</sup> The internal market is characterised by lower transaction costs than in the case of the external market. On the other hand, the economic autonomy of subsidiaries can be enhanced without complete agreement with the parent company.

<sup>6</sup> These can be analysed in terms of customer value, vendor value, and the co-creation of customer value and vendor value. Compare (Ngugi et al., 2010, p. 263).

<sup>7</sup> Internal value is the expression of abundance as perceived by an owner (the parent company and non-controlling shareholders), and external value is the satisfaction of the end customer (Bititci, 2004, p. 252).

vanced environments. On the other hand, INT, to solve customers' problems, also uses technical service of AVR or purchases software licences from it.

In groups composed of heterogeneous business models, portfolios of resources (processes etc.) are created; they bear various risks.

## **5. Conclusion**

The value chain of the MIS producers sector can be described using five key links of a sector's value chain<sup>8</sup>. For each value link, a diversified value proposition for the end customer is offered. Hence, as part of a specific link of the sector's value, one can have business based on various strategies of generating added value. Building or improving the structure of resources and competences in a few links of the value chain results in an organisation's focus on more than one typical business model. As a result, a business entity (including a group) is able to build its original business architecture using a combination of typical models. Such architecture is becoming more complex when it is shaped by heterogeneous business models. To explain the process of generating added value, the identification of typical business models calls for the application of a complex method suiting the structure and dynamics of the function and processes. The analysis of the dynamics of generating added value in a specific business model is a tool used to recognise key success factors for a business. On the other hand, one should identify interactions between business models of combined companies. Such an approach supports investment decisions. Business architecture prompts the diagnostic syndrome. It may indicate the generation of the added value of a group (of its business entities). Apart from competitive strategies and links of the value chain, the financial aspect is also important. It is reflected in added value of a complex organisation. The transaction-based approach to the measurement of added value shows the conventional method of expressing changes in assets and liabilities. The analysis of added value from the perspective of key exchanges, including transactions between business models, is a new research direction. It appears to be important, as the success of groups also depends on the selection of the criteria for the development of the metrics system used to evaluate the accomplishment of strategic objectives of such groups. Such a system takes into account relations between key success factors of the sector and the implemented business model. Such a position is in line with further direction of the author's study of business models of complex organisations.

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<sup>8</sup> Design; production; distribution; implementation; maintenance.

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# Chapter 11

## **Types of Co-operation Strategies of Non-governmental Organizations – Analysis of Implementation Benefits**

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*Tomasz Kafel*

### **1. Introduction**

The concept of strategy used mainly in business organizations for some time has begun to penetrate the non-governmental organizations and public institutions. Nowadays, the terms such as: organizational strategy, marketing strategy, human resources strategy, information management became a constant component of the vocabulary used in these organizations. Lack of dominant trends in strategic management in non-governmental organizations as well as a wide range and variety of their activities, however, generate some difficulties in developing a typology of strategies. It also results from the fact that certain types of strategies used in business organizations cannot be used in NGOs.

The influential factors include:

- problems with the identification of service units (i.e. specific tasks),
- orientation rather on contribution to the development of societies, and not on the proper use of resources,
- orientation in the management on a budget, and not on sale (profit),
- necessity arising from the mission to attract (associate) not only beneficiaries but also the providers of funds necessary for business activity.

Despite this, both theory and practice provided some of the original typologies of NGOs strategies. Some of the more presented further in the study, however, the primary goal of this article is to present the benefits of implementing a strategy of NGOs cooperation.

## 2. Typologies of non-governmental organizations strategies in terms of foreign researchers

One of the most well-known typologies of non-profit organizations' strategies was proposed by P.C. Nutt and R.W. Backoff. They identified two approaches to strategy formulation: an analytical approach and a creative approach (Nutt, Backoff, 1992, pp. 98-102). Analytical approach focuses on the evaluation of key activities (services, products) and their grouping into different categories (e.g. those which require modification or which one has to give up). The analysis is to help determine the problems to be resolved, and the most frequently used tools in the framework of this approach include portfolio methods. Strategies have here a legislative nature and are assigned to particular areas of the matrix. Characteristic of the creative approach is to focus on a stakeholder (actors) or of an intermediary (agency). In the first case researched are calls to action directed towards the organization by actors from the inside or from the outside. Model of Five Forces by M.E. Porter and analysis of *stakeholders* constitute the most representative tools used in this approach. Focusing attention on the agency implies exploring the possibilities of the organization and identifying its strengths and weaknesses as well as opportunities and threats. The creative approach focuses on discovery, rather than analysing. P.C. Nutt and R.W. Backoff proposed typology of non-profit organization strategy that seems to draw on the creative approach. Crucial for this proposal is to distinguish four types of the environment in which non-profit organizations operate (Fig. 1).

Figure 1. Types of non-profit organizations environment

<b>Pressure for Action</b>	High	disturbed	turbulent
	Low	placid	clusteredplacid
		Low	High
		(avoidance)(collaboration)	
<b>Organization Reaction</b>			

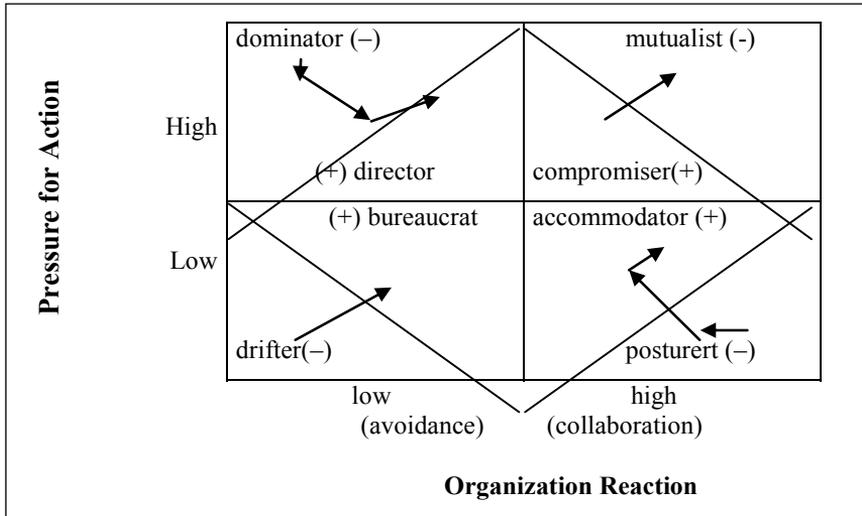
Source: author's own research based on: Nutt, Backoff, 1992, p. 86.

The authors put forward a proposal strategies that meet the conditions posed in the distinguished types of environment (Nutt, Backoff, 1992, pp. 98-102). These types are determined, on the one hand, by the need to respond to external needs (pressure for action on the part of the network of authorities – voluntary committees, law-making bodies, institutions with public mandate), on the other hand – response on the part of organization that can accept the nature of cooperation or avoidance. For each of these types of environment one identifies *non-profit* organiza-

<sup>1</sup> The authors include non-governmental organizations and public institutions as non-profit organizations.

tions strategies that have positive traits: director, bureaucrat, accommodator (an organization that has the ability to easily adapt to changing environmental conditions), compromiser and mutualist (in English *mutual* means someone who offers e.g. service, expecting something in return for the principles of cooperation; the term is derived from the adjective *mutual* – reciprocal, mutualism is characterized by intense mutual dependency) and negative features (dominator, drifter and posturer). They are presented in Figure 2.

Figure 2. Types of non-profit organization strategy by P.C. Nutt and R.W. Backoff



Source: Nutt, Backoff, 1992, p. 86.

P.C. Nutt and R.W. Backoff within their typology distinguished active strategies (strategies of a dominator and director), passive strategies (strategies of a posturer and compromiser), strategies characterized by combining the activity of an organization with the expectations of the environment and the pressure of the network authority to take action (strategies: drifter, bureaucrat, compromiser, mutualist).

The types of strategies with high activity (*high action*) comprise strategies of a dominator and director. Dominators implement the strategy, which aims to deal with needs emerging at a rapid pace. However, it constitutes to a small extent response to calls for action from the network authority. Dominators tend to be insufficient to respond to the recommendations and orders of authorities. The general idea of a dominator is independence from any authorities and avoiding responsibility<sup>2</sup>. In a turbulent environment one should take steps to pass from strategy of a dominator to strategy of a director. This change causes a stronger response of an organization to the needs and taking a (small) responsibility for the organization actions leading to meet those needs. Organizations can survive for long periods, using the strategy of the director if the environment continues to allow for action without full accountability. The change, during which increases responsibility, would oblige the movement towards a mutualist strategy (up diagonally

<sup>2</sup> Dominators, responding to a particular need, typically act independently of a network of authorities.

in Fig. 2). The need for such a movement is often the result of new laws that determine the modification of the organization's mission (Nutt, Backoff, 1992, pp. 98-102).

Another group comprises types of strategies with low activity indicator (weak activity in relation to the needs, sometimes fake actions). This group includes a posturer strategy (strategy of inactivity). Strategists guided by this approach analyze each signal to see if the call to action is well founded, and inform about planned reactions. Reactions never take place. The reaction is impossible because of the preoccupation with the analysis of signals. Such a strategy lacks decisions and establishing priorities, which means that the strategy is becoming less effective than such, which takes action as necessary. Strategies for low-activity strategy also classify an accommodator. This strategy has the characteristics of a mutualist strategy, although introduces greater activity in action. This makes the strategy for adapting the more effective the strategy of a mutualist (this has been shown in the movement of an arrow towards the diagonal in Figure 2).

The last, most numerous are the types of strategies characterized by combining the activity of the organization with the expectations of the environment and the pressure of the network authority to take action. Some organizations are trying to exist in environments that do not require significant action. The strategy of a drifter may be taken in an environment that does not require a lot of from the organization, which is associated with accepting waste (idleness). Here programs are realized unnecessarily or insignificantly and monotonously, but it makes the impression of active operation of an organization. The new leadership or fear that this state will be discovered, temporarily induce such an organization to seek a strategy that would give meaning to its action. Drifter strategy is characterized by some organizations during the restructuring period, following intensive campaigns, which required a considerable amount of energy. The low level of activity can be considered as compensation for people who were required to too much during the budget deficit. This behaviour may be a trap for the organization when it intends to return to normal activities. The lower level of activity becomes the norm used to justify a slower pace and less effort (Nutt, Backoff, 1992, p. 91).

P.C. Nutt and R.W. Backoff strategy in its typology of non-profit organizations strategies drew attention to the fact that for this type of entities responding to the actions of competitors should be replaced by responding to the emerging needs. Rather than compete competition, *non-profit* organizations can change their relationship with organizations and stakeholders forming their environment. This process is illustrated by an arrow in Figure 2. The diagonal shows the movement necessary to achieve success in *non-profit* organizations. In the lower left corner of Figure 2 there is illustration of an organization that operates almost without any intentions, plans. The aim is to move the organization to the appropriate point along the diagonal. It is recommended to move up the diagonal, which gradually makes the organization more proactive in recognizing the needs and the formation of cooperative systems. The level of response is modified by the organization when it engages in activity: the organization can go in the direction of adaptation, compromise or cooperation with their environment. Depending on the response to the needs and pressures exerted by the network of operation authority of the organization, one of the strategies depicted in Figure 2 is selected by the organization. Organizations that respond to the manner in which they acted in the past, limiting their choices, continuing with the existing strategy. Organizations that adapt their responses to emerging needs confirmed by the network of authority, have a wider repertoire of strategic responses and better prospects for the use of strategies best suited to a given situation. Plus signs in Figure 2 represent a potentially effective strategy and minus signs – a strategy that tends to be ineffective. The arrows indicate the path that should be taken

in order to increase the effectiveness of the strategy. The most successful strategy is to move up the diagonal indicated by arrows in Figure 2. This requires changes in organization reaction in relation to the pressures to activity exerted by the environment (Nutt, Backoff, 1992, p. 87). Strategy located outside the diagonal strategy is less effective, because the reaction/response on the part of organization is not synchronized (*out of phase*) with an emphasis on action, which means that the reaction is disproportionate to the pressure for action. *Non-profit* organizations can go through some phases in which there is a strategic change attitudes, such as transition from the attitude of an accommodator to compromiser or from a director to compromiser. It is more difficult to justify and sustain the transition to a mutualist strategy (Nutt, Backoff, 1992, p. 96).

Strategy typology by P.C. Nutt and R.W. Backoff is not the only proposal described in western literature, although the one only described in such honest and detailed manner. One should also note, however, several other typologies of NGOs strategies. One of them is the typology proposed by K.P. Kearns, within which the following was distinguished:

1. Growth strategies – strategies of concentration (by means of horizontal or vertical integration) and strategies for diversification (by concentric or conglomerates diversification). The implementation of the growth strategy can be carried out by means of the method of internal development and external development method. In the latter case, it is possible to develop by acquisition (acquisitions and mergers), as well as the development of the joint venture (*joint ventures*, consolidations, alliances, agreements, consortia).
2. Reduction strategies – strategies for the restructuring (by reducing costs, offer award, bankruptcy), sale strategies (by partial or complete withdrawal, transfer of responsibility to others, cooperation with any other entity within the alliance, consolidation) and decommissioning strategy.
3. Stabilization strategies – the strategy of *status quo*, prisoner strategy (an organization becomes dependent on another, e.g. a public institution), a strategy to pause (suspension of activities), incremental strategy (phased approach), defensive strategy;
4. Cooperation strategies – strategies for sharing resources, strategies, joint ventures, alliance strategies (Kearns, 2000, pp. 135-267).

In turn, T.L. Wheelen and J.D. Hunger included the following to the key strategies of non-governmental organizations: strategy subsidization (piggybacking, which means expansion of activity, which will provide additional funds – or literally will “piggyback”), the strategy of mergers and alliances strategies (Wheelen, Hunger, 2002, pp. 332-333).

H. Tuckman developed a typology of NGOs strategy operating in more than one area (diversified units). He distinguishes two groups of strategies. The first concerns organizations on the basis of the holding company (*holding companies*), the second – cooperating organizations (*joint ventures*), which was presented in Table 1.

As part of the cooperation of businesses and non-governmental organizations one can identify three models: a symbiotic model, complementary model and integrated model (Mair, 2008, p. 24). It can be assumed that the adoption of one of these models is also the choice of a specific type of cooperation strategy. One can therefore supplement the proposed typology of strategies of governmental organizations by H.P. Tuckman, distinguishing in a group of cooperation strategy three types: the strategy of symbiotic cooperation, complementary cooperation strategy and the strategy of integrated cooperation. The main feature of the first of these types of strategy is the symbiosis between resources belonging to the non-governmental organization and structure created by the commercial organization.

Table 1. Types of non-governmental organizations strategy highlighted by H. Tuckman

Strategies of organizations on the principles of a holding	Strategies of cooperating organizations
<ul style="list-style-type: none"> <li>• Unrelated diversification, involving the creation of a separate, for-profit, business activity (<i>unrelated passive income strategy</i>)</li> <li>• Related diversification, involving the commitment of own resources in the creation of profitable operations related to the core business (this link maybe, for example lapping with a new paid offer to customers that previously were served for free) and</li> <li>• Reduction of costs by the so-called passive investing thus seeking solutions that can reduce the cost of services rendered</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperation with commercial companies, under which it is permissible even the creation of a separate entity (<i>jointventure</i>) linking mission brought by an NGO and capital contribution of a company from the private sector (an example of such cooperation is the <i>joint venture</i> described below called Grameen Phone)</li> </ul>

<sup>a</sup>H.P. Tuckman for such type of behavior uses the terms: *active investment, revenue producing*.

Source: author's own research based on: Tuckman, 1998, p. 175 and Kafel, 2009.

As a good example serves created in 1997 *joint venture* called Grameen Phone as a result of cooperation between Telenor (Norwegian mobile operator) and the Grameen Bank (known primarily from the loans to the poor people of India). Help of M. Yusuf (the founder of the Grameen Bank) was the guarantor of success, raising reputation and reducing the risk of corruption in the implementation of this common project. Also bank's experience in fundraising and providing micro-loans to rural groups was used. Instead of giving away phones (in order to expand the network) Grameen Phone proposed the poor residents of rural areas micro loans to repay the bills for calls, introducing an element of discipline and commitment. These actions allowed to maximize profit, and at the same time contributed to the increase in the number of jobs and opportunities for doing business among the poorest villagers in India (Mair, 2008, p. 24).

The latter type of strategies, complementary cooperation strategy, which allows to link social value creation with generating profit, entails the need to find a complementary partner. Such an agreement concluded Waste Concern and MAP Agro, and its objective was recycling of waste in the capital of Bangladesh, Dhaka. The public sector in this city had the opportunity to dispose of only 40% of its waste. The remaining 60% polluted the streets, exposing residents to serious health problems. The private sector until the 90s of the twenty century did not see the possibility of generating a profit from this activity, yet the situation changed, when two entrepreneurs founded Waste Concern, a company that was supposed to deal with the collection of waste and its processing into natural fertilizer. It had then to replace artificial fertilizers used by local farmers that seriously polluted the environment and led to reduced productivity of farmers. MAP Agro was engaged as a complementary partner that decided to acquire composted waste "produced" in the city, turn it into fertilizer (respectively at the same time enriching) and distribute in rural areas of the country. This new chain of value apart from generating profit (especially for MAP Agro) and increasing the scale of waste disposal (owing to activities of Waste Concern) helped to create many jobs for the poorest connected with the removal of garbage from the streets of the city (Mair, 2008).

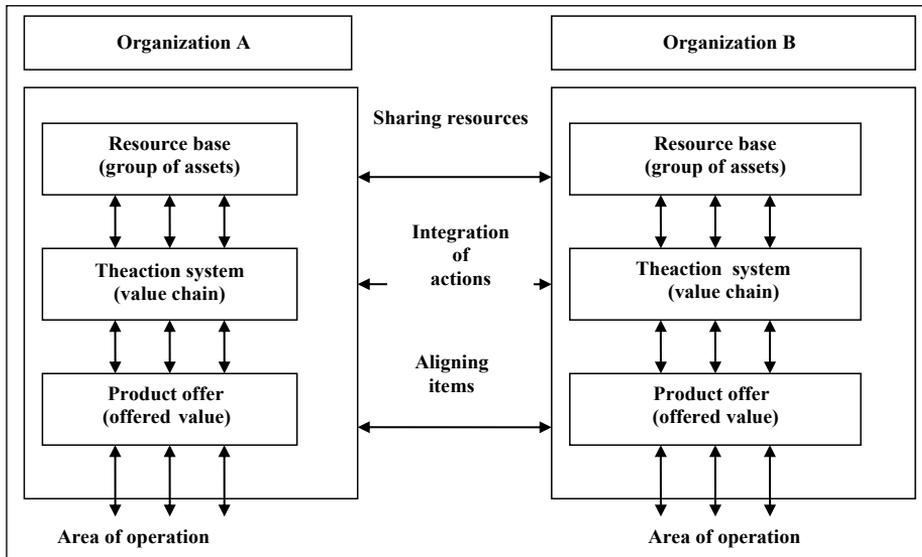
An example of strategy of integrated cooperation, the third of the already mentioned types is a project related to eye surgery, created by the manufacturer of lenses Auro Lab and the Aravind Eye Hospital. Its goal was to provide high-quality lenses at prices acceptable in India, where 47% of patients suffering from cataract does not have sufficient means to pay for the procedure. It was mainly to cover the greatest number of patients with benefit at the lowest price. With the agreement between the manufacturer and the hospital and the combination of free services for the poorest and toll operations for the richer part of the population it was possible to assist 2 million patients within a year (Mair, 2008).

In the literature, there are many typologies of non-governmental organizations strategies presented, relating to a particular market or sector secreted by a type of services, such as health care, welfare and culture (Hill, Blaser, Balmer, 1986, pp. 588-597), which however, in this study will not be discussed.

### 3. Benefits for non-governmental organizations from cooperation strategy implementation

Among all the mentioned typologies of NGOs organization strategies the authors mention cooperation strategies. Lack of cooperation between NGOs, but also the cooperation of NGOs with public institutions and companies means loss of potential benefits that may flow from this cooperation. The objectives that can be achieved and at the same time benefits to be gained by NGOs selecting cooperation strategy (instead of competing strategies) are shown in Figure 3.

Figure 3. Goals and benefits of cooperation between NGOs



Source: author's own research based on Wit, Meyer, 2007, p. 222.

Using jointly held resources, non-governmental organizations can strengthen their inventory in quantitative or qualitative terms. Sharing their resources for the benefit of both sides is possible in two ways:

- by learning – organizations that offer the same or substitutable good and other organizations (providing other goods) learn solutions from each other, that are better than those used so far (competitive and procedural benchmarking) (Czekaj, 1996);
- by lending – if an organization has the resources, which it is notable to fully use (or there is an organization that is able to better use them) may share them with other entities. These may be technologies, copyright, trademarks, material resources. Organizations that lend can get in return other resources and(or) an appropriate remuneration (Wit, Meyer, 2007, p. 222). One area where NGOs can cooperate is also a system of action (value chain) (Kafel, Lisiński, 1995). Integration of the chain can be carried out as follows:

- by linking, namely by supporting vertical relationship of transferring products and services (similarly like between the seller and buyer – this is frontal integration – or as between the seller and the supplier – this is backward integration),
- by uniting, consisting of joint exercise of certain activities in order to achieve economies of scale (Wit, Meyer, 2007, p. 222). This can be a joint service of a beneficiary, infrastructure and systems: logistics, information technology, transfer payments (with paid activity). This primarily concerns organizations offering the same or substitutable goods.

One area in which NGOs can work together, is also market position. This kind of coalitions are formed primarily to achieve greater bargaining power by means of (Wit, Meyer, 2007, pp. 221-223):

- supporting – when NGOs communicate with each other in order to increase their bargaining power relative to other market participants. This can serve obtaining an advantage in negotiations with suppliers (e.g. power) or offering customers a more attractive package of products and services (offer combined). It may also rely on the development of standards of activities of non-governmental organizations to strengthen their social legitimacy and therefore the position, e.g. in relations with donors;
- lobbying (Wit, Meyer, 2007, pp. 221-223) – when NGOs want to influence the environment forming the context of their actions, for example government, regulators, standard bodies, universities, tax authorities, stock exchanges<sup>3</sup>.

Cooperation between non-governmental organizations can take numerous forms, which synthetically are presented in Table 2. Some of those forms of agreements (especially the agreements based on connections) are primarily suitable mainly for organizations conducting economic activities (e.g. in the form of social enterprises).

The values assumed in the third sector seem to indicate clearly non-governmental organizations need to adopt a strategy of cooperation. Despite these benefits, however, it is surprising that among the publications on the cooperation of NGOs with the environment the least numerous are those that relate to cooperation within the third sector. The specificity of this sector would indicate rather greater ease (in comparison with the private sector) sharing resources (e.g. knowledge), integrating actions or “rip” the position of NGOs. J.E. Barnes and S.G. Fisher even claim

<sup>3</sup> Benchmark may be Australian Stock Exchange that decided more than 15 years ago, on favorable for charities and donors change of the rules governing the transfer of shares.

that the alliances concluded between organizations working in the same area can prove to them the recipe for success (Barnes, Fisher, 2006, pp. 11-125).

Table 2. Forms of non-governmental organizations agreements

Non-contractual agreements	Contractual agreements	Arrangements based on relationships (especially in case of social enterprises)
<ul style="list-style-type: none"> <li>• lobby</li> <li>• joint setting of standards</li> <li>• collaborative learning</li> </ul>	<ul style="list-style-type: none"> <li>• research consortium</li> <li>• a marketing alliance</li> </ul>	<ul style="list-style-type: none"> <li>• a common payment system</li> <li>• construction consortium</li> <li>• joint booking system</li> </ul>
<ul style="list-style-type: none"> <li>• agreement on tying</li> <li>• exchange of R &amp; D personnel</li> <li>• agreement on the exchange of information</li> </ul>	<ul style="list-style-type: none"> <li>• license agreement</li> <li>• an agreement on co-production</li> <li>• agreement on mutual promotion of organizations (e.g. promotion of brands)</li> </ul>	<ul style="list-style-type: none"> <li>• joint creation of a new product or service</li> <li>• joint venture on international scale</li> <li>• joint venture of local character</li> </ul>

Source: author's own research based on Wit, Meyer, 2007.

Also in Poland, as indicated by the results of J. Domański there is still much to be done in terms of cooperation between third sector organizations. Concern arises from the fact that as many as 96% of the surveyed NGOs do not have a common policy towards suppliers, 81% is not engaged with each other volunteer or employees exchange, 70% does not share accumulated knowledge, and 59% does not exchange information on potential sources of funding (Domanski, 2010, p. 245).

## 4. Conclusion

Given the typologies of non-governmental organizations strategies presented above, one can suggest some settlements in this area. It should be noted that the typical strategy of pursued growth (as concentration, vertical integration or diversification akin) will have the rare use in non-governmental organizations, similarly to strategies of acquisition, liquidation or disposal (divestment). Among the strategies often used in non-governmental organizations will appear in turn: strategies for market development, product development strategies/services (e.g. by improving quality or reducing costs) and strategies of alliances (also concluded between competitors). This last strategy is almost floated by the Group of Lisbon "common search", where cooperation is replaced by competition, competitors complementary action-oriented to meet the needs of customers<sup>4</sup>.

<sup>4</sup> Representatives of these groups go back to the sources of the word competition, which is derived from the Latin *cumpetere*, which means joint search. In their opinion, in competition elements of cooperation dominate the competition and fight (See Rosłanowska-Plichcińska, Jarosiński, 1996, pp. 132-151).

Many NGOs do not take conscious strategic choices. New ideas and sources of funding force to unplanned changes. Those who choose only those strategic objectives, which are able to obtain funds run the risk that they could become hostage to external donors. Diverse pressure groups on a NGO often force it to compromise and to eliminate certain targets. Lack of specialization and exterior of actions carry the risk of mediocre level of services provided by such organizations. It is a mistake, therefore, to formulate strategy too generally, because although one avoids difficult decisions this significantly reduces the value of strategic management process [Hudson, p. 83]. “Tempting” is also succumbing to excessive ambitions and adoption of goals beyond organization potential (due to resources or management). One cannot claim that certain strategic decisions are in themselves right and others are not. What is in fact appropriate for one organization – taking into account its skills, aspirations, values and beliefs of its employees – for another operating in the same area may be disadvantageous. Presented here typologies of non-governmental organizations strategies, and particularly benefits from the implementation of the cooperation strategy may help decision makers to solve strategic dilemmas faced by third sector organizations.

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# Chapter 12

## **Audit and Corporate Governance in State-owned Companies in Poland. The Case of State-owned Car Transport Companies**

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### **1. Introduction**

Corporate governance in State-owned Companies (SOC) has been the subject of many journalistic and scientific publications, speculations on the composition of supervisory bodies as well as the source of public wealth management issues. The most frequently addressed query is what proportion of this sector should remain in state supervision and how much of it should be run by private entities. This opens up a wide area of controversy to theoretical and practical economists and management scientists concerning the nature of privatisation, privatisation methods, valuation of entities as well as the fundamental question of how and when to privatise.

### **2. Aspects of corporate governance**

The English term corporate governance in comparison to its Polish equivalent which could be roughly rendered as “owner’s supervision” adds a semantic extension on the reality to be explored. The definition of corporate governance applied by the Polish authors is a combination of various approaches. For the sake of this publication the following approaches will be adopted: the *enlightened shareholder value* (Cobbaut, Lenoble, 2003) and the *pluralist approach*. In the *integrated shareholder value* approach corporate governance is a tool of maximising shareholder value as a guarantee of corporate success. The way to achieving this goal is secondary, it is usually defined as building long-term relations with stakeholders (investors, co-workers, suppliers, buyers and customers).

The pluralist approach relies on the social nature of institutions which impacts not only on the optimising well-being of multiple stakeholders, but also the whole community. The latter assumption is more complex and is based on the thesis that the interests of stakeholders do not necessarily contradict the interests of the community (Parkinson, 1993).

Based on the analyses and observation of various global corporations the following two corporate governance systems have been delineated: a two-tier system known also as the continental system and a one-tier system applied in Great Britain and the United States.

The one-tier model uses one managing and supervisory body which is the board of directors composed of managers responsible for operational management (executive directors) as well as managers performing advisory and supervisory functions (non-executive directors). This is where we can clearly see a semantic discrepancy between the English term governance and its Polish equivalent “supervision” (Polish: *nadzór*).

The term *nadzór* is inseparably linked to supervisory mechanisms, internal audit and control involving a clear division of responsibilities between the supervisory board and the management board, whereas the board of directors is a coherent body governing the organisation. Despite competencies of particular board of directors’ members being clearly delineated (non-executive directors perform the function of a supervisory board which consists of an audit board, a salary board and an appointments board), the non-executive body performs vital operational functions and constitutes a significant asset of the organisation.

According to the resource dependency theory (Pfeffer, Salancik, 1978) non-executive boards of directors apart from contributing knowledge and expertise perform operational functions thanks to their relationship or relational resources, especially involving access to own contact networks and other resources needed by the organisation as well as the ability to curtail investor volatility before share acquisitions. In the Polish two-tier system the management processes have been separated from supervisory functions. Members of the supervisory board may not simultaneously be members of the management board and vice versa. Thus, the management board is held solely and fully accountable for conducting operational activities and ensuring strategy implementation.

### **3. Corporate governance in developing and implementing strategies in State-owned Companies**

Pursuant to the applicable law, the supervisory board exercises continuous control over the company operations in all areas of its activity. This role is defined as issuing instructions and enforcing subjugation. Therefore, in the Polish legislature the supervisory board’s function is limited to exercising its power to appoint and dismiss management board members and it is not authorised to issue binding instructions on conducting the company’s business to the whole body as such. In some organisations, the supervisory board, based on special powers arising from the statutes or individual acts, enjoys the right to interfere with the actions of the management board, nevertheless, it may not pass resolutions or any other acts remaining in the sole capacity of the management board of the company. Pursuant to the provisions of the constitution, legal obligation to supervise the wealth of the State Treasury (ST) is vested in the relevant minister, its implementation should comply with specific regulations of the corresponding acts of law. Apart from general legal acts and the Commercial Companies Code, special acts, most importantly, the act on commercialisation and privatisation, but also the act on regulations concerning execution of rights vested in the ST as well as the act on extraordinary powers of the Minister of ST and their execution in commercial companies of key importance to public order and public security are applied to State-owned Companies. Pursuant to the law, a one-entity company is a commer-

cial company whose whole stake or all shares have been taken by one shareholder, in the above discussed case the ST.

Based on the above mentioned primary and secondary acts, it may be concluded that the processes involved in the constitutional obligation of supervision focus on supervising the efficiency of ST property management, including investment and operational processes pertaining mainly to company restructuring. Particular goals of corporate governance have been set out in the document "Principles of corporate governance in State-owned Companies and other legal persons" (*Zasady nadzoru właścicielskiego nad spółkami z udziałem Skarbu Państwa oraz innymi osobami prawnymi*). Entities whose main field of operations is passenger transportation constitute an interesting area of study of functions and goals for corporate governance in SOC. Strategic objectives facing these entities have been partly discussed in the document "Strategy for Transport Development until 2020 (with an outlook until 2030)" prepared in 2012 by the Ministry of Transport, Construction and Maritime Economy. The strategy does not include any information relating to State-owned Companies dealing in the carriage of passengers. The problems and future of regional transport markets, specifically the reform of Car Transport Companies (PKS) have been considered by the parliament. When we look at parliamentary interpellations, we may see an outline of the actions planned in this sector of the national economy – mainly in terms of privatisation.

In response to the interpellation of 2008, the Ministry of ST informed that privatisation processes had been initiated in 100 entities dealing in passenger carriage and in 45 entities operating as commercial companies whose sole shareholder was the ST. These companies had come into being as a result of the commercialisation process and at the time of the interpellation none of them was under indirect privatisation process, that is to say, none of them had their shares sold to an investor. It can be read also that "indirect privatisation included 55 State-owned PKS companies, 9 out of which were disposed of, 17 were brought into the company with shareholdings of various investors including the ST and 29 were given for use at a charge to a company with employee shareholding".

The problem of the future of PKS was mentioned again in the interpellation of September 2008. The Minister of ST exercised corporate governance over 76 one-entity State-owned Companies and companies with a majority shareholding by the ST in PKS. The entities supervised by the Ministry of ST were mostly medium and small companies with low equity stakes, low operational revenue and low employment. There were also a few transport companies which still operated under the supervision of voivodes. The market had also about 70 other entities privatised by voivodes by way of direct privatisation. The Ministry of ST worked out a framework plan of privatisation for 2008-2011, forecasting the privatisation processes in 20 one-entity State-owned Companies and all companies with a partial stake held by the ST would have been completed by 2009. Possible deterioration of the financial and economic standing of particular State-owned Companies was to be a decisive factor in changing the privatisation schedule. In such cases the option of an earlier than planned privatisation was available as it became a rule that passenger carriage operations (transport) were run by companies at a loss. The PKS were not, as can be noticed above, included in the strategic documents of the Ministry of Transport, Construction and Maritime Economy. Elements of the strategy for a group of several dozen entities put under direct supervision of the Ministry of ST following commercialisation processes were to some extent signalled in replies to parliamentary interpellations. The replies focused on the process of privatisation and municipalisation of companies. No privatisation by public share offer was proposed. It may be concluded, thus, that companies in the Ministry of ST portfolio tend to display signifi-

cant management and operational weakness. At this point it seems justified to apply the concept of stakeholding to the practice of corporate governance of companies of the PKS group.

The term stakeholder, opposite to shareholder was further developed by Freeman (1984). Freeman defined this term as each group of persons or one person who may influence or be influenced by the goals pursued by the company. Eckhardt (2002) quite rightly observed that stakeholding is a concept of economic relations where at least one entity is capable of simultaneously bidding to and exerting pressure on a corporation whose operations they have interest in, thus leading to the bid being accepted. Therefore, when it comes to state supervision, two theories usually overlap: the theory of agency based on ownership supervision over corporate authority which is characterised by avoiding this supervision and the theory of stakeholders which undermines the vision of a company dominated by the goal of maximising shareholder value. The State is an independent stakeholder because it may not deny influencing and being influenced by economic processes, as the involvement of the State in the economy arises from the very fact of the State's existence. Following this way of thinking, in SOC there should basically be no controversy between the own strategy of the general stakeholder being the State, and the strategy of authority and ownership of a State enterprise supervised by this State's bodies. It is hard to disagree with A. Eckhardt who stressed the fact that "when the State is the general stakeholder it must execute strategies overriding transformation consequences, which may remain in conflict with the interest of the national economy" (Eckhardt, 2002, p. 367).

In this light, the governance of State-owned Companies, specifically one-entity companies where most PKS companies belong to, seems to be, paradoxically, highly complicated due to the opaque nature of relations among entities having impact on the company operations and the scope of responsibility for its economic results, as noticed by Kostecka (2002). According to this author, formal concentration of governance in the hands of the Ministry of ST as the owner makes accountability for economic results rather fictitious. This may result in appointing board members who lack necessary qualifications, as confirmed by Baran (2008), as well as disable regular efficiency review and lead to inefficiency of external supervision. Conclusions of Kostecka's article "The role of the supervisory board in corporate governance processes in one-entity State-owned Companies" argue that "the efficiency of the supervisory board relies on the collaboration of its members and their readiness to comply with statutory obligations" (Kostecka, 2002, p. 171). According to the author, in most cases collaboration between supervisory board members is illusory as the members are far more likely to favour interests of their parties or political fractions than the interest of the company. This weakness and incompetence are also confirmed by the research of K. Karczmarczuk (2002) who in his article supports the thesis that the structure of supervisory boards in companies owned by the enigmatic ST represented by frequently changing officials is faulty and cannot render rational company management. Kostecka postulates to consider "whether a more rational solution (for the company and for securing the interests of the ST) would not be to organise a special unit in the structure of the Supreme Control Chamber (NIK) for the purpose of evaluating such companies and to cut the number of board members" (Karczmarczuk, 2000, p. 137).

#### **4. Audit assessments of NIK**

The Supreme Control Chamber, pursuant to its statutory prerogatives, supervises public administration bodies including public legal entities. In 2009 NIK presented “information on the results of audit of exercising corporate governance in companies with a majority shareholding held by the ST”. In summary of this audit report NIK confirmed the above mentioned governance issues and published a negative assessment of governance as performed by Ministries of ST and the Economy. According to this assessment “governance activities focused mostly on the formal aspects of supervision such as appointing and dismissing company body members and discharging annual company reports” (NIK, 2010, p. 3). In the general assessment of supervisory activities it was stated clearly that entities subject to control lack ownership strategies and fail to use their assets effectively by maintaining superfluous and inefficiently inflated structures participating in governance. NIK pointed out to a defective governance over company assets in companies with a majority shareholding by the ST including also failing to comply with own document titled “Principles of corporate governance of companies with stakes held by the ST and other public legal persons” which was aimed at sorting out supervisory practices of the ST over commercial companies. Key criticism towards the document addressed its failure to establish the expected economic parameters and lack of meetings to discuss company economic and financial results on an ongoing basis. Pursuant to NIK audit assessment, corporate governance did not create an effective warning mechanism against the possible unfavourable occurrences in the company development. The document confirmed high fluctuation of supervisory body members in line with Kostecka’s research results at the beginning of the decade. In the entities supervised by the Ministries there were 29 audit commissions carried out in 2004–2008, all of them in the Ministry of ST. Corporate governance was studied in only seven cases (6%) which, as contrasted against the total number of 1214 companies supervised (as of 30 June 2008), was found insufficient by NIK. Just one audit was conducted in the Ministry of the Economy. Similar conclusions were outlined by NIK in its “Information on the results of audit of restructuring and privatisation of PKS”. In 2010, the Supreme Control Chamber conducted checks due to poor condition of transformation processes in the car transport industry and its deteriorating operational results. Negative assessment issued by auditors was mostly due to lack of reliability and purpose in the activities of relevant bodies in terms of restructuring. Negative activity resulted from a failure to conduct analyses of particular entities’ situation (80 companies in the industry). This activity motivated inadequate decisions in relation to ownership transformation. Authors of the previously cited document stressed that “the Minister of ST did not bother to develop an industry strategy and, lacking solid grounds, made wobbly, ineffective and wrong decisions on the transformation of particular companies” (NIK, 2009, p. 8).

It may be necessary at this point to formulate formal and legal barriers to improving management efficiency. NIK failed to identify and report in its recommendations the changes in the legal and governance system resulting in a weaker competitive position on a difficult market, focusing mainly on more or less vital irregularities in the asset disposal patterns of State-owned Companies. In their reports referring to inappropriate asset management auditors failed to address the significance of free market forces. Failure to understand the time factor in the acquisition and disposal of assets resulted in misinterpretation of seasonality in transport services and following this, inability to promptly react to fluctuations in passenger flows. Competent company management should sell fleet vehicles when passenger flow slumped and purchase coaches when the de-

mand surged. In reality, the purchase and disposal procedure pursuant to privatisation and commercialisation regulations requires the minister to approve such transactions upon prior consent in the form of the management board resolution passed by another resolution issued by the supervisory board. In the free market environment for such decisions to be effective they may not take longer than a few days. In the extended procedure they took at least one month, three months in reality. Another vital issue facing SOC are obligatory profit charges in the form of profit contributions. They significantly constrain company liquidity leading to the burden of servicing loan interest. Also dividend pay-outs upon asset restructuring affect operational process restructuring. Funds from the disposal of assets not needed for operational activity should be used for strategy implementation, fleet or bus station infrastructure replenishment. NIK did not analyse the level of funds which should be kept by companies as reserve capital earmarked to effecting restructuring. In restructuring processes usually indirect privatisation was conducted and the funds obtained from selling national property assets as a result of such transformation were used to finance current expenditure or budget deficit.

A good example of a company at loss is PKS Polonus w Warszawie SA, the biggest State-owned Car Transport Company:

Profit and loss account of PKS Polonus w Warszawie SA

1000 PLN	2009	2014
Net revenues from sales and equivalent	55,156.1	55,497.4
Operating expenses	55,665.3	55,738.1
Profit (loss) on sales	(509.2)	(240.7)
Other operating revenues	2,220.8	3,316.3
Other operating expenses	851.6	1,713.3
Profit (loss) on operating activities	860.0	1,362.3
Financial revenues	112.3	151.6
Financial expenses	426.2	524.2
Gross profit (loss)	546.1	989.7
Income tax	479.0	87.1
Net profit (loss)	67.1	902.6

The profit and loss account shows loss on sales in 2009 as well as in 2014. Net revenues are a bit higher in 2014 with operating expenses going along with this growth showing better result than in 2009. As mentioned above, the company shows profit on operating expenses due to sales of operating (fleet) and non-operating assets (gain on disposal of non-financial fixed assets, mainly land and premises).

A focal point to look deeper inside low profitability on revenues from sales, is that the company's turnover includes apart of sales of tickets and bust station passes, revenues from rent of promises and hostel services. The net result of rent of promises and hostel services should worsen loss on sales by 3 million zloty approximately.

## 5. Conclusion

The key aspect of corporate governance in the context of enhancing management efficiency is the ability to eliminate failure to grasp the existing opportunities. The research done so far

shows low efficiency of corporate governance not only in terms of poor management board supervision but also in terms of inability to boost the development, implementation and supervision of effective business strategies. Attention should be paid to the actual composition of various influences on corporate management and strategic decision-making. PKS serve a perfect example of lack of corporate strategy. The examples presented above are elements in entrepreneurial analysis ranging from the micro scale of a single company to the macro scale and they demonstrate lack of effective concepts in national property management. Ensuring sufficient flow of financial resources to fuel corporate growth remains a crucial purpose of corporate governance and a vital element in the economic policy. Therefore, the essence of corporate governance should be the supervision of company asset management ensuring optimal decision-making process including also major strategic decisions.

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# Chapter 13

## **R. Simons' Levers of Control in the Strategy Implementation Process**

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*Halina Smutek*

### **1. Introduction**

Starting from the turn of the 1960s and the 1970s until this day, the concept strategy and strategic management is the basic area of management. Various approaches to formulating strategies as well as a set of methods making it possible to position the company and select the optimum strategy have been developed. Strategic management is a process focused, first of all, on changes in the company's environment. Its essence applies not only to actions necessary to achieve strategic objectives, but defines the manner of thinking about management from the view of its particular functions Fudaliński (2002, p. 11).

The growing complexity, intensity and uncertainty constituting the inherent characteristics of a turbulent environment result in the fact that elasticity and the speed of actions are the main challenges in the strategic process (Koźmiński, 2004, p. 67). The speed of response is one of the basic signs of organizational flexibility understood as the ability to adapt – adjust the business model to the environment, or affect the environment. According to Krupski, we may distinguish three types of flexibility: reactive, adaptive-inertial as well as anticipation and creative flexibility (Krupski, 2005, p. 24). The chronological sequence of particular stages of the strategic process disappears and the formulation and implementation of strategies take place at the same time. As is shown by research, the ability to implement strategies is more important than the strategy itself. According to L.A. Bossidy strategies are intellectually simple but their execution is not. Therefore, the basic activities to which attention should be paid in the strategy implementation process include, among others (Bossidy, Charm, 2008, p. 93):

- the use of leadership to manage the implementation,
- building systems supporting the strategy implementation systems,
- shaping a proper organizational culture,
- creating an incentive systems focused on the pursuit of objectives,
- creating a business model making it possible to effectively implement an organization's strategy,
- adapting the organizational architecture,
- identifying the so-called best practices.

The concept suggested in the 1990s by R. Simons was focused on solving problems hindering an effective implementation of strategies. This article attempts to present the concept of R. Simons' levers of control based on management subsystems, managing the strategy implementation process. They allow the company to preserve internal balance as well as stability towards the environment which is the essence of strategic management.

## 2. Intentional and emerging strategy

The literature on the subject contains a number of proposals how to define strategy. Traditional perspectives of strategy include these developed by A. Chandler, I. Ansoff or H. Mintzberg.

Strategy for A. Chandler is the process of creating and implementing a long-term plan, obtaining a specific position towards the environment, or a permanent pattern of actions. The company's strategy is a set of consistent methods of action adapted to the company's potential as well as the situation in its environment ensuring the achievement of the company's long-term objectives. I.H. Ansoff (1985, p. 94) in his concept of strategy introduced the concept of strategic sequence. The strategic sequence OSO (organization serving the environment) is a set of features that remain common in its strategic actions happening over time. On the other hand, Mintzberg indicated five various approaches to defining strategy, the so-called 5 "Ps" (a plan, a ploy, a pattern, a position, a perspective). A well formulated strategy makes it possible to manage and place the organization's resources into a permanent system based on the organization's own competences, taking into account its weaknesses, anticipating changes in the environment and situational moves of intelligent opponents (Lisiński, 2004, p. 16). The classic trend in management accepted several assumptions as to creating strategies (Sułkowski, Klateta, Moszkowicz, 2010, p. 30):

- strategic decisions are taken in a reasonable manner,
- the manager creates and implements the strategy,
- the organization's environment is predictable,
- strategy is a long-term, formalized plan of actions,
- strategy is based on the largest possible quantity of information.

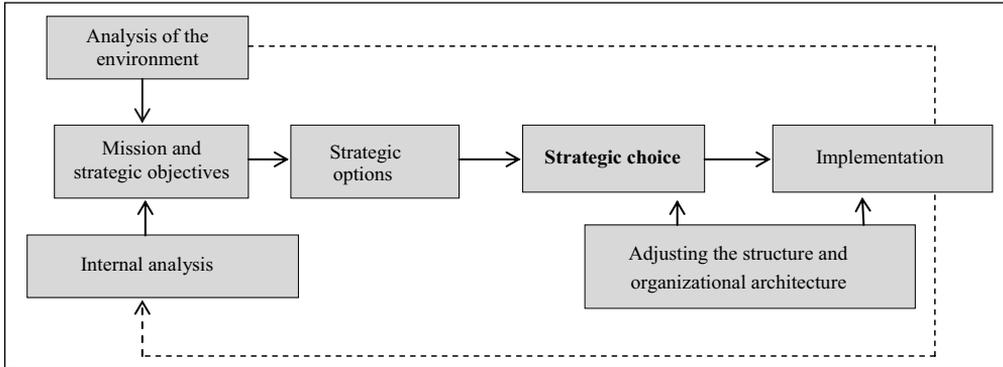
Accepting a given set of assumptions determining the creation of organizational strategies makes it possible to indicate:

- the process of creating an intentional strategy (from top to bottom or a planned course) – the starting point in this model is the definition of the company's objectives and mission and selecting a strategy on their basis;
- the process of an emerging strategy (from bottom to top or a strategic drift) – a reverse model as compared to the previous one, the strategy is the starting point and the company's mission and objectives are formulated on its basis.

The intentional strategy is created from the top, and its framework is determined by the vision of the organization's development, mission and objectives, the analysis of internal and external conditions. It reflects the planning approach (for more information: Oblój, 2014; Ciszewska – Miliran, Wąsowska, Oblój, 2015) to the strategic management process represented, among others, by Ansoff, Ackoff, Thompson and Strickland, Peter. From the perspective of the authors referred to above, strategy is the result of a strategic management process constituting a sequential process with feedback (Thompson and Strickland).

Organizations may and should shape their future in a reasonable manner as a result of building strategic plans.

Figure 1. Process of creating and implementing an intentional strategy



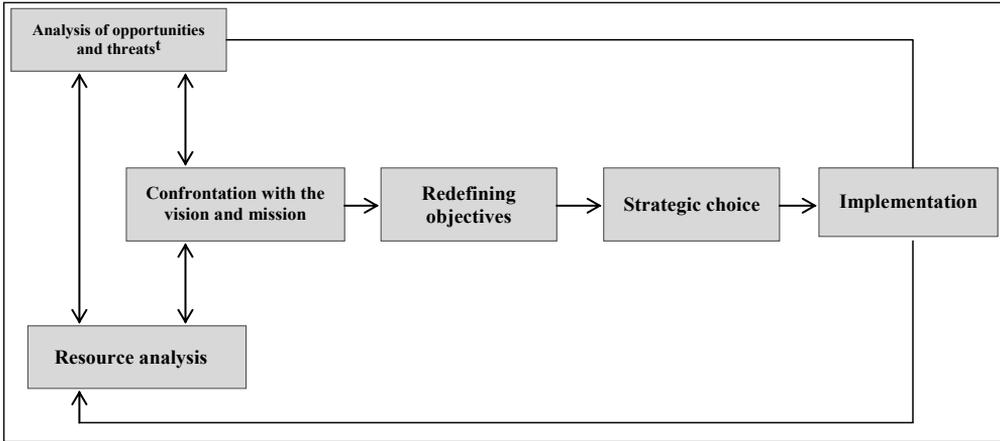
Source: Rokita, 2005, p. 43.

The starting point in creating an emerging strategy are bottom-up suggestions (from functional areas). The emerging strategy reflects the evolutionary approach and refers in its assumptions to the theory of games that acknowledge that the functioning of an organization cannot be based only on formalized structures, and that it should take into account the turbulent environment which forces flexibility and the need to rely on information coming from informal sources.

Taking into account the level of turbulence, it should be assumed that it is impossible to identify specific objectives that will have long-term significance. In this situation, strategy is a consequence of evolutionary actions related to the optimum configuration of resources and external conditions. The set of decisions is arranged into an adaptation process taking into account rapid external changes and internal limitations. An effective strategy is created gradually but in a logical manner, assuming that:

- there are typical strategic decisions characteristic for large companies related to the acquisitions of new companies or the sales of existing businesses, structural reorganization, relations with the environment and, first of all, government agencies – a group of professionals is occupied with each of these issues;
- large companies have developed systems of strategic planning but, in fact, they are used to create general outlines of actions, while current information is in practice corrected by previous operational decisions;
- formal planning systems are related to specific strategic decisions, taken in specific places of the organization. Therefore, it is impossible to build one general plan of action in uncertain situations.

Figure 2. Process of creating and implementing an emerging strategy



Source: Rokita, 2005, p. 43.

Characteristic features include the initiation of long-term actions, current responses to emerging events, the adaptation of resources to events taking place. Emerging strategies include (for more information: Rokita, 2005):

- strategies the final objectives of which are not assumed in advance;
- in which all that creates them is created during actions;
- the creation of which is a process of experimenting because it is intended to find the most effective development method;
- which are the consequence of the organization's previous practice,
- motivating people, developing conditions enabling experiments in the field of strategy in order to search for the occasion (opportunities) thanks to which the organization becomes flexible towards market changes.

### 3. Strategic leadership

The growing variability of external conditions of the organization's functioning, on the one hand, as well as the requirements to achieve increasingly higher effectiveness, on the other hand, result in the fact that the scope of managerial skills exceeds the classic perspective.

H.I. Ansoff's managerial skills include functional skills, referring to managing and controlling relevant logistic functions, and general management abilities, referring to managing the company as a whole (Ansoff, 1985, p. 116). On the one hand, he indicated competences and abilities the organization may contribute to its strategic behavior as part of general management skills and, on the other hand, possibilities determining the volume of strategic effort. In Ansoff's concept, one of the aspects of managerial skills includes the problem of the manager's strategic responsibility, determining the adaptability to the environment and sensitivity to weak signals. Regarding the level of functional management, strategic responsibility consists in the implementation of the strategic sequence, which determines the level of logistic competences. Strategic skills are

a measure of the organization's effectiveness in supporting a specified strategic sequence. They are determined by (Ansoff, 1985, p. 122):

- the profile of competences and general management skills;
- the profile of competences and logistic skills;
- the scope and quality of the organization's technology.

Ansoff's concept of strategic leadership determines such impact on the organization's strategic behavior that contributes to its survival and success, and the level of its rationality is measured by the level in which:

- aspirations determined for the organization as a whole reflect the aspirations of influential units and groups related to the organization's activities;
- selected actions are optimal from the point of view of the implementation of aspirations;
- selected actions are realistic, taking into account conditions in the environment, rules of the game and resources available to the organization.

He further indicated several patterns of decision-making leadership (Ansoff, 1985, p. 177):

- strategic leadership lies with the top management;
- strategic leadership is performed by the representatives of technocracy;
- the administration manages all branches of the company in a strategic manner, and lower-level managers are responsible for particular branches.

The potential of the managers' strategic activity is expressed in critical analysis, validation and support in the implementation of strategies. The basic tasks of managers related to formulating and implementing strategies refer to:

1. Communicating the company's vision and objective to all company employees using "symbolic actions" or sometimes sacrifices on the part of the management.
2. Taking care of the client, emphasizing the value being the quality of offered goods or even the loyalty of employees towards the company.
3. Informing the employees how the company functions which is the basis for the success of its activities.
4. Acquiring and allocating resources. The point here is not capital investment projects but less measurable investments, such as improving the product or service offer, experimental production, expenses for improving qualifications, employee training, changing the system of supplies, market research making it possible to better know the client's needs, etc.
5. Determining the directions of future actions as well as monitoring results. Traditional management task consisting in ensuring operational efficiency, the essence of which is the economization of actions, namely providing all customers with the assessment of financial results and searching for methods increasing profits. Financial indicators (profitability, growth, investment projects, cash flows), but that is not all.

The level of turbulence in the environment as well as the fact that organizations need to learn how to operate under conditions of uncertainty, which results in the fact that the process of creating a strategy is more often related to solving problems generated during actions than to systematic planning, bring the need to develop a management model able to meet these challenges. The effectiveness of strategic leadership is determined, on the one hand, by the company's condition and, on the other hand, by the level of variability and the complexity of the environment.

The analysis of strategic leadership draws attention to the need to create tools supporting the strategy implementation system.

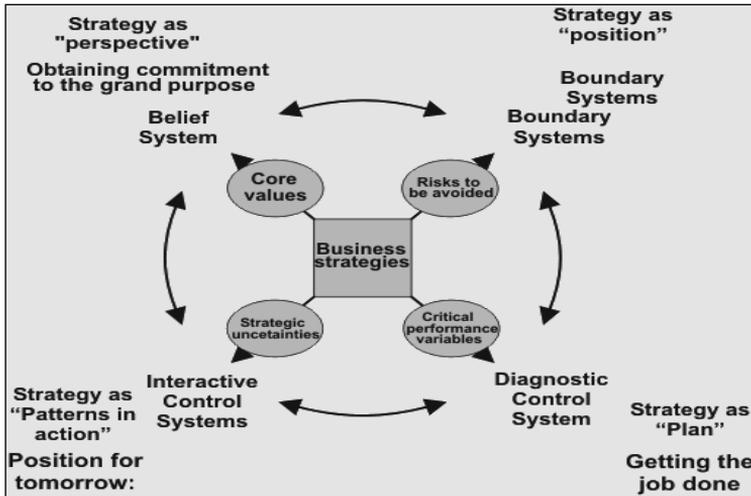
#### **4. Sources of the concept of levers of control**

In 1990 R. Simons stated that traditional hierarchical systems of management and control are obsolete and thus are unable to provide the CEO (chief executive officer) with necessary information making it possible to choose the proper direction of strategic actions thus limiting the organization's adaptation abilities, so as to maximize the benefits resulting from the strategy implementation process. The main question that appeared: what should be done in this area to increase the efficiency of the company's strategic actions? The solution of the indicated problem were innovative control systems enabling a strategic renewal – constituting a set of procedures ensuring the maintenance of the previous direction of strategic actions, or a change of patterns in organizational operations.

According to Simons, they were to be used to stimulate the processes of organizational learning and the creation of new ideas and strategies, by building organizational dialog as a result of the combination of various areas of activities. They are the response to strategic uncertainty, enable an early recognition between perceived strategic uncertainty and an early recognition of issues that appear in the organization and adapting the strategy demand and attention of the management. Interactive control also provides feedback but the main purpose is to identify new opportunities, concentrate on emerging organizational strategies rather than on intentional ones. Simons (1995, p. 215) emphasizes the fact that paying attention to strategic uncertainty as well as creating interactive control systems may shape bottom-up processes.

The levers of control are a response to the traditional approach to management and control where the standard included strategies imposed from the top, standardization and efficiency were a rule and results were to be compliant with the plan. Simons' concept, as opposed to binding principles of organizational behavior, indicates flexibility, the departure from traditional management control systems (MCS), paying attention to signals coming from the environment, the need to continuously improve the strategic position. It is based on the conviction that each organization uses four types of control systems to control its business strategy (for more information: Simons, 1994). Additionally, the effectiveness of these systems depends on their competent integration into a consistent system of strategic control covering the entire organization, rather than selected areas (Toumela, 2005, pp. 293-320). Simons, in his concept, indicates contradictory forces: freedom v pressure, empowerment v responsibility, top-down focus v bottom-up creativity, efficiency v experiments. Strategies of business organizations may be controlled by finding an appropriate balance between pressures caused by contradictory forces represented in the lever of control (Fig. 3).

Figure 3. The levers of control



Source: Simons, 1995.

Each business organization has mechanisms aimed at ensuring the implementation of tasks related to:

- indicating the main objective resulting from the organization’s vision and mission;
- determining the organization’s boundaries;
- ensuring efficiency in the implementation of tasks;
- positioning for the future.

A lever of control may be assigned to each of the dimensions referred to above making it possible to maintain the proper perspective of actions. The levers of control include four subsystems:

1. The subsystem of values – based on core values, it determines the direction of strategic actions and indicates the leading model (mission, vision, creed).
2. The delimiting subsystem – based on risk to be avoided – determines boundaries of employee behavior in the form of prohibitions.
3. The diagnostic subsystem based on critical output variables (KCS – critical success factors) – monitoring the results with regard to the implementation of strategic objectives by comparison to the standards.
4. The interactive subsystem – based on strategic unknowns – stimulating the response to signals from the environment and organizational learning, enabling adaptation.

The subsystem of values – “beliefs”, is used to inspire and search for new possibilities. They determine basic values affecting the approach to creating values, setting the desired level of effectiveness as well as the quality of social relations, affecting the shape of the mission, vision, objectives.

The delimiting subsystem (limit values) is a negative equivalent of the system of values, setting the boundaries of freedom in the form of prohibitions, it is to prevent the violation of law, ethical principles and social standards. The principles of conduct are formulated at the level of the top management supported by experts, e.g. lawyers, and then introduced by headquarters

units. The limit values indicate the boundaries of freedom of the organization's strategic actions as well as the boundaries of individual creativity.

The subsystem of values as well as the delimiting subsystem play a fundamental role in personnel management.

The diagnostic subsystem is used to monitor the implementation of strategic objectives and to correct deviations, it utilizes the balanced scorecard method by Kaplan and Norton referring to management through objectives. Specific measures as well as their values constituting a point of reference for the actual results are assigned to particular objectives. The role of the management comes down to determining objectives, browsing reports, interfering – in the case of significant deviations (management by exceptions). Headquarters units deal with collecting data and preparing reports. Employees have freedom in the selection of methods to achieve the objectives. The results alone are subject to assessment and are related to appropriate incentives as part of the incentive system. Basic problems include:

- determining the degree of the objectives' difficulty,
- an objective and understandable connection between the results and awards,
- an objective measurement of results.

The diagnostic subsystem provides "efficiency" in the implementation of the intentional strategy – doing things the right way. This subsystem focuses on KCS that depend on external conditions and are modified, which is made possible by the interactive subsystem. Simons' interactive management systems used to motivate, monitor and reward accomplishments stimulate the processes of organizational learning as well as are the carrier of new ideas and strategies. The system of interactive control enables an organization's functioning under conditions forcing continuous reaction to signals from the environment and the implementation of the strategy is an integral part of its shaping (Rokita, 2005, p. 41), and thus it is the process of creating an emerging strategy.

The interactive subsystem makes it possible to adapt the company to the changing conditions in the environment, providing organizational learning. This makes it possible to respond to the so-called unknown variables (e.g. technical progress) that may significantly affect for implementation of the strategy. The employees' task is to observe the environment with focus on uncertainty, discuss their observations with their superiors, which may affect a change in strategic assumptions. The most important task of the interactive system is to ensure the effectiveness – doing the right things – of the implementation of a proper strategy.

When analyzing particular subsystems, we may indicate "soft" aspects of implementing strategies: the subsystem of values and the delimiting subsystem, as well as "hard" aspects of implementing strategies: the interactive subsystem, the diagnostic subsystem (Moszkowicz, 2004, p. 297).

The subsystem of values and the interactive subsystem are the so-called positive subsystems – developing and inspiring. On the other hand, the delimiting subsystem and the diagnostic subsystem are negative, they form limitations and ensure subordination.

The task of each subsystem is to solve problems related to implementing strategies.

## 5. Conclusion

Limited possibilities of managing by the top management, which results from the limited access to information, the need to interact with other employees – division of roles between the top

management and headquarters units responsible for the functioning of particular subsystems. It is necessary to develop formal procedures managing a company's functioning.

The strategic process is often limited to the implementation of intentional strategies. Bearing in mind the fact that the majority of organizations operates under conditions of uncertainty, it is also necessary to take into account unintentional strategies emerging ad hoc, being a response to changes in the environment. The strategic process includes a confrontation of intentional strategic actions, presented in the formulas of a plan, with actions that need to adjust the directions of actions to signals coming from the environment. This requires flexibility and the need for a creative approach in strategic actions. The basic value under such conditions is the creative potential of employees. By applying relevant incentive mechanisms, the concept of the levers of control makes it possible to release the creative potential of employees depending on the needs of a given subsystem, which is an alternative to planning and implementing an intentional strategy.

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# Chapter 14

## **Forms of Partnership in the Airline Industry**

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*Dzmitry Ramancou*

### **1. Introduction**

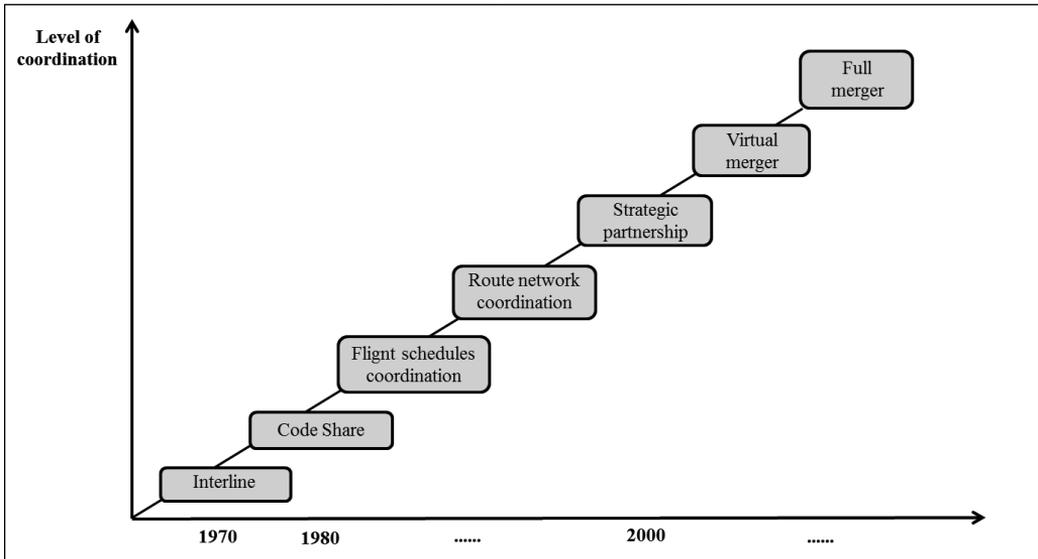
In an age of growing globalization and fast technological progress international expansion becomes one of the most attractive chance for an enterprise development. In some cases resources, experience and expertise possessed by an enterprise are sufficient for successful realization of expansive strategy in highly competitive ambiance. However, sometimes further development is not possible without active business cooperation with other market players. Specialist literature distinguishes such cooperation forms as mergers and acquisitions (M&A), strategic alliances etc. Each of listed forms is widely used in the airline industry where air carriers sign partnership agreements, establish joint ventures and engage in purchase of other airlines' shares. This paper presents basic issues related with airlines partnership forms. Special attention has been paid to cooperation benefits.

### **2. Airlines cooperation forms and their benefits**

No subject to doubt that air transport may be considered as one of the most capital-intensive industries of the global economy. Quality of rendered by airlines services constitutes key performance indicator as it includes extremely important element which is passenger's sense of security during the flight. In recent decades the fast growth of air transport has been observed. This growth is a direct result of market's liberalization and deregulation which began in the late 70s in the United States and spread to the other parts of the world.

In spite of actions took towards airlines industry deregulation and number of international agreements signed, there are still some strict regulations applicable. It means that international carriage of passengers and cargo via air transport is still limited which is a significant entry barrier for airlines. Deprived of the opportunity of independent entry to the new markets, airlines try to search foreign strategic partners. Additionally, the list of reasons for active cooperation within the industry could be extended to technical, economic and other reasons. Hence, various forms of cooperation are widespread in air transport. It can be observed that these forms were evolving with the passage of time. As a result, more sophisticated cooperative systems with higher level of integration appeared (Fig. 1).

Figure 1. The evolution of airlines partnership forms according to K. Iatrou and M. Oretti



Source: Chakuu, Kozłowski, Nędza, 2012, p. 98.

First of them were more similar to tactic cooperation and occurred in the form of bilateral agreements between airlines. This type of partnership allowed airlines indirectly expand own route network providing them an access to partner's network. The most common cooperation forms in this group are *interline*, *code share* and *joint venture* agreements.

**Interline ticketing** is defined as commercial agreement between air carriers on mutual recognition of fares and tickets. The ticket issued for a passenger includes few segments wherein each of airlines runs its own one. Carriers in this case retain their identity and sales revenue prorated between partners.

**Codeshare agreement** refers to the business arrangement between individual airlines when both airlines share their aircrafts capacity thereby enabling partner to assign its code to the flight operated by another party of agreement. In accordance with a contract flight operator is entitled to collect received funds while the partner reaps benefits only from small sales commission. It means that each airline involved in code sharing in the first place interested in selling its own tickets whereas partner's services are usually sold in case of occurrence of such necessity (transit matters, on passenger's request etc.).

**Joint venture partnership** is based on the joint implementation of the project on selected markets using funds contributed by both partners. Therefore, breakdown of the revenues/profits from the performed flights does not depend on which of airlines rendered the air transportation service. This allows to conclude that each partner is equally interested in achieving the best financial performance on the routes covered by the agreement. Joint ventures are currently very popular in airlines industry especially with regard to major airlines operating on long-haul destinations. International consolidating processes began on transatlantic air transport market where German Lufthansa Group reached an agreement with United Airlines and Air Canada, Air France-KLM Group agreed with Delta Airlines and British-Spanish International Airline Group – with Ameri-

can Airlines. Despite every mentioned air carrier has already been involved in number of interline and codeshare agreements the obvious conclusion is that achievement of expected results within signed joint ventures is priority for them. Undoubtedly, this fact has a negative impact on the level of market competition what reflects in impairment of unassociated airlines' standing and completely eliminates competition between cooperating ones. It should be highlighted that operating in the form of joint venture requires a special permit, so-called *antitrust immunity* issued by authorities intended to ensure free market competition.

In the next stages partner airlines strive to increase flight schedule and route network coordination. Carriers notice synergy effects of close cooperation on foreign markets. That caused the formation of strategic alliances appointed to expand both market and operational capacity of allies as well as create an attractive offer for clients. In the air transport context strategic alliance can be defined as long term cooperation between two or more air carriers – participants of international competition, aiming to strengthen their competitive position against the other competitors and suppliers as well as clients while maintaining partner's legal and organizational autonomy (Marciszewska, 2006, p. 79). It is estimated that current number of aviation alliances exceeds 300 (Rucińska et al., 2012, p. 175).

Though total number of reached alliances looks impressive, the greatest influence on market situation have alliances acting on a global scale. There are 3 global airlines strategic alliances can be distinguished: Star Alliance, SkyTeam and oneworld. First, it was established in 1997 by Scandinavian Airlines, Thai Airways International, Air Canada, Lufthansa and United Airlines. Since then the number of members increased to 27 airlines originating from all continents of the world. In the next 3 years two competitive alliances emerged: oneworld (1999) bringing together 15 airlines and SkyTeam (2000) which consists of 20 members (Tab. 1).

Table 1. The largest air transport strategic alliances

	 STAR ALLIANCE	 oneworld	 SKYTEAM
Launch date	May 1997	February 1999	June 2000
Headquarter	Frankfurt am Main, Germany	New York, USA	Amsterdam-Schiphol, Holland
Full members	27	15	20
Destination countries	193	155	177
Destination airports	1321	996	1052
Turnover	\$177.42 billion	\$145.69 billion	\$151.8 billion
Fleet	4,561	3,428	3,054
Annual passengers	653.81 million	512,8 million	612 million

Source: prepared by the author on the basis of <http://www.staralliance.com/en/> (data from December 2014), <http://www.oneworld.com/home> (data from February 2015), <https://www.skyteam.com> (data from January 2015).

Market observations indicate a major role of global airlines alliances in the creation of industry's outcome. It is worth remembering that only the largest and most reliable carriers can join global alliances. High quality and safety of services provided by such entities ensure positive impact on the image of the entire alliance. Besides, either accession or cancellation of membership is related with special fees<sup>1</sup>. The crucial point is that a membership in a strategic alliance by no means does not restrict the possibility to collaborate with other airlines. The only condition is that the secondary alliance will not jeopardize the interests of strategic one.

The main motive to being a member of strategic alliances is a wide range of benefits possible to achieve and, certainly, synergy effect resulting from close cooperation. Based on industry studies following benefits can be identified (Tugores-Garcia, 2012, pp. 44-56):

1. **Economies of scale** resulted from reduction of operating unit costs along with a route network expansion and increase of average flight stage length.
2. **Economies of density** consisting of reducing in airline unit costs due to the growth of the flights number within a fixed size network.
3. **Economies of scope** which in air transportation can be observed when adding a new destination to the airline's network leads to greater decrease of related production costs than if new flight connections are served by a brand new entity established ad hoc.
4. **Larger profits from pricing on code sharing routes** which represent an effect of increased demand caused by lower fares offered by cooperating airlines.
5. **Marketing and branding benefits** being the most distinct outcome of strategic partnership between airlines enabling cooperating entities to reach potential customers all over the world.
6. **Financial benefits** considered in the context of geographic diversification which may result among others in greater turnover stability and risk reduction reflecting in higher enterprise value.
7. **Joint purchasing benefits** mainly determined by greater bargaining power of an alliance in compare with individual airlines (joint purchasing makes it possible to reduce fuel and aircraft spare parts price, achieve economies in MRO<sup>2</sup> and catering services, negotiate lower trainings rates etc.).
8. **Control on barriers to entry**, i.e. possibility of market entry hindering to non-member airlines.
9. **Learning** and knowledge transfer with airline alliances.

It is reasonable to assume that the main effect of undertook cooperation is gaining of group competitive advantage on the alliance's target markets. At the same time it should be noted though that there is an entire range of potential threats related to the strategic alliance accession. There is a possibility that its attributes initially considered as key performance indicators could cause the loss of market position.

Business reality appeared to be less positive than expected when first strategic alliances were established. Founders' plans such as route network coordination, fleet harmonizing as well as joint aircrafts procurement have never been realized as much as expected. As a result alliances have become quite loose air carriers associations where members cooperate in some important operational and marketing issues, nevertheless strongly competing with one another ([www.prtl.pl](http://www.prtl.pl)).

Mentioned methods of cooperation are characterized by a lack of any ownership relations between the parties and presumably constitute the main form of partnership on the air transport market. In contrast, mergers and acquisitions (M&A) perform a market streamlining function (Rucińska et al., 2012, p. 173).

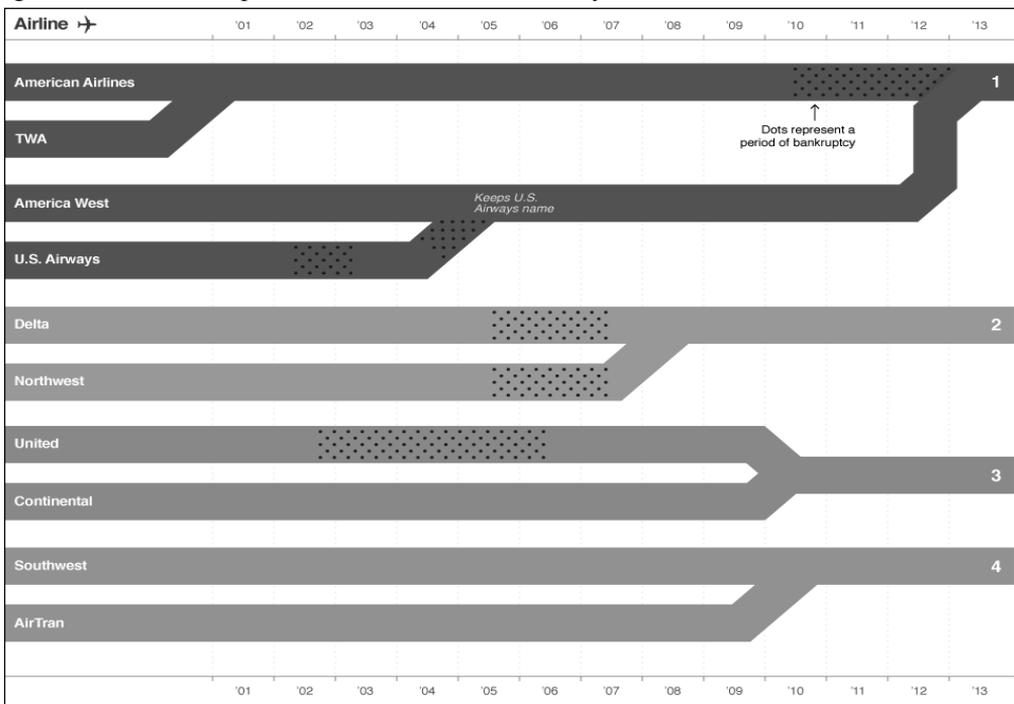
<sup>1</sup> e.g. SkyTeam leave penalty is \$20 million.

<sup>2</sup> Maintenance, repair and overhaul.

Analyses of International Air Transport Association (IATA) indicate the passenger air traffic growth is not only strongly correlated with the state of the world economy, but is also subjected to the influence of various kinds of shocks (financial crises, acts of terrorism, natural disasters etc.) (www.iata.org). On more deregulated and mature markets (North America and Europe) with high competition intensity and, consequently, surplus of throughput capacities, such conditions could initiate consolidation tendencies aiming to improve profitability of airlines operating activities. Research conducted by Frost & Sullivan consultancy shows that in years of 2007-2012 there were 216 M&A carried out of the total value of \$47.3 billion (Frost & Sullivan, 2013). The most active region in the world in terms of the number of transactions was Europe whereas North America has been distinguished thanks to the transactions value achieved.

Most of the business combination transactions on the American continent took place in the United States of America where a few major airlines collapsed affected by September 11, 2001 attacks and global financial crisis. Under Chapter 11 of the United States Bankruptcy Code these companies have underwent reorganization and merged with other airlines. Air transport market consolidation in USA led to the emergence of four dominant airlines<sup>3</sup>. In accordance with the data from 2013, “big four” air transport market’s share in United States was as high as 80% (www.theguardian.com). The diagram below illustrates M&A transactions conducted in USA in the last 15 years.

Figure 2. USA air transport market consolidation in the years 2000-2013



Source: The runway to the final four, <http://money.cnn.com/infographic/news/companies/airline-merger/> [08.05.2015].

<sup>3</sup> The fifth one is Alaska Airlines which did not participate in M&A transactions during the analyzed period.

In all above mentioned cases the merging airlines strived to gain significant synergy effects mainly caused by<sup>4</sup>:

- more effective aircraft utilization,
- more comprehensive and diversified route system,
- increase of air transport services offering in airports with little or no airlines presence,
- share growth both in domestic and international air traffic,
- reduced overhead and improved operational efficiency,
- employment optimization,
- experience exchange in the field of technology and innovation processes.

The Table below presents estimated values of expected by parties synergy effects along with the implementation period.

Table 1. Estimated synergies of airlines M&A in USA

<b>Merging airlines</b>	<b>Estimated synergies volume</b>	<b>Implementation period</b>
United Airlines and Continental Airlines	USD 1-1.2 billion	2010-2013
Delta Air Lines and Northwest Airlines Co.	USD 2 billion	2008-2012
Southwest Airlines Co. and AirTran Airways	> USD 400 million	2010-2013
American Airlines and U.S. Airways	USD 1 billion	2013-2016

Source: basing on Annual Reports of Delta Airlines, Inc., Southwest Airlines Co. and United Continental Holdings, Inc.

In the XXI century consolidation processes have begun on the European market as well. The following airlines groups arose after major air carriers M&A:

1. Lufthansa Group, consists of German airlines Lufthansa and Germanwings, Swiss International Air Lines, Austrian Airlines and number of European regional airlines. Additionally, Lufthansa took 45% equity stake in Belgian Brussels Airlines including right to complete the full takeover till 2017 (Lufthansa Annual Report, 2009) and 50% share in Turkish SunExpress being a joint venture company of Lufthansa and Turkish Airlines.
2. International Airlines Group (IAG) which is the result of merger between British Airways and Iberia Airlines (January 2009). In subsequent years IAG took control of British Midland International and Spanish Vueling<sup>5</sup>.
3. Air France-KLM Group is composed, as the name suggests, of Air France airlines and Dutch carrier KLM. Furthermore, the Group acquired 25% share in Alitalia airline (January 2009).

The airlines Annual reports analyses suggest that achieved synergies include both growth in the flight tickets sales revenue and reduce of operational costs. Higher turnover resulted mainly from wider route network encompassing destinations served directly by group airlines and additionally by current code share partners of merging airlines.

Moreover, positive impact on greater sales volume has sales units integration and introduction of cross ticket sales on the airlines official web pages. In turn, cost efficiency was achieved due to the centralization of technical maintenance function, joint aircrafts purchasing, optimization

<sup>4</sup> The effects have been presented in Annual Reports of Delta Airlines, Inc., Southwest Airlines Co. and United Continental Holdings, Inc.

<sup>5</sup> In January 2015 IAG filed a proposal to take over Irish airline Aer Lingus.

of resources utilization within the group, pooling purchasing and procurement as well as standardization and unification of IT solutions.

Table 2. Estimated synergies of European airlines M&A

Merging airlines	Estimated synergies volume	Implementation period
Air France and KLM	> EUR 1billion	2004-2011
British Airways and Iberia Airlines	EUR 600 million	2009-2015
Lufthansa German Airlines and Swiss International Airlines	EUR 224 million	2005-2007
Lufthansa German Airlines and Austrian Airlines	EUR 130 million	2009-2011

Source: basing on Annual Reports of Air France – KLM, Lufthansa Group and IAG.

It can therefore be concluded that the increase in the scale and the scope of activities in air transportation due to mergers and acquisitions provides engaged airlines with essential benefits, namely operating synergies. Since these synergies are measurable there is a possibility of constant monitoring and comparing achieved results to expected values.

### 3. Conclusion

Cooperation with other business entities opens up a whole range of development opportunities for companies in many industries of global economy. The air transport is not as exception. All forms of partnership have their own features and bring in certain benefits, however they also may pose some risks. The most primitive airlines cooperation forms are of a tactical nature and require no capital engagement (interline and code share agreements). Closer cooperation occurs when partner airlines involving own resources establish joint ventures where realized revenues are shared in proportion to the assets contributed. It must be remembered that the risk of failure and the amount of potential loss in this case is several times higher in comparison with tactical agreements.

Global airlines alliances do not require capital involvement from their members. They help to ensure greater comfort of traveling for passengers and constitute the source of benefits (mainly operational and marketing) for associated airlines. Business practice, however, showed that in spite of close collaboration within alliances, in most fields member airlines still strongly compete with each other. What is more, some allies for the sake of their own interests interact with the alliance's major rivals<sup>6</sup>.

Against the background of lower than expected achievements of strategic alliances more perspective cooperation forms on air transport market appear to be commercial (joint venture) and ownership (mergers and acquisitions) forms of consolidation. This is indicated by Figures a portion of which is presented in the paper. It is worth noting that regulatory authorities of individual countries still maintain restrictions on the possibility of acquisition of shares in domestic airlines

<sup>6</sup> e.g. SAS Scandinavian Airlines which is a member of Star Alliance announced a closer cooperation with Etihad Airways being one of the main Alliance's competitors.

by foreign companies. These restrictions vary from 20 to 49% (Hsu, Chang, 2005, pp. 557-569), i.e. prevent foreign investors to obtain formal control over the local air carrier. In conditions of the aggressive expansion of certain airlines ([www.centreforaviation.com](http://www.centreforaviation.com))<sup>7</sup> it can be assumed that the restrictions constitute a major obstacle to the appearance of the first transcontinental airlines.

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<sup>7</sup> It applies primarily to airlines from the Gulf countries. For example, the national carrier of the United Arab Emirates Etihad in recent years purchased stakes in: Air Serbia (49%), Alitalia (49%), Air Seychelles (40%), Darwin Airline (33.3%), Air Berlin (29%), Jet Airways (24%), Virgin Australia (21.24%) and Aer Lingus (4.99%).

# Chapter 15

## **Managing the Development of Tourism on the Example of the City of Toronto**

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*Mirosław Henryk Filar*

### **1. Introduction**

The paper purpose is to present new methods of management in tourism sector on the example of the City of Toronto. Successful managing methods contributed to city's development. The method of research is an analysis of the literature and case study on the example of Toronto. That city is the classical example of colonial city in North America, which turned into a growing metropolis in Canada. It is also a tourist trading center and actively operating cultural center.

The main point of this work is to answer the question: How to manage the city to the ongoing development of its benefit for residents and travelers visiting it? There have been changes in the methods of management of urban structures, especially in tourism and cultural sector.

### **2. The brief history of Toronto**

The city's history dates back to the seventeenth century. At that time, in today's metropolis was a settlement of Indians, which was replaced by a French trading post in 1720. The key moments of its development occurred after the US-British war in 1812 (Bishop et al., 2009, p. 167).

In 1850 the city authorities opened University of Toronto. The humble beginnings of its activities have changed over time its image in the most prestigious university both in Canada and around the world. Buildings of individual faculties are located within the park. Representative buildings are located at Wellesley Street. Hart House building was built in 1919. Its architecture resembles an old English universities with rich traditions, such as Oxford or Cambridge. Located on the campus statue of the Soldier's Tower commemorates students killed on the fronts of both world wars. Other buildings that make up the university are King's College Circle, University College, Knox College and Convocation Hall (Bishop et al., 2009, p. 181).

In 2012, the university hosted representatives of foreign universities. The meeting took place in a historic building, Hart House on the campus of the University of Toronto. The meeting was attended by representatives of Cracow University of Economics and was possible thanks

to the Fahrenheit Center for Study Abroad – the organizer of the Second Polish University Fair, which became the occasion for the meeting (Salwarowski, 2012, pp. 16-17).

Since the said US-British war in 1812, for Toronto and its inhabitants came a long period of peace that lasted until the outbreak of World War II. The wave of immigrants that came after World War II, brought the city the influx of cheap labor, which in turn contributed to the increase in the number of inhabitants. In this way, in the second half of the twentieth century it began phase of prosperity in the history of the city, which lasts until the present time (Bishop et al., 2009, p. 167).

### **3. Tourism in the development of the city**

Today, tourists and residents of the city creating new demand. As a result of response to their demand starts construction of new public buildings or reconstruction of existing museums, art galleries, concert halls, etc. The organization of tourist events today is the basis for the development of Toronto. This activity is distinguished by dynamic, expansive and spirit of competition. These factors significantly influenced the development of the tourism industry, shaping the product offering for customers and new management methods in the tourism sector (Pender, Sharpley, 2008, p. 74).

In recent years significant changes have occurred in the distribution management of tourist services. Development of methods of marketing, information and communication technology made it possible to promote the city internationally as a cultural and scientific center. On the importance of gaining distribution, which is currently the main factor influencing the profitability of the tourist accountability. Distribution characteristics are:

1. Competitiveness – museums and art galleries and other cultural institutions offer customers a varied cultural offer. This is necessary both for their maintenance, as well as encourage visitors to their return visits.
2. Travel agencies – as intermediaries influence the choice of tourist offer and form relationships with their customers.
3. Globalization – tourism market undergoes globalization, which leads to the development of new methods of reaching customers.
4. The instability of the product – this term hides need to sell the last of tourist offers.
5. Information – are the basis for the activities of travel agencies, which thanks to them response to consumer demand (Pender, Sharpley, 2008, pp. 94-95).

The need to reach customers and different parts of the market, encourages tourism businesses to apply several sales techniques and methods of their profitable management. The success of cultural institutions and tourist attractions in Toronto depends largely on the commitment and knowledge of their employees. They prepare and promote the offer of an institution by means of advertisements, catalogs and booking systems. They held training and improve their sales skills. There are also specialized tourist offers for selected customers. New methods of organization of sales and management are also provided transfers, accommodation in hotels and catering. Organization of tourist traffic also takes place at designated times of the year, allowing to adjust the working system of travel agencies and cultural institutions to the period of peak tourist traffic in Toronto between April and October. An innovative idea are tourist catalogs with free postcards of the most interesting tourist attractions and places in Canada. The current offers of tourist and cultural

attractions remind leaflets and newsletters. Regular communication of this information allows the customer to plan holidays and choose the best tourist offer. Particularly important it is to build lasting relationships with customers by means of discounts, early booking and unchanged prices for regular customers. It is the most effective method of acquiring customers used both by hotels and guesthouses as well as museums and galleries, as it produces a sense of belonging to an elite group. A popular method of tourism organization is the Internet, through which travel agencies inform about the possibility of leaving or current cultural offerings. There is also the opportunity to make direct booking of the most interesting offer. The traditional form of visitor management remains the activities of travel agencies that offer the possibility of booking in hotels, trips to remote areas and provide practical information (Pender, Sharpley, 2008, pp. 98-100).

Of particular importance is the image of a place that is destination for tourist travel. Image or used interchangeably brand is one of the main factors in the development of tourism (Bednarczyk, Wszendybył-Skulska, 2013, p. 260).

In this case, the key was to ensure security in the metropolis of Toronto, which had a positive impact on the image of the city (Bishop et al., 2009, p. 410).

Travelers like to visit cities with facilities called 3S, i.e.: sun, sea, sand, or popularly: all inclusive. These products were already popular in the 50s of the twentieth century, but today have been commercialized to promote the city and its attractions. While Toronto cannot boast a long history as some European cities with roots in the Middle Ages, but its inhabitants took care of the availability of tourist attractions, cultural heritage of various ethnic groups living in Canada, development of tourism and recreational opportunities. About attractiveness of the city and its surroundings also decided applied innovations, including adequate management methods and organizational solutions. Due to these factors created a recognizable brand of the city, making Toronto the purpose of international travels from all world (Bednarczyk, Wszendybył-Skulska, 2013, p. 260, 262, 265).

#### **4. Culture and city marketing strategy**

There has been a successful marketing strategy and culture in the development of Toronto. A key element is to identify the values that guide the customer. Both the steel city dwellers and tourists staying temporarily in Toronto, guided by the identified needs. The task of cultural institutions and tourist agencies is to recognize them and then directing them specific range of programs. Cinemas, museums and theaters which are the most common destination for tourism and culture, must develop a specific marketing strategy to attract the attention of their audience and at the same time constantly change its offer. In this way they exhibit the spirit of entrepreneurship, as much as classical companies operating in the market economy (Chlipała, 2011, p. 5).

The role of values in economics, recalled the classical economists themselves, such as Adam Smith and David Ricardo. A. Smith emphasized the importance of the value in use, or the ability of an asset to satisfy human needs, and exchange value, i.e. their ability to exchange goods for others. D. Ricardo singled in turn demand factors, which according to him, influence the formation of exchange value (Chlipała, 2011, p. 15).

Most visited places in Toronto, such as the Rogers Centre or Toronto Harbourfront, must maintain a constant competitive advantage. This applies to all institutions of a cultural, service and educational character (Chlipała, 2011, p. 23).

An example of an educational institution is the University of Toronto, which with its activity encourages young people to study in Canada. The university authorities introduce new students to the realities of life in Toronto, offering assistance in finding housing and work. They organize sports competitions at the same time, enabling students to compete in areas such as sports as baseball, basketball, football, or hockey game. The offer of the university curriculum is very broad and beyond the possibility of practicing sport, offers a visit to the world-class art galleries and museums, sample the cuisine of virtually every culture on earth, catch a world-premiere opera, all within a 30-minute walk or bike ride. The program of study is at the same time adapted to the needs of 100 cultures from whole world. Toronto is one of the most multicultural cities on the planet, with about 50% of population born outside of Canada. These factors have helped Toronto develop one of North America's largest life science and medical research clusters and IT start-up communities (<http://www.sgs.utoronto.ca/prospectivestudents/Pages/Life-in-Toronto.aspx>).

Competitive advantage is characterized by:

1. Valuable resources that allow to take advantage of opportunities and reduce risks in the environment.
2. Limited accessibility to competition.
3. There can be no risk of competitors copying resources.
4. There can be no substitute materials that allow imitation (Chlipała, 2011, p. 23).

Tourist services include the service sector and have the general characteristics of services. Services are at the same time considered in the category of effects. They are intangible goods. As the process are the team activities which help build the value of which is service (Chlipała, 2011, p. 26).

Demand for tourist services belongs to the category of higher-order needs. Tourist demand is combined with supply price of the tourist offer. The standard of living and income of society have an impact on prices and the quality of tourist offer. Consumers often refrain from traveling abroad and implement basic needs, which is a common phenomenon at the time of the occurrence of the economic crisis. The more it is necessary to adjust the current tourist offer to meet their needs (Chlipała, 2011, p. 36).

These elements are part of the tourism market also known as the recreation market. Highlight him the following features:

1. It is the goods market, which is dominated service.
2. The demand for goods and services, the sales of which are complementary.
3. Consumption takes place in supply with production facilities.
4. The market occurs in the place of temporary stay of tourists in the place of their permanent residence, and both before their journey and upon their return (Panusiak, 2013, p. 32).

The tourist market is linked to the market with the concept of free time, because like the commercial services market, culture, sport and media, these markets are increasingly intertwined. Their common feature is provided as an intangible product produced during the production process and having special utility value (Panusiak, 2013, p. 23, 33).

That value has, for example, tourist events, whose organization is based on three key factors:

1. Preparation – develop a program of events, concluding with the main contractor and subcontractors.
2. Offer – presentation and sale of ready-made events.
3. Implementation – this is the final stage of production, provision of certain services in a specific place and time, resulting from the program package (Panusiak, 2013, p. 48).

In the case of the organization of tourist events and every day an equally important element becomes ensure the safety and transport possibilities for residents and tourists. Canada is one of the few countries with a low level of crime. Order guarding several types of police services. One of the most famous is the Royal Canadian Mounted Police – RCMP, which ensures the security of the entire country. In provinces such as Ontario right guard provincial police forces. They support them municipal police departments and the Indian police. Organization of tourism throughout the country deals with the Canadian Tourism Commission. Canadian tourist information offices operating in major cities and providing practical information (Bishop et al., 2009, p. 407, 410).

Apart from tourist offices, Toronto also has excellent public transportation, which allows for smooth flow and efficient organization of tourist traffic. Metro lines run along the main streets, which are: Bloor/Danforth from east to west, and Yonge/University from north to south. With each subway station also depart buses and trams, which can reach every district of the city (Bishop et al., 2009, pp. 168-169).

## **5. Toronto's visiting cards in the architectural space of the city**

Rogers Centre stadium hosts both sports events and concerts of music. It was opened on June 3 in 1989. Since opening to the public, over 2,000 events have been staged with more than 60 million people visiting Rogers Centre (<http://www.rogerscentre.com/about/history.jsp>). There are 143,000 square feet of exhibit space on field level (<http://www.rogerscentre.com/about/facts.jsp>).

Until 2005 it was known as SkyDome: the world's first stadium with a retractable roof. The retractable roof protects audience during bad weather. When sun comes out the roof is reopened. That procedure takes approximately twenty minutes. This is a unique and practical design in the shape of a hazelnut. The walls on the outside of the building are decorated with sculptures. This work of art is the result of the work of a contemporary artist named Michael Snow. Since 2006 Rogers Centre is the current host of buildings and the largest employment agency in Canada and all over the world. Two sports teams: Toronto Argonauts of the Canadian Football League and the Toronto Blue Jays of Major League Baseball are playing their home games in the season. At the stadium they are also organized music concerts. The building consumes as much energy at one time as Prince Edward Island. There is also a possibility to visit the stadium with a guide (Bishop et al., 2009, p. 170, 173).

There is a special Rogers Centre Tour Experience. It is a one hour fully guided behind-the-scenes tour. It includes a visit to different levels, a press box and a luxury suite among other stops (<http://www.rogerscentre.com/about/tours.jsp>).

Another popular spot among locals and tourists is Toronto Harbourfront. It is also known as Harbourfront Centre, on Toronto's waterfront. An innovative not-for-profit cultural organization. The Centre creates events and activities of excellence that enliven, educate and entertain a diverse public. The aim of the organization is to nurture the growth of new cultural expression, stimulate Canadian and international interchange and provide a dynamic, accessible environment and to experience the marvels of the creative imagination by the audience (<http://www.harbourfrontcentre.com/about/index.cfm?ref=footer>).

It was conducted revitalization of urban industrial and converted areas on the shore of Lake Ontario into a tourist attraction and recreational space for residents of the city. Lake Ontario

reached in the past much more inland than today. However, enterprising engineers regained three kilometers inland. Built on reclaimed land transport stations and magazines. The area developed with the active exported and imported goods until the 60s. of twentieth century. When exports declined, industrial areas have been abandoned. In the 80s it was decided to transform those industrial areas in new housing and commercial premises. As a result, thanks to consistent planning and execution of revitalizing the shores of Lake Ontario, created green spaces and promenades. Hotels and tourist attractions are located in the center of the Harbourfront. The Harbourfront Centre has modern theaters and concert halls which provides the city third place in the world in the field of culture. The above are only New York and London (Bishop et al., 2009, pp. 170-171).

Another landmarks of the city are Convention Centre and Molson Place. The Convention Centre is the only facility that has hosted both a G20 and a G7 Summit (<http://www.mtccc.com/?m=0&t=0&c=1>).

From the G20 Summit to 40-seat seminars, the Convention Centre is an expert at hosting every type of meeting or event which are:

1. Conventions.
2. International Trade Events.
3. Job Fairs.
4. World Leader Meetings.
5. Corporate Meetings.
6. Gala & Themed Events.
7. Training Sessions, Public Events & Expos.
8. Seminars.
9. Press Conferences (<http://www.mtccc.com/planners/whyUs/event/index.aspx>).

The Convention Centre is divided into two parts: the northern and southern. The Centre hosts specialized trade shows and exhibitions. Nearby it there is an open concert space. In the summer months the concert hall in the fresh air which is Molson Place, hosts many concerts (Bishop et al., 2009, pp. 170-171).

The Molson Amphitheatre is an excellent venue with top facilities. It is located where the Ontario Place Forum was located formerly. Some of the most popular singers and bands have performed at the Molson Amphitheatre since grand opening of the venue in 1995. The Amphitheatre can seat around 16,000 people. It mostly has an outdoor configuration. There is a high-covered roof under which there are 5,500 seats, and then there are around 3,500 seats available under the open sky. There is also the availability of around 7,000 seats on the grass bowl. There are also 1,000 seats in the floor area. The main focus with which the Amphitheatre operates is the enjoyment and ease of the attendees (<http://www.canadianamphitheatre.net/>).

It is part of the objects forming the Harbourfront Centre, which also includes theater, cinema and ballet halls. To this complex also belong Rogers Centre and Convention Centre. A visit to any of these places is an unforgettable experience. Therefore, the residents of Toronto and tourists eager to visit them any time of year (Bishop et al., 2009, pp. 170-171).

As a result, Toronto remains an extraordinary city with a rich tradition and culture of ethnic groups from all over the world, and at the same time an important center of culture and entrepreneurship with a population of 5.5 million people in the Greater Toronto Area (<http://www1.toronto.ca/wps/portal/contentonly>).

## 6. Conclusion

Presented in this paper some examples of the most visited places in Toronto which are the University of Toronto, Rogers Centre, Toronto Harbourfront, Convention Centre and Molson Place, at the same time are an excellent example of successful management methods in the tourism sector.

Thanks to the city authorities, specialists of marketing and development strategies of the City of Toronto, tourism as well as culture, has become one of the key factors in the development of the city. Toronto like the whole country is a multicultural place, but this multiculturalism creates a cohesive identity of Canada and its inhabitants. Culture and traditions of the representatives of 100 nationalities, penetrate each other, bearing fruit in the fields of science, art and culture said. Each of them maintains its individuality at the same time, but all together form the unique cultural heritage of the history of the world. They present them the city museums and exhibitions, and efficient public transport allows to explore them in every corner of the city. This is at the same time one of the methods of organization and management of tourist traffic in the constantly evolving metropolis. Cultural institutions competing with each other encourage customers to use their cultural offer and advertise the city itself. There is: scientific, economic and cultural development, accompanied by an increase in the number of inhabitants in the city.

Toronto example shows that there is possibility to combine the opportunities offered by the tourism and culture, to obtain a satisfactory economic performance and ensure the sustainable development of the city throughout the year, even outside the period of the tourist season.

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## **PART II**

# **METHODOLOGICAL ASPECTS OF THE ENTERPRISE MANAGEMENT PROCESS**





# Chapter 16

## **Selected Methods for Solving Multi-criteria Decision-making Problems Relating to Design<sup>1</sup>**

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*Adam Stabryła*

### **1. Introduction**

The purpose of this article is to present the concept of decision analysis, aimed at assessing and selecting rational (optimal) project solutions. This concept is based on the aggregate assessment paradigm, which involves the determining of the synthetic value of a chosen project solutions, on the basis of scaling into one whole, individual selection criteria (assessment). This paradigm constitutes a derivative of the multi-criteria approach, which is defined as the formula for the fusion of different selection criteria. These criteria are subordinated to predetermined aspects of considering decision-making problems.

Various points of the article present the following aspects: the specifics of solving multi-criteria decision-making problems in design, the standardization quotient method in the taking of design decisions, the point aggregate method in the taking of project decisions.

### **2. The specifics of solving multi-criteria decision-making problems in design**

The best approach concerning the research process relating to the solving of multi-criteria decision-making problems, is expressed in the demand on the complementary consideration of various comparative considerations (cognitive and evaluative). This is an approach which focuses on a specific estimate of values belonging to a particular type of project. It is assumed that these are usually complex undertakings, e.g. the programming of investments, management strategy design, product development design, process design and restructuring.

The general principle for the presented research process is the aggregate assessment paradigm, which involves the determining of the synthetic value of a chosen project solutions, on the basis of scaling into one whole, individual selection criteria (assessment). This paradigm

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constitutes a derivative of the multi-criteria approach, which is expressed as the formula for the fusion of different selection criteria. These criteria are subordinated to predetermined aspects of considering specific decision-making problems.

The hallmark of aggregate assessment is, therefore, a guideline for the merging of individual criteria for the purpose of obtaining an answer to questions about the overall value of the project. When a project is observed by means of just a single criterion (e.g. the economic criterion), this limits the way in which its true value is assessed<sup>2</sup>. Therefore the multi-criteria qualification is fuller than the single criteria approach – which is obvious – as it offers a more comprehensive picture of the proposed project solutions.

The aggregate assessment paradigm is embedded in the context of aspects relating to the treatment of decision-making problems. Examples of such aspects include the following: products, processes, organization, substantive, business activities, global operations. Each of these aspects point towards the framework, within which the corresponding assessment criteria and selection of project solutions is located.

The specifics of multi-aspect decision-making problems in design are determined by the substantive distinctness of the various types of projects themselves. Projects may be divided into the following: research, technical, product, management system (Lock, 2009). Examples of the above decisions are as follows:

- those relating to research projects: those relating to physics, biology, economics, management, medical sciences;
- those relating to technical projects: those relating to the construction of products, technology, investments, computerization;
- those relating to production projects: those relating to the infrastructure of industrial plants, organization of the production process, logistics, ergonomic systems and monitoring;
- those relating to management system projects: those relating to strategic, operational and marketing plans, quality management, organizational structures, personal strategies, network organization management and information management.

Concerning the above presented spectrum of example projects the correlates are the multi-criteria decision-making problems, which naturally stem from the substantive complexity of researched space design aspects. This space constitutes the size of a variety of phenomena and corresponding decision-making problems. Solving these problems is the object of the decision-making analysis.

### **3. The standardization quotient method in the taking of design decisions**

As a result of the aggregate assessment paradigm referred to distinguished project variants, there is a need to harmonize the variety of applied choice criteria. The manner of effecting harmonization is expressed by the standardization quotient method. Thanks to standardization it is possible to calculate the arithmetic mean (simple or weighted) from the sum of values of given choice criteria. This mean is a synthetic value of a defined design variant, in other words the ag-

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<sup>2</sup> The value of a project cannot be limited to its economic value (e.g. the internal rate of return), but should primarily include its technological, operational and ergonomic functionalities.

gregate value which constitutes integration of standardized criteria for selection<sup>3</sup>. At the same time it is the basis for indicating the optimal project variant, which is equivalent to the solving of a given decision-making problem.

It is proposed that the research process cycle which best corresponds to the standardization quotient method, used for the making of project decisions, is divided into the following stages:

1. Definition of project solutions.
2. Drawing up a set of selection criteria.
3. Determining the value of selection criteria models.
4. Selection criteria standardization quotient.
5. Calculation of the aggregate assessment indicators of given project solutions.
6. Classification of the aggregate assessment indicators of given project solutions.
7. Indicating the optimum project solution.

The characteristics of determined stages are presented below.

### Stage 1. Definition of project solutions.

This stage is a presentation of innovative or modernized ideas, relating to a chosen object of research and decision-making problem. Given project variants are generated on the basis of given assumptions, including: objectives, situational action requirements (current and forecast external situation), internal conditions relating to the intended undertaking. Project variants may be true solutions, which are confirmed empirically (these are the so-called benchmarks). However, these are also model solutions.

### Stage 2. Developing the set of selection criteria.

We describe this in the following form:

$$\vec{x}_j = \{x_1, x_2, \dots, x_n\}, \quad (1)$$

where:

$\vec{x}_j$  – set of selection criteria,  $x_j$  – selection criteria,  $j=1, \dots, n$ .

This stage assumes a differentiation in the types of selection criteria, but also in their number. Table 1 below presents an example of selection criteria, specified in terms of aspects of considering decision-making problems.

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<sup>3</sup> The selection criteria in original form are expressed by characteristic values (e.g., technological readiness, level of quality, reliability, rate of return) and cannot be added together, nor can the arithmetic mean be calculated. In contrast, the standardized selection criteria as secondary criteria (restated) are already subject to algebraic operations.

Table 1. Example of selection criteria for project variants

<b>Specification</b>
<p><b>Product aspect</b></p> <ol style="list-style-type: none"> <li>1. Product and sales value.</li> <li>2. Profit on sales.</li> <li>3. Market share.</li> <li>4. Product (services) quality.</li> <li>5. Product modernity.</li> <li>6. Profitability.</li> <li>7. Financial liquidity.</li> <li>8. Productivity.</li> <li>9. Solvency</li> </ol>
<p><b>Process aspect</b></p> <ol style="list-style-type: none"> <li>1. Production capacity</li> <li>2. Technological process failure rate.</li> <li>3. Quality level of technological processes.</li> <li>4. The degree of automation.</li> <li>5. Degree of compliance with management process standards.</li> <li>6. Labour intensity.</li> <li>7. Cost effectiveness.</li> <li>8. Functionality of administrative and managerial operations methods</li> </ol>
<p><b>Organizational aspect</b></p> <ol style="list-style-type: none"> <li>1. Organizational structure content.</li> <li>2. Required level of employment.</li> <li>3. Level of integration.</li> <li>4. Functionality of procedures.</li> <li>5. Feasibility level</li> </ol>
<p><b>Substantive aspect</b></p> <ol style="list-style-type: none"> <li>1. Education potential.</li> <li>2. Creativity (innovation).</li> <li>3. Job enrichment.</li> <li>4. Integration level.</li> <li>5. Interpersonal relationships</li> </ol>
<p><b>Business activity aspect</b></p> <ol style="list-style-type: none"> <li>1. Diversification of activities.</li> <li>2. Conclusion of foreign transactions.</li> <li>3. Joint ventures and direct investment.</li> <li>4. Transfer of capital and technical and scientific thought.</li> <li>5. Funds obtained from financial institutions (domestic and international).</li> <li>6. Competitive ability.</li> <li>7. Globalization of activities</li> </ol>

Source: own work.

In a comprehensive decision-making analysis the structure of the selection criteria should be diverse, but it is also necessary to remember about their complementarity. Furthermore, though there are no strict guidelines indicating a specific quantitative range of criteria which should be applied, it is necessary to assume that expert opinion will act as the appropriate measure when defining their structure and number.

It should also be stressed that quality criteria in the presented method must be calculated in terms of points, and then standardized as a quotient formula. Without these operations it would not be possible to aggregate them with quantity criteria.

At this stage it is possible to determine the significance of the selection criteria which express their meaning (importance). The basis for taking a decision will be the calculated indicators of the weighted aggregate assessment of given design variants. An example of weighted selection criteria may be the following preference layout:

- 6 absolutely essential criteria (dominating),
- 3 fundamental criteria,
- 1 auxiliary criterion.

### Stage 3. Determining the value of selection criteria models.

Determining the model values appropriate for the selection criteria is one of the most important activities of this method. Model values are a certain assessment system which constitutes a multi-criteria evaluative system. These models may be normative or postulative in nature.

Normative models are expressed by dimensions indicated in advance (parameters, characteristics), which are treated as optimal or sub-optimal. These are either theoretical and experimental dimensions, or dimensions which have been determined in an obligatory manner as set (planned) dimensions. These are assumed to be extreme in dimension; if the dimension is exceeded or not attained this is seen as an error. Normative models are also defined as nominants (Pawełek, 2008).

On the other hand, postulative models are seen in the following two ways:

- one of them refers to *stimulants* or dimension, which demand a growth tendency,
- the other refers to *destimulants* or dimension, which demand a decrease tendency.

The difference between normative (nominants) and postulative (stimulants and destimulants) models is that for normative models the deviation upwards or downwards is assessed negatively, whilst for postulative models every growth situation in the value of the stimulant is treated positively and, analogically, each case of decrease in the destimulant value analogically, is assessed favourably<sup>4</sup>.

The preparation of company accomplishment assessment models constitute the outcome of the modelling process or benchmarking. Modelling may take place in the form of planning an experiment which is to generate models-types. These models-types may be as follows: ideal, utility, a priori.

However, benchmarking is seen as a research approach, which involves the location of models-types, already used in practice (covering one's own business operations or beyond). Benchmarking also concerns the modification of already implemented models-types. This concept leads to the search for the best organizational, economic, technical and other solutions, constituting

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<sup>4</sup> It is also possible to apply *threshold values* ("thresholds"), which only define from the bottom or the top level the border level of the model dimension. Threshold values also belong to normative models in the broad sense of the word.

models-types employed for one's own operations. The use of experience gained by outstanding entities, and learning from leaders constitutes a universal guideline for improvement.

The most typical characteristic function of the referred to approach involves focusing on the finding of "benchmarks", in other words reference points for assessing the results of results of one's own operations (e.g. in terms of competitiveness, sales, technology level, quality and reliability of goods, economic and organizational effectiveness of processes, productivity and labour costs). Benchmarks are standards, optimal indicators, which constitute a distinguishing hallmark of action.

Establishing benchmarks proceeds according to the following steps:

1) indication of stimulant:

$$x_{oj} = \max_i \{x_{ij}\} \quad \text{for } j \in S, \quad (2)$$

2) indication of destimulant:

$$x_{oj} = \min_i \{x_{ij}\} \quad \text{for } j \in D, \quad (3)$$

3) indication of nominant:

$$x_{oj} = \text{nom}_i \{x_{ij}\} \quad \text{for } j \in N, \quad (4)$$

4) indication of the set of model values of given selection criteria:

$$\bar{x}_o = \{x_{o1}, x_{o2}, \dots, x_{on}\}, \quad (5)$$

where:

$x_{oj}$  – model value for each  $j$  of selection criteria ("o" in lower case means "optimal"),  
 $x_{ij}$  – characteristic value  $j$  of selection criteria, defined for each  $i$  of the model variant,  
 $S$  – stimulant set,  $D$  – destimulant set,  $N$  – nominant set,  
 $i = 1, \dots, m$  – model variants,  
 $j = 1, \dots, n$  – selection criteria.

#### Stage 4. Selection criteria standardization quotient.

Standardized values of defined selection criteria are seen as comparative assessment measures which are calculated for given model variants in relation to pre-determined model values. The purpose of comparative assessment is to indicate to which degree the given model variant respects the assumed requirements (expressed through model values).

The comparative assessment formula is defined by referring the characteristic value of selection criteria to their model values. The formula which is defined in this manner serves as a standardization tool for selection criteria. These standardized selection criteria values are at the same time partial performance indicators of design variants. Thanks to the standardization of selection criteria it is permissible to perform an aggregate assessment of effectiveness; this is because in this situation it is possible to calculate the arithmetic mean (simple or weighted) of the overall effectiveness of each model variant.

The selection criteria standardization quotient is seen as follows:

$$a) z_{ij} = \frac{x_{ij}}{\max_i \{x_{ij}\}} \quad \text{for } j \in S, \quad (6)$$

$$b) z_{ij} = \frac{\min_i \{x_{ij}\}}{x_{ij}} \quad \text{for } j \in D, \quad (7)$$

$$c_1) z_{ij} = \frac{x_{ij}}{\text{nom}_i \{x_{ij}\}} \quad \text{for } j \in N, \quad (8)$$

in that:  $x_{ij} \leq \text{nom}_i \{x_{ij}\}$ ,

$$c_2) z_{ij} = \frac{\text{nom}_i \{x_{ij}\}}{x_{ij}} \quad \text{for } j \in N, \quad (9)$$

in that:  $x_{ij} > \text{nom}_i \{x_{ij}\}$ .

The standardized selection criteria values  $z_{ij}$  range between 0 to 1 for nonnegative  $x_{ij}$ . The values of  $z_{ij}$ , the closer they are to unity the higher the effectiveness assessment of model variants, defined in terms of  $j$  selection criteria. This may be expanded to include negative fields when certain project variants generate losses or demonstrate dysfunctions in their solutions.

It must be added that the set of project variants may also contain implementing solutions as well as model solutions, treated as ideal solutions (appropriate to excellent conditions).  $x_{ij}$  and  $x_{oj}$  values are treated similarly.

**Stage 5. Calculation of the aggregate assessment indicators of given project solutions.**

Two formulae of aggregate assessment indicators of project variants are distinguished: the simple  $Z_i$  and the weighted  $Z_i^*$ . These have the following form:

$$Z_i = \frac{1}{n} \sum_{j=1}^n z_{ij}, \quad (10)$$

$$Z_i^* = \frac{1}{W} \left( \sum_{j=1}^n w_j \cdot z_{ij} \right), \quad (11)$$

in that:

$$W = \sum_{j=1}^n w_j, \quad (12)$$

where:

$w_j$  – weight of  $j$  selection criterion.

Standardized values of individual selection criteria ( $z_{ij}$ ) are partial performance indicators of design variants. On the other hand, the aggregate assessment indicators of given project solutions are defined as overall effectiveness indicators ( $Z_p, Z_i^*$ ).

### Stage 6. Classification of the aggregate assessment indicators of given project solutions.

Classification means research procedure whose essence, on the one hand, is a comparative assessment of project variants, and on the other, quality classification of these solutions. The basis for classification consists of the aggregate assessment of tested project solution indicators ( $Z_i$  and  $Z_i^*$ ) (Stabryła, 2005, 2011).

An example of the gradation of levels of indicator values is presented below ( $Z_i$  and  $Z_i^*$ ):

0.96-1.00	distinguishing level (rate 6.0),
0.81-0.95	high level of suitability (rate 5.0),
0.61-0.80	medium level (rate 4.0),
0.51-0.60	sufficient level (rate 3.0),
$0 \leq Z_i \leq 0.50$	} level of dysfunctionality (rate 2.0),
$0 \leq Z_i^* \leq 0.50$	

-0.01 to -1.00 or  $-k$  negative dysfunctionality level.

Comparative assessment is used not only for standardizing the selection criteria, but also for determining the differences between project solutions; it also indicates the causes of possible dysfunction. However, quality classification involves the indicating of project solution categories on the basis of the gradation of the values levels of  $Z_i$  and  $Z_i^*$  indicators. These levels are categories, in other words quality classes (quantified).

### Stage 7. Indicating the optimum project solution.

In the previous stage of research procedure the category of each of the project solutions was defined, in other words their order and ranking list. This does not mean, however, that the first project solution in the ranking will be classified as an optimum solution. This is decided by the level of acceptance, approved in the decision analysis, e.g. the high level of suitability (0.81-0.95 according to the previously indicated gradation). The attaining or exceeding of this level will decide about the choice of the optimum project solution. One should also take into account the feasibility indicators and the preferred solution risk and the significance of its strong and weak points.

## 4. Point aggregate method in the taking of project decisions

The point aggregate method is a comparative assessment of project solutions; this method involves the counting of the values of characteristic selection criteria into points. The points approach is an expression of the standardization of these criteria, which facilitates their aggregation and the synthetic assessment of each project solution.

A formal assumption of this method involves the calculation of the  $IPP_i$  index project points in terms of the proposed solution options.

The application of the point aggregate method takes place according to the following steps:

- presentation of the levels of assessment of the meeting of selection criteria,
- determining the significance of selection criteria,

- defining the formulae of the  $IPP_i$  index project points solutions,
- classification of project solutions,
- indication of the optimum project solution.

### Step 1. Presentation of the levels of assessment of the meeting of selection criteria.

This assessment is based on the following scheme (example);

Level of assessment	Points system
I. Very good (+)	6
II. Good (+)	4-5
III. Satisfactory	1-3
IV. Unsatisfactory	0
V. Counterproductive (ps-1)	-1 to -2
VI. Counterproductive (ps-2)	-3 to -6

### Step 2. Determining the significance of selection criteria.

- 6 – absolutely essential criteria,
- 3 – fundamental criteria,
- 1 – auxiliary criterion.

### Step 3. Defining the formulae of the $IPP_i$ index project points solutions.

$$IPP_i = \sum_{j=1}^n w_j \cdot q_{ij}, \quad (13)$$

where:

$w_j$  – weight of  $j$  selection criterion,

$q_{ij}$  – points system for the  $i$  assessment of this project solution, defined in terms of  $j$  selection criteria,  $i = 1, \dots, m$  – project solutions,  $j = 1, \dots, n$  – selection criteria.

### Step 4. Classification of project solutions according to the $IPP_i$ index.

An example of gradation of project solution categories is presented below.

**Category S** (lead project) –  $IPP_i$  index level above 80% of maximum value,

**Category A** (very good project) –  $IPP_i$  index level standing at 61-80% of maximum value,

**Category B** (average project) –  $IPP_i$  index level standing at 40-60% of maximum value,

**Category C** (low suitability project) –  $IPP_i$  index level standing at less than 40% of maximum value.

### Step 5. Indicating the optimum project solution.

Interpretation of optimum solution choice is based on an indication of a solution containing the lowest  $IPP_i$  index value, accompanied by the view that the level of acceptance has been attained. In this case the performance of a decision analysis is similar in essence to that of the standardization quotient method.

## 5. Conclusion

The presented methods have a wide range of uses in the analysis of decision-making, which is applied for the assessment of economic, organizational and technical projects. In particular this concerns:

- analysis and design of management strategies (Pillkahn, 2008),
- scenario planning (Ogilvy, 2002; Ralston, Wilson, 2006),
- designing organizational systems (Schwaninger, 2006; Stabryła, 2011),
- organizing operational processes (Szwabowski, Deszcz, 2001).

The following should be taken into account when dealing with diagnostic and design work: marketing (Bąk, 2004), knowledge-based economy (Stabryła (ed.), 2009), financial policy, process management. The proposed methods may be directed both towards specific fields as well as comprehensive economic processes.

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# Chapter 17

## **Environmental Management System in the Enterprises**

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*Monika Ziółko*

### **1. Introduction**

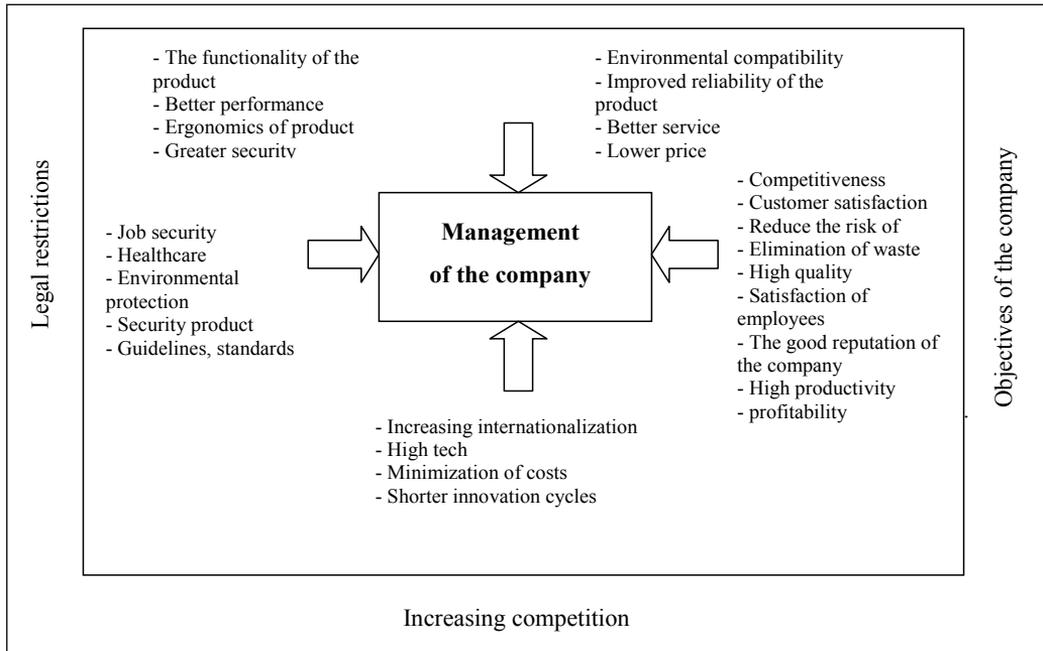
Technical progress with the continuous nature of the industrial revolution leads to a continuously growing consumption of raw materials. The consequences of this procedure is to land contamination, groundwater and surface water. Removal and prevention of environmental damage and the costs of these activities have become problems faced by both government authorities and private entrepreneurs. Because everyone experiences every day the effects of the progressive degradation of the environment, the number of supporters of his behavior is constantly growing. Also increases the number of governmental and non-statutory interested in environmental problems, including the problems of environmental management.

The paper consists of four parts the first of which will discuss the basic assumptions of the strategy in an enterprise environment, the second part is to present the principles of organic certification of management systems. In the third part will be described in environmental policy. In the final section, we will benefit from the introduction of an environmental management system in the enterprise.

### **2. Assumptions environmental strategy in the enterprises**

Changing economic conditions and social expectations make it in business management, in addition to aspects of the production, financial, marketing and other must be set targets for the protection of the environment and human health and life. The functioning of the company are important: business goals, increasing customer expectations, increased competition, regulatory restrictions (Nahotko, 2002, p. 77). Factors affecting the business management system shown in Figure 1.

Figure 1. Factors of business management



Source: Lewandowski, 2000, p. 13.

The environmental management system is part of the organization's management system, used for the development and implementation of environmental policy and manage its environmental aspects. It is a set of interrelated elements used to establish policy and to achieve the set goals (Poskrobko, 2007, p. 264).

According to the definition of the Technical Committee ISO/TC environmental management system is part of the overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy (PN-EN ISO 14001:1998, pkt 3.5). In recent years, due to increased interest and pressure on environmental management have been developed many new tools related to the systemic approach to environmental management. To define the criteria for their use set a number of standards and regulations at the country level and at international level. They can be divided into two groups (Matuszak-Flejszman, 2001, p. 86):

1. Tools for assessing the impact of organizational unit:
  - of environmental management systems,
  - on the assessment of the effectiveness of environmental activities,
  - about environmental auditing.
2. Tools related to the assessment of the product:
  - about the life cycle assessment products,
  - on the labeling,
  - environmental aspects in product standardization.

For the implementation of EU environmental policy, the following rules (<http://www.een.org.pl/>):

- polluter pays – it is a principle present since 1972 in environmental policy adopted by the OECD. It means polluters full responsibility for the actions causing changes in the environment;
- principle of prevention – specifying that pollution prevention is better than reducing their effects, it also shows that you should be sure about the harmlessness of the planned investment before agreeing to the exercise thereof;
- principle of economic efficiency – the rule requiring the achievement of environmental objectives at the lowest cost to the economy;
- principle of preservation of natural resources – the principle of requiring maintenance of critical resources (forests, clean water, etc.), permitting them to an ongoing process allowing to achieve continuous improvement;
- the principle that environmental damage at source.

The environmental management system is an ongoing process allowing to achieve continuous improvement, the scope of which is determined by the company itself. The ISO 14001 standard addition to the commitment contained in environmental policy, to act in accordance with the relevant legal regulations and to continual improvement does not determine the exact requirements for environmental performance. The company, which wants to introduce an environmental management system should be at the beginning to determine their ecological situation. This requires environmental review, covering all aspects of the environment in which the company operates. Results of the review should take the form of a report containing:

- legal requirements;
  - identification of environmental aspects;
  - verification measures and procedures relating to environmental management.
- The environmental management system also requires (<http://www.een.org.pl/>):
- formulation of environmental policy, which is determined by management, documented, implemented and executed;
  - identify environmental problems (so far) and to determine the impact of the current and planned business activities on the environment;
  - determination of the legal requirements that apply to existing and potential environmental aspects related to activities of the company;
  - the importance of environmental protection objectives and guidelines (clear and measurable);
  - set priorities;
  - creation of environmental policy implementation programs;
  - planning, continuous surveillance, control and correction actions;
  - constant adaptation to the changing environment.

The introduction of an environmental management system includes the following steps:

- the development of environmental policy action enterprises;
- measurement of environmental pollution (internal audit);
- organization and construction of environmental management system taking into account environmental priorities;
- training of employees;
- implementing and developing environmental management;
- registering and monitoring the effects and costs of the system;
- improvement of the system and the functioning of the enterprise from the point of view of environmental protection.

### 3. The principles of certification of eco-management systems

Among the most popular certification of environmental management systems in an enterprise should be sure to replace ISO 14001 and EMAS, they will be briefly characterized.

#### 3.1. The program EMAS

Included in the EMAS system is to prevent and reduce and, if possible, eliminate pollution, particularly at source, in accordance with the “polluter pays” principle, in order to ensure prudent management of natural resources and use of clean technologies. Other causes so formulated objectives, it is aware that industry is responsible for the impact of its activities on the environment, and should therefore adopt an attitude in favor of its protection in the form of, among other things (Nahotko, 2002, p. 179):

- environmental policy (compliance with environmental regulations, together with a reasonable and continuous improvement of environmental indicators);
- the adoption of targets and programs and the use of effective ecological systems, training and awareness of employees;
- inform the public about the activities of the organization in the field of environmental protection;
- approve the statements by accredited environmental verifiers.

The objective of EMAS is to promote the principles of sustainable development in respect of production and consumption and the creation of an effective framework for continuous improvement of the environmental impact of the company. As it stands EMAS as a tool adapted to the requirements of a market economy presupposes the voluntary participation of interested operators in the system. Companies that decide to register in the system are required to implement an effective environmental management system and fulfill all the requirements laid down in Regulation (Nowak, 2001, p. 86).

Requirements EMAS Regulation (Nowak, 2001, p. 91):

- continuous improvement of the environment at the place of production activities – business, with particular emphasis on the negative impact on the environment;
- continuous reduction of harmful impacts on the environment wherever we operate;
- compliance with environmental legislation;
- formulation of environmental objectives and specific Krakow to achieve those objectives, determine deadlines and persons responsible;
- implementation, maintenance and improvement of EMAS;
- providing information to the public on the state of the environment in the enterprise – ecological report;
- commitment subcontractors, suppliers and employees to comply with occupational environmental standards.

The purpose of the system is (Dilly, 1997, p. 8):

- continuous improvement of the environment in a company with a particular focus on reducing the negative impact on the environment to a level corresponding to the application of best economically viable techniques;

- continuous reduction of harmful impacts on the environment in the place where the facility is located;
- compliance with environmental legislation;
- formulation of environmental objectives and specific measures to achieve these objectives with specified deadlines and personal responsibility;
- implementation of an environmental management system as a tool for the implementation of environmental policy;
- informing the public about environmental matters;
- commitment of employees, subcontractors and suppliers to adhere to company standards in environmental protection.

### **3.2. The ISO 14001 standard**

ISO 14001 is normative, applied on a voluntary basis, widely available and accepted by the adequate in the International Standards Organization (ISO) standardization body. The standard sets the rules, guidelines or characteristics for the various activities and outcomes and is designed for common and repeated use. Adopt a code of good practice and the principles of rational conduct with the current level of technology (Poskrobko, 2007, p. 264).

Environmental management systems have not been arbitrarily imposed on industry, but the need for their creation was born in the business community. The pressure on this group of governments and relevant non-governmental institutions resulted in the creation of standards that specify environmental management systems (Bernaciak, 2000, p. 102). ISO 14001 is a specification for an environmental management system that includes objective requirements subject to audit for certification or declaration of their own. It focuses on the following issues (Nahotko, 2002, pp. 199-200):

- a commitment to continuous improvement;
- commitment to compliance with applicable legislation;
- rules, codes of practice and internal management for the protection of the environment;
- pollution prevention in all possible environmental media such as air emissions, discharges into water, waste management, pollution of the ground.

The standard was designed to allow its use for a variety of geographical, cultural and social (Nowak, 2001, p. 61). The main task of this standard is to support activities related to environmental protection.

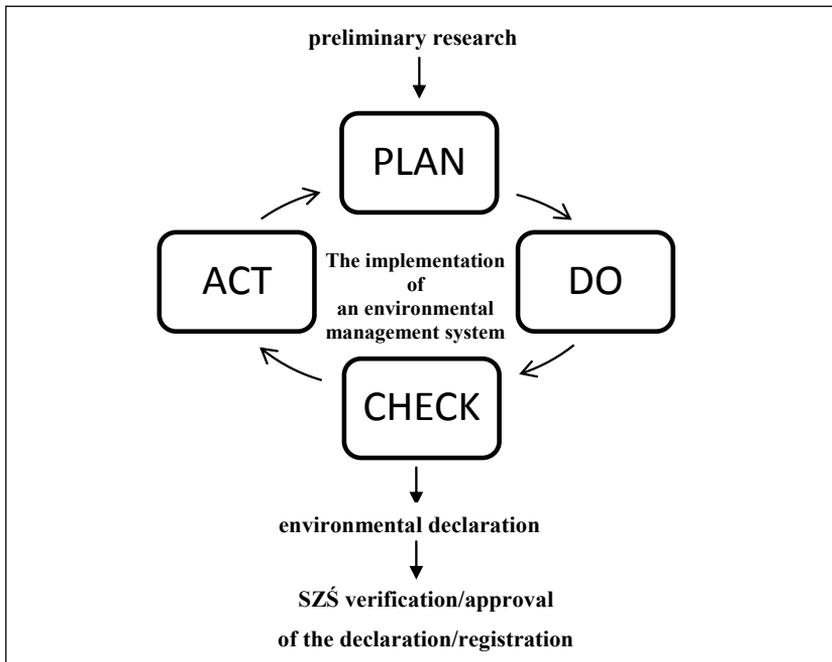
Basic requirements of ISO 14001 are as follows (Wrzesińska, *Environmental Management Systems*):

- basis for the commencement of work on the environmental management system is the characteristics of the enterprise in terms of: water consumption, air emissions, waste management, management of electrical energy and assessment of the company for the environmental nuisance;
- firm determines the procedure for identifying environmental aspects which have or may have an impact, and on which it can operate. Great significance at this stage is to identify existing practices and procedures, on the basis of defined business impact on the environment;
- preparatory work should be reviewed legal requirements relating to the business of production and services, licenses and permissions;

- objectives and tasks should be established at all management levels in the company and wherever the employee activity has an impact on the environment;
- an environmental management program should specify responsibility for each function and level, and measures and the time range for the accomplishment of tasks;
- system modules are: the structure of powers and responsibilities, training employees, internal and external communication, documentation system, supervision of documentation, operational control, readiness in case of emergency and failback procedures, monitoring and measurement, audit.

This standard can be used for internal purposes – reassure the organization’s management and external purposes – a statement of certainty about the ecological action company stakeholders (Gruszka, 1997, p. 126). The ISO 14001 standard is based on the philosophy of Deming, it has a four-phase structure: plan, do, check, act (Plan-Do-Check-Act). This approach is illustrated in Figure 2.

Figure 2. Approach plan, do, check, act in environmental management



Source: Oakland, 1993, p. 55.

In the planning phase should be identified and assessed part of the organization having an impact on the environment and formulate appropriate goals and objectives necessary to achieve those objectives. The stage of implementation includes the implementation of the planned elements. In the validation phase should observe the effects of changes or tests, analyze data and identify problems. Phase action consists rather in the examination results, redesigning the system, taking into account existing knowledge, informing the top management and re-planning (Matuszczak-Flejszman, 2001, p. 95).

The ISO 14001 standard is used to evaluate and improve the EMS, it is becoming increasingly popular in the world. According to the Polish it normalizes the introduction of standards is done by the organization on a voluntary basis, but its use has now become part of the game market and marketing (Nowak, 2001, p. 36).

This standard is the norm development, since its goal is to continuously strive to improve the effectiveness of environmental action. It is a voluntary standard, but it should be emphasized that when a decision by the management of the implementation of its requirements become obligatory (Winter, 1995, p. 11).

The requirements of ISO 14001 and EMAS regulation are very close to each other, because EMAS is based on the requirements of ISO 14001. Therefore, the organization for the implementation of the EMAS system may represent a further step towards improving the environmental management system. However, there are some differences between the requirements contained in those documents (Matuszak-Flejszman, 2010, p. 105). additional mandatory requirements for organizations working towards improvement of the environmental management system include, among others (Brandy, 2005, p. 115): the duty to identify and assess indirect environmental aspects, an obligation to inform interested parties about the environmental aspects, objectives and targets, impact on the environment and environmental performance in environmental statements, the obligation to conduct dialogue with society, more stringent requirements for environmental protection, as well as the obligation to refer to the assessment of environmental effects at every stage of the business. It can be concluded that the management and Audit Scheme is a more reliable system than a system based on the requirements of ISO 14001, but will most accurate formulation that it is a perfect tool to improve the environmental management system in accordance with the requirements of ISO 14001.

#### **4. Environmental policy**

Environmental policy is developed by the company defined goals and principles involved in all of their business, which is a framework for actions by the unit, and also allows you to define environmental objectives and targets (Nahotko, 2002, p. 207).

Environmental policy is a declaration of the organization on its intentions and principles relating to the overall environmental performance setting out the framework for setting environmental objectives and targets of the organization (ISO 14001, paragraph 3.9). It should be appropriate to the nature, scale and environmental aspects of its activities, products and services. It must therefore stem from the company's mission, if that was formulated and as far as this mission is not in conflict with environmental protection. Policy must refer to the actual activities, products and services provided by the entity, and must involve it in the process of continuous improvement through pollution prevention and compliance with applicable legislation. There is a clear link between policy and the ensuing inches and tasks, because politics should constitute the framework for setting and reviewing those goals and objectives. The management of the organization is responsible for implementing policies and providing input to the development and modification (Matuszak-Flejszman, 2001, pp. 130-131).

Environmental policy should take into account (Nahotko, 2002, p. 207):

- requirements of stakeholders and a way to communicate with them;
- mission, vision, core values and beliefs of the organization;

- the need for continuous improvement of technology;
- guiding principles;
- issues of compliance with other types of policies of the organization;
- specific local and regional conditions;
- the need to comply with relevant environmental legislation.

The success of the company depends on the degree to meet the needs and expectations of the parties interested in its activities, products and services. Quality assurance and quality improvement can be achieved by systemic administration. Environmental policy should reflect the commitment of companies in the scope of its adaptation to legal provisions. It must be periodically reviewed and adjusted to changes in the environment. It should also be understood by all employees. These professionals should be aware of their own responsibility for the constant and effective environmental action himself and his company.

## **5. The benefits associated with the introduction of an environmental management system in the enterprise**

Undoubtedly, the implementation of environmental policy institutions brings many benefits. The most important of these include (<http://www.een.org.pl/>):

- social acceptance of the enterprise;
- strengthen the credibility of the company in the eyes of partners;
- motivation of the crew;
- minimizing the cost of doing business (e.g. by minimizing the number and cost of disposal of generated waste, reduce pollution, etc.);
- gaining competitive advantage (leading company in modern solutions in favor of tightening environmental standards);
- facilitating access to capital;
- facilitate the obtaining of permits to operate;
- increase safety in the company;
- reduced cost of transport, storage and packaging;
- creation of new products and technologies or even new markets based on environmentally friendly processes;
- increasing the competitiveness of the company – a better company image in the eyes of potential customers and investors (Lisowska-Mieszkowska, 2007, p. 15);
- improve the organization's image as a socially responsible;
- (CSR – Corporate Social Responsibility);
- facilitate access to different kinds of programs aimed at subsidizing the company's activities;
- organize a formal legal status – the compatibility or greater likelihood of compliance with regulatory requirements;
- better cooperation and relations with the public, authorities and inspection bodies;
- emphasis on prevention rather than on corrective action causes the reduction of environmental risk, thereby lowering the costs that may arise penalties and damages;
- openness to other standard management systems.

## 6. Conclusion

Under the introduction of an environmental management system is primarily aimed at streamlining and standardizing measures to protect the environment and to demonstrate their activities to the public. The use of set standards enables improvement of environmental management, which is very important in a situation of increasingly stringent legal regulations concerning the environment, the rising cost of eliminating pollution, waste disposal and liability. It's also a way to increase business competitiveness and reduce energy consumption and use of resources. Inadequate action in this area increases the cost of both external and internal in the company.

Environmental management systems are very good tools which help organizations control the impact exerted on the environment and allowing to show concern for the environment and the right attitude towards its protection. However, to create a functioning system tailored to the needs and conditions of the organization, it is no longer so simple, it requires a proper understanding of the concept of the system and knowledge of the specifics of organization.

It may be noted that the popularity of the implementation of environmental management systems continues to increase. The presented results of research shows that despite the existing problems, enterprises benefit greatly from the implementation of environmental management systems, which means that interest in these systems is still at the same level.

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# Chapter 18

## **Business Corporate Social Responsibility as a Strategy of Contemporary Organizations**

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*Maja Żychlewicz*

### **1. Introduction**

Modern enterprise must follow the changes in the environment in order to survive in the market and achieve success. Nowadays client, its preferences and needs play an extremely important role. When deciding to buy a product existing buyers were guided mainly by such aspects as quality, price, or usefulness of the product. The modern consumer requires companies to also engage in social and environmental problems (Malysa-Kaletka, 2002, pp. 30-31). A concept that comes with the expectations is the social responsibility of business.

As indicated by the results of the study “CSR in Poland 2014”, conducted by Ariadna research panel, 73% of adult Poles claim that they are willing to pay more for a product knowing that the company engages itself in the field of CSR (Ariadna, 2014). This fact confirms that the concept of corporate social responsibility is of a great predisposition for development. Authors of numerous publications on the subject of CSR underline this relationship. According to A. Paliwoda-Matiolańska “contemporary trends and changes in the environment suggest that the concept of Corporate Social Responsibility will play an increasingly important role in the activity of business entities” (Paliwoda-Matiolańska, 2014, p. 14). The author clearly indicates that companies should engage in social and environmental issues. That is what is expected from them from their major stakeholders – customers.

That is why CSR becomes today one of leading business ideas. Lately, an increased interest in this concept both in the literature and practice can be noticed. It is proven by a study entitled “Corporate Social Responsibility: Facts and The views” conducted by KPMG, on a sample of companies in Poland. According to a survey 96% of respondents believe it is the responsibility of a business to take essential social and environmental challenges (KPMG, 2014).

This fact is one of the key reasons pointing to the legitimacy of attempting to explain the numerous problems associated with this concept and analysis for pro-social activities in the economic reality. These problems concern both the sphere of theory (the issue of understanding the concept of corporate social responsibility) and practice (implementation guidelines theory to economic reality). There are also numbers of problems at the interface of these two areas, such as an issue

of the real motives behind the introduction of CSR principles, scope and scale of social activities and the manner of their implementation, which is the subject of this paper.

## **2. Approaches to the concept of corporate social responsibility**

By analyzing studies on the essence of corporate social responsibility, we can see the variety of approaches in the perception of this concept (Nakonieczna, 2008, p. 88). As pointed out by J. Nakonieczna, CSR is sometimes identified through the prism of superfluity, Public Relations' tools and philanthropy (Zboroń, 2011, p. 32).

M. Friedman is the precursor of the theory of CSR through the prism of superfluity. The scientist presented the synthesis of his position in the often quoted article "The Social Responsibility of Business In To Increase Its Profits" (Ryan, Jay, 1997, p. 14). The author believes that the main aim of the company is to improve the economic results of the company, whereas action in the field of corporate social responsibility often leads to serious financial losses. It is worth emphasizing that M. Friedman does not see the potential benefits a socially responsible business provides. According to the author management is responsible for running the corporation as per owners' expectation. As per M. Rybak it means "making as much money as possible" (Fisherman, 2003, p. 18). Fallacy of such a perception of CSR in modern times is proven by the results of the latest research on the benefits of implementing socially responsible activities.

Another concept of CSR's perception presents it as a public relations tool. Its supporters proclaim the need for implementation of activities in the field of corporate social responsibility while looking forward image and financial benefits (Stefańska, 2011, p. 304). Fallacy of this approach is explained by the Forum of Corporate Social Responsibility, stating that "CSR is a responsible way of functioning of the company in the social, economic, natural environment. Public Relations is the informative strategy of informing about persuading the proposed solutions and to create a climate of acceptance for the actions of the company, i.e. activities that support building reputation and creating an appropriate, established image" (FOB, 2015).

Representatives of the approach presenting CSR as philanthropy, preach selflessness taken in this respect of actions (Stefańska, 2011, p. 304). In their view activities in the field of corporate social responsibility should not be taken in view of the potential benefits. This view is often criticized and according to contemporary practitioners, is not reflected in economic reality. Increasingly, it is stressed that when implementing activities in the field of corporate social responsibility certain perks should be expected.

According to the author's study, none of the above presented approach does not fully reflect the essence of this concept. It should be emphasized that Corporate Social Responsibility is not just an advertising tool, neither philanthropy nor an instrument that generates financial losses. CSR is an effective strategy that by working with all stakeholders in the company, allows an entity to derive certain benefits (Andrejczuk, 2011). This cooperation manifests itself through the study of the expectations of all the stakeholders of the company and taking them into account in their daily business operations. In such a conception of CSR it is a win-win strategy, in which all parties can profit from the cooperation. Stakeholders should be mentioned when analyzing the essence of corporate social responsibility. According to her, stakeholders are groups of people, entities that influence and are influenced by the action of the company. The creator of this theory – RE Freeman divided them into two groups of Internal and external stakeholders (Jastrzębska,

2011, p. 45). Relations between the entities of internal and external environment's department and the strength of their influence have a direct impact on decisions taken by the company. In this regard, without prior analysis of the expectations of participants surrounding the unit, it is not possible to effectively and efficiently implement the concept of corporate social responsibility.

CSR perceived in this way is a business strategy of modern enterprises, which taking into account the needs and preferences of all groups of stakeholders, forms an individual competitiveness by generating benefits both financial and non-financial. It is important to remember that this is not a company that determines its CSR strategy and the needs but expectations of stakeholders.

Conclusion it should be emphasized that the basis of the perception of CSR through the prism of business strategy is to understand the possibilities of obtaining the benefits of a close, enduring commitment to corporate social correlation with their strategic objectives (Social capital for the economy, 2015). Such understanding of CSR is becoming a way of doing business and achieving competitive advantage today – it is becoming the modern enterprise business strategy.

Corporate social responsibility as a strategy of the company does not start at the time of taking action, but much earlier, at the stage of planning it. The starting point should be to identify expectations and needs of stakeholders in the units (including the client), whereas the final process should be reporting and communication to interested parties.

### **3. The role of the EU initiatives in the development of corporate social responsibility as a business strategy**

The EU initiatives played a huge role in promoting a strategic approach to the concept of corporate social responsibility. At this point the following events and documents should be included: the adoption of the Lisbon Strategy, Ad Green Paper on CSR, Publication of the White Paper, the Campaign for Responsible Business 2005, creation of a European Stakeholder Forum, to initiate a “European Alliance for Corporate Social Responsibility” and Strategy for the implementation and dissemination of CSR in 2011 (Szymczak, 2008).

The first major event was the adoption of the Lisbon Strategy (Rok, 2004, p. 12). Its main aim was to catch up economically to the United States, and the transformation of the European Community by 2010 into “the most competitive knowledge-based economy in the world, capable of maintaining sustainable economic growth with more and better jobs and preserve social cohesion” (Lister, 2003, p. 24).

Another important document in this regard is the Green Paper. It presents one of the most frequently invoked due to its validity definition of CSR. According to it, CSR is a concept whereby companies voluntarily carry out strategies taking into account the social interests and environmental protection, as well as relationships with stakeholders (Dębski, 2009). In this document, corporate social responsibility is expressed as an integral part of strategic management, taking into account stakeholder partnership. The Green Paper also highlights the need for reporting the actions of socially responsible companies (Rok, 2004, p. 12).

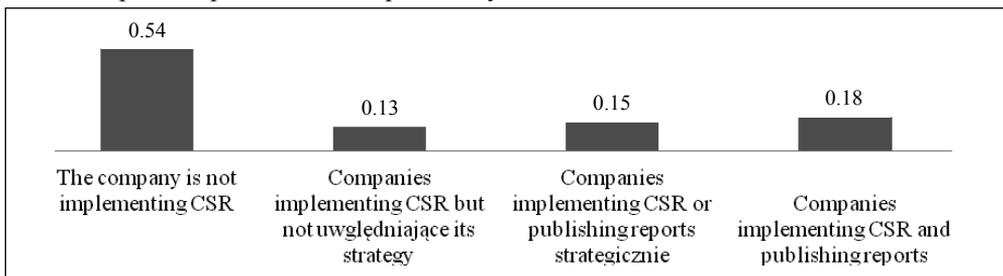
European Union's initiative to promote CSR through the prism of strategy is the White Paper. In addition to what has been mentioned already, it presents four areas in terms of solutions, implementation and dissemination of the concept of CSR (CSRinfo, 2009). These include: education on corporate social responsibility, CSR instruments development, the creation of the European Stakeholder Forum and incorporating social responsibility into all EU policies (FOB, 2010).

Not only legal documents determine the strategic definition of CSR. Also, many authors, literature present this attitude in their copyright definitions. Worth citing is the definition of B. Rok: “Corporate responsibility is an effective management strategy, which through social dialogue at the local level contribute to the growth of enterprises’ competitiveness at the global level and at the same time shaping favorable conditions for social and economic development” (Rok, 2004, p. 18).

#### 4. The concept of corporate social responsibility in business reality of Polish companies

The study “Corporate Social Responsibility: Facts and The views”, carried out by KPMG on a sample of representatives from large and medium-sized enterprises in Poland confirms the hypothesis that only a part of Polish companies implement CSR as a business strategy. This fact is presented in Figure 1.

Figure 1. Structure of large and medium-sized enterprises in Poland in the implementation of the concept of corporate social responsibility



Source: KPMG, 2014.

As many as 54% of large and medium-sized enterprises in Poland does not take any action in the field of corporate social responsibility. This group of companies consist of the smallest of the surveyed companies, with no foreign capital. Among the reasons for failure to attain activities in this area most frequently quoted (PARP, 2012a):

- no employee with the right skills (47% of responses),
- lack of knowledge in this area (45% of responses),
- lack of sufficient financial resources (41% of declarations).

Among the proposals of the support of the government representatives of Polish companies indicated inter alia, the following activities: co-financing (11% of responses), the dissemination of knowledge on CSR (8% of respondents), less bureaucracy (8% of responses), training (4% of respondents). The most anticipated is the introduction of means of financial incentives, i.e. tax relief. This proposal was indicated by 19% of respondents (PARP, 2012a).

Among the companies that implement CSR (46% of respondents) a three-dimensional structure is revealed. Unfortunately, there are still units that treat CSR as a one-off charity (13%). They take some action in this area, but do not do anything beyond that, i.e. they do not publish reports and do not include action taken in the strategy unit.

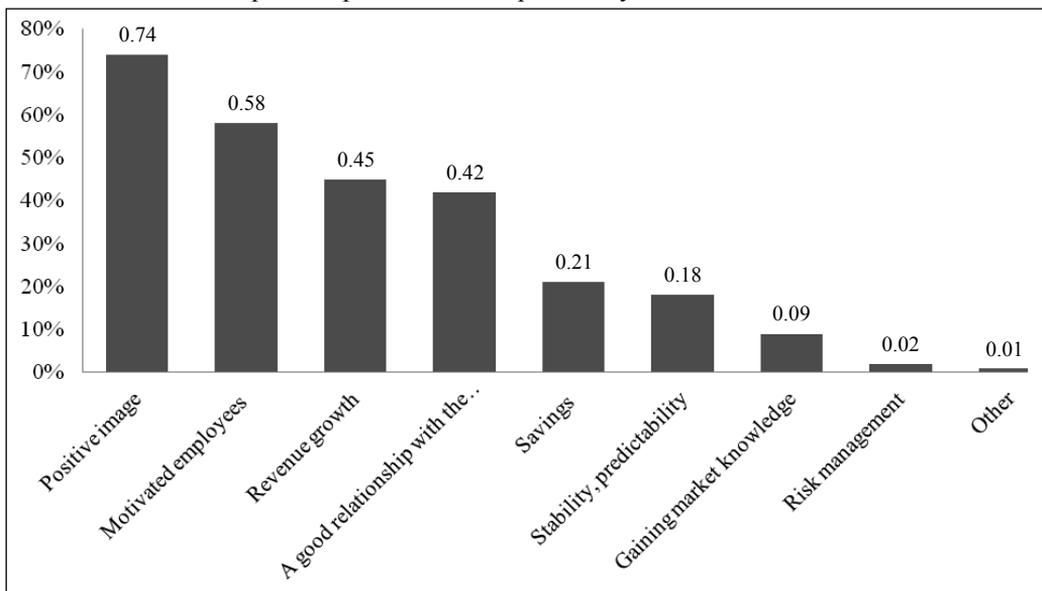
Another group are the entities acting on the field of corporate social responsibility implementing a thoughtful and long-term actions, but do not report this fact. This means that, unfortunately, they do not meet all the conditions of strategic implementation of this concept (15% of respondents).

Only 18% of the researched units come up with the idea in a comprehensive manner. This means that they take action and are part of the company's business strategy. These units also publish their CSR reports. These are businesses aware organisations that have the appropriate knowledge and competence, mainly large companies (KPMG, 2014).

## 5. The benefits for companies resulting from the implementation of the concept of corporate social responsibility

Corporate Social Responsibility implemented as a business strategy can reap certain benefits. Declarations of Polish companies' representatives are consistent with the assumption that the strategic implementation of this idea brings certain profits. It is proven by results of the survey carried out by the consortium SMG/KRC Poland Media and PwC Poland in 2012. The study involved a nationwide test of entrepreneurs. The results are presented in Figure 2.

Figure 2. Benefits claimed by the representatives of Polish businesses arising from the implementation of the concept of corporate social responsibility



Source: PARP, 2012.

The most commonly cited benefit of CSR is the construction of a positive image of the company. Only 16% fewer respondents declared that eco-friendly and pro-social activities affect the motivation to work. It is a kind of non-financial motivation of employees. Nearly 45%

of respondents say that by implementing the concept of corporate social responsibility increase the company's revenue. Only 3% fewer respondents noted improvement in relations with the environment. Another financial benefit indicated by 21% of respondents is generating savings. Further positions are: a benefit of the stability, predictability of the business (18% of responses) and risk management (2% of respondents). Only 1% of respondents cannot judge whether the implementation of CSR has brought certain benefits. The results presented above do not seem to be surprising. They only represent confirmation for the hypotheses and assumptions concerning the substance of the implementation of CSR as a business strategy.

As indicated by M. Parusel, the benefits that reach the company from the strategic implementation of the concept of corporate social responsibility lead to improve the competitive position of the individual. According to the author it supports the process of global market expansion where expectations for social and environmental commitment are larger (Parusel, 2012, p. 7).

## 6. Conclusion

In conclusion it should be stressed that there are many literature approaches on the substance of the concept of CSR. According to the author, to understand it correctly means to understand it as a business strategy consistent with the action strategy of an organization. The legitimacy of such a request is confirmed by the European Union's documents showing the essence of the concept in this perspective. The key of this understanding lies in understanding that the close, enduring social commitment correlation of companies with their strategic goals can reap certain benefits.

The hypothesis of this article is that only part of Polish companies implement CSR as a strategy. Despite awareness of the need and recognizing the potential benefits of implementing the concept of corporate social responsibility for business enterprises, there are still treating CSR as random, one-time promotional campaigns. It should also be outlined that there are companies that try to combine the actions taken in this field of business strategy units, but in no way reporting these issues. An important finding is that only 18% of large and medium-sized enterprises in Poland implement this concept to the strategy of development of the individual, and at the same time informing the public about it.

Recent studies indicate that this fact is mainly due to the limited knowledge and financial resources of Polish entrepreneurs in the field of CSR. Representatives of Polish companies acknowledge the need and desire to implement the corporate social responsibility strategy unit, clearly emphasizing the need for assistance in this regard on the part of state organizations.

This support is of inestimable value today, because as E. Fromm said: "The purpose of our life should not be having wealth and richness of life". The principle contained in the above aphorism, applies not only to individuals but also to companies operating in the modern world.

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# Chapter 19

## **Changes in Organizational Capital as a Consequence of the Implementation of *World Class Manufacturing*<sup>1</sup>**

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*Maciej Walczak*

### **1. Introduction**

In the case of strong market competition, where the consumer can freely choose between similar goods, manufacturers are looking to optimize processes and distinguish themselves among numerous similar companies. One solution in such a case is the pursuit of recognition as one of the so-called World Class Manufacturers. An outline of specific actions to be taken in pursuit of such a goal can be found within the *World Class Manufacturing* (WCM). WCM is characterized by large-scale actions, designed to achieve a high efficiency level of production, by implementing established practices applied by global leaders. A World Class Manufacturer is described as a company designing, fabricating and delivering products “desired” by customers, allowing it to effectively compete with the best companies in the world (Mylnek, Vonderembse, Subba Rao, Bhatt, 2005, p. 8).

The purpose of this study is to present *World Class Manufacturing* (WCM) as an effective tool focused on the development of the organizational capital of a manufacturing company. The first part of the study shall focus on defining the notions of organizational capital and WCM. Secondly, we shall identify specific areas of WCM application within the company and attempt to determine the most important elements of the organizational capital influenced by WCM. The research method applied herein is centered around analyzing both domestic and foreign literature on the subject.

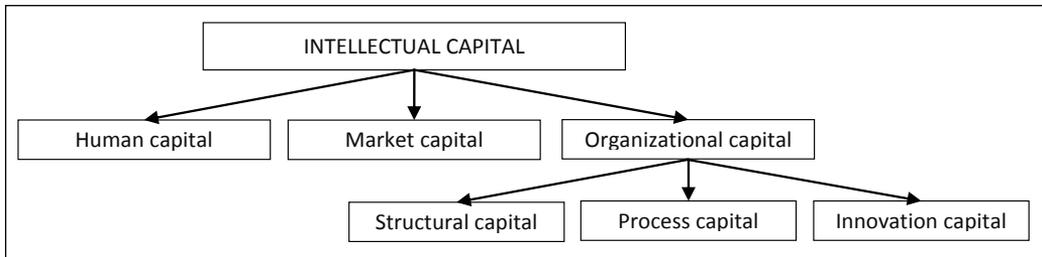
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## 2. Defining organizational capital

Organizational capital is, next to financial, physical and human capital, the basic resource of a company (Sopińska, 2007, p. 142). It is reflected in processes' efficiency ratings, the organizational structure and culture, and innovations. Its level may be raised by investing in solutions (both technical and organizational), which would improve the flow of information within the company, as well as with external contractors (i.e. suppliers and distribution channels), and by utilizing a philosophy promoting the increase of knowledge (Jurczak, 2006, p. 43). Organizational capital includes: structural capital (elements, such as: organizational structure, IT, software, licenses, patents), process capital (e.g.: processes, procedures, methods, techniques), as well as innovation capital (including the ability to create and introduce innovations and develop protected intellectual property) (Jurczak, 2006, p. 43). Figure 1 shows the positioning of elements of organizational capital within the intellectual capital of a company.

Figure 1. Positioning of elements of organizational capital within a company's intellectual capital



Source: own analysis on the basis of Jurczak, 2006, p. 42.

In the opinion of B. Lev and S. Radhakrishnan, organizational capital is “the mixture of technology, business practices, processes, design, and wage payment systems, which, when networked, allow some companies to continually and effectively obtain higher quality products from their material and human capital” (2005, p. 75). On the other hand, S.E. Black and L.M. Lynch view three areas as the most important, when considering the creation of organizational capital: training, attention to employee comments and feedback, and the organization of work processes (Black, Lynch, 2005, p. 206).

Organizational capital can also be defined as a collection of features and attributes including: “organizational structure, internal regulatory systems, image, internal relations, organizational culture, management style, and outside relations” (Beyer, 2010, p. 172).

## 3. Basis and development of WCM

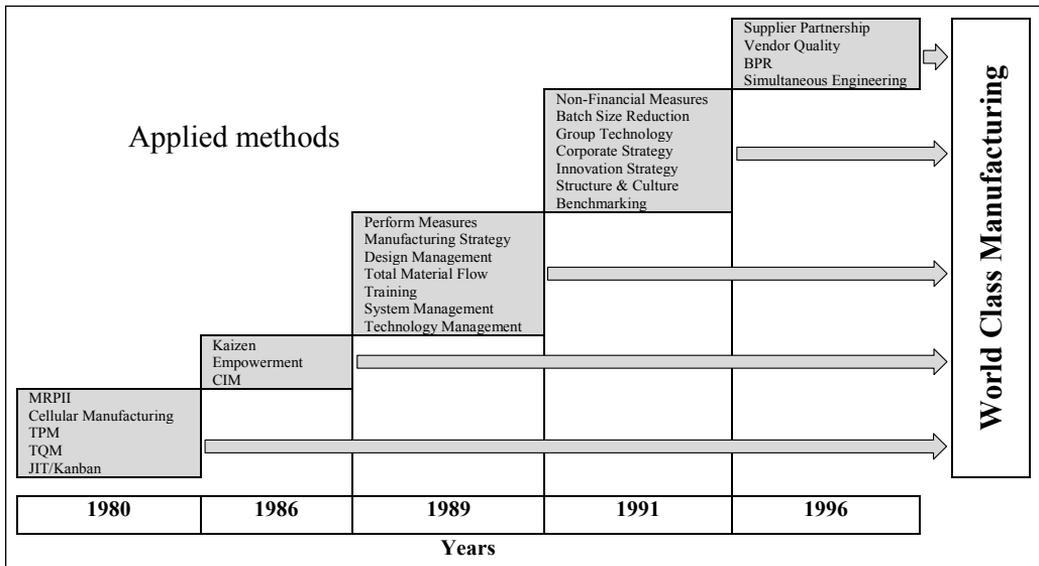
The literature related to management attempts to specify what exactly *World Class Manufacturing* is. The proposed definitions take into account various different points of reference. For example, WCM may be understood as an inter-function process, the goal of which is the design, production and delivery of goods meeting the requirements of customers, combined with keeping an above average level of organizational effectiveness (Mylnek, Vonderembse, Subba Rao, Bhatt, 2005, p. 8). Another

view defines WCM as “an integrated model of management, which assumes the continuous improvement of activities within the organizational system”. Generally, the purpose behind its implementation is to achieve competitiveness on a global level, with the partial goals of eliminating: losses, stock accumulation, downtimes and quality defects (including the improvement of ongoing processes, increase in productivity, improvement in safety, and cost reduction) (Palucha, 2012, p. 228). Another definition is that WCM is a “way of organizing”, enabling the achievement of the highest possible level of production processes organization, utilizing modern techniques, methods and management methodologies (Dudek, 2012b, p. 25). That definition is further expanded as a: “model of excellence in production” and “a set of guidelines” which allow the gradual increase of “production organization levels, until reaching a suitable degree of excellence” (Dudek, 2012b, p. 25).

In literature, the expression *World Class Manufacturing* was first introduced in 1984 by R.H. Hayes and S.C. Wheelwright (Salaheldin, Eid, 2007, p. 553). They compared processes’ organization solutions implemented by leading Japanese and German manufacturers, with analogous solutions applied by American companies. Based on this data, they concluded that in order to achieve the highest world standards, American managers must focus on six key areas, which included: employee skill level, management technical competence, competing through quality, employee participation, rebuilding production engineering, and continuous improvement. High performance in these areas was deemed crucial to achieving “World Class Manufacturing” (Salaheldin, Eid, 2007, p. 554).

WCM originates from the Japanese concept of lean production and its implementation within the Toyota Production System (TPS). Like TPS, with time, WCM was also supplemented with additional components. Gradually, ‘soft’ tools were added to the initial ‘hard’ toolset. The development of methods and techniques for the WCM is shown in Figure 2.

Figure 2. Development of methods used as part of WCM



Source: own analysis based on De Felice, Petrillo, Monfreda, 2013, p. 3.

Strong connections with lean manufacturing result in WCM implementation causing a significant reduction of production losses. However, narrowing the perception of the benefits of applying WCM only to issues of loss elimination, seems like a limited understanding of this system. According to M. Dudek, WCM should be treated as an intermediate stage in the process of reaching the highest level of production organization, which, he calls, *Real Agile Manufacturing* (Dudek, 2012b, p. 25).

#### **4. Areas of WCM implementation within a company**

The basic areas of WCM implementation are: the development of new products, processing clients' orders (including the management of the whole manufacturing system), sales (Pałucha, 2012, pp. 228, 229), acquisition of materials, and quality management (Mylnek, Vonderembse, Subba Rao, Bhatt, 2005, p. 8). They should thus be considered the main processes of every production company. However, due to the numerous relations between them and various other manufacturing procedures, WCM's impact becomes more complex. As is the case with the *lean* concept, which eventually evolved from *lean manufacturing* to *lean management*, covering all aspects of a company's functioning (and even more because *just in time* is able to lead to very strong relations, often exceeding the cooperation exchange between completely separate entities). The basic WCM concept of searching for and eliminating any kind of wasteful practices and the constant safety improvements, proves helpful in expanding its reach. The intended effect of its implementation is to provide a product specifically tailored to the customer's requirements.

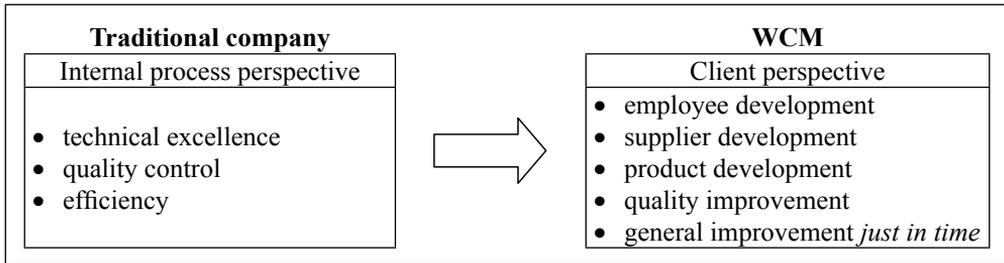
One of the fundamental concepts of WCM is the development and commitment of employees. Therefore, an important aspect of WCM implementation is to support the transfer of knowledge and the self-improvement of company employees, and at the same time, development of related organizational knowledge associated with those processes. Thus significant emphasis is put on teamwork and the preparation of company employees, to actively participate in their assigned teams (Pałucha, 2012, p. 228).

The set of tools used in WCM are selected, so that it is possible to simultaneously improve effectiveness and customer satisfaction. The implemented changes should lead to (Pałucha, 2012, p. 230):

- an increase in flexibility of production processes,
- improvement in product quality,
- the systematic reduction of manufacturing costs,
- the involvement of all employees in the improvement process,
- effective employee motivation.

Strong customer orientation, underlying WCM, requires a change in perspective on business. The central focus is always on the customer's needs, while internal-business processes become secondary. It requires an understanding of the impact of any and all actions of the employees and suppliers on the customer, as their the final recipient (Mylnek, Vonderembse, Subba Rao, Bhatt, 2005, p. 10) (Fig. 3).

Figure 3. Changes of priority areas of development as a result of implementing WCM



Source: Mylnek, Vonderembse, Subba Rao, Bhatt, 2005, p. 10.

Therefore, a shift of emphasis occurs within key competences and priority areas of development when compared to more traditional companies.

### 5. Areas of WCM impact on components of the organizational capital

The WCM's impact on organizational capital is carried out through a complex set of activities, undertaken in priority areas, as outlined in the previous section of this study. Table 1 specifies the most frequently observed activities in this respect.

Table 1. Actions undertaken in priority WCM development areas

Area	Activities
Employee development	<ul style="list-style-type: none"> <li>• systematic improvement of employee qualifications and skills,</li> <li>• growth of lower and medium personnel's knowledge of management methods,</li> <li>• better understanding of the organization's internal processes,</li> <li>• shift in employee way of thinking,</li> <li>• adjustment of motivation and training system</li> </ul>
Supplier development	<ul style="list-style-type: none"> <li>• improving cooperation between internal units and the organization's surroundings (suppliers clients contractors, etc.),</li> <li>• force external partners to adjust to new standards (usually higher than previously),</li> <li>• introducing a habit of active cooperation between participants in a value stream,</li> <li>• shifting attention from single entity results towards effects generated by the whole value chain,</li> <li>• acknowledgement of the critical role of suppliers in product development and improving both system quality and efficiency <i>just in time</i>,</li> <li>• selecting suppliers with regards to quality, reliability and delivery flexibility,</li> <li>• information systems' and quality control integration with suppliers,</li> <li>• supplier inclusion in problem solving</li> </ul>

Product development	<ul style="list-style-type: none"> <li>• employee open-mindedness towards new ideas and concepts,</li> <li>• determining goals with regard to the time of introduction of product changes and the number of new products being introduced to the market,</li> <li>• use of the QFD and concurrent engineering methods in the design process</li> </ul>
Quality improvement	<ul style="list-style-type: none"> <li>• promotion of continuous improvement across the whole organization (<i>kaizen</i>),</li> <li>• habitual identification of internal problems,</li> <li>• introduction of standards and quality assurance systems,</li> <li>• use of quality management methods (e.g. <i>six sigma</i>)</li> </ul>
Improvement <i>just in time</i>	<ul style="list-style-type: none"> <li>• encouraging employees' active participation in implementing changes,</li> <li>• standardization and enforcement of document and information flow norms,</li> <li>• implementation of modern IT solutions, ensuring efficient flow of information</li> </ul>

Source: own study based on: Palucha, 2012, pp. 232-233; Mylnek, Vonderembse, Subba Rao, Bhatt, 2005, pp. 12-16.

An important aspect of the effective use of intellectual capital in a company is the integration and mutual pervasion of its components. Their separation may result in a reduced synergy effect level within the set of intellectual capital components, and may cause damage to the company. Therefore, any examination of WCM's impact on organizational capital, should be conducted in relation to both human and market capital.

The identification of interactions between WCM and organizational capital, was performed in the context of the areas of WCM development in a study by P. Mylnek, M.A. Vonderembse, S. Subba Rao, B.J. Bhatt (2005), and elements of intellectual capital specified by J. Jurczak (2006). The selection of the aforementioned models has been caused by their clarity resulting from the simplifications used, which made it possible to carry out the above analysis.

Table 2 presents a model of WCM priority areas' impact on components of a company's intellectual capital, with particular focus on the elements of organizational capital.

Table 2. WCM's impact on components of a company's intellectual capital

Priority areas for the development of WCM	Components of a company's intellectual capital				
	Human capital	Market capital	Organizational capital		
			Structural capital	Process capital	Innovation capital
Employee development	•			•	•
Supplier development		•	•	•	•
Product development	•	•		•	•
Quality improvement	•	•		•	•
Improvement <i>just in time</i>		•	•	•	•

Source: own work.

According to the proposed model, *personnel development* as a direct result of training and various workshops (devoted mainly to working methods, problem solving, teamwork, etc.), affects the increase of knowledge, and facilitates a change in the way of thinking and a better understanding of various processes surrounding the employees, producing a notable development of human, process and innovation capital.

*Supplier development* is a consequence of treating external companies as significant links of the value creation chain, Resulting in strengthening cooperation, increasing flexibility, knowledge transfer to and from subcontractors, emphasis on adhering to standards regarding quality assurance, information flow, transport, etc. A direct consequence is the market (in the intellectual capital model cited herein, cooperation with suppliers is an element of market capital), structural, process and innovation capital development.

*Product development* requires assimilating new knowledge and additional skills by the employees. It improves the company's overall image and attracts new customers. Other factors include the need for flexibility of action and a readiness to implement changes, including processes and applied procedures. Again it results in the development of human market and innovation capital.

*Quality improvement* in WCM is reached through the promotion of *kaizen* philosophy (including teamwork and various problem solving methods and techniques), as well as the implementation of numerous standards and quality assurance systems. It results in strengthening cooperation with suppliers and the products becoming more competitive. Improving this key area results in an increase of human, market, process, and innovation capital

Improving the solutions of *just in time* (or more broadly *lean manufacturing*), requires active employee participation in the processes of introducing changes, standardizing solutions for material and information flow. It improves cooperation with suppliers and the customers' perception of the company. In theory, it should cause a flattening of the company's organizational structure, resulting in changes in the market, structural, process, and innovation capital.

## **6. Conclusion**

Implementation of contemporary, complex management methods involves many changes within the company's organizational capital. The process is made easier by the long period of implementation, estimated as a minimum of 10 years for WCM (Dudek, 2012a, p. 16). The concept behind WCM as a set of methods and improvement techniques, is, the assistance in achieving specified goals in areas such as: improving processes reliability, safety and working conditions, eliminating losses, etc. Achieving increasingly better results is preceded by specifying goals to be reached (Palucha, 2012, p. 232).

In this study an attempt was made to identify connections between WCM and a company's organizational capital. The author would like to note however, that in his opinion, prospects for further research in the field have presented themselves. The first would be to compare the results of this study with similar analyses, utilizing other organizational capital models. The second is to empirically verify the results of this study within an actual company. The third consists of estimating the intensity of WCM's impact on particular elements of a company's organizational capital. And fourth, whether implementation of PCM has any negative impact on organizational capital.

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# Chapter 20

## Methods of Evaluation of Projects<sup>1</sup>

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Mariusz Sołtysik

### 1. Introduction

The proposed methods of evaluation of projects mainly concern projects of economic and organizational. On the one hand, relate to basic research, on the other hand, refer to economic projects. They relate to programs and financial plans, solutions for strategy management, marketing, operational processes and risk management. They are associated with quality management systems, controlling, improving the organizational structure, systems, virtual organizations and reference systems for network management (Stabryła, 2009, pp. 12-39). A special type of organizational projects is to design the strategy of the organization. The organization strategy is understood here as models and restructuring projects and development projects that include structural functions, coordination and integration refers to the business. The aim of this chapter is a review of methods for assessing organizational projects, with particular emphasis on implementation projects. Chapter also includes a presentation of the stages of project evaluation.

### 2. The stages of project evaluation

Assessment of the projects can be carried out both before starting the project (*ex ante*) and also after the completion of the project (*ex post*). Project evaluation process should be run according to the following scheme (*Ocena projektów...*, 2013, pp. 11-14):

1. Statement of purpose to assess. The aim of the project evaluation is to answer the three questions:
  - how it is? (statement of an existing or planned state of affairs – an assessment of type I, used to describe individual projects),
  - or is it? (assessment of the fulfillment of certain requirements – assessment of type II, used to describe individual projects),
  - as it should be? (assessment of the fulfillment of certain requirements and organize objects according to the degree of fulfillment – assessment of type I, used both to evaluate

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individual projects, as well as to assess projects within their teams: programs and project portfolios).

2. The term object evaluation. The object of the project may be the course of the project (operation, process) and outcome of the project (the result of the action, the state of things).
3. The choice of assessment criteria and determine their weights. The assessment may be single – or multiple criteria.
4. Preparation of evaluation. Evaluation shall include complement the information needed to assess, define standard assessment and measurement scales for each criterion. Evaluation patterns may be the objectives, tasks, requirements (Type II assessment) or other facilities assessment (Type II assessment).
5. Determination of evaluation criteria for each object.
6. Comparison of the standard evaluation criteria.
7. Synthesis of partial grades.
8. Presentation of the results of the evaluation.

Similar is the schematic the evaluation development projects (Tab. 1). It includes the following features:

- the formulation of business development objectives,
- grouping and analysis of economic projects,
- definition of evaluation criteria,
- selection of optimal designs.

Table 1. Decision making process

<b>Functions</b>	<b>Description</b>
The term business development goals	The development objectives primarily relate to activities of global companies. Projects subordinated to these objectives are prioritized, particularly the case when their implementation will venture investment
Grouping and analysis of economic projects	Projects can be classified into two groups: Independent projects – are those projects that can be financed in parallel in connection with the adopted development program. This includes also those projects that are divided into autonomous parts. Alternative projects – are those projects that are mutually exclusive because of the limited financial capacity for their implementation (from the group of those projects, only one will be able to be accepted for funding)
Determination of evaluation criteria	These criteria are used to select projects due to the cost-effectiveness of their implementation. The most commonly used evaluation criteria include: simple and average rate of return and the discount method
The choice of optimal projects	Projects belonging to the group of independent, if they meet the condition of profitability may be qualified to implement, within the financial capacity of the investor. In the group of alternative projects selection only applies to one project and is determined mostly by its maximum net present value. In the case of multi-criteria the evaluation, so in case of simultaneous application of several criteria most often goes back to scoring techniques

Source: own work based on Stabryła, 2009, pp. 146-147.

It should also indicate the methodology to evaluate the organizational efficiency. The following Table (Tab. 2) presents an overview of selected methodologies.

Table 2. Efficiency assessment methodology

Author methodology	Stages methodology
E. Suchman	<ol style="list-style-type: none"> <li>1. Designation of users evaluation.</li> <li>2. Identify the purpose of efficiency.</li> <li>3. Designation of areas of the organization, which will be examined.</li> <li>4. Selection of evaluation criteria.</li> <li>5. Selection methods and evaluation</li> </ol>
A.H. Van de Ven i D.L. Ferry	<ol style="list-style-type: none"> <li>1. Determining the preconditions for evaluation.</li> <li>2. Defining objectives.</li> <li>3. Selection of evaluation criteria.</li> <li>4. Design evaluation.</li> <li>5. The evaluation.</li> <li>6. Analysis of the data, assessment of the organization</li> </ol>
H. Piekarz i A. Stabryła	<ol style="list-style-type: none"> <li>1. Classification system.</li> <li>2. parameterization of the system.</li> <li>3. Quantification of selected parameters characteristic.</li> <li>4. Carrying out calculations and develop operational description of the results.</li> <li>5. Evaluation of the system</li> </ol>

Source: own work based on: Piekarz, Stabryła, 1989, pp. 175-186; Van de Ven, Ferry, 1980, p. 32; Suchman, 1971.

### 3. Overview of project appraisal methods

The main methods most commonly used can include: methods discount and static method. Additionally, you can distinguish methods: Earned Value Method (EVT) Coordination account and Method Project Finance.

**Methods of discount** rates are considered to as one of the most comprehensive ways to assess the profitability of investments belonging to the most frequently used in practice (Sierpińska, 2004). Methods discounters are among the most precise tools to assess the cost-effectiveness of development projects. They take into account the timing of the expected proceeds and expenses related to the analyzed investment. Methods discounters allow you to take the entire duration of the project (both the implementation period as well as the full period in which it is expected to achieve effects). Methods discounters require information about:

- the size of the discount rate,
- the value of surplus cash flow generated by the investment (NCF),
- the length of the period used for the calculation.

The group of these methods include: Internal Rate of Return (IRR). Net Present Value (NPV).

*Internal Rate of Return.* IRR is a measure of the profitability of the project. Single project is economically viable when the internal rate of interest is higher than the rate limit (Dębski, 2005, p. 211-217).

*Net Present Value.* The method allows to determine the actual value of costs and benefits associated with the investment project (Jog, Suszyński, 1993). It is also used for project selection among alternative options. It is necessary then that there are two possible cases:

1. The compared projects are characterized by identical, as to the value and timing of, capital expenditures value.
2. The compared projects require outlays of varying value or unevenly spaced in time.

Strategies for the use of standard discount methods can be presented in the following points (Stabryła, 2009, pp. 155-156; Brighman, Gapenski, 2003):

1. The method allows to evaluate positive *NPV* projects when  $NPV \geq 0$ . When  $NPV = 0$ , the project cash flows allow either inserted repayment of capital or the achievement of the assumed rate of return on capital. Positive *NPV* indicates that cash flows provide additional cash flow. Negative *NPV* causes the rejection of projects.
2. If the *IRR* is greater than the established limit parameter  $r$ , the project qualifies for implementation. The discount methods used for the calculation:
  - rate of return without risk premium,
  - rate of inflation,
  - adjusted rate of return of the project,
  - the level of risk assumed by the investor for the project,
  - cost of capital,
  - average rate of return on public funds.
4. For the *NPV* can be assumed that the cash flow will be refinanced by the cost of capital of the company, in the case of the use of the *IRR* re-investment will take place at the rate of return  $IRR (P_i)$ . It is recognized that it is better to reinvest according to the cost of capital, and this is an advantage the *IRR* over *NPV*.
5. The choice of the optimal design when using the *IRR* is made according to the following rules:
  - the premise: qualification admissibility of design options only if the  $(P_i)$  exceeds or is at least equal to limit the rate of return,
  - the choice: this variant (with a set of variations permitted) is the best, the *IRR*  $(P_i)$  reaches a maximum size.
6. In the event that any of the components of the cost of financing capital projects will be characterized by significant volatility, shall be assumed discount rate variable.
7. For projects or alternative design options they can be used different decision rules, for example:
  - in meeting the design intent (technical, organizational, ergonomic et al.), and not exceeding the threshold of the updated cost of the project, the choice is expressed by the lowest updated cost of the project,
  - assuming achieve the threshold rate of return, the choice is determined by the highest functionality of the project,
  - meeting the objectives of the project selection is made by the criterion of maximum size of the *NPV* or *IRR*.

**Static method.** They allow for evaluation of projects without taking into account the variable value of money over time. Static methods are most commonly used in the initial stages of project assessment, form the basis for allowing an idea about their profitability. A characteristic feature of this group of methods is the lack of account of the time factor (Manikowski, Tarapata, 2001, p. 73). A popular method is: Accounting Rate of Return (ARR). They allow for evaluation

of projects without taking into account the variable value of money over time. The group of these methods include: the payback period, the simple and the average rate of return and so on, Accounting Rate of Return ARR. This method is based on an assessment of investments based on profit earned from the book value of capital employed in the project. It expresses the relationship between income and the size of the capital investor which is involved in a specific project. This method simply allows a choice of cost-effective variant of the project.

The group of these methods include: Earned Value Method (EVT), Coordination account, Method Project Finance.

*Earned Value Method.* The method is designed to analyze projects in two respects (Harroff, 2003, p. 1; Stabryła, 2009, p. 157):

1. Economics. This assessment is carried out using specified techniques qualification level of implementation of the project. These include: technology milestones, the technique “0-100” technique “50-50” proportionate assessment technique. You can also use: technology assessment of progress by a task list, a technique staging by task forces units, technique aggregate quantity survey and technology assessment to verify.
2. This applies determining the amount of deviation from the planned dates of the performance deadlines that have been set up in the project.

*Coordination account.* It is a method of building an optimal estimates of the projects which it intends to develop and implement in different sectors of the enterprise. The bill is based on the analysis and programming changes and plan products, systems, task management, quality, productivity and so on (Stabryła, 2004, p.111-124).

*Method Project Finance.* Project Finance (PF) is a method of financing that is based on the assumption that the source of repayment of the debt the cash flows generated by the project itself. It is a method of financing investment primarily used for projects in the sphere of infrastructure (Jewartowski, 2002, p. 187).

We distinguish two additional concepts for evaluation of investment projects: evaluation standard, with the exception of income and expenses related to the financing of investments and property evaluation, which includes revenues and expenses based on forecast cash flow streams. There are also static methods that do not include a variable time value of money. These include: accounting rate of return, payback period, and the method of comparing the costs and benefits (Prusak, 2001, pp 3-4).

#### **4. Methods of assessing aggregate**

To aggregate assessment techniques can include, among others: the analysis of preferences (ranking and score), the indexing method, the method of testing indices, simple method of weighing and evaluation criteria ranking and categorization of projects (Tab. 3).

Table 3. Methods of Assessing Aggregate

<b>Methods</b>	<b>Description of the method</b>
Analysis of Preferences	<p>The basic methods of analysis of preferences include:</p> <ol style="list-style-type: none"> <li>1. A method of ranking. It is to determine the validity of a specific object in the collection, due to the fixed preferential aspects.</li> <li>2. The method of scoring. It is based on evaluation of objects using points (in any scale real numbers).</li> </ol> <p>The principles of analysis of preferences include: prioritization, relativized evaluation criteria, admissibility, relevance and conversion point of objectification.</p> <p>The main components of the test system is an object with a set of object or system object characteristic values, evaluation criteria, and preferential aspects of the procedure for calculating the weighted value of the object</p>
Comparative Evaluation of Checking	<p>For the indicative assessment to verify include:</p> <ol style="list-style-type: none"> <li>1. The performance indicators. <ul style="list-style-type: none"> <li>• indicator of success for the model of the upward trend,</li> <li>• indicator of success for the model with a decreasing trend,</li> <li>• performance indicator for the case nominee.</li> </ul> </li> <li>2. The method of normalization quotient. The calculation of normalized values of certain characteristics of the object being measured object is an assessment of the quality or efficiency of its operation in relation to a set pattern. The use of standard method quotient proceeds according to the following steps: <ul style="list-style-type: none"> <li>• define the features of an object – pattern,</li> <li>• qualifying facility – pattern,</li> <li>• carry out normalization features,</li> <li>• calculation of the ratio of aggregate assessment of the itch object</li> </ul> </li> </ol>
The Method of Testing Indices	<p>This method is used to compare the magnitude of the actual (specific to a particular project) with calibrating values. This method enables the normalization of the individual evaluation criteria. Sens analytical methods boils down to calculate the aggregate indices evaluation of individual projects (design options)</p>
Ranking Certified Projects	<p>Rating certified To enhance projects due to the weighted evaluation criteria. Qualifying projects is based on the benchmarking-point method, in which the evaluation is expressed by verifying performance indicators or indicator of standardized features, the weighted value is an estimate of a point. The method of ranking the qualified projects can be summarized as follows: formulation of assumptions, establish a set of evaluation criteria, give each criterion equal to the maximum value of the weighted aggregate calculation of the weighted values for individual projects and arrangement of the ranking list</p>

Categorization of Projects	Categorization of projects that conduct research, whose essence is the qualitative classification of individual projects or design options. Categorization serves as a qualification of projects, due to generically diverse set of evaluation criteria. Categorization indicates the level of quality of the project, the categories are defined on the total scale evaluative, separate from the partial grading scale, corresponding to the individual evaluation criteria
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Source: own work based on Stabryła, 2009, pp. 172-207.

The presented method of assessing aggregate relate to a comparative analysis of the diagnostic tests and are related to the choice of rational (optimal) project. It has to be noted that the presented methods of aggregate assessment have bidirectional references:

- one applies to comparative analysis in diagnostic research,
- the other is related to selection of the rational (optimum) project.

Comparative analysis in diagnostic research is aimed at assessment of the actual condition of the given object, which may be a company, an executed strategy, or any process or subsystem. Diagnostics may be expanded with assessment of external factors which constitute the surroundings of the studied object. Comparative analysis focused on selection of the rational (optimum) variant applies to assessment of the projects of the proposed improvements which have been developed in reference to the shortcomings disclosed during diagnosis of the object (Stabryła, 2011, pp. 236-237).

## 5. Conclusion

The chapter presents selected methods of assessing organizational projects. It should be emphasized that the concept of the projects will include not only typical prediction, as forecast, programs (strategies) plans, but also analysis, expertise, research and historical studies and comparative diagnostic.

Methods for evaluating projects can also be divided into:

1. Comprehensive assessment methods – is recommended to the whole evaluation process.
2. Fragmentary assessment methods – is addressed to the problem of partial work processes.

The article presents the most important methods, which can be used to assess investment projects, such as: modernization investments, consisting in the reduction of production costs, development investments to develop the company by increasing its production potential, innovative investments made to modernize, strategic investments, consisting in strengthening the market position of the company and social investments related to the improvement of working conditions and environmental protection.

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# Chapter 21

## **Notes on Methods to Countermeasure the Escalation of Project Costs and Overruns**

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*Jan Jekielek*

### **1. Introduction: 1980 Replacement of Keynesian Economics with Monetarism**

An American recession in 1980 triggered the process of fading of the Keynesian economics and rising of Monetarism of Milton Friedman Chicago School of Economics.

It was a switch from government control of fiscal policy to controlling money supply that exists till today and is sometimes dubbed Economics of Excess.

Monetarism has spread worldwide with the 'Free to Choose' book and TV popularity but due to major initial excesses started to morph/change into different flavors and names. The main theme of superiority of monetary policy remains till today.

The new approach presented advantages of increased business i.e. economic activity and speed of reaction.

It also produced side effects of an unstoppable growth of the government debt as well as project costs and overruns. Two side effects of the 1980 change are described below.

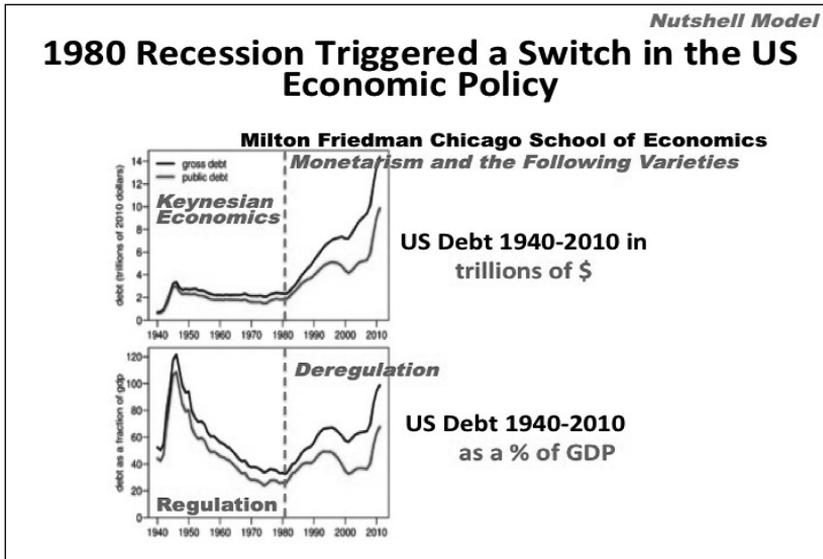
One side effect of the replacement of Keynesian regulation by monetarism as well as flavors for National Debt of the United States rev. 20 May 2015 lowing monetarism is shown on Figure 1. In 1940-1980 US Debt was actually going down from three to two \$trillions. It took off in 1980 and in 2010 went off scale; today it is over 18 \$trillions.

The other side effect was the beginning of replacements of managing engineers by administrators on larger technical projects, in construction and in technology organizations.

Replacement of managing engineers by administrators triggered the creation of new growing groups and departments dedicated to planning, cost, scheduling and control as well as procurement of equipment, materials and services.

In that role reversal costs invariably started to grow when engineers went under control of the growing administration preoccupied with numbers, dates and form often prevailing over content that seemed to be sometime "lost in translation".

Figure 1. Side effect of Monetarism and the following varieties: US Debt 1940-2010



Source: adapted from US National Debt and Deficit Debt History with Charts a [www.usgovernmentdebt.us](http://www.usgovernmentdebt.us) briefing.

Managing engineers were used to operating in the free, analog, real and imperfect world with also ambiguity, mistakes and errors. That lost world could be called “Economics of Moderation”. Ironically, in that world project costs, execution time and above all content including quality have been usually meeting the established targets, at worst with small errors.

Administration with their digital tools has been focused on numbers, dates and form driven seemingly perfect world. Yet, since 1980’s project and construction costs as well as cost overruns have been noticeably increasing contributing to both inflation of GDP Figures and acceleration of the government debt. The over-administered world that can be called “Economics of Excess” has begun and exists till today.

## 2. Project and organization improvement

Organizations faced with the growth of administration and administrative tasks kept experiencing escalation of larger project costs and overruns.

In their search for solutions to contain costs and costs overruns a multiplicity of elaborate analytical top-down organizational improvement methods have been tried over years as a part of the overall organizational quality improvement (Deming, 1993; Drucker, 1993; Hammer, 1993; Jacques, 1996). The author has been involved, participated and witnessed those top-down methods particularly while working with the major public utility in Canada.

Most of the top-down methods would rather quickly fade away and to be replaced by others to fail again. Those that survived and are still successfully in use today, mainly in manufacturing, are elaborate, expensive, and require heavy organizational engagement.

The author have been also experimenting for years on his own to finally center and use the new bottom-up improvement (individual or group centered) on many industrial and educational projects. This approach has been eventually firmly centered on the nature and philosophy of man (Carnegie, 1936; Fromm, 1941, 1955a, 1955b, 1971; Herzberg, 1968; Nicholson, 1998; Simon, 1957, 1972, 1996; McGregor, 1960; Townsend, 1971; Turing, 1955).

The author's approach is based not on actions but on identifying and abandoning activities that are deemed useless or counterproductive.

Figure 2. Principle of the Bottom-up Improvement

**Bottom-up Improvement is...**  
**a set of methods based on the nature and philosophy of man, offered a non-intrusive way to all individuals in the organization for non-declarative, voluntary use that encourages people to pursue the following points.**

**1. Abandoning activities that are counterproductive and useless**  
followed by

**2. Harmonization of what remains**  
and

**3. Adding missing parts if found in the above processes**

Source: own work.

The new bottom-up improvement approach resulted in the development of several methods. Most of those methods were designed to work on its own and all of them to independently support organizational improvement efforts and in addition to have lasting impact on people, projects and organizations.

Below is one of still valid early descriptions of application of the bottom-up improvement meant to be mainly a set of mental exercises to empower individuals for their own as well as project's and organizational good.

“Imagine that you don't have any imposed duties you must fulfill. You are in full control and take ownership of what you do at any time based on your choice helped by a list of priorities that you establish and keep updating in your mind. In time you will skillfully keep reshuffling priorities and remember them. Having control (with concurrence of superiors if needed) you prudently identify and start abandoning those activities you define as counterproductive and useless. As your workspace gets emptied you could discover missing gaps and pieces and explore all context not seen before. Than you harmonize integrating all what remains to end up with full functional integration to complete the task.

Gradually you will do faster much more with less. Your skills in discovering full context, abandoning the dead weight and filling the gaps allow you to run faster or take more load or just to take a breath to think what else you can do.

You keep momentum of moving forward avoiding obstacles without stopping; you negotiate changes that you decided must happen. If you cannot avoid an obstacle you gently *bulldoze through*. Even better, if you can jump over or use obstacles as stepping stones to leap further. If you are unsuccessful and crash, you get up and proceed a different way” (Jekielek, 1994).

Challenges of implementation might be formidable since the approach is challenging the very basis of the organizational improvement that has been adding not abandoning actions and organizations pride themselves in a claim that they do only what is necessary.

### **3. Description of bottom-up improvement methods**

Following is a list of nine bottom-up methods developed and used to date. Notice that most of them are just mental exercises meant to be private, non-intrusive, not imposing, voluntary means for work as well as self-improvement, designed to deliver powerful results.

1. Nutshell Models
2. Definition of the Value System
3. Rules of Engagement
4. Takeover of Control and Ownership
5. Reprioritization
6. Play in Action
7. Critical Reflection
8. Minimum Compliance
9. Infrastructural Self-organizing

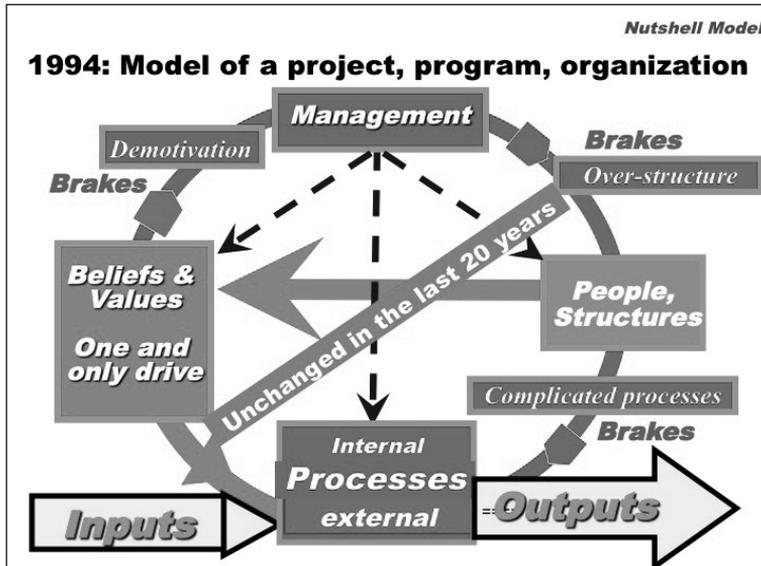
#### ***Nutshell Models***

Nutshell Models are simplified presentations of complex, vague or uncertain matters. designed to maximize comprehension by finding and using essential facts in a simple manner that is easy for the average person to understand (Jekielek, 2005). Historically, Nutshell Models were used since 1993 originally called “universal models”.

Nutshell Models are simplified presentations of complex, vague or uncertain matters. They are designed to maximize comprehension by finding and using essential facts in a simplified manner that is easy for the average person to understand. They comprise three elements: “essential facts”, “curiosity factors” and “magic solutions”. Essential Facts mean most simplified, usually surprising essence of the project or task. Curiosity Factors make participants believe that they can succeed in doing required simple tasks. Magic Solutions allow for a surprising “instant” success from the first trial.

Nutshell Models have been used extensively by the author since 2003 first in teaching engineering, business, human resources and sports, later in engineering and construction.

Figure 3. Universal model e.g. to compare essentials of public, civic and private organizations



Source: Jekielek, 1994.

### **Definition of the Value System and Rules of Engagement**

Definition of the Value System and Rules of Engagement are most important since they determine your non-negotiable but updatable practical set of values and rules. E.g. they will arm you with ability to create a suit of standard responses when you are in full swing of improvement. You will need it since representing cultural change you will be often questioned and be perceived as odd, strange, the threat. Your only defense will be results of your new behavior, mostly identifying and abandoning counterproductive and useless activities and harmonizing whatever is left.

Definition of the Value System and Rules of Engagement form a very solid self-determined, non-declarative, not negotiable but updatable base that allow for individual's behavior for instant rapid action that when right in time will allow for influencing the surroundings. Strong value system people are known for their psychological resilience (Hermann, 1992).

### **Definition of the Value System**

1. Determine your practical core value system – the more solid it is the easier it will be to proceed.
2. Determine your level of tolerance for form vs. content.
3. For abandoning actions: determine a framework of what actions are for you counterproductive and differentiate them from the useless ones.
4. For 'harmonizing what's left' work on recognizing context and capability to integrate the multidisciplinary way.
5. Keep determining, updating and internalizing all the above continuously.

### ***Rules of Engagement (example, used by the author)***

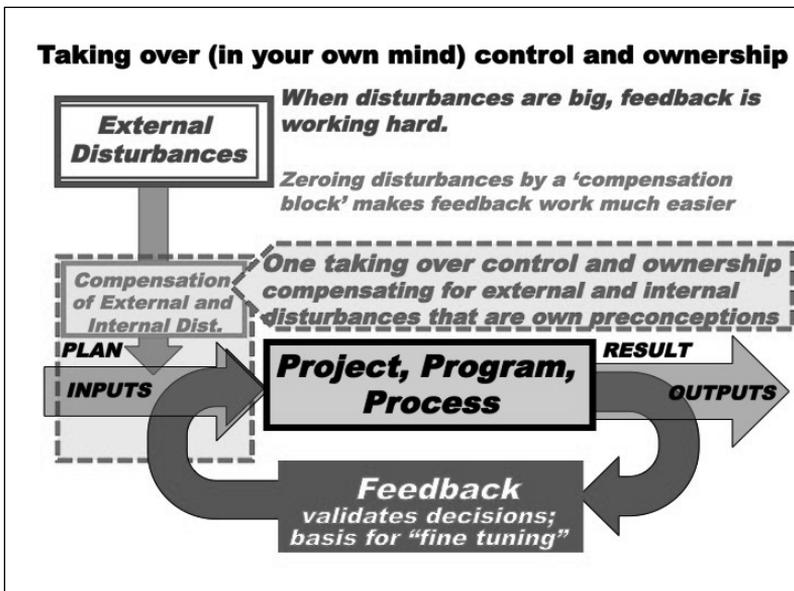
1. Embrace the imperfect world and corresponding verbalization e.g.
  - eliminate phony rhetoric such as “zero tolerance” etc.,
  - establish what % of completion is completion (good number is 90 or 95%) and what will be the follow-up for the agreement with the customer.
2. Embrace negotiability of “everything” except for your values and rules.
3. Define your areas of truthfulness:
  - Truths (positive),
  - Gray area between truths and lies; can be positive or harmful:
    - ‘White lies’ or ‘sins of omission,’
    - ‘Little untruths’,
  - Lies (harmful).
4. Keep determining, updating and internalizing all the above continuously.

### ***Takeover of Control and Ownership***

Having their source in the automation feedback and feed-forward control scheme, Takeover of Control and Ownership is presented on Figure 4.

Note that feedback control is reactive while feed-forward is proactive action to achieve the result as planned.

Figure 4. Takeover of Control and Ownership explained; shown as an example of the Nutshell Model



Source: own work.

### ***Reprioritization***

Reprioritization can be described as below.

1. Make a list of priorities (best in your head only) and be ready to update it continuously.
2. Reprioritize instantly if needed.
3. Negotiate/confirm acceptance of the affected schedules.
4. Create rough schedules, as easy going as possible with a generous reserve at the end; unpredictable can and will show up.
5. Develop and exercise the art of negotiation as well as your tolerance for living with disagreement when the acceptance cannot be achieved

### ***Play in Action***

Play in Action can be described as the state of mind of an individual. Playing roles is associated with more attention and increased curiosity that with use becomes a habit. Play in Action is an effective internal motivation booster and the most powerful and contagious influencer of the surroundings (Townsend, 1971).

Play in Action adds lightness and natural teambuilding that shows up as an image of joy of the naturally high productive and cohesive work that looks like play. Individuals and groups using this method will stand out from the outside crowd.

### ***Critical Reflection***

Critical Reflection is described below (Adapted from Jekielek, 2014a; Schön, 1987).

1. Bring in other and your own experiences, anecdotal evidence, stories and any related information.
2. Challenge other and own assumptions.
3. Confront the existing body of knowledge, skills and practices.
4. Reflect and arrive at the solution integrating all the above processes.

### ***Minimum Compliance***

Minimum Compliance is described below (Adapted from Jekielek, 2014a).

1. Get aware of all applicable laws, regulations, procedures and practices.
2. Confront the existing, established body of knowledge, especially practices.
3. Shortcut all steps that are not absolutely necessary, supplement if necessary.
4. Create rough schedules, as easy going as possible with a generous reserve at the end; unpredictable can and will show up.
5. Arrive at the solution assuring minimum compliance.

### ***Infrastructural Self-organizing***

Infrastructural Self-organizing is an attempt to humanize an organization and has been tested as a great effective relief for civic organizations. It makes organization to pass power where applicable to people who happily organize themselves for common activities.

1. An initiator proposes an attractive “infrastructure” for self-organizing.
2. Participants accept it as a starting port to develop and use.

It has been tested a few times including an ongoing for the last several years in the recreational club for sport activities in a civic organization.

Note that “providing infrastructure” can be anyone’s announcement met with someone’s response, tried and improved by getting more response i.e. basically an effortless happening.

## **4. Countermeasuring the Escalation of Project Costs and Overruns**

Application of the Bottom-up Improvement to Countermeasure the Escalation of Project Costs and Overruns at the individual and group level has been done by the author many times with great success.

It was always uplifting, most of the time recognized and often even rewarded.

Any piece of the project can be seen as an element of Excess (one with excessive counterproductive and useless content) that can be brought to the Moderation (one after bottom-up improvement processing) level i.e. Element of Excess minus useless and counterproductive parts).

Each application as above limits Excess toward the Moderation level and contributes to counter-measuring the Escalation of Project Costs and Overruns of the larger entities.

Figure 8 describes that as a simple repetition of the Bottom-up Improvement principle.

Figure 8. From Excess to Moderation

**The Path to Move from the element of Excess to the element of Moderation can simply mean using the bottom-up improvement concept as follows.**

- 1. Abandoning activities that are counterproductive and useless in the element of Excess will create a lot of empty space.**
- 1. Harmonization of what remains i.e. the raw element of Moderation, simultaneously...**
- 2. Adding missing parts etc to arrive at the functional element of Moderation**

Source: this paper.

## 9. Conclusion

This paper presents the author's bottom-up approach and methods rooted in the nature and philosophy of man. A scheme of stopping the escalation of project costs and overruns is shown as a duplication of the key improvement scheme that is based not on action but on abandoning activities that have been identified as counterproductive or useless.

Summarized in this paper nine bottom-up improvement methods have been successfully used on many industrial and educational projects. They are designed to first originate spontaneously in people who recognize in them their own personal benefit. Those people behavior will influence the surroundings next; the end result is a path of improvement for people, projects and organizations with essentially no significant cost to the projects or organization.

To Countermeasure the Escalation of Project Costs and Overruns there is a clear path merely following the very concept of the Bottom-Up Improvement.

The current state of project execution has been belonging for some 35 years to what could be called "the Economics of Excess" by over-administering i.e. over-planning, over-management and over-control of larger projects.

Without organizational interest or knowledge the suggested path to "Economics of Moderation" on a project is still simple; years of experience prove that it is not only viable but successful beyond expectation improving not only performance but the very basics of life of people and life of larger projects.

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# Chapter 22

## **Franchising as a Determinant of Competitive Advantage**

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*Ewelina Pawłowska, Agnieszka Mazurek-Czarnecka,  
Andrzej Brożek*

### **1. Introduction**

The thesis focuses on the role of franchising, which has a significant impact on the level of competitiveness in the modern economy. In the era of globalization, survival of a company is determined by the speed of response to the needs of potential customers. In order to remain on the market and create a competitive advantage, companies are increasingly using a franchise in their strategy. Franchise bank outlets are conducted in cooperation with a business partner operating under a license from a bank based on specific standards and a logo provided by the bank. Concepts of franchise are perfectly used by banks primarily focused on an individual customer. In addition, franchise outlets fill a gap in branches of a bank. The aim of the study is to analyse the evolution of a franchise network of banks in Poland, as well as to assess the impact of bank branches operating under a license and the level of competitiveness among banks operating in Poland. The research thesis is an assumption that franchising is a management strategy which affects the level of competitiveness among banks. The object of the research is a bank franchise. The study used research methods in the form of an analysis of the available literature, case studies and methods of using tools of descriptive statistics. The work is divided into two main sections. The first part presents the evolution and theoretical aspects of the existence and operation of the franchise network, while the second chapter provides the analysis of partner institutions acting on the basis of a selected bank borrowed license.

### **2. Franchising as a concept in management**

Reflections on franchising should be started by explaining the word ‘franchising’. In literature a whole range of descriptions elaborating on this concept can be found.

There is no universal definition of a franchise adopted by all countries where this form of economic cooperation develops. It can be assumed that a franchise is as a method with-

out capital market development or a form of cooperation by ‘budding’, which is considered as one of the most effective ways of controlling specific market segments and economic development. One of the most comprehensive definition of a franchise containing some elements common to all types of franchise is a definition made by the European Franchise Code, which states as follows: a franchise is a system of selling goods, services or technology that is based on a close and continuous cooperation between legally and financially distinct and independent enterprises, a franchisor and its individual franchisees ([www.eff-franchise.com](http://www.eff-franchise.com)). In other words, the idea is to transfer the rights to establish and maintain a company on the basis and in accordance with the instructions and procedures of a franchisor, who is the author of the system.

There are two factors affecting the economic success of such a form of economic cooperation:

1. Licensing activities.
2. Network business.

These factors distinguish franchising from other forms of activity and affect the dynamics of its development. In addition, unlike other forms and methods of distribution channel development, franchising is also a model of cooperation, rather than fierce competition between independent, but acting on similar principles and in the same industry, chain enterprises. You cannot speak of elimination of competition, but about its redesign, especially, if we mean division of market (Banachowicz, Nowak, Starkowski, 1994, pp. 23-25).

According to the Federal Trade Commission, three basic elements have to be fulfilled to treat economic cooperation between the parties as a franchise system ([www.ftc.gov](http://www.ftc.gov)):

1. A franchisee pays appropriate fees to the organizer of a system, the minimum amount is \$ 500 provided by a donor before signing the franchise agreement or in the course of 6 months from signing a contract.
2. A franchisor allows a franchisee to use trademarks or a recipient offers an ultimate purchaser goods or services bearing those marks.
3. A franchisor has a control over the activities of franchised units and offers help and support to franchisees.

The essence of a franchise is the originality and uniqueness of an idea based on the whole concept of franchise. It does not have to be always the most modern technology but a fairly simple organizational solution. To state it clearly, it is the concept of distinguishing franchise system, which is patented and tested, giving reputation and popularity to the network. The originality of a franchise relationship is primarily based on activities in the network. In this system independent managing enterprises are elements of a larger organization with its own brand, trademark and form of the services offered. The creator of this idea makes a kind of insurance, patents it and wants to grow their business without being involved in considerable financial costs, communicates the concept to others and trains them to get to know the uniqueness of the project (Ziółkowska, 2010, p. 25).

It is worth to mention that the effectiveness of the system is determined by the strength of the links in the chain, so in fact, a time horizon of a franchise agreement. Along with the length of the contract, the complexity of the connections and a level of trust between partners increase, which is vital in business relationships.

Table 1. Distribution Franchise

Criteria		
Know – how	Activities	Organization of the system
Action plan	Productive	Direct
The process of production	Allocative	Regional
The way the services function	Service	Local
Experience	Mixed	International

Source: own calculations based on Wrzesińska, 2011, pp. 185-196.

In Polish business practice emergence of a franchise dates back to 1989 (Antonowicz, 2011, p. 12). Yves Rocher and Mc Donald's were precursors on the Polish market. The first Mc Donald's restaurant was founded in 1994 in Bydgoszcz, then six years later the Polish Franchise Organization was founded, which in 2010 joined the European Franchise Federation. The data shows that in 2010, in Poland 32,248 units operating under 565 franchise systems (www.wupkrakow.pl) were registered. Undoubtedly, Polish leaders in the process are PKN Orlen S.A., Grupa Lotos S.A. and Jeronimo Martins Poland S.A.

### 3. Characteristics of Bank Pekao S.A. (www.pekao.com.pl)

Since 1999 Bank Pekao S.A. has been a global financial institution – UniCredit with a strong market position, which means – a large customer base. The group has consolidated its position, eventually becoming one of the largest financial institutions in Central and Eastern Europe. Considering the strength of the measured capital adequacy ratio, Bank Pekao is the leader among large banks in Poland and one of the strongest capital financial institutions in Europe (Core Tier 1 ratio at the end of the 2<sup>nd</sup> quarter of 2014 at 18.1%).

Bank Pekao is the result of the ideas of Henry Gruber, a president of the Postal Savings Bank, dated back to March 17, 1929. Initially the bank was called the Polish Welfare Fund Joint Stock Company. It is noteworthy that the newly established financial institution had to face the repercussions of the Second World War. The survival of the bank strengthened its market position and in the eyes of customers it gained a status of a trustworthy financial institution. In subsequent years, the organization consistently pursued its strategy of growth and innovation, founding the first brokerage in post-war Poland. The government's decision of 1996 established banking group under the name of Pekao S.A. which used the logo in the form of a bison.

Joining Pekao S.A. to UniCredito Italiano Group in March 3, 1999 is a breakthrough in the history of the bank. Undoubtedly, since privatization, the bank has become a leading player on the Polish market as it is evidenced by the cooperation with Citibank Handlowy in the first release of revenue bonds in Central Europe. Currently, services of Bank Pekao S.A. are based on a so-called segmentation, which means systematization of processes in relation to individual clients, small and micro enterprises and corporate clients. The Bank does not forget about pro-social activities, supporting charitable activities, healthy lifestyle and physical culture. Currently, the position of the bank is evidenced by financial indicators. The data from the third quarter of 2014 years shows:

- ROE of 11.4%;
- consolidated net profit increased by + 8.6% to 704 million PLN;

- the increase in operating profit by + 3.1%, which amounted to 1,005 million PLN;
- the income of the Bank increased to 1,865 million PLN (+ 1.3%) PLN;
- irregular bank loans ratio declined to 6.9%;
- increase in credit volumes by + 8.9% to 116.3 billion PLN;
- the deposit base (excluding OFE) increased by + 12.8%;
- the amount of seed and paid capital: 262,470,034 PLN.

#### **4. Modern banking services on the example of Bank Pekao S.A.**

One of the factors thanks to which the banking, especially the retail one, owes its success, is undoubtedly sharing their licenses with private operators. In the world of economic reality, a franchise has been very successful, with the note that this trend is still growing up. The data shows that 97% of privately opened business entities continue to operate after the first year since its establishment (Sulejewicz, 2003, p. 26). The idea of using a franchise strategy is a response to the needs of the dynamic changes taking place in the market and thus, for effective defense against competition. A franchisor that provides a license, increases the scale of its operations not only on the home market but also on the international markets in a way of a chain reaction. Such a phenomenon can be often and easily seen in the banking sector (Fuchs, 1998, p. 5).

From the standpoint of banks, the efficient and dynamic development of partner outlets, is correlated with a reduction in operating costs while increasing the number of outlets, whose task is to reach the biggest number of potential customers. An agency agreement between franchisees with a franchisor, in this case the bank, in addition to activities under the banner of well-known brand, also provides the access to professional training in the field of knowledge of banking products and sales techniques for all administrative levels of a new unit. The recipient has the full opportunity to gain knowledge and experience from more experienced staff and managers and the ability to take advantage of the guarantee professional assistance and cooperation throughout the duration of the contract. The owner of an agency opens up an outpost under the banner of a bank, and in accordance with the obtained power of attorney, implements provisions of the agreement, which, among others, accepts deposits, grant loans and executes banking transactions (transfers, payments of utility bills, withdrawals, etc.). For the activities and services, the agency owner receives adequate remuneration in the form of commission. The size of such remuneration is mainly dependent on the volume of loan sales (Dobosiewicz, 2001, p. 80). Such agents are regarded as financial intermediaries who participate in activities preparing for signing the loan agreement and starting-up a loan on a client's own account (Szpringer, 2005, p. 7). The data shows that Bank Pekao S.A. has participated in the concept of using a franchise in development goals since 2007. The chosen strategy is to work with independent entrepreneurs ready to function under the banner of a bank, in Poland in areas inhabited by a local community in a number of at least 5 thousand residents. Currently the bank has 162 registered partner outlets ([www.pekao.com.pl](http://www.pekao.com.pl)).

The growing importance of franchising is a direct response to current trends in the economy, namely a fast and easy access to financial services required by individual customers and institutional investors. Undoubtedly, a franchise, not only in the banking sector, has many strengths but also weaknesses.

Table 2. Main advantages and disadvantages of franchising in the banking sector

No.	Advantages	Disadvantages
1.	Marketing effect	Franchisor's decisions are not always beneficial for all franchisees
2.	Potential gains easy to forecast	A franchisee is restricted to license agreement
3.	Effective construction of conjugated chain	The quality of service depends on a good selection of franchise partners
4.	Experience is not crucial	With the increase in the number of branches, control problems also increase
5.	Elimination of staff issues	Weak franchisees have a big impact on the image of the franchisor

Source: own work.

To meet the risks associated with the implementation of the concept of partner institutions, Bank Pekao S.A. has developed systems to reduce the occurrence of potential risks for the entire brand. Currently, a single partner outpost of Bank Pekao S.A. cannot sell the value consumer credit volume worth more than 100 thousand PLN. According to the law on consumer credits, concluding an agreement for such loans may be conducted by external entities cooperating with the bank. Due to restrictions applied by the bank, granting loans to people without creditworthiness is not probable, which in turn means care about well-being of a potential customer who might be persuaded to take wrong financial decisions by a dubious franchisee.

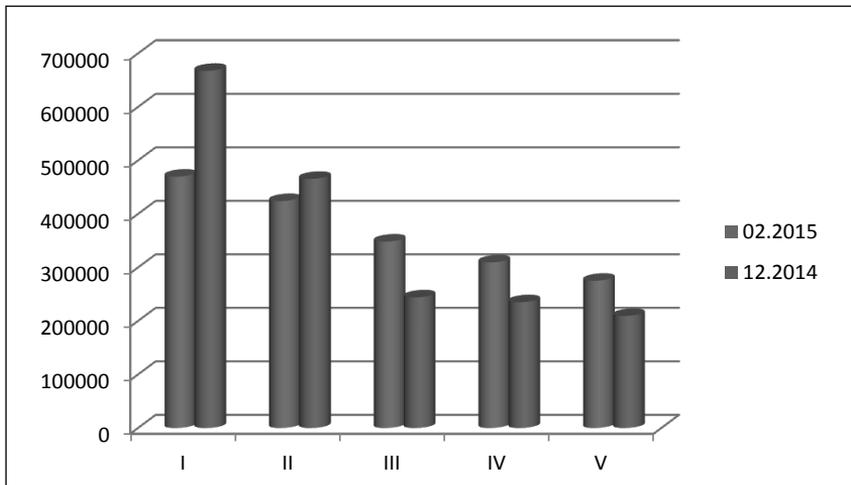
## 5. The role of the franchise chain in the development process of Bank Pekao S.A.

The financial crisis in 2008 did not greatly affect the Polish banking sector, in comparison with developed countries. It created an extra space as a result of a slowdown in the growth of large international banks, such as Citi Bank Handlowy. Quick fulfillment of the created gap is possible only after the use of a dynamic strategy for penetrating the market which is, undoubtedly, a franchise. By seeing an opportunity in solidifying its position in the local market and using for this purpose distributed partner outlets, Bank Pekao S.A. tries to reach as many customers as it is possible. New agencies are complements to the existing ones, creating a stronger chain of the relationship between a franchisor and a franchisee, and also increasing the tightness of the whole network.

In addition to a known strong position, stability, and high-quality relationship another incentive to join the team of representatives of the bank is the lack of license fees, which after the initial reduction of operating costs is highly important for the growth in the number of people potentially interested in cooperation with the bank. Since the implementation of the strategy of gaining market by using the franchise concept, the bank has established more than 1,000 partner outlets in Poland. This Figure is undoubtedly a determinant of good relationships that the bank creates with his colleagues, which is equal to the quality of services. The data presented in the materials of Bank Pekao S.A. clearly indicates an increase in customer confidence in the bank's partner

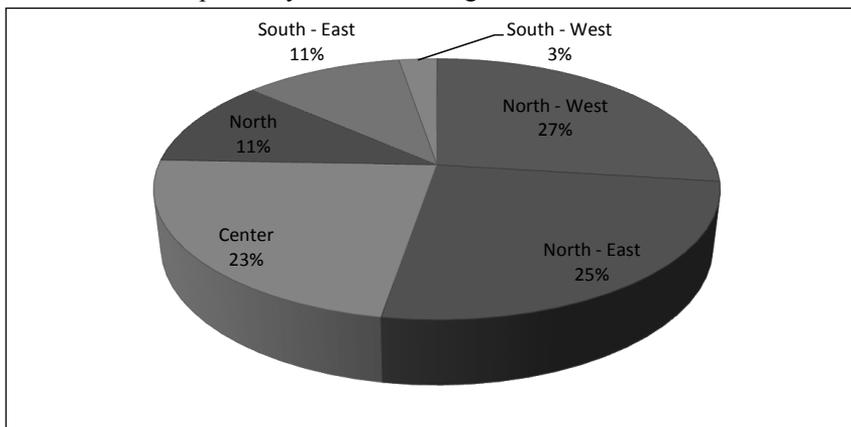
outlets, perceived not as franchise units that operate on its own account but as a unified banking structure. Although the main task of franchises is to grant cash loans affected by the statutory order to thoroughly investigate customers' credit ratings, the increase of the numbers of loans and consumer welfare is clearly visible. The larger the volume of loans is sold, the greater the profits of the bank and agency owners are. The management department of indirect sale is responsible for monitoring the partner outlets and imposing a minimum expected sales volume based on selected indicators. The number of people living in a particular area and the average volume of sale in outlets situated near one another are treated as indicators of an outlet effectiveness.

Figure 1. The results of the sale of loans expressways in the top 5 franchises of Bank Pekao S.A. in the months 12.2014 and 02.2015



Source: own work based on the materials of Bank Pekao S.A..

Figure 2. Sales of loans expressways in different regions of Polish from 2 to 6 March 2015 (%)



Source: own work based on the Bank Pekao S.A. materials.

The data shows the potential profitability of Bank Pekao S.A. agencies. The Bank using a franchise network minimises operating costs, which quantifies its financial results. The larger volume of loans is sold, the greater the profits of the bank and agency owners are. The bank uses one of its organizational units and sales management constantly monitors the sales performance of agencies, requiring them to achieve, at least, the expected sales volume.

The strength of a relationship between a bank and its partner outlets and what is more, the results achieved by particular units and the bank itself is created by characteristics, among which there are:

- credibility,
- the quality of communication,
- continuous training,
- innovation Process.

Figure 1 shows the trend in the sales of loans expressways in the month of December 2014 and February 2015 year. Due to the time of holidays, the volume of loan sales in December should determine the increase in sales of the same financial instruments in February. However, the strategy of the bank, its availability on Polish territory and the number of satisfied customers, directly imply a continuing increase in sales, which is independent of the periods of Christmas. The data shows a high potential due to the implementation of the bank's business franchise. A franchisee in this case becomes the main catalyst for the growth of the most important variable in the banking business. Such a situation provides data concerning customers and their needs, thereby helping the bank to create appropriate financial instruments directly to strike the needs of customers living in a particular area of the country.

## **6. Conclusion**

The recent financial crisis has shown that modern banking cannot maintain a rigid structure. Today, the most important aspect is the high flexibility offered by services and quick access to potential customers, together with the corresponding offer. The development of banking franchise can be especially seen by the number of franchise units before and after the financial crisis. During the crisis, banks allowed to run their expensive branch by the implementation and development of the franchise chain strategy. The banking sector has been consistently building its franchise network, enabling increased profits from the sale of their products while reducing the costs of introducing the product. The concept of gaining market brings benefits to both parties of the agreement. The bank increases its availability by building an important network of contacts with clients, while the unit operating under the banner of the bank gains the guarantee of cooperation oriented for a long time.

This article shows the role of implementing the franchise concept in the process of gaining market efficiency and the development of the banking sector. The use of a franchise in the strategy of a banking sector is an effective treatment diversifying their expensive service outlets in relation to the use of cheaper and more effective institutions which operate on a license partnership.

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# Chapter 23

## **The Criteria for Assessing the Performance of Managers in Network Organizations<sup>1</sup>**

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*Małgorzata Tyrańska*

### **1. Introduction**

The dynamic changes, that occur in the environment of contemporary enterprises, including mainly the increase of uncertainty and changes in the organizational structure of enterprises towards domination of network relations, lead to toughen interactions between internal and external entities operating in the network and cause evolution of functions and roles of management staff in network organizations.

Organization cooperation in the form of a network offers large, new opportunities of connecting and creating jointly, of using knowledge, skills and competencies of partners. It allows to build an unique potential constituting a source of innovative solutions which determine the success of achievements throughout the network organization (Tubilewicz, 2013, p. 397).

In this context, the traditional ways of assessing management staff seem to be inadequate to needs and require a new methodological approach. The article aims to define criteria for assessing the efficiency of managers operating in network organizations. The presented considerations were based on the thesis that the efficient functioning of network organizations is determined by specific managerial competencies. Competencies, as a criterion for assessing the efficiency of managers' activities functioning in network organizations can make a complement of criterion catalogue: organizational, financial, marketing, etc.

In the article the characteristics of network organizations is shown. Against this background, the specificity of network organizations management, disclosing new management functions and roles of management staff in these organizations, is presented. Subsequently, the issue concerning the performance management of network organizations was defined and an overview of research results concerning competency models of network managers was presented.

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## **2. Types and characteristics of network organizations**

A network is generally understood as a system of connections between people or organizational units, created to exchange information, ideas and resources. In contrast, a network organization is a structure based on mutual cooperative relations of enterprises unrelated by capital (usually in the form of medium- and long-term contracts) (Górzyński, Pander, Koć, 2006). The functioning of the network organization is held through great minimization of hierarchical dependence. Dwojacki and Nogalski define the network organization as a relatively stable grouping of autonomous, specialized units or enterprises involved in the system of mutual cooperation according to market principles. The network can provide the system created by enterprises which are capital-independent or relate to capital only in a small extent, or the network also can be present in the capital group, or even in one enterprise (Dwojacki, Nogalski, 1998, p. 69).

Independent entities creating the network are linked through information technologies, every-time forming different configurations. Configurations of independent entities are called virtual companies. Combinations of key competencies of network participants cause that it is more flexible and makes better economic results. The essence of network organization is to obtain the effect of synergy (in the form of new value) through the cooperation of many business partners, the effect is achieved by adjusting its operational activities to the whole network strategy (Malara, 2006, pp. 113-115).

Domination of networks in the area of various social and economic phenomena has an impact on the shape of organizational models, particularly on their organizational structures. Characteristic changes taking place in the area of organizational structures include: reduction of the importance of hierarchy of authority and functional hierarchy, limitation of hierarchical levels, decentralization, introduction of process approach, replacement of organizational units by project teams, replacement of hierarchical and functional relations by more flexible ones as part of internal and external networks, increasing importance of social and international relationships and relationships with customers and co-operators, blurred boundaries of the organization (Beliczyński, Mesjasz, Stabryła, 2009, p. 180).

## **3. The specificity of network organization management**

The indicated directions of changes of organizational structures, supported by a strong development of information technology have led to realization of the organic organization model in the form of a network structure. The elements of the network structure are connected mainly by weak coordination relationships. Network structures are based on the necessity of cooperation and establishing alliances, and their durability depends on the time needed to implement a particular project.

The emergence of new organizational forms determines the changes in the organization management whose construction is based on the network structure. Network organization management becomes a complex process. Managers perform their duties in conditions different from traditional management.

According to Czakon, one can talk about network-centric management. The author explains its essence as follows: “the network creates value and achieves competitive advantage, and the enterprise in this network accepts interdependence, contributes to this complementary competen-

cies and performs business functions regarding the whole” (Czakon, 2012, p. 194). Differences between the management of bilateral alliances and network management are presented in Table 1.

Table 1. Differences between management of alliance and network

<b>Criteria</b>	<b>Bilateral conceptualization</b>	<b>Network conceptualization</b>
Strategic choice	<ul style="list-style-type: none"> <li>• autonomy</li> <li>• individual objectives of partners</li> <li>• the role of the enterprise in the market</li> </ul>	<ul style="list-style-type: none"> <li>• dependence</li> <li>• the enterprise’s interests in the network</li> <li>• functions of the enterprises in the network</li> </ul>
The scope of decision	<ul style="list-style-type: none"> <li>• selection of partners based on reciprocal fitting</li> <li>• bilateral exchange of knowledge</li> <li>• management of alliances as separate agreements</li> </ul>	<ul style="list-style-type: none"> <li>• selection of partners in regard to fit needs of the network</li> <li>• using knowledge in the network</li> <li>• management of alliances as a set of competencies</li> </ul>
The role of top managers	<ul style="list-style-type: none"> <li>• initiating</li> <li>• assessment and control</li> </ul>	<ul style="list-style-type: none"> <li>• moderating, setting priorities</li> <li>• building commitment</li> </ul>

Source: Czakon, 2012, p. 193.

The range of management consideration expands in the network organization. Network organization management focuses on managing relationships occurring both between particular participants – partners in the network, and between the whole network and its individual members. There are basically two types of these dependencies:

- internal – relationships between partners occurring in the organizational structure of the network,
- external – relationships between partners occurring in the network and external stakeholders (Tubilewicz, 2013, p. 396).

In the network organizations, the traditional system of management functions including planning, organizing, motivating and controlling is supplemented with new activities performed by the management staff (Tab. 2).

Table 2. Classifications of management functions of network organization according to various authors

<b>Lorenzoni, Baden-Fuller 1995</b>	<b>Rugman, D’Cruz 1997</b>	<b>Johnsen et al. 2000</b>
<ol style="list-style-type: none"> <li>1. Creating values: forming outsourcing systems, developing competencies of network members, technology development, encouraging to compete within the network.</li> <li>2. Conducting: creating a vision which determines the participation of partners, investing in the brand, creating an atmosphere of trust and reciprocity, creating mechanisms of attraction and selection of partners.</li> <li>3. Creating structures: acquiring and sharing information, learning.</li> <li>4. Creating strategies</li> </ol>	<ol style="list-style-type: none"> <li>1. Strategic functions: <ul style="list-style-type: none"> <li>• formulating objectives,</li> <li>• formulating directions of activities,</li> <li>• controlling participants’ strategies</li> </ul> </li> <li>2. Management functions: <ul style="list-style-type: none"> <li>• directing the work of others,</li> <li>• managing other members of the network</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Selection of partners</li> <li>2. Integration of resources</li> <li>3. Information processing</li> <li>4. Storage of knowledge</li> <li>5. Social coordination</li> <li>6. Division of risk and profits</li> <li>7. Decision-making</li> <li>8. Conflict resolution</li> </ol>
<b>Moore 2006</b>	<b>Dhanaraj, Parkhe 2006</b>	<b>Dembinski 2009</b>
<ol style="list-style-type: none"> <li>1. Identification of the key, complementary contributions</li> <li>2. Agreement with key actors</li> <li>3. Development of modular product architecture</li> </ol>	<ol style="list-style-type: none"> <li>1. Network designing: membership (numerical amount, diversity), structure (density, autonomy) and position in the network</li> <li>2. Management of knowledge mobility</li> <li>3. Management of appropriating innovation</li> <li>4. Management of network stability</li> </ol>	<ol style="list-style-type: none"> <li>1. Conducting</li> <li>2. Negotiating</li> <li>3. Management of complex products</li> <li>4. Quality management of outsourcing processes</li> </ol>
<b>Jarvensivu, Moller 2009</b>	<b>Batterink et al. 2010</b>	<b>Tubilewicz 2013</b>
<ol style="list-style-type: none"> <li>1. Structuring</li> <li>2. Activating</li> <li>3. Mobilizing</li> <li>4. Synthesis</li> </ol>	<ol style="list-style-type: none"> <li>1. Initiating innovation</li> <li>2. Composition of the network (creating links and coordinating activities)</li> <li>3. Innovation process management</li> </ol>	<ol style="list-style-type: none"> <li>1. Developing the network vision</li> <li>2. Creating the network</li> <li>3. Ensuring efficient communication system</li> <li>4. Mobilizing partners to achieve objectives</li> <li>5. Managing dependency in the network</li> </ol>

Source: own elaboration based on: Czakon, 2012, p. 195.

The overview of presented classification of management functions in network organizations leads to the conclusion that the management staff focuses on knowledge management (creation, exploitation of knowledge) in order to achieve efficiency and competitive advantage by the network.

Adopted roles arise from undertaken management functions by managers. It should be assumed that leadership roles constitute a clarification of management functions paying special attention to behaviour.

In the case of network management, the role of managers is to build commitment and moderate processes for setting targets (Czakov, 2012, p. 194). The ability to coordinate activities and gain confidence in the partner is the key issue which determines the efficiency of the management staff in the network organization. However, this is a very complex issue and depends on many factors, such as: cultural differences (involving both organizational culture and national cultural otherness), bargaining power, different range of objectives etc. (Zimniewicz, 2008, p. 53).

In the network, relationships between managers and employees are changing. The traditional, patriarchal relationships are replaced by flexible forms of partnership (Łobejko, 2012, p. 39). The manager, instead of exercise a personal supervision over the members of organization, relies on coordination, motivation and building flexible teams of network structure during the implementation of objectives (Warner, Witzel, 2005, p. 183). The manager in the network organization directs employees whose employee status is often determined by flexible forms of employment and occupation (Malara, 2006, pp. 168-215). He does not have a direct contact with them and cannot control the effects of their work on a regular basis, but he must create an atmosphere that fosters cooperation and commitment of network's members in the implementation of its objectives. Under these conditions, the roles of managers rely more heavily on creating favourable circumstances in order to share knowledge, not to exercise control over the resources of the enterprise.

Network structures force innovative and creative attitudes of managers and employees (Perechuda, 2005, p. 9). This means that managers of network organizations alongside traditional roles defined by Mintzberg, fulfil additional ones defined as:

- the role of spokesman of ideas – actively engaging in the promotion and implementation of idea into life, inspiring others by own vision of opportunities that fall into a new idea;
- the role of sponsor (coach, mentor) – providing behind the scenes support and access to necessary resources for the implementation of a project (Afuah, Tucci, 2003, pp. 259-260).

Therefore, the implementation of new functions requires that the roles of managers in network organizations should be mainly active, creative and focused on efficiency, conditioning development of the enterprise in turbulent environments.

#### **4. The efficiency of management staff functioning in network organizations**

The concept of efficiency in the praxeological sense refers to the general practical advantages of activity, namely assessing positively its features. This approach requires setting characteristics on grounds of which the activities will be compared, as well as determining their severity. Exemplary features of performance assessment are effectiveness, gainfulness, economicalness, efficiency, reasonableness. The activity, which we assess as efficient, exhibits at least satisfactory levels of those features (Woźniak, 2012, p. 100).

Praxeological assessments take into account the purpose of the activity. These assessments are issued prior to the activity (*ex ante*) or after execution of the activity (*ex post*). *Ex post* assessments may be true (i.e. consistent with reality) or false (mistaken, not consistent with reality), while *ex ante* assessments are more or less likely correct because of the theoretical basis based on which they were issued. The accuracy of *ex ante* assessments depend on the accuracy of conducted forecasting process of the impact of activities, which will be taken (Woźniak, 2012, p. 102).

Woźniak indicates the existence of other categories of assessments which in contrast to praxeological assessments not take into account the purpose. They include esthetic assessment (relative and subjective) and moral (absolute, depending on set of standards and values adopted in a particular community) (Woźniak, 2012, p. 103).

The assessment of efficiency of activity is based on comparison of ascertained state (level) of the criterion with a pre-determined pattern. A pattern is a perfect amount (state) for relevant conditions which is possible to achieve, in particular the best result achieved in particular circumstances (Martyniak, 1979, pp. 44-45).

Generally, network coordinator (flagship entity, network wizard, broker or center of the network) is responsible for the efficiency of the network organisation's performance and acts as an organiser of the transfer of tangible and intangible assets in the network layout (Lachiewicz, Zakrzewska-Bielawska, 2012, p. 37). Partnership entities linked by various forms of bilateral and multidirectional dependencies participate in the exchange of certain resources. This exchange takes place in transactional form, which is much more efficient than in the case of hierarchical structures. Perechuda indicates the important role of network enterprises. He emphasizes that the network integrator should have a distinguishing core competencies and coordinate a set of independent economic entities in a legal sense, realizing a variety of projects and undertakings which constitute a network enterprise (Perechuda, 2005, p. 55).

Tubielewicz considers that network management providing efficient cooperation of independent organizations should be based on some, respected by all partners, principles and assumptions functioning of the network (2013, p. 394). They are presented in Table 3.

Table 3. Principles and assumptions of network functioning

Principles	Assumptions
<ul style="list-style-type: none"> <li>• the principle of cooperation,</li> <li>• the principle of responsibility,</li> <li>• the principle of complexity,</li> <li>• the principle of continuous creation</li> </ul>	<ul style="list-style-type: none"> <li>• goals compatibility,</li> <li>• interdependence,</li> <li>• trust and commitment,</li> <li>• communication and information,</li> <li>• conflict resolution,</li> <li>• coordination of work and resources</li> </ul>

Source: Tubielewicz, 2013, pp. 394-395.

Moreover, according to Tubielewicz, the key components of effective network organization management consist of: planning internal and external network communication structure; the concept of motivating partners to participate in the network and stimulating them to engage in the implementation of network tasks; the way to manage dependencies occurring between network participants; applying principles of thinking and strategic management that is focused on creating the future of network organization (2013, p. 395).

In the case of undisputed development of network organizations supported by advanced information technology and in the case of the evolution of leadership functions and roles that takes place in these organizations, the question arises: what competencies should the management staff have to ensure the efficient functioning of network organizations?

## **5. Competencies, as a criteria for assessing the performance of managers in network organizations – overview of research results**

The indicated features of network organisations, the development of information technology, flexible forms of hiring and working, and new functions and roles of network organisations' management staff are developing adequately to changes of competency model for those who manage networks. However, there should be taken into account the following assumption. The essence of competencies of management staff, components of these competencies, qualities appropriate for competency management remain unchanged, namely:

- the concept of competencies may be examined both at the level of organization and at the level of employees;
- the key competencies, which decide about the competitive advantage of the organization, are a reflection of material resources, difficult to imitate intangible resources and are connected with the mission of a particular organization;
- competencies of management staff are a derivative of core competencies of the organization and constitute a set of managers' features including his personality, knowledge, skills, attitudes, experience and responsibility that remain in cause-effect relation with behaviour of manager deciding about a proper and ethical management;
- the difference between model-based level of competencies (i.e. necessary to achieve the objectives of the organization) and level of competencies actually owned by the management staff, leads to arise a competence gap;
- identification of the competence gap can indicate that managerial competencies should be improved in order to efficiently achieve the objectives of the organization;
- managerial competence management based on core competencies, mission and strategy of the organization allows the integration of all personal activities (recruitment, assessment, development, remuneration) by basing them on the same tool – a competence model.

The review of literature has allowed to identify some clues leading to construct a competence model of managers functioning in network organisations. For instance, establishing a network requires managers to have some social skills including making contacts, building relationships or activating links. Daszkiewicz points out so-called network power which is the ability to build a network, i.e. relations and contacts between people and organizations (Daszkiewicz, 2004, p. 83).

Other authors emphasize that human capital of network enterprise should have the following competencies: flexibility, communication, relation, sharing resources, simultaneity (action in the different roles and projects at the same time), self-organisation, coordination (Fryczyńska, 2012, p. 134).

In turn, Warner and Witzel believe that the greater complexity of network organization imposes managers to have skills such as: communication, assessment (including: emergency plan-

ning, analyzing, forecasting, designing organizational solutions and performing leadership role in a team), learning, evaluating understood as estimating current and potential value of intangible capital (Warner, Witzel, 2005, pp. 139-141).

According to Żukowska, the key skills of managers used in virtual-network management include: a proper selection of the team in relation to assumed objectives, a definition of a vision, goals and ways of activities, a selection of a proper communication channel, greater involvement, an impact on productivity growth and factors of achieving objectives, a development and an improvement of communication, a formation in the team of behaviours such as: mutual support, decision-making, responsibility, trying to achieve an objective (Antczak, Kołodziejczyk, 2013, p. 79).

Psychological researches concerning managers of network organisations mainly focus on the issue of emotional intelligence. Clarke examined emotional intelligence of 67 British project managers. The research has indicated that emotional intelligence of project managers determines the level of their competencies in the scope of communication, teamwork, kindness, conflict management (Clarke, 2010, pp. 5-20).

Kołodziejczyk also based its research concerning managers operating in two enterprises with virtual-network structures on the diagnosis of personality traits and emotional intelligence (Antczak, Kołodziejczyk, 2013, pp. 58-92). The author distinguished the following skills of manager used in virtual-network management: building and coordinating a virtual-network team, increasing awareness of international strategy, communicating effectively despite of cultural differences, building and maintaining virtual-network culture whose characteristics are universal, resolving conflicts constructively in virtual-network teams, interpersonal intelligence, openness to autonomy, individualism and different cultures of virtual team members, continuous development and science related to the implementation of career path (Antczak, Kołodziejczyk, 2013, pp. 78-79).

In turn, El-Sofany, Alwadani, Alwadani conducted a survey among 31 employees directing or participating in virtual teams implementing IT projects. The research dealt with determining competencies that should have a manager who successfully manages a virtual team, in particular, determining whether technical or behavioural competencies are more important in order to direct virtual teams. The research was based on the classification of competencies given by *International Project Management Association – IPMA* (El-Sofany, Alwadani, Alwadani, 2014, pp. 28-33).

The presented overview of competency typology indicates that management staff of network organisations should have broad intellectual horizons, demonstrate courage and creativity in action, openness to organizational and technical innovations and constantly develop their skills. However, in presented researchers' opinions, there is a lack of compliance with competencies that can be considered as model-based – necessary for the efficient functioning of a manager in enterprises with network structures.

## 6. Conclusion

The presented considerations lead to the conclusion that there is a need to develop specific systems for assessing the competence of managers functioning in network organizations. The following noticeable trends seem to be the arguments supporting that conclusion:

1. The dynamics of the environment, which is characterized by general characteristics such as turbulence, increased uncertainty and related with them knowledge-based economy, is changing.
2. The importance of intangible characteristics of an enterprise, organizational learning processes, creating/acquiring knowledge in the organization is increasing.
3. Organizational structures of enterprises are changing, followed by moving away from hierarchical structures and growing importance of network structures, for which a significant degree of spontaneity creation is one of the distinguishing characteristics.
4. Organizational management methods and computer methods supporting management processes are improving.
5. Changing functions and roles of managers and relationships between entities in network structures determine changes of competency requirements which are posed for managers.

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# Chapter 24

## Value Co-creation in the Management of the Organization on the Example of an University<sup>1</sup>

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*Jadwiga Stobiecka*

### 1. Introduction

Value co-creation on the active market may constitute a form of economic strategy. Understanding the fact that a consumer purchasing a product focuses not only on functional and economic benefits but also on emotional, social, ethical and environmental dimensions provides an opportunity for its co-creation. Since Vargo and Lusch (2004, pp. 1-17) introduced for the first time the concept of the service dominant logic (SD) as opposed to the goods-dominant logic (GD), a heated discussion on the subject has been conducted in the marketing literature (Ballantine, Varey, 2008, pp. 11-14; Grönroos, 2008, pp. 298-314; Payen et al., pp. 83-96). This has resulted in the need for a more detailed elaboration of the theoretical basis of the new paradigm (Lusch, Vargo, 2006, pp. 281-288; Vargo, Lasch, 2008; pp. 1-10; Vargo et al., 2010, pp. 133-156). Value co-creation occupies a particular place in it. It takes place not in the time of purchasing a product or service, but during the consumption and usage. Value understood in this way, taking into account the consumer's perspective, Holbrook (2006, p. 517), is considered customer value as an interactive relativistic preference experience.

One of the reasons for the researchers' deep interest in the concept of the service dominant logic with regard to the services in the area of higher education are critical remarks on the transfer of the goods-dominant logic as a basis for the evaluation of such a specific professional service as university education (Svensson, Wood, 2007, pp. 17-28). One questions above all the legitimacy of treating a student as a consumer, which as a result creates an impression that it is solely university faculty who is responsible for the quality of education in this area.

Direct client-producer interactions are necessary for the platform of value co-creation. Therefore, the process of value co-creation requires an assumption of new methodological perspectives which would allow to recognize positive and negative effects of value creation by understanding

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the logic of behaviors and motivation systems of all the groups involved in the process of value co-creation. The creation of the climate conducive to the implementation of changes constitutes a very important element which is crucial for raising the quality of provided services with the application of the concept of the service dominant logic. A diagnosis of the present organizational culture and the determination of the direction of changes preferred by the academic environment may constitute the first road sign on this way.

The research works presented in the article aimed at establishing the way of perceiving the key values offered to the academic youth through the organizational culture of the Krakow University of Economics (CUE). The two postulated research hypotheses are formulated as follows:

1. Students in the analyzed fields of studies perceive the culture of hierarchy as the dominant type of the CUE culture.
2. Students would like their University to be a dynamic, entrepreneurial and creative workplace, and so adhocracy is the culture of the future preferred by all the groups.

Attention was focused on students pursuing their Master's studies at the CUE. Eight groups of students were selected for the research, and these represented two fields of study, namely: Tourism and Recreation as well as Marketing and Market Communication. In each case two groups consisted of full-time students, and two groups consisted of students pursuing part-time studies. Altogether 191 correctly completed questionnaire forms were obtained. The OCAI questionnaire (Organizational Culture Assessment Instrument) constituted the measuring instrument.

## **2. Service Dominant Logic as an alternative to the Goods Dominant Logic**

The paradigm of the service dominant logic was not conceived as a totally new approach, but rather as an alternative to the goods-dominant logic. The basic difference between them is revealed through the fact that the GD approach, well grounded in the Smith's work (Vargo et al., 2010, p. 136), is based on the concept of value-in-use. It is assumed that value is created by a firm thanks to production and added value which comprises distribution and sales. The alternative perspective (SD) focuses on services as the main process of creating value, while products are treated as a vehicle for providing services. The SD logic perceives exchange on the market as a process in which participants make use of their knowledge and skills in order to offer benefits to their partner. This approach does not contradict the idea of real value or the Smith's definition of value-in-use.

In the early stages of the development of the GD concept services were ignored. However, as soon as attention was focused on nonmaterial aspects of exchange, a service became an addition to a basic material good (Vargo et al., 2010, p. 137). Nevertheless, since the beginning one has seen the difference between goods and services. A unique character of services is related to their intangibility, heterogeneity, inseparability and perishability (Zeithaml et al., 1985, pp. 33-46). The perspective of GD logic was shifted from goods onto services, and models were assumed for them which were developed for the needs of goods exchange – in spite of the fact that services are difficult to standardize.

The SD paradigm highlights services as the driving force of economy, which seems reasonable in relation to the concept of knowledge economy defined as "Production and services based on knowledge-intensive activities that contribute to an accelerated pace of technical and scientific

advance, as well as rapid obsolescence. The key component of a knowledge economy is a greater reliance on intellectual capabilities than on physical inputs or natural resources” (Powell, Snellman, 2004, p. 199). The foundations of the SD logic were formulated in ten assumptions creating the framework which permits to analyze the phenomena related to exchange. The list of the assumptions as well as their interpretation are presented in Table 1.

Table 1. Foundational Premises of Service-Dominant Logic

FPs	Premise	Explanation/Justification
FP1	Service is the fundamental basis of exchange	The application of operant resources (knowledge and skills), “service”, is the basis for all exchange. Service is exchanged for service
FP2	Indirect exchange masks the fundamental basis of exchange	Goods, money, and institutions mask the service-for-service nature of exchange
FP3	Goods are distribution mechanisms for service provision	Goods (both durable and non-durable) derive their value through use – the service they provide
FP4	Operant resources are the fundamental source of competitive advantage	The comparative ability to cause desired change drives competition
FP5	All economies are service economies	Service (singular) is only now becoming more apparent with increased specialization and outsourcing
FP6	The customer is always a co-creator of value	Implies value creation is interactional
FP7	The enterprise cannot deliver value, but only offer value propositions	The firm can offer its applied resources and collaboratively (interactively) create value following acceptance, but cannot create/deliver value alone
FP8	A service-centered view is inherently customer oriented and relational	Service is customer-determined and co-created; thus, it is inherently customer oriented and relational
FP9	All economic and social actors are resource integrators	Implies the context of value creation is in networks of networks (resource-integrators)
FP10	Value is always uniquely and phenomenological determined by the beneficiary	Value is idiosyncratic, experiential, contextual, and meaning laden

Source: Vargo et al., 2010, p. 138.

With reference to value, the authors of the SD concept considered two possible conceptualizations: “value in exchange” and “value-in-use”. Eventually they adopted the concept of “value-co-creation”, which was made popular by Prahalad and Ramaswamy (2000, pp. 79-87).

Table 1 enables one to notice that the concept of value was accounted for in three premises: FP6, FP7 and FP10. These pointed out that: the customer is always a co-creator of value; the enterprise cannot deliver value, but only offers value propositions; value is always unique and determined by the beneficiary (idiosyncratic, experiential, contextual, and meaning laden).

### 3. Organizational culture at CUE as a vehicle of values offered to CUE students

From the social and economic point of view, higher education institutions serve a number of very important functions, which may be considered as missions. Scott (2006, pp. 4-5) lists five of them. Firstly one can distinguish Teaching and Research. This is followed by: Nationalization, Democratization and Public Service – Nation-State Stage. These resulted from the needs of independent states. The fifth of the listed missions – Internationalization – is related to the globalization, and it is the one that will constitute the greatest challenge in the coming years. Kerr (1994, pp. 12-16) enumerates four main aspects of internationalization: inflow of new information, lecturers, students and teaching contents. In his opinion, in spite of undoubted economic, scientific and academic benefits, globalization may also generate costs. The strive for universalism may result in the loss of the cultural heritage which allows one to distinguish themselves, but assuming additional missions undoubtedly expands the range of influence exerted by a higher education institution.

The CUE motto and mission is expressed in the Latin sentence “*Rerum cognoscere causas et valorem*” (in English “To learn the causes and values of things”). Its further development reads “To learn the causes and values of things. To provide universal education. To bring together professional and general knowledge of methodological and theoretical character” (<http://nowa.uek.krakow.pl/en/university/profile-and-mission.html>). The didactic offer is contained in the programs of studies (<http://nowa.uek.krakow.pl/en/education.html>). Ethical standards (<http://uekw-ww.uek.krakow.pl/pl/uczelnia/o-universytecie/standardy-etyczne-uek.html>) constitute the most important values for the Cracow University of Economics, and they determine its good image and social credibility as well as smooth functioning and thorough development of scientific-didactic activities. These comprised such values as: dignity, truth, freedom and responsibility, reliability and honesty, justice, kindness, tolerance and loyalty, impartiality and transparency while handling public affairs.

### 4. Assumed methodology of research

According to Wilkins and Patterson (1985, p. 272) the ideal culture may be characterized by supplying clearly defined values, the sense of group competencies and abilities to take advantage of these competencies in case of need in new situations and changing conditions. The OCAI questionnaire (Organizational Culture Assessment Instrument) developed by Cameron and Freeman (2006) is one of more frequently implemented tools used for the diagnosis of the organizational culture. It makes it possible to determine, firstly, the existing type of culture in a given organization, and then analogically indicates the preferred type of culture. The questionnaire was developed on the basis of the theoretical model of the competing values framework. The model distinguishes four dominant types of culture:

1. **Clan culture** – refers to an organization in which a pleasant work atmosphere is dominant. The organization coherence is guaranteed by loyalty and attachment to tradition. The emphasis is given to the personal development and strong interpersonal ties. Success is considered in categories of good atmosphere inside the organization and care for employees.

2. **Adhocracy culture** – an organization where this type of culture is dominant is dynamic, entrepreneurial and creative. Success is associated with the introduction of unique solutions, goods and services. This type of organization reacts most quickly to the fast changes of the environment, and is typical of the information age.
3. **Hierarchy culture** – an organization where this type of culture is dominant is a place which is to a large degree formalized and where hierarchy is very important. Employees' activities are strictly determined by procedures, and leaders are successful organizers and coordinators. The organization coherence is guaranteed by the norms and rules specified in the formal regulations.
4. **Market culture** – an organization where this type of culture is dominant is much more oriented towards external issues and focused on building its own position in the environment than on internal affairs. This is a performance-focused work place. The organization coherence is guaranteed by the desire to win. The long-term goals are an increase in competitiveness and maximum efficiency.

The OCAI questionnaire consists of twenty four statements grouped into six categories which constitute the dimensions typical for each of the cultures. Each of the dimensions is assigned one statement describing one of the cultures. The task of the investigated person is to divide 100 points between four statements, taking into consideration the participation of particular cultures in the present organizational culture or the one preferred in the future (in 5 years). This article focuses only on the dimension of “the dominant characteristics of the organization” (or what the overall organization is like). The scale positions referring to the dimension are illustrated in Table 2. As mentioned above in the introduction, the research group was selected deliberately, taking into account the form of studies (full-time and part-time studies) as well as the field of studies (Tourism and Recreation as well as Marketing and Market Communication).

Table 2. The Organizational Culture Assessment Instrument – Dominant Characteristics

Type of Culture	Scale item
A. Clan	The organization is a very personal place. It is like an extended family. People seem to share a lot of themselves
B. Adhocracy	The organization is a very dynamic and entrepreneurial place. People are willing to stick their necks out and take risks
C. Market	The organization is very results-oriented. A major concern is with getting the job done. People are very competitive and achievement-oriented
D. Hierarchy	The organization is a very controlled and structured place. Formal procedures generally govern what people do

Source: Cameron, Quinn, 2006, p. 26.

## 5. Obtained results

The results presented in Table 3 illustrate the students' perception of the present organizational culture and the organizational culture preferred in 5 years. The desired change was expressed by the means differences in the preferred and present culture. Differences in absolute values equal or higher than 10 are considered valid. The results obtained for all the surveyed people are illustrated in Figure 1.

Table 3. Preferred change in culture according to Krakow CUE students in the area of Dominant Characteristics

Specification	Total N = 191			Tourism and Recreation						Marketing and Market Communication					
	Full-time N = 44			Part-time N = 49			Full-time N = 47			Part-time N = 51					
	P	F	D	P	F	D	P	F	D	P	F	D	P	F	D
CLAN	19.7	30.2	10.5	16.9	33.2	16.3	19.7	35.1	15.4	21.7	25.4	3.7	19.7	30.2	10.5
ADHOCRACY	23.9	29.3	5.4	22.7	30.2	7.5	20.2	30.4	10.2	26.7	27.7	1.0	23.9	29.3	5.4
MARKET	26	24.2	-1.8	25.9	24.5	-1.4	29.4	20.6	-8.8	22.7	26.8	4.1	26	24.2	-1.8
HIERARCHY	30.8	16.3	-14.5	35	12	-23	31.5	14.1	-17.4	28.8	19.9	-8.9	30.8	16.3	-14.5

Legend:

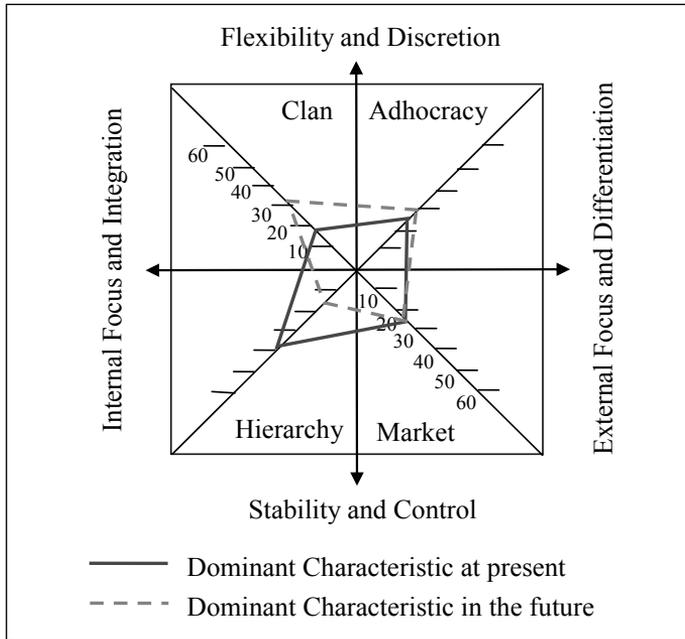
P – Present culture

F – The culture preferred in the future

D = P-F The difference between present and preferred culture

Source: own work.

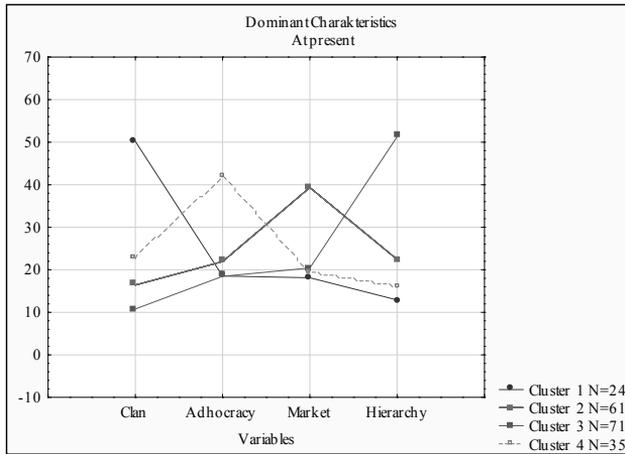
Figure 1. General characteristics of the organization – present CUE culture and preferred culture (results for all students)



Source: own work.

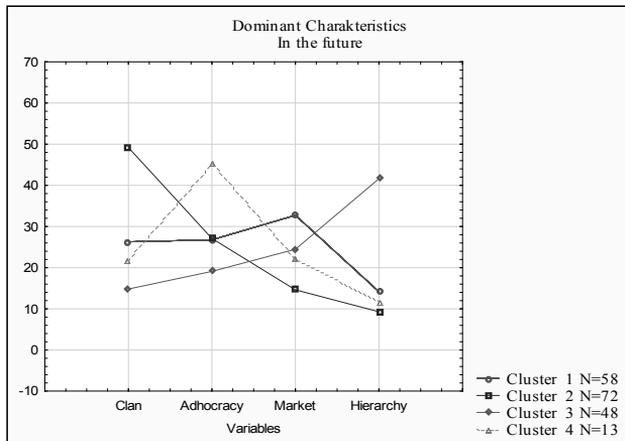
Since the mean value is strongly influenced by extreme results, an additional grouping of the surveyed people with the application of the k-means method was carried out in order to separate homogenous groups with regard to the perception of the present culture and the culture preferred in the future. Like before, only the Dominant Characteristics dimension was accounted for in the analysis. The analysis was conducted twice – separately for the present culture and for the culture preferred in the future. All variables discriminated the obtained clusters at the level  $p = 0.00000$ . The graphs representing the means for particular clusters were presented in Figures 2 and 3. The legend on the right side of the Figures contains the number of people included in a particular cluster.

Figure 2. Plot of Means for each cluster – Dominant Characteristics dimension, present culture



Source: own work.

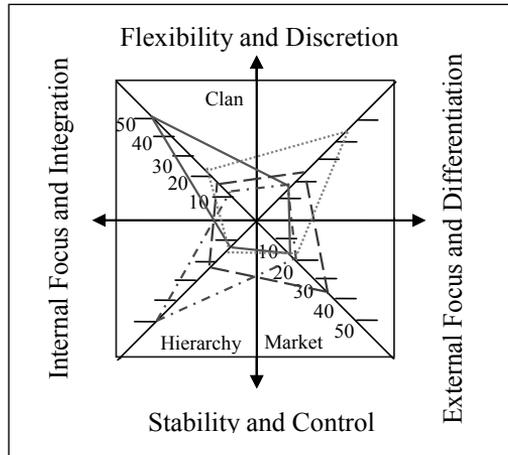
Figure 3. Plot of Means for each cluster – Dominant Characteristics dimension, culture in the future



Source: own work.

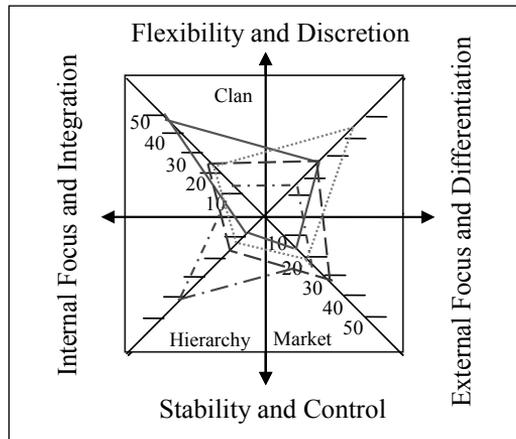
In order to demonstrate the differences between the results (mean values) obtained for the student groups accounted for in the research (Tab. 3) and the results obtained for particular clusters (also mean values), Figures 4 and 5 illustrate the results obtained for the present culture and for the culture preferred in the future.

Figure 4. Perception of the present CUE culture by separated homogenous groups – Dominant Characteristic dimension, present culture



Source: own work.

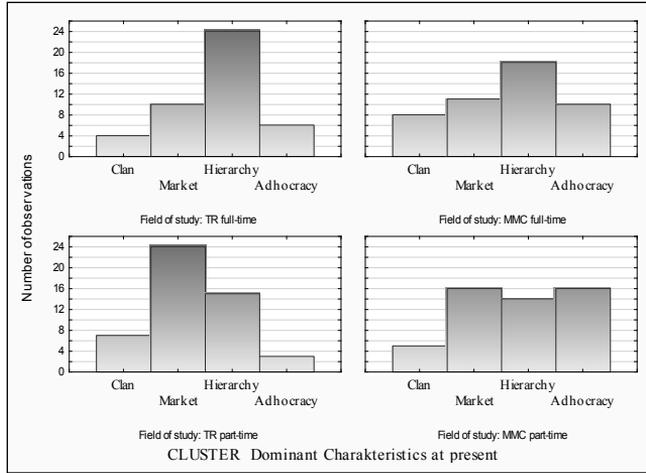
Figure 5. Perception of the CUE culture preferred in the future by separated homogenous groups – Dominant Characteristic dimension



Source: own work.

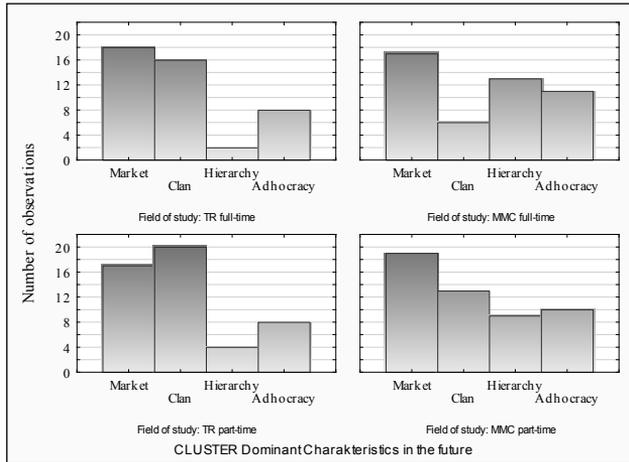
The dependence between the membership in the cluster and the field and form of studies is in turn illustrated in Figures 6 and 7.

Figure 6. Membership in the cluster according to the perception of the present CUE culture and the field and form of studies



Source: own work.

Figure 7. Membership in the cluster according to the CUE culture preferred in the future and the field and form of studies



Source: own work.

The results presented above allow one to notice that the assessment of the values offered to CUE students through organizational culture in the area Dominant Characteristics does not yield clear results. Taking into account the average assessments obtained for particular types of culture and the total of the surveyed people, the hierarchy culture appears to be the dominant culture at the CUE in Krakow. This makes it possible to positively verify the first of the proposed hypotheses. The market culture occupies the second place in almost all cases. Full-time students

of Marketing and Market Communication constitute an exception. For them the adhocracy culture ranked second following the hierarchy culture. The type of culture preferred in the future is definitely the clan culture, which is followed by the adhocracy culture. Also in this case full-time students of Marketing and Market Communication constitute an exception as they prefer three types of culture to a similar degree: adhocracy (with average score 27.7 points), market (26.8 points) and clan (25.4 points).

Slightly different observations may be made on the basis of the results of grouping carried out with the application of the k-means method. Both with reference to the present time and the future, one confirmed in the analyzed area the presence of four homogenous groups which perceive or prefer different types of culture. The hierarchy culture is perceived as the dominant type of the UEK culture by 37% of the surveyed students (with average score 51 points). 32% people indicated the market culture (39 points).

For 18% of students the present CUE culture is the adhocracy culture, and for 13% it is the clan culture. The analysis of the results referring to the culture preferred in the future revealed that 38% of people spoke in favor of the clan culture (with the average score of points amounting to 45). 30% chose the market culture (33 points). The hierarchy culture was in turn indicated by 25% of students. It appears as a surprise that adhocracy is the least preferred type of culture, as it was pointed out only by 7% of people. This result does not confirm the second hypothesis.

## **6. Conclusion**

From the point of view of value co-creation, educational services offered at the level of higher education institutions constitute a very interesting research area. Their characteristic features are: a high intensity of involvement both on the part of the supplier (mainly lecturers and academic faculty) and the consumer (students) as well as the long-term nature of the service delivery and interaction. Co-created value is a result of mutual, interactive process, and the service dominant logic may in this case be perceived in the context of relations, in which value appears and develops in time.

The results presented and discussed in point 5 make space for a certain reflection: Why the same organizational culture is so differently understood by people who should have very similar academic experiences? The paradigm of the service dominant logic leads to the conclusion that an organization does not supply value, but only offers its proposition. Students may take advantage of this proposition or not. If they do, the value supplied to them may become unique as a result.

Value co-creation has always been present in education. It is a great challenge for the academic environment in the age of globalization to create such conditions of offering educational services that would make students want to learn and teachers want to teach.

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# Chapter 25

## **Non-financial Performance Indicators as a New Approach to Measure the Value of Companies**

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*Marta Lętek, Gergő Barta*

### **1. Introduction**

Most of the companies' business object is to meet with their financial goals which most of the time can be expressed by key financial indicators; however, exclusively used financial performance measures have a conspicuous drawback what can make a company unattractive to shareholders. Enterprise management oftentimes makes incautious or unconsidered decisions in order to bring out the best of these indicators that might lead to misrepresentation, which eliminates factors being determinative in the successful operation of companies. The situation is even worse when management is not served by information systems being able to convey reports, which can be used for analyzing qualitative results. Non-financial performance indicators are a different ways of measurement what allows taking into account other significant factors such as product/service quality, name awareness or staff competence that also have a big impact on business performance.

The article is attempting to search for the model to evaluate non-financial performance indicators, its significance in the companies' financial statements, required management attitudes and the design of information systems related. With the knowledge of being conscious the appropriate expressions of these measurement elements, the market value of companies can achieve a higher level and management can make more accurate and timely decisions.

### **2. Non-financial performance measurement**

Towards business operational excellence, one of the possibilities is to measure its performance. Performance measurement is to monitor organizational effectiveness with qualitative indicators, which can provide a clear picture of the achieved goals and contributes to the successful operation by comparing historical and up-to-date results and revealing bottlenecks in business processes, if design and implementation are performed effectively. The most often used measurement methods are all connected to financial performance, such as profitability, liquidity, or returns, for example, Return On Investment (ROI), but expressing the real value of enterprises needs more. Not only

can indicators related to financial measures determine the success of corporations, customer satisfaction, service quality or staff turnover are also an essential part of companies and have a big impact on daily operation, which in long-terms, leads organizations to success or failure.

Non-financial performance indicators (NFPI) are measures of performance that is not defined in monetary unit. Implementing the usage of these indicators can give an approach to evaluate the overall situation of companies expanding the scope towards business processes where financial activity does not occur. For example, measuring market position can show the current position of the entity and can be used in strategic decisions as specifying potential competitive market strategy in the future unlike financial indicators, which can only point out to gaps and position at present. To have a better understanding on non-financial indicators, an extensive knowledge is required on its model.

Actions of each company are reflected with financial and non-financial indicators. The first once are shown throughout in financial statements while second measures were considered being unimportant until stakeholders started to be more and more interested in quality, and innovation actions to see all aspects of the organizations. Using only financial related measurement has a big drawback, since it can easily become a manipulative procedure, if management is exposed by excessive pressure to deliver preferable results for their supervisors, therefore a more efficient organizational operation can be achieved which cannot reflect the real status of companies. To falsify the outcome of NFPIs are a more difficult job, since it also focuses on external processes for what the management's authority is not extended.

To summarize, NFPIs have the capability to denote the way where business is heading, and companies can possess all the information on what intervention is necessary to meet business objects. Non-financial measurements have strategic importance, because it can cover all business related field making available to value organizations as a whole entity. Categorizing NFPIs is possible whether internal or external environment is in scope, what the goals are to be achieved such as correcting operational effectiveness, discovering gaps in business processes or providing deeper insights into functional areas. NFPIs can be divided into few categories based on what organizations place into scope, such as employee engagement and satisfaction, sustainability, innovations, quality, customer service and public relations (<http://smallbusiness.chron.com/list...>).

### **3. Disclosure and models of NFPIs**

NFPIs can be found in various statements such as annual, consolidated or integrated reports as well as in additional separate papers released for society such as sustainability report or in companies' websites. The annual report as the main publication of all operations and financial activities of a company during the year, unfortunately, do not give appropriate scope of revealing non-financial information. Because of this, additional reports attract the attention of investors and they are more and more popular among society. European Union Commission published directives, which contain minimum requirements of disclosing non-financial information, to improve transparency and comparability of this data. Most of the countries, including Poland, implemented these recommendations. According to the Polish law non-financial information can be found in the activity report, which should include also: "...as far as it is relevant to the assessment of the entity – financial and non-financial indicators, including information on environmental issues and employment, as well as additional explanations of amounts reported in the financial

statements” (Ustawa z dnia 29 września 1994 r. o rachunkowości..., art. 49, ust. 3). In practice, it is few sentences which describe policy adopted by the company and its future actions. In the bigger companies, especially in the oil and energy sector, entities issue additional publications to show their commitment to sensitive affairs such as social responsibility, environment, anti-corruption or equal treatment. The newest “Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups” should be implemented by all countries till 6 of December, 2016 and will be used by companies from 2017. The EU expects companies to prepare a brief business model of non-financial matters with its results, risks, and management as well as list of non-financial key performance indicators. Entities will have a choice which standard they will use to prepare these reports. They can choose from national, international guidelines like GRI, IIRC, ISO 26000 or create their own rules (Directive 2014/95/EU of the European Parliament...).

NFPs can be divided into different categories based on the business activities, organizational structure or other resource-oriented measures. The paper classifies them into 4 groups and they can be found in the Figure 1. The classification is made according to processes and areas that affect business operations: customer satisfaction, human resource management, service quality and corporate social responsibility. Each of the sections consists of description of its content, the most common methods of measurement and benefits which can be achieved when NFPs are well managed. The first category, customer satisfaction, encloses relations with clients, their loyalty, experience and future intentions of purchasing products or using services repeatedly. The most common measure of analysis this indicator is questionnaires. Good surveys have to be provided to vast group, and should be simple with ratings included. Only big sample can be analyzed properly and give intended results. Summing up number of complaints, cancellations and returns can be another way of measuring customer satisfaction. Big companies can also benefit from websites which prepare benchmarking for satisfaction indexes like American Customer Satisfaction Index, National Customer Satisfaction Index – UK or others. These indicators can bring strong benefits to the entity by the reduction of churns, diminishing negative word of mouth, or getting referrals. Moreover, keeping the customers is cheaper than acquiring new ones (<http://blog.clientheartbeat.com/why...>) and Pareto Principle, so called rule 80/20, claims that 20 percent of customers are responsible for 80 percent of the company’s revenues (Koch, 1999). The second category, human resource management, includes all employees’ organization and recruiting actions, their career path along with firmwide morale and culture. This section is mostly measured by staff turnover, costs per hire or assessment centers with surveys about job satisfaction. Due to the maximization of employees’ performance and labor retention, value can be added to the companies and ensure that their businesses are operated by qualified workers. The service quality category combines all research and development actions, innovations, and patents. In today’s world customer delivering quality service is essential strategy to gain advantage. It focuses on product and service conditions, supply chain management, manufacturing and techniques of production. Service quality has to meet customers and technical requirements and it can be measured by number of defects, accuracy of transactions or even mentioned customer satisfaction measures. Six-sigma and lean management are widely used to improve quality and processes of a whole company by eliminating errors and minimalizing variability. Another good example of measuring service quality is RATER model and SERVQUAL, where the first one is a simplified version of the second one. They are based on 5 criteria, which have to be met reliability, assurance, tangibles, empathy and

Figure 1. Classification of non-financial performance indicators

	Content	Measurement	Advantages
<b>Customer Satisfaction</b>	<ul style="list-style-type: none"> <li>Customer loyalty</li> <li>Customer experience</li> <li>Cause and effect relationship</li> <li>Customer complaints</li> <li>Customer expectations</li> <li>Willingness to recommend a company</li> </ul>	<ul style="list-style-type: none"> <li>Questionnaires</li> <li>Rating, scales, benchmarking</li> <li>Kano model</li> <li>Satisfaction indexes like: American Customer Satisfaction Index</li> <li>National Customer Satisfaction Index- UK</li> <li>Churn (cancellations and returns)</li> <li>Number of complaints</li> </ul>	<ul style="list-style-type: none"> <li>Diminishing negative word of mouth</li> <li>Cheaper than acquiring new customers</li> <li>Customer life time value</li> <li>Reduction of churns</li> <li>Rule 80/20</li> <li>Repurchase intentions</li> <li>Loyalty and referrals</li> </ul>
<b>Human Resource Management</b>	<ul style="list-style-type: none"> <li>Personnel administration</li> <li>Training and development</li> <li>Morale and firmwide culture</li> <li>Recruiting</li> <li>Talent management, career planning</li> <li>Labor relations</li> <li>Benefits, incentives</li> <li>Performance development</li> </ul>	<ul style="list-style-type: none"> <li>Staff turnover, labour retention</li> <li>Cost per hire, time per hire</li> <li>Motivation plan</li> <li>Absentee rates / sick days</li> <li>Length of employment</li> <li>Results of job satisfaction</li> <li>HR planning, discipline procedures</li> <li>Assessment centers</li> </ul>	<ul style="list-style-type: none"> <li>Important asset of a company: adds value</li> <li>Better qualified workers</li> <li>Reduction of costs of training new employees, costs of replacement</li> <li>Better organisational culture leads to easier way to obtain good workers</li> <li>Higher employee productivity</li> </ul>
<b>Service Quality</b>	<ul style="list-style-type: none"> <li>Innovation</li> <li>Patents, trademarks</li> <li>High product quality</li> <li>High manufacturing productivity</li> <li>Cycle time</li> <li>Brand awareness/recognition</li> <li>Service techniques</li> <li>Service delivery process</li> <li>R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>Measures of defects</li> <li>Yield and reduction in waste</li> <li>Accuracy of transactions</li> <li>Six sigma, Lean management</li> <li>One-time deliver</li> <li>RATER, SERVQUAL models</li> <li>Customer satisfaction</li> <li>Quality function deployment</li> <li>Quality management, ISO 9004</li> </ul>	<ul style="list-style-type: none"> <li>Position in favorable markets</li> <li>Product reliability</li> <li>Business promotion</li> <li>Higher productivity, sales and profit</li> <li>Competitive advantage</li> <li>Client satisfaction</li> <li>Technology advantage</li> </ul>
<b>Corporate Social Responsibility</b>	<ul style="list-style-type: none"> <li>Social responsibility</li> <li>Environment impact</li> <li>Business ethics</li> <li>Corporate philanthropy</li> <li>Sponsorship</li> <li>Public relations</li> <li>Human Resource</li> </ul>	<ul style="list-style-type: none"> <li>ISO 26000, 14000</li> <li>Triple bottom line</li> <li>Educational and social programs</li> <li>KPI</li> <li>Benchmarking</li> <li>Reporting guidelines (GRI, IRRC)</li> <li>Certifications e.g. Earthcheck</li> <li>Cost-benefit analysis</li> </ul>	<ul style="list-style-type: none"> <li>Creating Shared Values</li> <li>Building good image of a company</li> <li>Environmentally friendly company</li> <li>Enhance relationships</li> <li>Access to investments</li> <li>Save money on energy and operating costs</li> <li>More business opportunities</li> </ul>

Source: based on: Kotane, Kuzmina-Merlino, 2011; Pzydek, Keller, 2013; Machado, Paulo Davim, 2014.

responsiveness. All of dimensions refer to performance, knowledge and attention towards customers to provide high service, and these models can help to plan how to improve it (<http://www.mindtools.com/pages/article/rater.htm>). Well managed service quality can bring competitive advantages, higher productivity and form position in favorable markets by for example technology advantage. The last category, corporate social responsibility, has gained attention in the last few years as nowadays companies are also measured by their social actions, philanthropy, impacts on the environment, ethics and public relations. Entities can follow some guidelines how to show CSR like GRI (Global Reporting Initiative), IRRC (International Integrated Reporting Council), ISO 2006 (Social responsibility) and ISO 14000 (Environmental management) which provides tools and advices on concise and comparable corporate reporting. They can use as well other methods of measurement like triple bottom line, which consists of people, planet and profit. Good command of CSR can build positive image of the company, bring more investments due to being social – and environmental – friendly entity and create shared values. Each of the presented

NFPs, as well as the comparison between them can also be evaluated by below integrated performance models:

1. Kaplan and Norton's balanced scorecard.
2. Fitzgerald and Moon's building block model.
3. The performance pyramid.
4. The performance prism (<http://kfknowledgebank.kaplan.co.uk/KFKB...>).

All of these models try to incorporate both financial and non-financial indicators to provide valuable business strategies.

More and more researchers try to prove the thesis that there is a correlation between market value of a company and NFPs reports, but this interaction is not that easy to be proven. Without any doubt, these reports create good image of a company and thanks to them, people are more willing to invest into a company. For instance, the research made among Polish companies by Paulina Roszkowska (2011, p. 221) based on CSR disclosure and competitiveness shows positive one-direction correlation that the bigger level of disclosure is provided, the more competitive the company is. Another good example is a report issued by Goldman Sachs called "Green is Gold" that entities who are leader in ESG (Environmental, Social and Government affairs), show better results at stock exchange by 25 percent (*Green is Gold*, 2007, p. 8). According to E&Y the majority of investors use non-financial information while assessing in what to invest and mostly they rely on reports provided by companies rather than rating offices. Moreover, this research shows that entities who are more transparent on ESG policies can reach better value (*Tomorrow's investment rules. Global...*, 2014, p. 3, 33). These examples show that organizations can reach competitive advantage due to good reporting of NFPs and for this reason, they should have wider position in financial statements. Accounting system does not provide all the information which can lead to forward-looking management strategies as well as they do not provide all data which investors are looking for. The dependency on financial measurements without taking into account non-financial data can lead to evaluation biases, therefore new approaches and standards toward extensive reporting of NFPs should be introduced. The EU performed survey asking companies what the advantages are of non-financial reporting. The respondents answered that it improves transparency, companies' credibility, mitigating risk and in some cases, it can even lead to increase in sales. What is surprising, most of the companies answered negative to including the non-financial reports to annual reports, they prefer to publish them separately (*Disclosure of non-financial information...*, p. 5, 12). Except of advantages for companies non-financial reporting has an impact also on markets and society. It provides environmental and social improvements thus people can benefit from sponsorships, "green earth". This reporting can be easier and independently analyzed by the people, making their own opinion about the company. From investor's point of view it encourages investments and creates true value of the organization. It can generate additional work places by hiring experts and employees who will be charge of social and environmental matters. The national government can also benefit from non-financial reporting to investigate real results on the entities level like measuring greenhouse gas emissions or other parameters (*Report or Explain – A smart...*, 2013, p. 3). Apart from all of the benefits which non-financial reporting can bring, the one question remains unsolved how ensure the creditability and comparison of these papers? Many countries have standards and recommendations of measuring and disclosing NFPs but until they are not official rules not many companies are using them. Big corporations provide data which shows them in the best light and they hide problems and bad impacts as they can easily select standards and indicators which are

the best for them. The EU is trying to expand the non-financial reporting but as every directive it needs time to be introduced, analyzed and implemented. Governance should introduce corrections in the law to force companies to include NFPIs in the annual reports.

#### 4. IT Design and implementation for NFPIs

Kouki (2015, p. 8) investigated in case of 106 French listed companies in a question whether the adoption of Enterprise Resource Planning (ERP) systems and NFPIs has an effect on organizational efficiency, and he found that there is a positive significant impact on financial performance. Kouki proved that in the explanation of Return on Assets (ROA), the combined usage is more relevant, than companies only implementing ERP or NFPIs alone, which means Information Technology is able to enhance non-financial measure effectiveness. Beside ERP systems, other solutions have seen the daylight which are exclusively developed for measuring organizational performance.

The continuous evolution of business IT systems made the birth of Enterprise Performance Management (EPM) possible and became a fashionable expression in the life of corporations, since the beginning of the millennium (Kacsukné, 2007, p. 120). EPM systems are considered to be the waterboys of the league of organizational goals to be achieved, as they are supposed to support the business objects by producing reliable performance measurement across the company. Based on the definition of Gartner (<http://www.gartner.com/it-glossary...>), EPM reinforces the process to monitor the performance of entities by analyzing data from other business related applications such as Business Intelligence or E-commerce systems.

Performance Management systems' primary source is data gathered from the entities daily operation which are stored in data bases and data warehouses, and processed and delivered oftentimes by ERP systems. EPM has to have a direct interface to those pieces of information what companies are collecting, since the activity of measuring the performance needs a data set where accuracy and completeness are persistent part of information management strategy. In order to perform a complex analysis of non-financial measurement, the following criteria have to be concerned when designing an information system implementation for performance management:

- **Integration.** While the data for the creation of financial indicators usually come from one source, most often from the General Ledger, non-financial measurement can be arising from different places. For example, information of the staff turnover is available for the Human Resource Management department, or details about customer satisfaction are for the Marketing, therefore an integrated system is needed to handle all the data in one place in order to perform a comprehensive analysis and reporting. Hence, not only is the redundancy avoidable, but the aggregation of to be consolidated and interdependent cognition is also possible.
- **Capturing.** Gathering the necessary data can be a challenge as well, since meaningful information frequently comes from the outside of companies' borders. When evaluating the quality of products, customer opinion is a determinative factor which is sometimes hard to obtain. Systems have to be designed flexible to build up interfaces with external sources, such as forums on the web, where customers share their point of view about recently bought products, or ask for other people's experience. When establishing interfaces encounter feasibility problems, it is recommended to implement capability to import data to the system in a simple and fast way in order that externally accessible information would as well be manageable and interpretable for further procession.

- **Processing.** A significant difference between financial and non-financial data that financial data appear in quantifiable form, whilst non-financial ones are quite often qualitative measures. For instance, if organizations want to have a whole picture about customer satisfaction, as it was mentioned above, they need to gather information about their opinions. As it is impossible to process all the input manually, in this case, qualitative data processing is necessary to be designed in the information system, such as text mining.
- **Real-Time Operation.** Non-financial performance indicators are providing opportunities to not only analyze the past, but predict the future. Collecting information about customer behavior can help develop new products, therefore real-time data processing is an essential expectation that also allows the management to make key decisions and take appropriate actions in time.
- **Delivering.** For the representation, information systems have to convey easily digestible reports for its end-users, and originating its frequently unquantifiable characteristics, data visualization is an emphasized field when designing, respectively.

Taking advantages of information technology, the efficiency of usage of non-financial performance indicators can be increased, if design is adequately performed. The Enterprise Information Strategy has to also accommodate to business objectives, if effectiveness is wished to be incremented by non-financial measurement, since data are the source of these indicators, therefore the reliability should be kept on a high level avoiding any misinterpretation which leads companies to false conclusions.

## 5. Conclusion

Beside financial measurements, non-financial performance indicators also form an integral and key part of determining the success of businesses, however, the usage of these measures does not get as much attention as they deserve. With their implementation, areas being slightly in the middle of attention or difficult to access can be evaluated as well, such as determining factors of customer satisfaction, human resource management, product/service quality or corporate social responsibility. In addition, promising results of non-financial related indicators can be attractive to shareholders as they provide an insight to the whole organizational operation and offer a better understanding to business objects what can increase the value of companies. With appropriately designed information systems and good reporting, the efficiency is to be intensified what adds additionally benefits beside the introduction of non-financial performance measurement.

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# Chapter 26

## The Methodology in the Value Chain Analysis of an Enterprise<sup>1</sup>

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*Jolanta Walas-Trębacz*

### 1. Introduction

The contemporary economic organizations operating in an uncertain and dynamically changing environment mainly focus on increasing their value. By making strategic decisions concerning the adoption of a particular value creation concept and its implementation, an enterprise might choose the way to increase value, as a result of: increasing financial efficiency, improving productivity, improving the structure of the value chain and developing organizational networks, making use of potential of work and its productivity, and creating value from customer's perspective.

The purpose of this article is to present one of the ways to increase value of the enterprise through identification and assessment of the structure of the value chain. In the article, the conditions that contribute to the necessity of increasing interest in researching enterprise value chain were indicated. The main part of this paper focuses on presenting the methodology in value chain analysis through the characteristics of its individual stages.

### 2. The value chain as an object of the research

In the literature, the value chain is defined variously, but it can be seen that a key issue in each interpretation is the emphasis on creating value added (for the customer), which is the consequence of the implementation of ordered processes with one another. Table 1 presents the chosen definitions of the value chain.

The value chain model was introduced in 1985 by M.E. Porter. He encompassed it in the form of scheme where in a very general way the structure of interconnected main and subsidiary functions, which exist in the enterprise, were outlined. According to M.E. Porter, the value chain is a tool used to recognize ways to create more value for the customer from the enterprise's point of view, whose goal is to maximize the value added (profit) (Porter, 1985, p. 35).

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Table 1. Interpretation of the concept of “value chain”

<b>Author</b>	<b>Definition of the value chain</b>
P. Drucker	It is an ordered sequence of different types of functions (activities), generating value of the product, which is determined by market relations between the enterprise and the buyer
P.B. Schary, T. Skjott-Larsen	It consists of one integral system, in which processes leading to the formation of the product are realized, and each process is assessed from the point of view of its contribution to the total value added generated by the chain
M.E. Porter	This is strictly defined stream of different types of activities that are undertaken by enterprises forming in different way a common system of values
A. Stabryła	It is a sequence of interrelated (serial or parallel) phases of the management process and executive process referred to the particular sector of the enterprise’s activity. It is a sequence of functions of a particular system, e.g. enterprise’s or broader cooperative arrangement, having developed external relationships

Source: own work based on: Drucker, 1976, p. 120; Schary, Skjott-Larsen, 2002, p. 14; Porter, 2006, p. 58; Stabryła, 2007, p. 165.

The complexity of issues and insufficiently developed methodology in value chain design cause that the seeking direction for the enterprise value added, which is undertaken in practice, is based on the method of economic or financial analysis. An analysis of changes in the value chain model is also an interesting research perspective that raises the value added of the enterprise (Czakon, 2003, p. 31). The analysis of the value chain model is the way to search for the sources of efficiency and inefficiency of the enterprise, mainly in areas of activities in which the enterprise has specific productive, technological, organizational, informational, cooperative competencies that may become a source of competitive advantage.

Nowadays, a radical reversal of the traditional value chain (starting from the pre-production function) to the modern chain, where the customer becomes the first link and the factor which determines the rest of the activities undertaken in the enterprise, has occurred (Webb, Glie, 2001, p. 14). Creating the value chain of the enterprise consists in combining its strategic concept with a strategic exploitation and a constant renewal of resources and skills.

The analysis of the value chain in order to bring certain benefits to management staff should be carried out according to a well-considered and developed methodology. The methodology in the value chain analysis of the enterprise consists of five stages, which are further characterized in the further part of the article, namely:

1. The identification of needs and expectations of the enterprise’s customers (current and potential).
2. The analysis of processes affecting the creation of the value added.
3. The analysis of costs in the existing configuration of the value chain.
4. The assessment of resources and competencies in the enterprise value chain.
5. The assessment of relationships maintained inside and outside the enterprise value chain.

### **3. The identification of needs and expectations of the enterprise's customers**

Contemporary business struggle in the market is a struggle for a customer. Internal technological and organizational conditions of the enterprise cease to be the basis of all enterprises decisions concerning the choice of production profile, methods of managing and manufacturing, sales, communication with the market, and conducting market research. Mainly, the expectations and preferences of costumers that translate into revenues and profits of the enterprise become the basis of these factors.

In the management theory value category becomes a key concept because survival and long-term success of enterprises in the market is determined by a constant creating and delivering a correct (expected) value to customers. Simultaneously, this category is ambiguous because it can be interpreted in many different dimensions (economic, marketing, sociological, psychological, technical, axiological), and its perception depends mainly on the recipient and his expectations.

P. Kotler made a comprehensive assessment of the essence of the value from the customer's point of view. According to him, the value for the customer is an offered sum of utility, in other words it is the assessment of the overall ability of a product/service conducted by him in order to meet the needs (Kotler, 2005, p. 7, 33). It is the difference between the sum of the benefits that customer expects from the product/service and the costs associated with its acquisition. Customer's benefits are reflected in attributes expected by him, which product/service should have and in the overall image of the enterprise. While costs include: purely financial expenses and costs of waste of time, energy or mental costs. The customer determines the current value of the product/service by comparing it to the value of competitive offers and makes a final decision on the acquisition of a specific product/service<sup>2</sup>.

In contrast, the economic dimension of value – value added for the enterprise – is the amount of the turnover obtained as a result of the involvement of various types of inputs and the execution of the transformation process. The important dimension of value for the enterprise is an achieved surplus of advantages compared to its competitors by providing better value to the customer because it defines its greater potential for the development. The position of the enterprise relative to its competitors is based on the value. It is advantageous when creating value is greater than the costs associated with its acquisition (Kafel, 2002, p. 42). Creating maximum value added for the enterprise (with a high relation of value to money and at low costs) can be achieved by: operational excellence, customer intimacy, and product leadership (Koźmiński, 2004, pp. 63-65).

The initial state of creating value process is determined by appropriate, adequate orientation of the whole system (value network, enterprise) to meet the identified requirements and implementation as a result of the overall transformation process of values desired by the customer. Course of creating value process must be accompanied by continuous cooperation between the entities being participants of the system in such key processes as: designing and improving the product, appropriate delivery and customer service (Rutkowski, 2000, pp. 26-27).

Knowledge of customer needs is not only postponed to search a unique offer of a product bringing value added to the customer, but is sometimes used to make decision to change the business model of the enterprise (Slywotzky, Morrison, Andelman, 2000, p. 43).

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<sup>2</sup> The value for the customer is category: subjective, dynamic, perceived, and directly unmeasurable (Szymura-Tyc, 2004, pp. 197).

#### **4. The analysis of processes creating the enterprise value chain**

An important stage in the value chain analysis is to identify the processes carried out in the enterprise and to conduct their assessment from the point of view of efficiency and effectiveness of their implementation what is possible by identifying and developing specific measures and methods of measurement of results of processes.

In this article, the process will be considered a set of actions linked to temporal and spatial relationships, customer-oriented, defined by the flows of materials and information, penetrating borders of individual spheres of business activities, including primary and secondary value-creating activities (*Logistyka*, 2011, p. 97). The final result of the process is therefore the value of the product or service accepted by the customer. The adoption of such approach in the enterprise makes that it should carefully and systematically manage all the processes which are involved in creating value for customers (Edwards, Braganza, Lambert, 2000, p. 29). The results that are achieved in each process can be examined in terms of effectiveness and efficiency of such process (Skrzypek, Hofman, 2010, p. 14).

The use of process management in the enterprise is intended to provide greater efficiency of all actions which result is the increase in value for the customer (Sopińska, 2004, p. 52). Therefore, understanding role and expectations of the customer is a very important element in the implementation of both process approach and actions aimed at improving the efficiency of the organization. The process analysis of the enterprise should therefore include the following steps:

1. Determination of processes implemented in the enterprise.
2. Realization of the role of employees in the process of creating value added for the customer.
3. Measurement and assessment of the results of processes.
4. Proposals for processes improvement (Biazzo, Bernardi, 2003, pp. 154-156).

#### **5. The analysis of costs in the existing configuration of the value chain**

Performing each process (action) bears the costs, but only some processes create value for the customer. Processes that do not affect the increase in customer value must be reduced and eliminated. Processes which increase the value of the product or service should be effectively developed, despite the fact that this will be connected with the additional costs. Analysis of the processes in terms of their impact on creating value for the customer and their efficient implementation is the basic method used to enable decision-making, leading to a better performance of the enterprise in the future.

The process management in operational realm should be integrated with the strategic control because other goals has an enterprise which implements cost leadership strategy (standard products at the lowest possible cost), and other goals has an enterprise oriented to differentiate products (unique technologies and customer relationships, brand loyalty). Cost strategies will also be modified depending on the state of economy (crisis or prosperity), and will depend on the enterprise's life cycle (start-up or a mature enterprise).

The traditional approach assumes that the level of own costs incurred by the enterprise depends on the size of its activity measured by the amount of production, it is associated with the concept of cost-volume-profit analysis and the division of costs for fixed and variable. In the literature,

in the field of management accounting this approach is attributed to the operational and short-term dimension (Jaruga, Nowak, Szychta, 2001, p. 386). In strategic terms, it is necessary to pay attention to other factors than the amount of activity ones that affect the level of costs in the enterprise. Their recognition is an important addition to the analysis of the value chain.

Recognition, measurement and analysis of cost-driving factors in the enterprise are the most important tasks of accounting in the strategic cost management what is relevant primarily in gaining competitive advantage.

Methods allowing to manage costs in respect to the value chain are: target costing, activities analysis and planning, activity-based costing (ABC) (Stabryła, 2012, pp. 79-82), activity-based budgeting (ABB), steering product profitability according to groups of customers (sales areas), business process reengineering (BPR), just-in-time systems (JIT), benchmarking, continuous improvement (CI) (Jaruga, Nowak, Szychta, 2001, p. 839).

## **6. The assessment of resources and competencies in the enterprise value chain**

Adding value to the organization in a continuous and dynamic way through the implementation of processes within it need specific competencies that will manage to “do something” better than competitors. Competencies are defined as the ability of an organization to do “something good” to some extent. They are the result of learning, experience, analytical capabilities synthesizing information, attitudes towards risk, etc. (Rokita, 2005, p. 142). They are not a fixed value, but they are changing quickly over time. They are used in specific activities of a particular project (business), e.g. in the value added chain. It is necessary to have the key competencies in the value creation strategy (Bratnicki, 2000, p. 17). To a large extent, competencies of the enterprise, such as economic, managerial, psychological, decide about the structure of activities (Strategor, 2001, p. 63). Possession of specific competencies enables the enterprise to choose a specific business model. This does not mean that the enterprise through establishing relationships with the allies cannot enrich the already owned (developed) competencies and reconfigure previously created value chain<sup>3</sup>.

Due to the scope of owned (and access to) competencies and the role played in the value chain, the enterprise can choose the following business models:

- conductor’s model, in which the enterprise instead of integrating, coordinating and controlling all activities needed in the sector, decides to outsource those activities that are not crucial, and create a network of partners, acting in it as coordinator;
- operator’s model, in which the enterprise concentrates on one of the chosen aspects of the value chain;
- integrator’s model, in which the enterprise expands its value chain on consecutive links in order to obtain control over the entire process of producing and appropriating value (Oblój, 2002, p. 135).

The organization analyses the value of the individual components of the value chain with particular emphasis on a specific element or expands the value chain when the source of gaining

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<sup>3</sup> The *business model* is “the combination of the strategic concept of the enterprise and the technology of its practical implementation understood as the value chain construction, which allows to effective exploitation and renewal of resources and skills” (Oblój, 2002, pp. 97-98).

profit and the basis of an innovative business model is a specific configuration of processes realized in the enterprise (Slywotzky, Morrison, Andelman, 2000, p. 81).

The creation and development of core competencies as a source of competitive advantage also requires a redesign of the existing organizational structures. The analysis of resources and competencies of the enterprise should also be completed by the analysis of resources and competencies of competitors, partners in the value chain network because in this way there will be an opportunity to obtain information and to evaluate the possibility of producing and delivering value added to customers (Szymura-Tyc, 2006, p. 115).

## **7. The assessment of maintained relationships of the enterprise in the value chain**

P. Drucker wrote that one of the biggest changes, which today's managers have to deal with, is still accelerating growth of the business relationships based not on a direct relation of power and property but on partnership. In the value creation, at degree higher than ever before, organizations rely on a variety of voluntary cooperation projects (Latusek-Jurczak, 2011, p. 11).

Contemporary environment forces many enterprises to create various types of relationships (links) because organizations are less often able to independently participate in the struggle for competitive advantage. Depending on the specific circumstances of the organization and its environment, the creating objectives of cooperative arrangements may be different. The fundamental determinant of creating cooperative arrangements is to gain access to knowledge, and internalization, reduction of costs, reinforcement to market position (Grant, Baden-Fuller, 2004, pp. 61-84). Nowadays, interorganizational relationships are becoming more important because they allow enterprises to access new information, resources, markets and technology. External networks are valuable and precious because of creating opportunities to acquire and learn new skills by enterprises participating in them (Macias, 2009, p. 28).

Many entities may attend in building the value chain. Their quantity, method and range of relations is likely to significantly affect the obtainable value added and abilities to achieve a competitive advantage in the market.

Relationships in the value chain relate to the external chain: suppliers, manufacturers, distributors and customers, but they can be examined from the point of view of internal relationships within one enterprise. The link occurs when there is a certain degree of interdependence between activities. It means that individual activities occurring in the value chain are often not isolated from each other and have an impact on revenues and costs of other activities.

All relationships (links) regardless of the type are very important from the point of view of potential opportunity to steer their impact on the efficiency of the enterprise. The importance of vertical links occurring between a particular enterprise and its suppliers and customers consists in using them often in order to obtain financial benefits by all related parties. It is necessary to look for such improvements in these relationships (links) that allow to improve the cost situation of both businesses and contractors (Nowak, 2006, pp. 119-120).

Contemporary development of multidirectional agreements increasingly replaces simple relationships of direct competition. Development strategies adapted to these challenges are focused on creating so-called business ecosystems, in other words multilateral networks connected with suppliers, customers, competitors (Kaleta, 2000, pp. 150-151). The external borders of compa-

nies have become more liquid as a result of closer partnership links of these enterprises with customers, suppliers. It is associated with the spread and development of IT networks and causes arising network or virtual enterprises (Brilman, 2002, p. 425). The practice of enterprises indicates that cooperation is often better solution than competition in order to reduce transaction costs, the acquisition of new technologies, acceleration of innovations, acquisition of knowledge and overcome barriers in domestic and foreign markets (Dunning, 1995, p. 467).

## 8. Conclusion

Nowadays, enterprises are forced to identify and change the whole chain that creates value for the customer and usually goes beyond boundaries of the organization. About obtaining a competitive advantage in the market more often are deciding: the choice of business model based on the value chain, the definition of an effective competitive strategy in the market, efficient use of resources and skills, and especially the scope of IT that enables changes of business processes.

The methodology in value chain analysis of the enterprise presented in the article should be one of the most important diagnostic and conceptual tools for managers choosing competitive strategy because it is characterized by orientation on basic attributes of the modern enterprise i.e. on process, customer and efficiency. The specific set of methods supporting the achievement of the defined objectives should be chosen according as the chosen direction of improving the value chain (Walas-Trębacz, 2012, p. 215).

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# Chapter 27

## **Analysis of Network Relationships with the Use of the SNA – Case Study of Selected Clusters in Poland<sup>1</sup>**

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*Beata Barczak*

### **1. Introduction**

While examining organisational networks, it is necessary to take into account the complexity of the relations occurring within them. Social network analysis which is especially useful in the analysis of various types of network relationships, as well as the assessment of the position of entities within the network can be used as an auxiliary tool. The paper presents studies aimed to identify and analyse the relationships (flows and interactions) in three selected clusters operating within the area of Poland with the use of network indicators. The character of the relations between the cooperation participants within the selected clusters was analysed here. The analysis included the interactions among the cooperation participants (coordination, cooperation, control, and competition), as well as flows (of information, financial resources, human resources, and tangible resources). The description of the cases of particular networks was preceded by the description of the SNA research method, as well as reflections on the study of network relationships.

### **2. Network analysis and structural paradigm**

Social network analysis is a modern tool with increasing popularity, allowing for the analysis of more complicated, i.e. multi-element and multi-level structures of the relationships between the different types of social entities. Network analysis is widely used in many disciplines for the analysis of various phenomena, such as: understanding the formation of attitudes, social and economic mobility, diffusion of innovation and information, communication, structure of communities, companies, organisations, interpersonal relationships or political behaviours (Wasserman, Faust, 2007, pp. 1-819).

Sometimes the analysis includes not only the actually existing networks and relationships, but also the way the relationships are perceived by different actors (the network perception). The social network analysis methods allow us to study:

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- the position of entities within the structure,
- the position of the group within the network,
- global properties of the structure of the whole network.

The network analysis uses the SNA methods, i.e. the methods of *Social Network Analysis*. It is now a rapidly growing discipline which uses the graph theory for the study of social phenomena. Currently, the social network analysis is a tool rooted in the tradition of many disciplines (e.g. mathematics, sociology, anthropology, statistics, etc.). The main creators and promoters of the SNA are, inter alia, the following researchers and experts: Stanley Wasserman, Steve Borgatti, Philippe Bonacich, Berry Wellman, Linton C. Freeman, Valdis E. Krebs, Mark Granovetter, David Knoke or Rob Cross.

The methods of social network analysis constitute an element of a broader tradition referred to as structural analysis. The representatives of this trend apply specific research methods and create a separate scientific community organised in the international association – INSNA – International Network for Social Network Analysis. B. Wellman characterises the tradition of network research as follows: ‘the structural analysis is a holistic paradigm within which it is examined how the patterns of relationships affect the allocation of resources within the social structure. The paradigm strength lies in the integrated application of theoretical concepts, the method of data collection and analysis, as well as growing, significant research achievements’ (Wellman, 1988, pp. 19-61). He draws attention to the following characteristics of the structural paradigm:

- behaviours are interpreted in terms of structural constraints for the undertaken actions, and not the inner forces occurring in the analysed units which assume the voluntary nature of behaviours;
- the subjects of the analysis are the relationships between the entities rather than the attempt to organise them into categories in view of their individual characteristics and attributes;
- the central issue is the effect of patterns of relationships between the participants of the network on its operation. It follows that the perspective limiting the interests to the relationships of the network participants is not approved;
- the structure is treated as a network of networks which may be, but not necessarily, divided into independent groups. It is not assumed a priori that the densely linked groups are a unit constructing larger structures;
- the analytical methods are oriented directly to the study of patterns of relationships in order to complement and sometimes replace the traditional methods of statistical analysis for which it is necessary to separate units of analysis.

A classic example of the application of the SNA in the management sciences is the area of internal communication and the related issue of knowledge management (structure of a learning organisation) (Stepka, Subda, 2009, p. 17). In both cases, the subject of study are different types of relationships (e.g. communication, membership in the communities of practice or cooperation) taking place between the members of a given organisation. The results of the study (audit) allow us to implement solutions to facilitate internal communication in different sections (e.g. vertical and horizontal communication), as well as the creation of a ‘learning’ organisation. Thus, the SNA is an important tool to support the management process of the organisation in these areas (Scott, 2000, pp. 146-174; Wasserman, Faust, 2007, pp. 1-819).

SNA may also be used to test external relationships. Using this method allows for the analysis of numerous links between market entities. Studies of this type include capital ties, strategic alliances, trade relations and personal relations between entities competing within a given mar-

ket. This multi-level analysis allows us to better understand the functioning of the examined market, make strategic business decisions, select potential partners for entering into a strategic alliance or find key experts with the most extensive knowledge and experience in a given area. Thus, the SNA is an important tool for supporting the strategic management process (Wasserman, Faust, 2007, pp. 1-819).

Among other SNA applications, it is also necessary to mention activities in the field of *Public Relations*, as well as lobbying activities, where the network analysis is used as a research tool to support these processes.

### **3. Analysis of network connections in selected clusters**

#### **3.1. The objective and subject matter of the study**

The objective of the study is the identification and analysis of the relationships (flows and interactions) in three selected clusters with the use of network indicators. The focus of the analysis is the nature of the links between the actors of cooperation within the selected clusters. The analysis included the interactions among the cooperation participants (coordination, cooperation, control, and competition), as well as flows (of information, financial resources, human resources, and physical resources).

The object of our study were three clusters operating within the area of our country on a regional scale (in different regions of Poland). The analysed cluster included: the Małopolskie Region Water Cluster (Małopolski Klaster Wodny, MKW), the Organic Food Valley Cluster (Klaster Dolina Ekologicznej Żywności, KE), and the Business Support Institutions Cluster (Klaster Instytucji Otoczenia Biznesu, KIOB).

#### **Research Methodology**

Surveys were conducted among the representatives of entities operating within them in order to analyse the links in the selected clusters.

The representatives of each entity being the Cluster member were asked to indicate those entities operating within the cluster with which it (this entity) had certain relationships. Answers were entered into the Table, encoding them numerically as '0' in the absence of any relationships, '1' in the case of existence of weak (infrequent relationships), and '2' in the case of strong (or frequent relationships).

Relationships were divided into 'flows' and 'interactions' in the same way as in the case of the examination of the relationships within the whole population of clusters.

As a result of the conducted research, matrices of links (incidence) were prepared in each category, generalising the answers: 'weak' or 'strong' relations to one category of value '1' (due to the high subjectivity of such a differentiation). They were developed by means of the Node XL programme in which visualisations of links were drawn up and the calculations of selected structural indicators were performed. Nine matrices of links were analysed for each examined cluster (27 in total), however, for technical reasons, this study presents their visualisations only in the 'information flow' category. The following indicators were calculated:

- *Network density* – the number of all links present in the network, divided by the number of all the possible links. The maximum density is 1 when each node is linked with each;
- *Network centralization degree* – refers to the diversity of the number of connections owned by the individual nodes. Centralisation is the greatest (equal to 1) when the variation is large (e.g. one node brings together a number of connections and the others have one), and zero when each node has the same number of links. This measure can be interpreted as the ability of the nodes to exert direct influence on their neighbours (Borgatti, 2005, pp. 55-71) or to be under the influence of its neighbours.

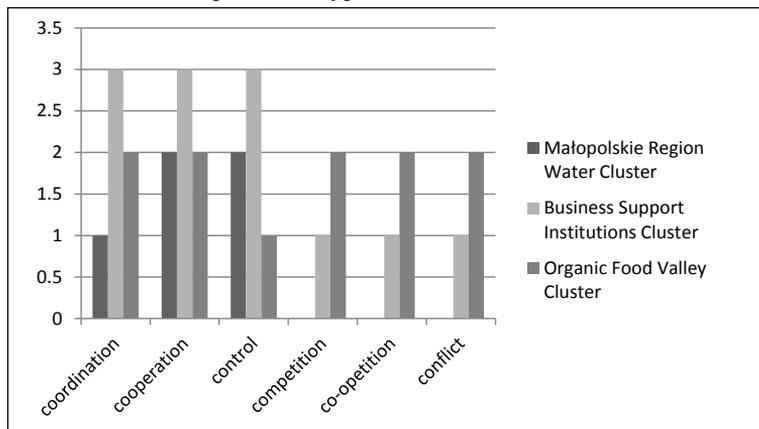
### 3.2. Identification and analysis of network relationships in selected clusters

The interactions and flows were examined in the first place, with the application of a 5-degree scale, where:

- 0 – no response,
- 1 – minor degree,
- 2 – moderate degree,
- 3 – high degree,
- 4 – very high degree.

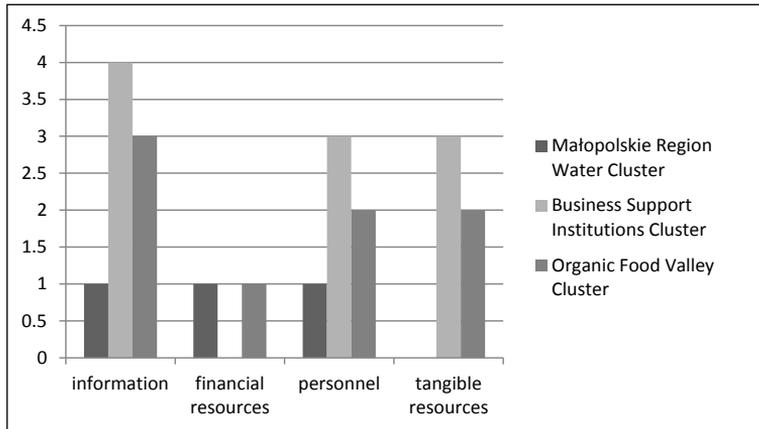
Figures 1 and 2 indicate the degree of occurrence of a given type of relationship in the three examined clusters.

Figure 1. Rate of occurrence of particular types of interactions in the examined clusters



Source: own work.

Figure 2. Rate of occurrence of particular types of flows in the studied clusters



Source: own work.

Taking into account the interactions, the highest level was found in the following categories: coordination, cooperation, and control (equally), whereas in the second place the occurrence was found in other categories. The relationships occur to a large extent in the Business Support Institutions Cluster (in the category of coordination, cooperation, and control), and to an average extent in the remaining two clusters. Competition, co-opetition and conflict occur in the Organic Food Valley Cluster (to an average extent) and in the Business Support Institutions Cluster (to a small extent). In the Małopolskie Region Water Cluster (MKW) the fact of the occurrence of such interactions has not been identified.

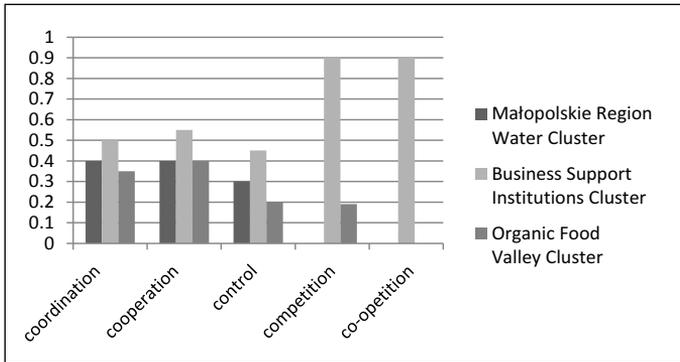
Subsequently, the indicators of density and centralisation with reference to the incoming and outgoing indications were determined (Fig. 3 and 4).

The highest indicators of the indication network density were observed in the examined groups in the 'coordination' category, slightly lower within the scope of 'cooperation', whereas their highest indicators occurred in the KIOB, followed by the MKW, and the lowest ones occurred in the KE (Fig. 3).

Similar trends were observed in the 'control' category. The most numerous relationships of this type were observed in the MKW, and slightly less numerous in the KIOB, and the KE. In spite of appearances, this indicator does not always have only negative qualities – its relatively high level resulted from the fact that many local organisations perform projects financed by municipal offices, and in the MKW, the resources are also transferred from the Mayor of Krakow, which is also connected with the control of spendings. The examined organisations relatively often indicated raising funds for projects from external funds.

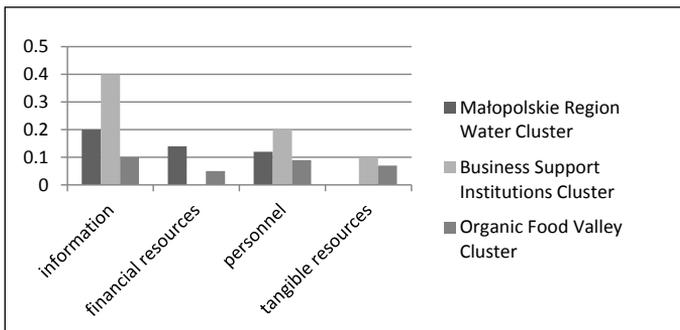
The largest number of entities indicated other entities as competitors in the KE. In the aforementioned cluster, co-opetition and conflict concluded to the same extent. The occurrence of these relationships was not found in the MKW.

Figure 3. Network density index values for the analysed categories of interactions in the studied clusters



Source: own work.

Figure 4. Network density index values for the analysed categories of flows in the studied clusters



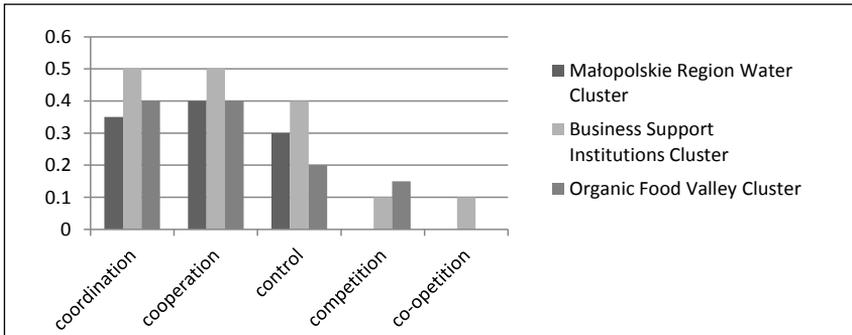
Source: own work.

In the case of flows, the densest links occurred in the category of ‘information’ and ‘human resources’. The representatives of particular organisations informed each other about their activities and were assigned to work together (e.g. meetings, conferences, joint projects). The use or sharing resources were mentioned most often by universities and research institutions, as well as companies (it mainly related to the participation in conferences, seminars, and the implementation of joint projects). The highest density of connections in all the aforementioned flow categories occurred in the KIOB, and the lowest one in the KE. In the case of financial resources, the flows concerned financial resources provided by the president of the M.K. (MKW) and financing projects or local events by the municipalities. In this category, the MKW was characterised by the highest density of relationships. In the KIOB, financial flows related to the implementation of projects and local activities did not occur.

When centralisation was assessed in terms of in-degree indications (and thus taking into account the entities indicated by other units), relatively high index values were observed in the ‘coordination’ category (Fig. 5). This means that a given entity (or a small group of entities) was

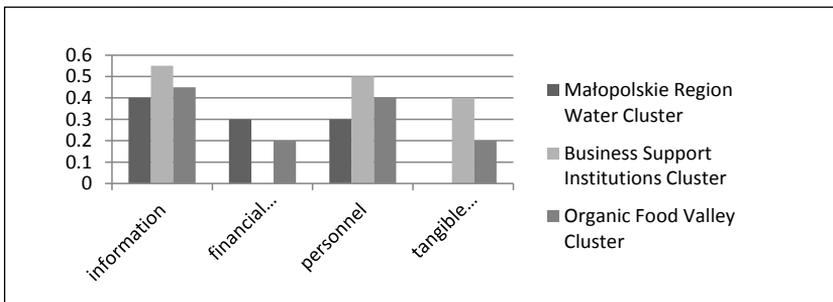
often indicated as an organisation with which own activities were agreed, implemented also to achieve the objectives set out by the partnership. In the categories of ‘cooperation’, coordination, and ‘control’ the highest indicator of centralisation of this type was indicated by the KIOB.

Figure 5. The values of the centralisation indicator in relation to the incoming indications within the scope of the analysed interaction categories in the examined clusters



Source: own work.

Figure 6. The values of the centralisation indicator in relation to the incoming indications within the scope of the analysed flow categories in the examined clusters



Source: own work.

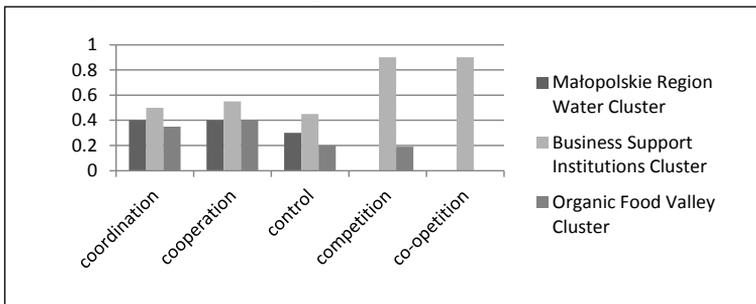
Centralisation indicators within the ‘flows’ categories (Fig. 6) were usually higher than in the categories concerning ‘interactions’. The highest centralisation level was observed in the KIOB, and then in the KE, and the MKW. Within the scope of the flow of financial resources, the highest centralisation indicator was observed in the MPW, which was connected with the receipt of funds from the President of the MK. Flows of this type do not occur in the KIOB.

In the KIOB and the KE, the centralisation occurred clearly within the context of resources – large organisations had the infrastructure or other goods which they shared partially with the other members of the cluster. Flows of tangible resources do not occur in the MKW.

Indicators of the in-degree centralisation (the analysis includes the number of subjects indicated by the examined entity) show the highest levels usually in the MKW (Fig. 7 and 8). This is mainly due to the high activity of the MPWIK, which is the main founder and coordinator of the cluster, seeking to raise resources for the implementation of projects. The MPWIK is a par-

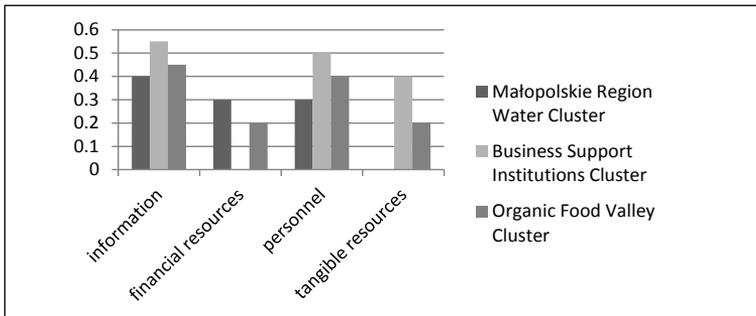
ticularly active subject in the network, contacting many partners, whereas other organisations contacted one another comparatively more rarely. Therefore, the MPWIK largely dominated all types of flows, as well as control, cooperation, and coordination processes in the cluster, which, however, brings some benefits to other members of the cluster. The Polish Advisory and Consulting Association performed a similar function in the KIOB, whereas in the KE there are two leading entities: The EkoLubelszczyzna Association (the cooperation within the Association includes the organisation of trainings, conferences, seminars, fairs of organic food, issuing joint publications, as well as the efforts to obtain the EU funds) as well as the Union of Associations ‘the Subcarpathian Chamber of Organic Agriculture’, which brings together five associations of farmers, producers and processors of green products from the Podkarpackie Region.

Figure 7. The values of the centralisation indicator in relation to the outgoing indications within the scope of the analysed interaction categories in the examined clusters



Source: own work.

Figure 8. The values of the centralisation indicator in relation to the incoming indications within the scope of the analysed flow categories in the examined clusters



Source: own work.

In the conducted study it was found that the entities associated in clusters tried to coordinate their activities (e.g. through the creation of a common strategy), but actually common projects were implemented less frequently (and therefore the true cooperation was less frequent). This demonstrates the relatively poor integration of clusters, but it is not particularly strange because of the relatively short time of the functioning of these clusters (the MKW).

It is worth noting that in the two cases of the analysed clusters (MKW, KE) a relatively low degree of competition and co-opetition was found. Only the KIOB cluster demonstrated the high rate of occurrence of these types of interactions.

Subsequently, the centrality indicators of the entities in the examined network were calculated. The following methods of centrality measurement for entities were used in the presented study: degree of centrality, proximity centrality, and transitivity centrality, as well as the eigenvector centrality.

Entities occurring in the network (33 entities, including: 29 companies, 3 research institutions, and one public administration entity) are connected with 345 relationships.

The closeness centrality allows for the study of the resistance of the entities on the impact and their ability to influence. The subjects with the highest closeness centrality included: Comarch, Activis, ComRaid, ConsData, and AdvaCom, who reached the value of this indicator at the level of 1. This high proximity centrality of the indicated network entities shows that they have a large impact on other actors, especially the closest ones. Entities of high value demonstrate the highest properties of information propagation and other phenomena in the examined network. Entities with a high level of the proximity centrality index show the ability to influence, and at the same time show increased resistance to the influence of other units. High indicator levels for a large number of network entities indicate good prospects of the information reaching a significant proportion of the network nodes.

Entities with high transitivity centrality are critical for the cooperation of all entities and maintaining the spreading of phenomena (e.g. a new product) across the entire network. Because of their location between the network communities, they are the natural brokers of information and cooperation. The highest value of this indicator in the examined network is demonstrated by Altkom, Comarch, Activis, ComRaid, ConsData, and AdvaCom. The aforementioned entities act as information brokers in the network, although they do not have to have the formal broker status in the network. The value of the indicator for the other entities of the network is shaped on a relatively low level. Among the companies with the highest value of the transitivity centrality index, most companies are companies that also had a high proximity centrality indicator. The following are in the first place in both categories: AdvaCom, Comarch, Activis, ComRaid, and ConsData.

## **4. Conclusion**

The application of the SNA tools to assess the position of entities within the framework of the network seems to be fully justified. This method of network analysis is differentiated from the conventional tools of social research by the fact that the so-called relational data, and not the attributes, are in the centre of interest. In the case of studying organisational networks, the most important are the relationships of individual entities, and not their formal position in the structure of the network. These are exactly the relationships (cooperation or communication in the substantive matters) defining the precise role of a given entity in the network.

Network analysis is a method widely used in management. The analytical capabilities provided by the IT tools supporting this method allow for efficient testing of complex structures and relationships (including up to several thousand of entities). The network analysis allowing to

characterise the position of an entity within the network structure to determine the areas where the network analysis (and especially the social network analysis) would apply, is only at an early stage.

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## **PART III**

# **CONTEMPORARY CONCEPTS AND PROCESSES OF THE DEVELOPMENT OF HUMAN RESOURCES MANAGEMENT IN THE ORGANISATION**





# Chapter 28

## **Training, Development and Competence in HR-management**

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*Olga Zavydivska*

### **1. Introduction**

In the field of Human Resources Management (HRM), Training, Development and Competence is the field concern with organizational activities which are aimed to bettering individual and group performances in organizational settings. It has been known by many names in the field HR-management, such as employee development, human resources development, learning and development etc. Training is really developing employees' capacities through learning and practicing.

Training, Development and Competence is the framework for helping employees to develop their personal and organizational skills, knowledge, and abilities. The focus of all aspects of Human Resource Development is on developing the most superior workforce so that the organization and individual employees can accomplish their work goals in service to customers.

The relevance of this topic is that today the efficiency and competitiveness of business organizations depends on the competence of the personnel of the organization. Based on these trends to managers of organizations must develop and implement a process of training and development of employees, systematic evaluation and improvement of skills, system of values, knowledge, skills and abilities of each employee is one of the main factors improving performance and providing strategic, economic, innovation and social enterprise development.

The objective of this article is to analyse the processes of training, development and competence in HR-management and study the factors that influence these processes in order to improve the performance of organizations.

The article contains the process and the types of training workers, analysed a set of key competencies of staff and the impact of professional development to ensure the effective operation of organizations.

## 2. Training types and training process in HR-management

Training policy can be defined as a written statement on organizational plans or programmes to develop the skills of the workers. Training needs or objectives are usually derived from the current manpower situation in an organization, state or country. The existing manpower situation determines the training objectives. To be able to identify training needs will entail a comprehensive manpower survey, which will expose the type of skills of personnel that need to be trained or developed. The objective of training is to ensure that all employees have and maintain the requisite competences to perform in their roles at work (Out, 2004, p. 51).

The types of training that can be readily available for an organization will include:

- **Staff Seminar** – sometimes seminars on selected topics for staff members can be organized as part of school programmes, such seminar can contribute to staff professional development. There may be the very knowledgeable and experienced teachers among his staff, or in the community who may be willing to lead discussions on such topics which are organized not only as a means of promoting staff professional growth but also as a way of improving staff relations (Out, 2004, p. 51).
- **On-the-Job-Training** – this is similar to the induction course just concluded above. The major objectives of the two types of training are similar in the sense that they entail acquiring new skills to be able to handle new jobs. Induction course is basically meant for new employers. However on the job training can be extended to include old employees, if a new skill is introduced in the organization.
- **Off-the-Job-Training** – this is the type of training that can be conducted outside the working environment. It is usually conducted in classrooms where trainees are given theoretical knowledge on how to handle a particular operation. The only practical aspect of this type of training is the use of films or charts or diagrams for illustrations (Out, 2004, p. 52).
- **In-home Training** – similar to previous one – training staff to have the right skills hence often is a challenge. This is why NSIs often turn to in-house training to give their staff the training needed. Effective training may be particularly important when hiring new employees or when the tasks or the technology at hand are changing. In-house training is often a cost effective way of organizing training. There are several reasons for this:
  - training can be scheduled at your convenience;
  - training is more focused, consistent and relevant to your needs;
  - travelling and accommodation costs are reduced.

Training courses may be designed and carried out by the NSI's own employees, national experts or foreign experts. Internet-based training courses should also be considered (Roll-Hansen, 2013, p. 65).

**Refresher Courses** – it is used mainly to update knowledge and skills or externally or both. It is very useful and necessary with innovations through changes of ideas. It serves as a motivating factor where the employee feels satisfied for being given the opportunity for learning (Out, 2004, p. 52).

**Conference Training** – this is sometimes conducted through conference or workshops. This is not highly formalized since the trainees are treated as participants and not just passive recipients. The theme chosen for conferences must be relevant to the organization's objectives.

**Role Playing** – this is another training device that can be used in organizations; it can be used for executive development. The participants assume the roles or positions they are expected to

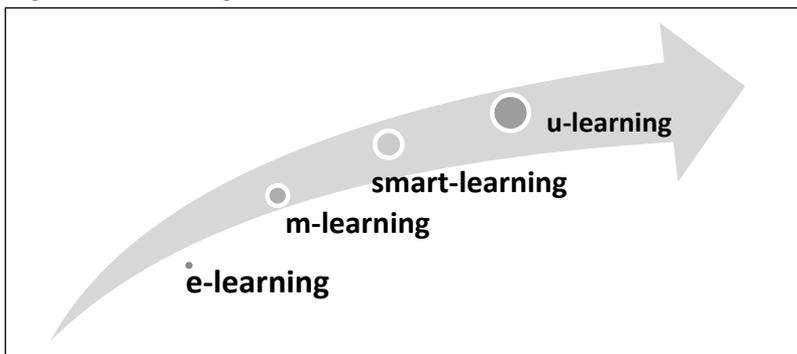
occupy after the training and their performance are simultaneously evaluated and corrected where necessary by the training instructors.

**Sensitivity Training** – it is used for development of awareness to behavioural pattern of oneself and one’s colleagues. It is used to encourage mutual understanding among working group. It is highly recommended for leadership training and executive development.

**Supplementary Training** – since many organizations may utilize quite a good number of the training methods discussed above it may still be inevitable for them to seek supplementary training methods from independent institutions. Public or private organizations used the supplementary training method by sponsoring their employees in different institutions of learning (Out, 2004, p. 53).

**E-learning** – used by various companies to inform and educate both their employees and customers since the 1990s. In a broad sense, E-learning is the computer and network-enabled transfer of skills and knowledge. E-learning applications and processes include IBT (Internet-Based Training) or WBT (Web-based training), CBT (computer-based training), virtual education opportunities, and digital collaboration. The Content of E-learning is delivered via the Internet, intranet/extranet, audio or video tape, satellite TV, and CDROM. It can be self-paced or instructor-led and includes media in the form of text, image, animation, streaming video and audio. Today many technologies are used in E-learning, for instance, blogs, e-Portfolios, and virtual classrooms. In cases where mobile technologies are used, the term “M-learning” has become more common. “S-learning” is preferred when smart-phone is used. The term “U-learning” (ubiquitous learning) is used wherever and whenever learning is possible, regardless of the various digital devices being employed. Therefore, E-learning progresses from wired Internet-based learning to U-learning through M-learning and S-learning as presented in Figure 1 (Kyung ae Park, 2013, p. 53).

Figure 1. Progress of E-learning



Source: Kyung ae Park, 2013, p. 54.

E-learning proffers certain conveniences to learners and cost-effectiveness to providers. However, some weaknesses have been observed in creating and managing the content. On the top of this, following new Information and Communications technology (ICT) can be quite burdensome. Therefore, strategies of training aim at providing introductory and repetitive courses,

on-line services of off-line lectures, and learning materials to anyone, at any time without any limitations as shown in Figure 2.

Figure 2. SWOT – analysis for e-learning

<b>STRENGTH</b> <ul style="list-style-type: none"> <li>• Low Learning cost</li> <li>• Learner-driven learning</li> <li>• Accessibility</li> <li>• Easy learning management</li> <li>• Just in time</li> <li>• Good for shy learners</li> </ul>	<b>WEAKNESS</b> <ul style="list-style-type: none"> <li>• Limited interaction</li> <li>• Difficulty in developing content</li> <li>• Difficulty in evaluation</li> <li>• Limitation of technology</li> <li>• Effective to limited areas</li> <li>• Less effective in learning</li> </ul>
<b>OPPORTUNITY</b> <ul style="list-style-type: none"> <li>• To secure many customers</li> <li>• Provision of diverse learning opportunities using different ICT</li> <li>• Sharing information and resources with other institutions</li> </ul>	<b>THREAT</b> <ul style="list-style-type: none"> <li>• Cost to develop system: Server, Learning Management System, Content</li> <li>• Difficulty of standardisation due to changes in ICT: Diffusion of new digital devices</li> </ul>
	
<p><b>Providing diverse content focusing on introductory and repetitive learning</b></p> <p><b>Providing on-line service of good quality off-line lectures</b></p> <p><b>Providing learning materials to anyone, anytime without any limitations</b></p>	

Source: Kyung ae Park, 2013, p. 54.

Before the training process commences, the training objectives must have been identified, the participants of trainees selected, qualified instructors also selected, and the train facilities adequately provided.

Training involves three processes: analysis of needs, development of provision, and evaluation.

Training needs analysis compares existing competences with those required and can be undertaken at the level of the organization, the work team, and the individual. At the organizational level, the purpose is to establish training priorities in the light of organizational strategy and associated core competences.

In the development phase, the training content is determined from the needs analysis and appropriate modes of delivery identified for the different elements. Training is invariably more structured for new employees because the induction period is crucial in reducing dysfunctional labour turnover; job training should only begin after induction.

Evaluation is intended to provide feedback for improving future provision, informing senior management for strategic decisions on training expenditure, and encouraging trainees to reflect on their experiences (Boxall, Purcell, Wright, 2007, pp. 330-332).

A modern organization won't get very far without constantly training their employees. Therefore, managers need to implement in the company various training programs and courses to enhance the performance of employees.

### **3. Staff development in HR-management**

The terms training and development have different meanings, but are used synonymously by some writers. However, the two terms are different on two fold counts. One, they are either different on the basis of the subject matter involved or the level of the participants drawn from the organization, while training usually implies specific, factual, and narrow-range content, development refers to a focus on general decision making and human relations skills. In both staff training and staff development the aim is to improve the skills and performance of the subordinates.

From the above distinctions, therefore, staff development is itself a training process and best viewed in two dimensions. The first is an in-service training programme where individuals in an organization are given opportunities to further their education to enable them prepare for future positions. The second type of training is aimed to prepare individuals to be able to handle new job assignments.

Staff development is aimed at the following points:

- to improve the current level of performance of incumbents in their present jobs;
- to equip men with potentials for higher level responsibilities.

Staff development can simply be defined as activities provided for the middle and upper management in and outside an organization. Development is also related to the idea of social and economic progress because developing workforce skills has a major impact on national economies where economies are undergoing a process of development, transition, or training, development, and competence reconstruction, this takes on a wider social importance.

Thus, from the above definitions it becomes clear that staff development connotes the organization's efforts in its programme to provide the need based training and education to its workers to enable them become competent in handling their present or future assigned tasks.

Staff development is a basic factor in building and maintenance of the organizational effectiveness (Out, 2004, p. 48).

The management development strategy will be concerned overall with what the organization intends to do about providing for its future management needs in the light of its business plans. The strategy will be concerned with the roles of the parties involved and with the approaches the organization proposes to use to develop its managers.

Management development contributes to business success by helping the organization to grow the managers it requires to meet its present and future needs. It improves managers' performance, gives them development opportunities, and provides for management succession. Development processes may be anticipatory (so that managers can contribute to long-term objectives), reactive (intended to resolve or pre-empt performance difficulties) or motivational (geared to individual career aspirations).

The most important thing to remember about the process of management development is that it must be business led even though it will be concerned with the development of individual performance and potential. The business has to decide what sort of managers it needs to achieve its strategic goals and the business must decide how it can best obtain and develop these managers. Even when the emphasis is on self-development, as it should be, the business must still indicate the directions in which self-development should go, possibly in the broadest of terms.

It has been suggested by Mumford (1993) that three elements have to be combined to produce an effective management development system:

1. Self-development – a recognition that individuals can learn but are unlikely to be taught, and that the initiative for development often rests with the individual.
2. Organization-derived development – the development of the systems of formal development beloved of personnel and management development specialists.
3. Boss-derived development – those actions undertaken by a senior manager with others, most frequently around real problems at work.

The three essential management development activities are the:

1. Analysis of present and future management needs.
2. Assessment of existing and potential skills and effectiveness of managers against those needs.
3. Production of strategies and plans to meet those needs.

The three basic approaches to management development are:

1. Learning through work.
2. Formal training.
3. Feedback, facilitation and support.

The formal approaches to management development include:

- development on the job through coaching, counselling, monitoring and feedback by managers on a continuous basis associated with the use of performance management processes to identify and satisfy development needs, and with mentoring;
- development through work experience, which includes job rotation, job enlargement, taking part in project teams or task groups, ‘action learning’, and secondment outside the organization;
- formal training by means of internal or external;
- structured self-development by following self-managed learning programmes agreed as a personal development plan;
- e-learning as part of a blended learning programme.

Informal approaches to management development make use of the learning experiences that managers meet during the course of their everyday work (Armstrong, 2006, pp. 592-598).

A systematic approach to management development is necessary because the increasingly onerous demands made on line managers mean that they require a wider range of developed skills than ever before.

## 4. Competence in HR-management

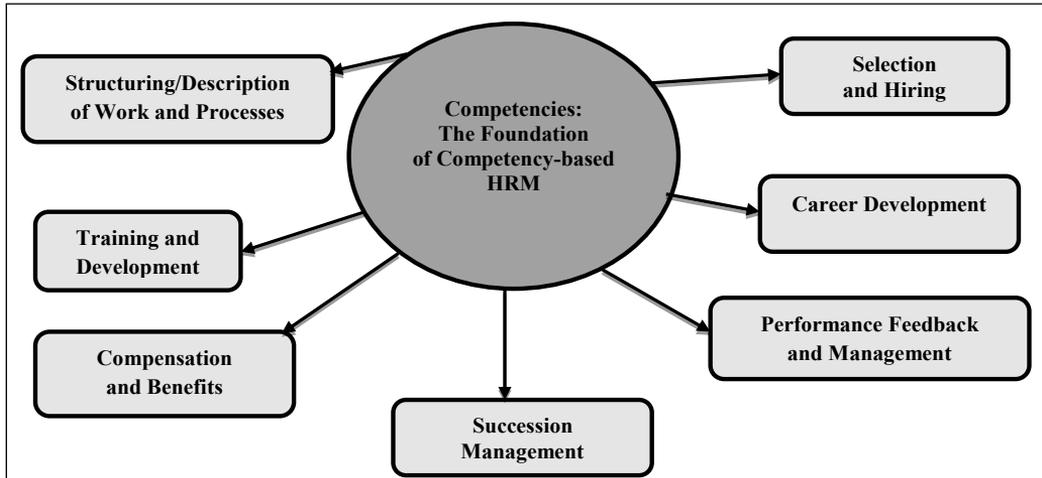
Competence is the ability of an individual to do a job properly. A competency is a set of defined behaviors that provide a structured guide enabling the identification, evaluation and development of the behaviors in individual employees. The term “competence” first appeared in an article authored by R.W. White in 1959 as a concept for performance motivation (White, 1959, pp. 279-333). Later, in 1970, Craig C. Lundberg defined the concept in “Planning the Executive Development Program” (Lundberg, 1972, pp. 10-15).

Modern HR-management might emphasize the need for continuous training, and development to maintain the dynamic capabilities supporting organizational strategy and make endless caveats about choices to be made between recruitment, training, and outsourcing. In practice, there are innumerable possible combinations for solving the workforce capability problem (Boxall, Purcell, Wright, 2007, pp. 324-325). There is a broad consensus that competence embraces the ability (capability or capacity) to perform work tasks to a certain standard and that its opposite

is ‘not yet competent’, implying scope for learning and development to achieve the necessary standard, rather than ‘incompetent’ which has no such developmental association and is generally used in a pejorative sense (Boxall, Purcell, Wright, 2007, p. 333).

Competencies are centred on the individual, but constructivist and interpretative approaches derived from phenomenology view competence as a function of the context in which it is applied – Figure 3.

Figure 3. Competencies: The Foundation of Competency-based HRM



Source: Rothwell, Lindholm, Yarrish, Zaballero, 2012.

The competence-based approach in training was driven by five factors (Winterton, 2007, p. 334):

1. Technological innovation and demographic changes increased the importance of adaptive training and work-based learning.
2. The need to replace supply-driven, traditional education systems with demand-driven models.
3. Lifelong learning policies stressing informal and non-formal learning and the accreditation of experience.
4. The social value of such recognition of competence, irrespective of the route of acquisition, for those who have had fewer opportunities for formal education and training, and
5. The potential of a competence-based approach for integrating education and training, whilst aligning both with the needs of the labour market.

Competency-based management solutions typically provide input into and drive all aspects of employee career development. This allows organizations to improve productivity in most areas of human capital management human resources. Competency-based management is typically referred to as “strategic” in that it attempts to link organizational planning to job execution:

- strategic human resource planning,
- competency architecture,
- competency dictionary,
- competency-based recruitment,

- competency-based learning,
- competency-based performance management,
- competency-based career development.

The role of competency-based management is to shape and guide employee behaviour from “hire to retire”. Competency-based management helps Talent acquisition, Performance Management and Learning Management Systems to be more effective by assessing employees’ skills and competencies. Competency-based management also facilitates gap discovery and suggests learning methods (on the job, literature or formal courses) to help improve employee effectiveness (Prasanthi, 2015, p. 138).

Competency models can help organizations align their initiatives to their overall business strategy. By aligning competencies to business strategies, organizations can better recruit and select employees for their organizations. Competencies have become a precise way for employers to distinguish superior from average or below average performance. The reason for this is because competencies extend beyond measuring baseline characteristics and or skills used to define and assess job performance. In addition to recruitment and selection, a well sound Competency Model will help with performance management, succession planning and career development (Raven, Stephenson, 2001, p. 135).

Competence-based approaches have been criticized for neglecting socio-cultural contexts, and are accused of creating abstract, narrow, and oversimplified descriptions of competence that fail adequately to reject the complexity of work performance in different organizational cultures and workplace contexts (Norris, 1991, pp. 1-11).

## 5. Conclusion

Staff development a process of continuous training of employees and management staff business career planning and. It should be noted that management decisions in the area of staff development related to the evaluation of business employees. The purpose of the staff is to ensure maximum use of all its capabilities to achieve the objectives of the enterprise.

The choice of teaching methods depends on the following factors:

- objectives and tasks of education,
- direct and indirect costs of education,
- urgency (time allotted for training),
- the participants (their skills, motivation, previous training),
- qualification and competence of teachers.

Regarding the management of personnel development, it should disclose the hidden knowledge of staff, expand the boundaries of knowledge, to change the relationship between people and, thus, increase human capital, which is now a valuable resource for organizations to determine the level of competitiveness and ensure the growth rates of labour productivity.

Currently there is an objective need to use enterprise systems competencies of staff that will solve a number of important management tasks, including selection of personnel, evaluation of personnel, distribution of tasks, the formation of a unified corporate culture, correcting problem behaviors personnel. Enterprise application systems competence at all stages of HR will achieve its performance due to the increase of competitiveness of employees.

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# Chapter 29

## Human Capital Management in an International Dimension<sup>1</sup>

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*Piotr Zając*

### 1. Introduction

In turbulent surroundings of an organisation, its success is conditioned by a rational disposition of all the available resources. More and more often the factors determining economic results of an organization are human resources. The proof of this is presenting organizations in global surroundings in relevant literature. In such organizations the basic resource used to achieve competitive advantage over other competitors is knowledge which is placed in documents, procedures, rules and regulations, books and databases. It must be kept in mind, however, that the main source of knowledge are people and it is them who multiply it. That is the reason why human resources are considered to be a key factor in contemporary organizations. The new tool (i.e. personal controlling) allows to specify the extent to which the aims, included both in the company's strategy and human resources management strategy, are achieved. It also signals, should the need arise, the necessity of undertaking correcting actions. Considering all the above information about human capital management it can be claimed that it is a tool which may have a considerable impact on raising the efficiency of management which plays a crucial role from the point of view of current economic changes and the related process of globalization and international dimension.

### 2. From human resources management to human capital management

The survival and development of a company in the market economic system is conditioned by the efficiency and harmony of the realization of the following (among others) functions such as: a production, a technical, a financial, a marketing as well as a personal one. A personnel function is defined as duties and responsibilities that the company should realize towards their staff, which determines the requirements that can be demanded from their employees. The personnel function

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of the company, as well as other functions, undergo systematic modifications. They refer both to the changes within the HR function, to the changes in the approach to the staff and to the changes in the relations between the personnel function and other functions of an enterprise (Szałkowski, 2006, p. 21).

Human resource management can be regarded as a set of interrelated activities possessing ideological and philosophical justification. It includes employment, development, rewarding people in organizations and a development of proper relations between the management and the workers. These problems are dealt with by all line managers, team leaders and human resource management specialists.

The philosophy of human resource management is to recognize employees as one of the most valuable elements of the company. The strategy of human resources and the global strategy of each organization should be in tune, and shaping of the corporation culture should be compatible with the requirements of the corporate strategy. This raises a philosophical assumption of human resource management here; namely – that it is a pursuit to build rules for identifying the employees with the organization. This commitment is not so much about the bureaucratic commitment to the organization, but more about the fact that employees represent certain attitudes, are attached to their own values and to the values associated with belonging to a family, a professional group or trade unions.

The interest in human resources management in recent years has led to different approaches to this concept, taking into account specific circumstances of the countries from which individual authors analyzing the issues of managing people in organizations derive. However, considering the common concepts, one can indicate some typical characteristics of human resource management (Pocztowski, 2008, p. 31).

The first feature is the perception of human resources of a company as a source of its competitive advantage. This confirms an assumption, formed in the first models of human resource management, of perceiving people employed in a given organization as a valuable asset of the company. The activities in the sphere of the management of people employed in an organization should be aimed at creating and effective utilization of the potential embedded in the human resources.

The consequence of treating people as a source of competitive advantage is the second feature of human resource management strategy, namely the demand for the integration of human resources strategy with the overall strategy of the company. Emphasizing the need for practicing people management not only on the operational level, but also in a strategic dimension refers to the original models of management. This means a need for the company management to engage in solving complex personnel issues and to treat personnel decisions as strategic ones.

The third feature of human resource management is highlighting the need for active involvement of line managers in the processes of planning, organizing, directing and controlling the personnel issues, which is associated with a certain decentralization of the responsibility for employment matters. It stems directly from an assumption of the priority significance of human resources in business processes.

Other features of human resource management, serving as a specific base for exercising a personnel function, may include highlighting the importance of organizational culture as the basis for an action in the field of business management, individualization of labor relations, a development of direct forms of employee participation in the life of the organization, a change in the employees' management style towards transformational leadership and orientation at a customer in the relations between individual workers and their various groups present in the organization.

Human resource management has a functional, institutional and instrumental dimension. The functional dimension concerns the organization of individual tasks and activities in the process of creating value; in terms of the institutional dimension it refers to defining the roles and responsibilities of entities authorized to make personnel decisions and the interrelationships between them; the instrumental dimension relates to the selection of appropriate methods and techniques for dealing with personnel issues (Pocztowski, 2008, p. 34).

Within the realization of HR processes there are used many tools of various complexity that make up the instrumentation of a manager/consultant. Due to the interdisciplinary nature of human resource management, there are also used methods and techniques that derive from allied disciplines such as work sociology, work psychology, work physiology, ergonomics and economic analysis. Within the range of human resource management tools one can mention, among others:

- work analysis,
- employment planning techniques,
- employee recruitment techniques,
- assessment systems,
- coaching, mentoring,
- job evaluation,
- personnel controlling,
- personnel audit<sup>2</sup>.

The aforementioned examples do not exhaust a set of common features and tools attributed to the concept of human resource management described by different authors.

Modern companies, regardless of their size, location or industry affiliation, have to face many new challenges in the context of which the following can be mentioned: globalization, taking advantage of opportunities created by new technologies, achieving profitability through growth, creating of intellectual capital as a source of a competitive advantage and the need for action in a changing environment. Organizations which want to meet these challenges, cannot compete using traditional factors such as costs, modern technologies, production and distribution systems and product characteristics, but should reach for factors of an organizational nature, such as an operating speed, flexibility to change, an ability to learn quickly and high competences of employees.

For the professionals dealing with the world economy, late twentieth century and the beginning of the twenty-first century is, most of all, a period of the implementation of economic changes (the expansion of the European Union with further member states, opening of the borders, etc.).

In this economy, especially in highly developed countries, the existence of a new economic order is highlighted, in which the main factor of production is the knowledge used, increasingly, on all levels in the society. This knowledge is inseparably connected with the people who create and distribute it within the company – these are the employees. While the collection, processing and storage of knowledge can take place without the participation of employees – mainly through information systems – it is difficult to imagine creating the knowledge without the human participation. Therefore, we conclude that well-educated, experienced and motivated personnel in an organization functioning in the new economy is a major factor thanks to which the organization becomes highly competitive.

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<sup>2</sup> You can read more on the topic of tools for human resources management in Pocztowski, 2008, p. 36.

In the light of the discussed conditionings of enterprise performance in the twenty-first century, one can say that the concept of “human resource management is evolving towards the management of human capital” (Pocztowski, 2008, p. 41). The human capital includes the totality of features and characteristics gathered in humans (knowledge, skills, abilities, health, motivation, values) which have a certain value and provide a secure source of potential revenue for both the employee as the owner of this human capital, as well as for the organization using the services of that capital holder, on conditions previously determined.

With the development of the knowledge-based economy, the human capital is more and more often recognized, at the microeconomic level, as the main (strategic, the most important) resource that an organization has (Lukasiewicz, 2006, p. 83).

One can point to the enormous influence of the size and structure of the human capital on the development of societies, nations and even the humanity; in this case we talk about the macroeconomic level. In particular, it is emphasized that the human capital (cited from: Król, Ludwicyński, 2006, p. 111):

- has a serious impact on the innovation of economies and societies, their absorption abilities in terms of grasping and the implementation of the world’s scientific, technical, organizational, mind-set and other achievements,
- has an impact on institutional changes and on modernizing structures of a different kind,
- encourages promoting and popularizing modern patterns of consumption and life quality,
- shapes a modern technical and organizational, information and social infrastructure and so on.

In contrast, the threats caused by under-investment in the human capital contribute to the existence of a civilization and education gap, to the processes of manufacturer and socio-political alienation, pose a threat of an economic stagnation and accelerate the emigration, harmful for the economy of a given country, of the qualifying capital (a loss of a pension in respect of education; apart from other effects – biological and social ones).

The specifics of the human capital is expressed by the fact that individual components of that capital are unique and very difficult to imitate by competitors; as are their measurability and registering due to the dispersion and their quality character; it causes a necessity to change the approach to exercising the personnel function and in particular to its regulatory aspect. The direction of these changes seems to be fairly well-defined and means moving away from the functionalism towards the network of creating the value. This means that the future management of the human resource (capital) will be a less and less sequential process of recruitment, evaluation, remuneration, development and de-recruitment and more and more an interactive and non-linear configuration of individual elements comprising the human resource management system, which elements will constitute the network of creating the value. One can identify three major and overlapping areas of this management (Pocztowski, 2008, p. 41):

- an area of creating the human capital,
- an area of using the human capital,
- an area of transforming the human capital into the structural one.

The human capital formation in the context of company personnel function takes a form of a net of activities of the human capital planning, sourcing, their evaluation, development, remuneration, relocation, communicating and shaping human relationships nature.

The main elements of a value creation in the area of human capital are: organizing the work, directing teams, motivating, performance management, assessment and communication.

By contrast, the transformation of the area of human capital into the structural capital includes activities connected with capturing the human knowledge in procedures, databases, manuals, formal methods and intellectual property.

### **3. Globalization and international management – challenges for modern enterprises**

Modern companies, regardless of their size, location or industry affiliation have to face many new challenges in the context of which the following should be mentioned: globalization, taking advantage of opportunities created by new technologies, achieving profitability through growth, creating of intellectual capital as a source of a competitive advantage and the need for action in a changing environment (Ulrich, 1997, pp. 126-127). Organizations which want to meet these challenges, cannot compete using traditional factors such as costs, modern technologies, production and distribution systems and product characteristics, but should reach for factors of an organizational nature, such as an operating speed, flexibility to change, an ability to learn quickly and high competences of employees.

Globalization is a term which appears more and more often, both in the professional literature as well as in the colloquial language. In a general sense it is a process of the global economy integration in terms of trade, a cooperation of governments and businesses, an international money circulation, culture mingling and the assimilation of lifestyles and social institutions.

The process of globalization brings with it many new challenges – among others – in the field of business management even by an increase in the complexity of problems that must be solved. The higher the degree of the enterprise globalization, the more complicated the tasks performed by them become; the bigger the extent of the impact of the decisions made is and the more serious the consequences of potential mistakes are. It also applies to the HR function and related management tools. It should be emphasized that globalization affects both the environment and the personnel function itself, which means that under its influence the macro-environment conditions change, including a faster diffusion of technical and organizational innovations, the freedom of capital products, services and people flow increases and the legal regulations in the field of labor and employment change (Pocztowski, 2008, p. 51). Globalization also has an impact on the behavior of the stakeholders, who form an international company environment, and thus on the human resource management. The shareholding structure of individual companies changes, which indirectly transfers onto the approach to solve personnel issues; the stakeholders, who are essential from the point of view of the HR function, such as trade unions, supervisory boards, employers' organizations or consulting firms get internationalized. The presented changes occurring in the close and far surroundings the HR function also cause changes in the production and distribution process, in the level of the technical organization of work and in decision-making and information systems, which pose new demands for the quality of human resources which are at the disposal of individual companies and for the management system of these resources.

Globalization is a result of influencing technological, economic as well as political factors. The most important technological factors include the dissemination of computers, the Internet, mobile phones and their additional features, satellite communications, the development of aviation and commercial fleet and the dissemination of containers. Among the more important economic factors one can point to the development of international corporations, systemic changes

and the opening of many national economies to the influx of imported goods and foreign capital as well as the development of market exchanges and reducing protectionism in the international trade. The most important political factors in the literature include the collapse of the USSR and systemic reforms in the countries formerly dependent on it, progressive changes in China, supporting of the expansion of multinational corporations by their home countries, democratization and privatization of many underdeveloped country economies (Król, 2006, p. 146).

The observed phenomenon of globalization in its current form is described as a controversial one. You can point to a number of benefits stemming from the process of globalization, yet one should also name the negative effects of this process. The globalization effects on management are presented in Table 1.

Table 1. The globalization effects on management

<b>Area</b>	<b>Positive changes</b>	<b>Negative changes</b>
New places of work, reduction of unemployment	There are created new places of work in countries where global companies operate	Many local companies in the countries in which global companies operate, do not withstand the competition and go bankrupt, which means a loss of workplaces. New workplaces for local people rarely involve elite work and positions (high-level managers, designers, researchers, etc.)
New knowledge and new technologies transfer	In many cases it is a clear benefit, although the know-how, as a rule, remains the exclusive property of a global (parent) company and may not be widely used in a given country	Sometimes the role of domestic branches comes down to packaging of finished products, a simple assembly, distribution etc, then such kind of transfer does not exist
Strengthening of national economies	Successful foreign investment, including those of global companies benefit national economies, and thus their employees	Global firms usually dictate the terms of their presence in a given country. Fulfilling their dictate significantly reduces the balance of gains over losses. Failed investments sometimes become a source of huge losses
Higher standards in human resources management and ethics	In some companies, such higher standards are really in force	Sometimes a global company adopts local patterns and wanting to achieve a higher profit, resigns from applying their own higher standards
Promoting a better organization culture	Usually, global companies bring with them their own specific culture, which has advantages, since the organization was a success	A direct and full transfer of the own culture into other environments is neither possible nor appropriate. Geocentric attitudes do not yet dominate in global companies

Source: developed on the basis of Król, 2006, p. 147.

The balance of the presented arguments depends on who and from what position analyzes them. Globalists will most of all point to the phenomenon and positive effects. On the other hand, anti-globalists will see only negative sides.

The success that can be achieved by global companies will depend among other things on human resources that the companies will have available. The special role of the people is the result of them playing a key role in the learning process of the organization, in constructing its competitive features and in translating the strategy into action. Proper human resource management holds the promise that managing people and treating them as a strategic resource will help businesses gain a competitive advantage and excellent results. The complexity of developing and implementing a strategy for personnel management in global companies stems from the diversity of cultures, value systems, the language, economic environment and labor relations in various countries (Król, 2006, p. 148). The examples of relationships that take place between the global strategy of the organization and human resource management strategy are presented in Table 2.

Table 2. An example of an organization strategy and human resources management strategies connected with them

<b>Global organization strategy</b>	<b>Sample company</b>	<b>Human resources management strategies</b>
Cost reduction	General Motors	Collective redundancies, salary reductions, increased productivity, redesign of workplaces, renegotiation of collective agreements
Growth	Intel	Active recruitment, rapid wage growth, creating jobs, expanding the scope of trainings and professional development
Restructuring	Chrysler	Controlled staff turnover, selective layoffs, organizational development, increase in productivity, employee involvement
Focusing on a niche	Kentucky Fried Chicken	Specialized work places creation, specialized training and professional development
Take over	General Electric	Selective layoffs, combining of work positions, orientation and training, managing the process of culture transitions

Source: developed on the basis of Król, 2008, p. 159.

The human resource management strategy as a functional strategy should be consistent with the strategy of the company and should cover the relationships between the strategy and the structure. This is tantamount to assigning specific positions to specific people and linking with the organizational culture and the acquisition and development of employees. New tools supporting human resource management, such as, inter alia, auditing and personal controlling, make it possible to determine the degree of achievement of the objectives contained in the enterprise and human resources strategy and, if necessary, indicate the need to take corrective action. This seems to be particularly important at the moment when the globalization process takes place.

As a result of economic changes, as well as due to the growing internationalization of the economic activities and due to the emergence of a growing number of international companies, one

can find many definitions in the literature referring to a multinational enterprise depending on the adopted selection criteria, which may be as follows: the extent of foreign operations, the scope of the assets control or the adopted strategy of activities (Pocztowski, 2002, p. 16).

The scope of international human resource management includes similar issues as in the case of managing organizations that do not work on international markets, but in addition there appear new specific problems and the context of solving them is more varied. International human resource management is characterized by a greater interference in the personal lives of workers, in particular for those delegated to work in a foreign branch. This is connected with the fact that the manager's move abroad often means the move of the whole family and – due to that – the help of the company with finding an apartment to live or schools for children. Another characteristic of the international dimension of personnel management is, greater than in case of the home country, the importance of cultural factors in solving various personal problems (Pocztowski, 2002, p. 21). Another case of special importance of cultural factors in international human resource management is a problem of a culture shock being experienced by many managers and workers taking up a job in different cultural conditions. According to specialists in human resource management, the workers should be prepared for such situations and be helped with overcoming them. It is associated with taking action in three areas, which comprise a so-called triangle of culture shock.

The first is the area of emotions associated with coping with mood swings. An employee delegated to work abroad can experience different emotions; from euphoria, through depression to satisfaction. The second area relates to the way of thinking, meaning the ability to understand foreign colleagues. The third area is a social identity and skills connected with it, involving the development from the national identity to the transnational one, enriching at the same time the competences of a transnational manager and building a network of social and professional contacts that will contribute to the effective execution of tasks (Pocztowski, 2002, p. 23).

#### 4. Conclusion

Modern companies, operating under the knowledge economy in an international dimension, wanting to meet the requirements dictated by the market, are forced to offer more modern and more perfect products and services. They can do so only through the work of a highly skilled, committed, easily adaptive to changes, highly motivated, ready to learn, loyal and productive staff. Therefore, with such requirements dictated by new economic conditions it is impossible to forget about the tools of human resources management, which allow to control the processes in specific areas of human capital management, bringing results for the company and thus for all employees. Treating the controlling and personnel audit as a kind of a tool for human resource management, one can contribute to the optimal use of the employed personnel.

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# Chapter 30

## **The Development of Intercultural Competence of Managers in the Twenty-first Century**

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*Anna J. Piwowarczyk*

### **1. Introduction**

The omnipresent globalization, internationalization, multiculturalism constitute some kind of *signum temporis* of the modern world economy. C. Brewster et al. (2005, p. 971) put the thesis that “the fundamental challenge in the twenty-first century stands in front of organizations, both public and private, that there is a need for action beyond national borders”. At the same time it is stressed that the current international business becomes a form of intercultural and inter-cultural meetings (Korporowicz, 2009, p. 7; Potocki, 2011, p. 9; Winkler, 2003, p. 269; Wiktor et al., 2008, p. 281, 313).

Each society is the result of interaction processes, and those in the twenty-first century are becoming more complicated as we live in a multicultural environment of the Internet, in the global village and we are working in the global market. Global society has an eclectic nature, indescribable mosaic with the help of intercultural (A. Moles). Framework joining this society is no longer a common context, as in village community, as individual representatives from different cultures, with different histories, experiences, languages and other programming of the mind (Hofstede, Hofstede, 2007). Communication (cross-cultures) in the global village requires interaction, which may not appeal to the same code, the same rules and conventions. We are not able to predict the reaction of our partners, but also their own. It happens in conditions where two people (or two groups), with two different cultures interact, who negotiate common meaning.

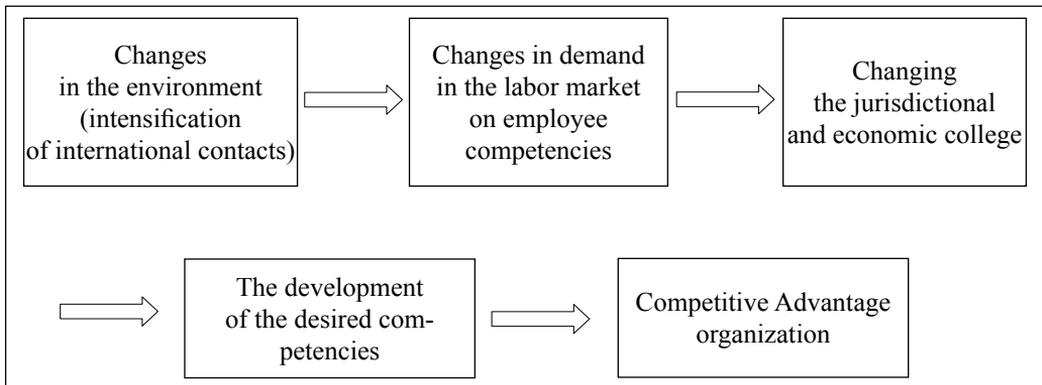
To communicate and consequently cooperate with the strangers, to proceed fruitfully it is needed to possess solid knowledge of the others, very good communication skills, motivation to build and maintain contact and adequate attitude towards the wider alienation.

The main aim of this paper is to present the essence of intercultural competence as a key competence in the twenty-first century management, in building economy and multicultural society as well as to outline the conditions for its improvement. This ability is an important factor of multicultural communication within the organization and with surroundings, the condition of effective economic cooperation. In the article there was formulated a thesis that Intercultural

Competence is crucial in the twenty-first century and could be a potential source of competitive advantage.

Intercultural competence training of future employees multicultural and international business sector, public sector and non-profit sector should start in college. Effectiveness of university education ultimately is measured in an increase in the level of employability of graduates in the labor market and the satisfaction of employers with potential employees competence resources. Changes in the economic environment need to be complemented curricula in order to bring the jurisdictional come out of the market economists to the needs of the global labor market, cf. Fig. 1.

Figure 1. Determinants of intercultural competence training system



Source: own work.

The study on the background of contemporary intercultural business conditions and expectations of employers concerning the competence, they have to demonstrate recruited, both now and in the future, presents the essence and components of intercultural competence and possibilities to improve.

## 2. Manager of the twenty-first century – a summary of competence future

Changes in the socio-economic environment, major trends such as globalization, multiculturalism and modern technologies generate changes in the structure of the competence of future managers. They play an increasingly important role will it be their ability in a multicultural environment, teamwork, social intelligence, communication skills. Leaders who want to effectively manage multicultural teams need to learn how to operate in an environment of various national cultures, ethnic, religious, organizational, professional, corporate disparities. “Companies need leaders who have the know-how to quickly adjust it in dozens of different cultures on a daily basis. This can be developed. That capability would any would be manager” (Livermore et al., 2012, p. 21). The following examples will present research results confirming the above thesis.

The aim of the project Foresight Personnel of Modern Economy (Gryzik, 2009, pp. 129-130), commissioned by the Polish Agency for Enterprise Development was to identify the demand for

staff in the long term. It identified eleven key competences for which there is a demand in the Polish economy among managers in the perspective of 10-20 years. The first place was the ability to function in the international environment (93%), followed teamwork and team management (91%) and subsequently creativity and entrepreneurship (91%), interpersonal communication and self-presentation (89%), foreign languages (89%).

In turn, the study within the BKL (*Powers Poles...*, 2014, p. 56) examined how the comparison of the availability of specific skills on the labor market in the BPO/SSC and the importance they attach to an employer. Group critical competence, which is the most important and the most difficult to obtain include: oral communication, written communication and cross-cultural sensitivity.

Another study, which found that intercultural competence will belong to the core competence of the future is a report drawn up by scientists from the Institute for the Future for the University of Phoenix Research Institute, Fri. Future work skills 2020 (Davies et al., 2011), which identified the ten most sought after competencies of future demand on the global labor market in the year 2020. They are presented in Table 1.

Table 1. The competence of the future by Institute for the Future for the University of Phoenix Research Institute

1. Sense-making
2. Social intelligence
3. Novel & Adaptive thinking
4. <b>Cross-cultural competency</b>
5. Computational thinking
6. New-media literacy
7. Transdisciplinarity
8. Design mindset
9. Cognitive load management
10. Virtual collaboration

Source: own work based on Davies et al., 2011, pp. 8-12.

From the above research it appears that the employee sought a modern economy of the twenty-first century should know foreign languages to function competently in intercultural and international environment. They should have well shaped social competence that is skillfully and effectively communicate and collaborate in a team environment nationally and internationally. In conclusion, one can cite a reflection by L. Korporowicz, who emphasizes that “today it is no longer just about getting to know the habits of other people, and not only raise their awareness of different nationalities but about the ability to overcome their differences, to build bridges of communication allowing for creative exploration ability of mutual understanding, then the agreement, and therefore areas of cooperation, empathy and effective learning. Intercultural education falls therefore a big role in deepening respect for the “other” and at the same time to each other, mutual learning, creating understanding in interactions, strengthening the importance of diversity understood not only as a source of disfunction, but also development and thereby shaping the foundations of tolerance and mutual recognition” (Jaskuła, Korporowicz, 2013, p. 134).

### 3. The intercultural competence as a key competence

Based on these results and forecasts one can conclude that a company, which will seek to operate effectively in the global market and maintain a competitive advantage should hire employees who have a well-developed intercultural competence. It should be no doubt the competence of the key twenty-first century and will provide a competitive advantage for both workers and businesses. In accordance with the concept of G. Prahalad and C.H. Hammer (1990, p. 81) key competencies are the result of the organization of employee competencies (Jabłoński, 2009, p. 95). Use them as a team knowledge of the organization, which must be constantly deepened by developing their competencies and finding/identifying new ones. T. Oleksyn (2010, p. 21) stresses that “the term core competencies may also involve key competence of the worker, including a distinctive personal characteristics” while citing definitions PF Drucker points out that “key competencies the organization are what an organization knows how to do best” (ibidem). They allow your organization to respond flexibly to changes in the environment, and can guarantee a competitive advantage.

In the discourse on defining the category of intercultural competence there is no clear position on the meaning of the term (Rathje, 2006, p. 3). Undoubtedly, this has to do with its interdisciplinarity. It is also important that the categories of culture, intercultural and competencies that underlie the category of intercultural competence are fuzzy and ambiguous. J. Bolten (2011, p. 2) are determined by the fuzzy word. However, there were several interesting attempts to define the term intercultural competence. The following Table presents selected definitions of the category in question.

Table 2. Selected ways of defining intercultural competence

<b>Author</b>	<b>Definition</b>
A. Davies, D. Fidler, M. Gorbis (2011) Raport: <i>Future work skills 2020</i>	Cross-cultural competency – ability to operate in different cultural settings
A. Thomas (2003)	Intercultural competence is reflected in skills understanding of themselves and others cultural conditions and factors affecting the perception, valuing, feeling and action, as well as the skills of their understanding, respect, respect efficiency in the sense of mutual accommodation, tolerance for diversity and successful models cooperation activities and patterns of coexistence and effective action in relation to the criteria for the interpretation and constructing the world
S. Ting-Toomey (1999)	Intercultural competence is work on the face. Conditions of effective work on the face are cultural knowledge, reflectivity and the ability to interact
J. Stier (2006)	Is the ability to reflect on the cultural conditions, the ability to problematize, understand, learn from other cultures, emotional cope with problems occurring at the interface of cultures and efficient operation in intercultural interaction

Source: own work based on: Davies et al., 2011, p. 8; Thomas, 2003, p. 143; Griffin, 2003, p. 453; Stier, 2006.

As seen above, the category of intercultural competence contains a collection of properties and capacities that enable individual ability to act in different cultural conditions and effective cooperation with representatives of other cultures. It includes attitudes and attitudes towards differences in the motivation to interact with foreigners, ability to reflect on their own and foreign cultural determinant role in this distance, effective appropriate and effective communication and action in the context of intercultural built on knowledge and communication skills, including conflict management.

#### **4. The morphology of intercultural competence**

Intercultural competence is a multidimensional structure. It is the nature of cognitive, but also applies to the realm of emotions and behaviors. The basic paradigm of intercultural competence presumes that it is composed of three sub-dimensions: cognitive, emotional and behavioral. Individual sub-dimensions are presented in Table 3.

Table 3. The dimensions of intercultural competence by M.C. Gertsen

<b>Cognitive</b>	<b>Emotional</b>	<b>Behavioural</b>
<ul style="list-style-type: none"> <li>• Understanding of cultural phenomena in relation to the perception of reality, thinking, values, behavior and actions</li> <li>• Understands (trade measures) contexts of action in the culture of their own and others</li> <li>• Understanding the cultural differences of interaction partners</li> <li>• I understand the specifics of intercultural communication processes;</li> <li>• The ability to metacommunication</li> </ul>	<ul style="list-style-type: none"> <li>• Tolerance of ambiguity</li> <li>• Frustration tolerance</li> <li>• The ability to control the stress and reduce the complexity of:                             <ul style="list-style-type: none"> <li>– Self-confidence</li> <li>– Flexibility</li> <li>– Empathy, role distance</li> <li>– Stereotypical thinking, openness, tolerance</li> <li>– Low ethnocentrism</li> <li>– Acceptance, respect for other cultures</li> <li>– Willingness to intercultural education</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The will and willingness to communicate</li> <li>• Communication skills</li> <li>• Social competence (ability to build rapport and trust to partner with a foreign culture)</li> </ul>

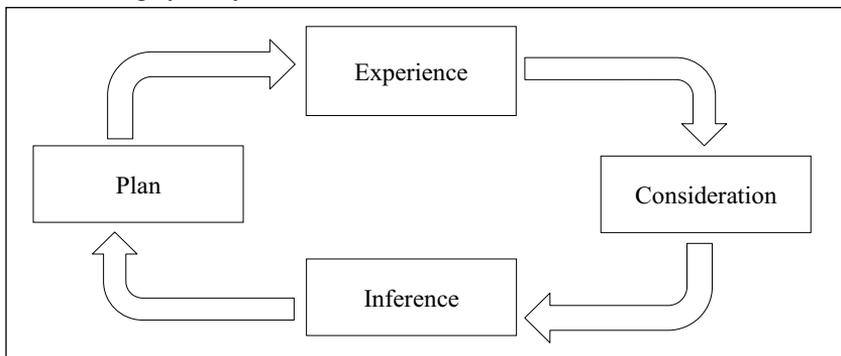
Source: Gertsen, 1990, pp. 341-362.

Although the model MC Gertsen of individual skills, personal qualities and competencies are shown in Table 3 groups of Figures, it should be remembered that intercultural competence is of procedural character that develops in a specific situation and takes into account the dynamic nature of culture (Bolten, 2007, p. 24). This system is highly interdependent and dynamically interacting elements. Intercultural competence should be treated not as a synthesis of these dimensions and individual skills, but as a “synergistic product of constant mutual impacts in particular sub-dimensions” (Bolten, 2007, pp. 21-24).

## 5. Training intercultural competence

Training intercultural competence is not an action that can be implemented as a result of an ad hoc stay abroad, completion of a language course, or even a few months of cultural training. It is a process that lasts a lifetime (cf. Deardorff, 2006, p. 8; Erll, Gymnich, 2013, p. 148; Filipowicz, 2014, p. 128) and is part of the ongoing development of personality. It requires constant changes in terms of knowledge, skills and attitudes. The most important factors in improving the competence of the experience, the ability to reflect and learn from mistakes. G. Filipowicz (2014, p. 322) points out that “the development of competencies is a process that requires gathering and conscious use of the experience. Experience of those must be just a lot to be able to practice various aspects of individual competence in every possible situation”. A. Pocztowski (2007, p. 291) and H. Grzymała-Moszczyńska (2009, p. 104) draw attention to the development of competencies and learning through experience referring to the learning cycle by D. Kolb, cf. Figure 2.

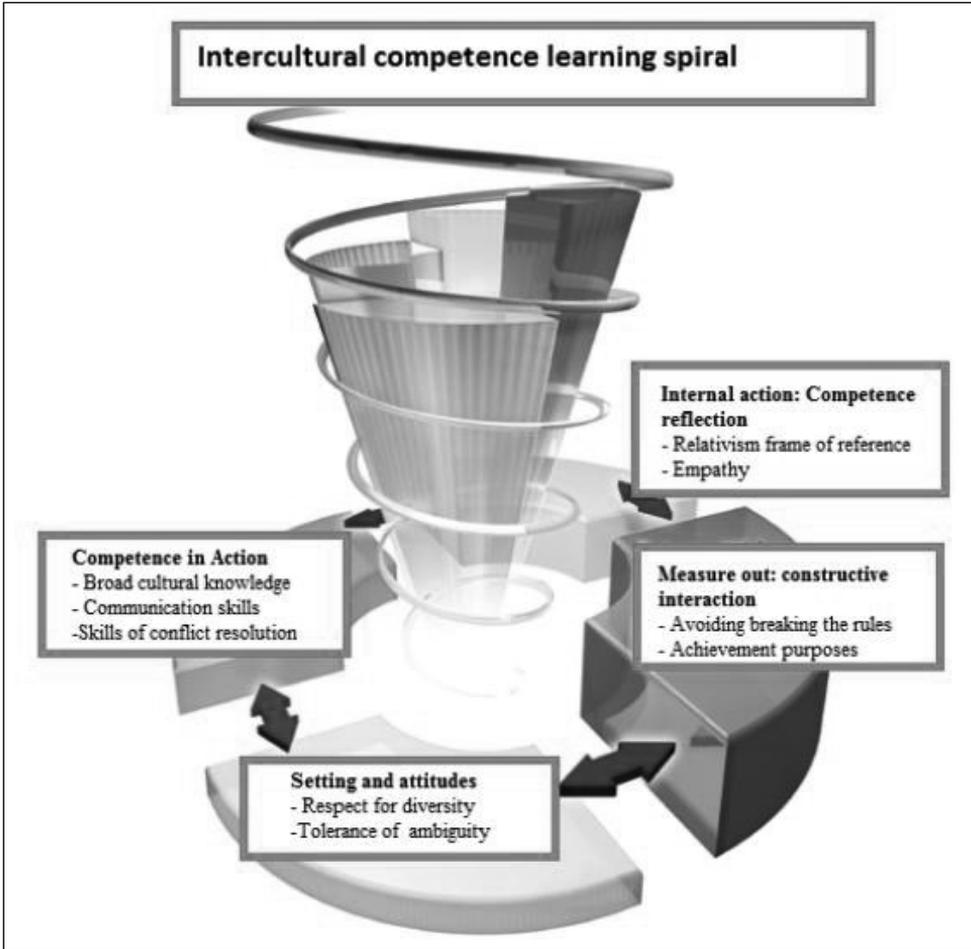
Figure 2. The learning cycle by flask



Source: Pocztowski, 2007, p. 291.

According to this model the learning process starts from the experience in an intercultural environment, e.g. a holiday trip. Then, the phase of reflection on the essence, the course of the situation and committed errors. In the third phase conclusions are drawn on the experienced situation and assessed it. At the end, the stage of planning a new behavior in a similar situation taking into account the lessons learned in the third phase and modifying their behavior. The cycle repeats itself again. Establishment of the learning cycle by Flask can be seen also in the spiral model of learning by DK Deardorff recommended by the Bertelsmann Stiftung. This model is shown in Figure 3.

Figure 3. Spiral model of learning. “Intercultural competence”



Source: Deardorff, 2006, p. 7.

According to this concept of improving intercultural competence it is a dynamic process, which extends spirally and includes four dimensions: attitudes, competence in action, competence reflection and constructive interaction. Grade/level of its advancement depends on the number of dimensions involved and the number of laps. The more involved the size and the laps completed is higher. The various dimensions of continuity affect each and every intercultural interaction having an impact on their development. At the conclusion there will be presented a summary of selected methods of intercultural competence training. These methods can be divided into methods at the workplace (on the job), and outside the workplace (off the job) (Jabłoński, 2009, pp. 158-162). A set of selected training methods are presented in Table 4.

Table 4. Selected methods of intercultural competence training

On-the-job training methods	Off-the-job training methods
Coaching and mentoring, mediation, imitating, coaching the position, rotation job, team building, work on projects, quality circles, e-learning, m-learning, t-learning, action learning, self-study	Lectures, conferences, seminars, case studies, heuristic techniques, cultural sensitivity training, internships, practice, training bench, role plays, simulations, discussions, games, e-learning, m-learning, t-learning, language, culture-general assimilator <sup>1</sup>

Source: own work based on subject literature.

As can be seen from the Table above the range is extensive training methods. It is important that the training includes learning the above rules by experience. You should also remember that no matter how effective is the method there is no substitute for employee motivation to develop their own intercultural competence and the conscious experience of intercultural meeting.

## 6. Conclusion

Improving the intercultural competence is part of the three members of this publication. Intercultural competence is knowledge about ourselves and about other cultures, their ways of communication. This knowledge allows one to build a multicultural society and an appropriate and effective communication within them and their entourage. Intercultural competence which is a key competence organization is a potential source of competitive advantage in today's knowledge-based global economy.

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<sup>1</sup> It is educational set, in which cases of other culture persons in confrontation with unfamiliar culture are presented (Hofstede, Hofstede, 2007, p. 374).

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# Chapter 31

## Organizational Sources of the Employer's Image Destruction<sup>1</sup>

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*Anna Dolot*

### 1. Introduction

The importance, role and the scope of the employer's image are becoming more and more widely discussed. Although, in most cases concerning business practices, employers would like to be perceived in the best light possible, they frequently become the source of their own image destruction. There have been many situations in which particular employers lost their positive image or their neutral image changed into a negative one as a result of e.g. their own incautious actions. Due to the fact that it takes years to build a given company's positive image but its destruction can be a matter minutes leading to a series of negative consequences, it is worth analyzing this issue in order to prevent it in the future.

This article shall concentrate on the issue of a company's organisation as a factor constituting a possible source of its own image destruction on the labour market.

### 2. Destruction in the context of the employer's image

There is more and more research devoted to the employer's image. This image encompasses the company's values, its policy and actions geared towards attracting, motivating and retaining current and potential employees (Backhaus, Tikoo, 2004, p. 501). Another specialist in employer branding emphasizes the fact that the employer's image is the way in which a given company is perceived on its internal and external labour market (Bukowska, 2012, p. 27). Thus, the aim of the company pertaining to employer branding is undertaking actions directed towards creating positive associations with the company as an employer. Meanwhile, the word "destruction" has a definitely negative connotation. This term is of a Latin origin [*L destructio*] and signifies damaging, disintegration, disorganization (*Uniwersalny słownik...*, 2006, p. 595). As the concept of the employer's image and employer branding becomes widely-known, one can make an attempt to define the concept of the employer's image destruction, combining both concepts.

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Therefore, if we assume that the company's image as an employer equals its image (reflection) created in the minds of its current and potential employees on the basis of their personal experiences (current employees) or on the basis of information from potential company members, coming from people constituting a given company or all type of mass media (Baruk, 2006, p. 36), it can be assumed that the employer's image destruction shall include all activities leading to the creation of a negative image of a given company as an employer in the minds of its current employees (on the basis of their own experiences and sentiments) and potential employees (on the basis of information received from widely-understood environment and diverse sources). It can be also stated that the destruction of the employer's image equals all activities undertaken by the company, its employees and people/subjects beyond it, which aim at creating a negative, tarnished image of the employer, and, as a result, at damaging the company's reputation.

Taking into account the fact that the employer's image changes in time, one should also pay attention to the following fact: while the company's positive image as an employer is usually built over the years, its destruction can take a few months, weeks, or even days. The company's actions resulting in negative consequences get definitely more coverage than its positive activity.

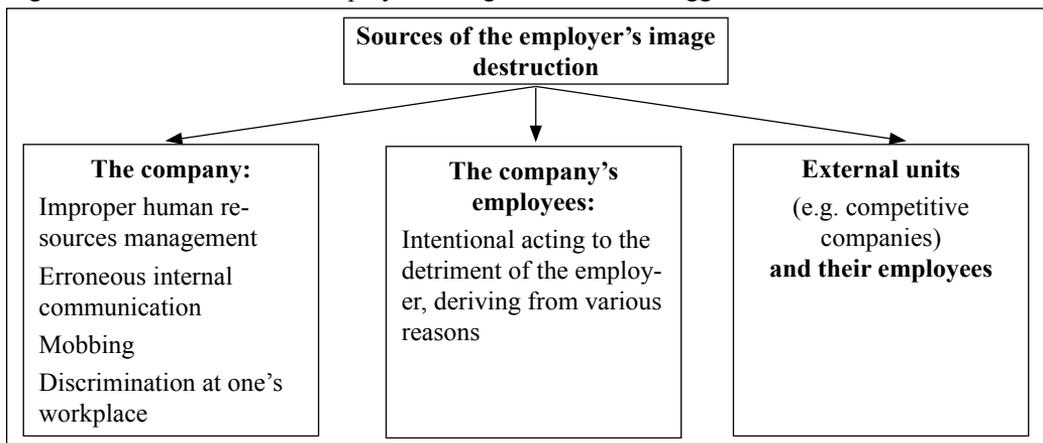
### 3. Suggestions concerning the sources of the employer's image destruction

Taking into consideration the abovementioned views, it is worth discussing the issue pertaining to the sources of destructive behaviour. Figure 1 illustrates this idea. The range of destruction sources can be divided into three spheres. These could be:

- the company itself (both deliberate/conscious behaviour and unconscious behaviour and/or negligence),
- the company's employees,
- other external units/companies and/or their employees.

Usually, the behaviour of the latter two is intentional.

Figure 1. The sources of the employer's image destruction – suggestions



Source: own research.

It should be also emphasised that acting to the detriment of the company in the light of its image as an employer will have noticeable consequences both on the labour market and in any other field of the company's activity. If, due to the destruction of the employer's image, the company has a difficulty in recruiting valuable employees, this company shall find it difficult to reach defined goals, both operational and strategic, in various dimensions of its activity.

These are selected examples presenting the consequences of the employer's image destruction:

- difficulties in recruiting valuable employees (as a result, the recruitment and selection procedure is more time-consuming and more costly, which can also lengthen the time and increase the cost of new employees' induction and training);
- greater staffing fluctuation, and more costs pertaining to this phenomenon;
- increasing the expenditure on employees' training and development (there is a possibility that due to a limited choice of potential employees, it will be necessary to recruit employees with lower qualifications and poorer business awareness, which can require additional training and developmental activities);
- lower employees' motivation and morale, the decrease of their work satisfaction;
- lower quality of the services provided (due to the fact that the involvement of the human factor in service rendering is crucial), possible lower quality of the goods produced;
- more insecurity and smaller flexibility on the labour market (increased staffing fluctuation equals constant recruitment, induction and training activities, which makes current activities longer and more difficult);
- increased expenditure on the activities aiming at the reestablishment of a given company's positive image on the labour market;
- financial costs pertaining to the fines a given employer may be charged with as a result of violating the employee's rights (acting both intentionally and unintentionally).

It should be also remembered that since 1 July 2007, there have been increased sanctions for breaking the employee's rights – the labour inspector can charge the employer with a fine of maximum PLN 2,000, and the court can pronounce a fine even up to the sum of PLN 30,000.

As the abovementioned examples show, the consequences can be both of a material and immaterial character.

#### **4. The company as a source of its own image destruction on the labour market**

Although the awareness of the employer's image on the labour market grows, still, quite frequently the very company constitutes the source of destructive behaviour.

The first source is the area of human resources management. It touches nearly every aspect of the company's organisation as the elements of human resources management are allocation, motivation and human resources development (Król, 2006, p. 72). These areas can constitute the source of destruction. Due to a wide range of activities undertaken by the company itself, it should be emphasised that nearly every activity which concerns people (and as a result their involvement, emotions and feelings) can become a potential source of the employer's image destruction. In this context, it can be the following activities:

- an unsuitable recruitment and selection procedure, especially: a wrongly written job advertisement (e.g. the one including discrimination elements), lack of partnership, respect,

and involvement while talking to candidates during the recruitment procedure (e.g. a given recruiter is not prepared to run job interviews), lack of information about selection results, employing someone “as a special favour” regardless of this candidate’s competence;

- an erroneous induction procedure, e.g. no workplace prepared, no information concerning cooperation rules – more and less formal – no clear information on the goals and tasks concerning a particular workplace;
- lack of a clear-cut, just and well-matched employee motivation system (there might be no such a system at all or it may function in an improper way, being a source of dissatisfaction instead of encouragement, causing discouragement and even frustration in the long way);
- mistakes made in the area of creating, implementing and introducing a system of employees’ appraisal (it might be both mistakes concerning this system’s structure and the way in which employees are informed about their assessment results, which discourages them from improving their performance instead of providing them with constructive feedback);
- lack of a career development system or its improper organisation (e.g. giving assignments to employees without training them first, sending employees to workshops which do not match the scope of their responsibilities and whose structure is of a rather haphazard character, lack of awareness concerning the necessity of employee training and development);
- mistakes in the system of employee remuneration (it should be emphasised that it is a very emotional issue for employees and it can constitute a conflict-ground in the company. Situations in which employees are not remunerated, are not paid on time, or if a given remuneration system is not transparent enough shall always provoke dissatisfaction, lower motivation, frustration, work leaving or even suing a given employer);
- illegal employment (e.g. without signing any labour contracts);
- lack of proper working conditions (both material, e.g. lack of working tools, no conditions to take a break, and immaterial, e.g. lack of work-inducing atmosphere creating a feeling of safety, no possibility to take a break which a given employee is entitled to);
- violation of employee’s rights, violation of Labour Code;
- wrong handling of a dismissal process.

As for research into dysfunction and pathology at workplace, the research conducted by a team of scholars from the Faculty of Management at University of Lodz is worth mentioning. Their pilot studies included a group of 110 respondents, employed in the companies of Lodz voivodeship. They constituted the basis for defining the most frequent irregularities at workplace, most of which concern human resources management (Cewińska, Kubiak, Wojtaszczyk, 2007, p. 97):

- lack of promotion perspectives (64%);
- no training improving one’s qualifications (59%);
- employing someone “as a special favour” (56%);
- work overload (55%);
- lack of information given to employees concerning their and their company’s situation (50%);
- being afraid of expressing one’s concern and complaining in the presence of one’s superior (48%);
- precarious employment situation (33%);
- dissatisfaction with the rate of remuneration and not paying one’s salary on time (25%).

The research proper included a group of 442 respondents from the area of Lodz voivodeship. It pointed to several irregularities in the fields mentioned above. It turned out that in the field of recruitment and selection, 60% of respondents consider employing someone “as a special

favour” to be frequent, very frequent or even exception-free (Kubiak, 2007, p. 105). At the same time, the respondents pointing to very frequent use of one’s connections in order to get employed are of an opinion that regardless of their excellent performance in a given company, they have little chance of getting a bonus (68%), getting a pay rise (72%), getting promoted (72%). Moreover, they more often experience the feeling of lack of sense of job security (74%) and are convinced that chosen employees earn too high a salary (81%).

Publications treating this subject mention the concept of “human resources management crisis” (Budzyński, 2002, p. 174). The author says it can derive from accidents at work, collective dismissals, unfulfilled financial and social requirements, or employee discrimination. The outcome of this type of a crisis most frequently takes the shape of a strike or another form of employee protests. It is worth noticing that strikes or employee protests quickly attract the attention of the media or the media’s attention is drawn to such events. As a result, the whole region or even the whole country learns about a given company’s difficulties. The research shows that even 17.5% of the companies mention personal conflicts among main causes of the crisis affecting Polish companies (Zelek, 2002, in: Lipka, 2011, p. 123).

Another area constituting the source of misunderstanding and conflicts whose consequences are destructive for a given company is the area of widely-understood internal communication within a given company. In the context of a given company, communication can be defined as the main organizational process consisting in exchanging information between different subjects, uniting organizational units with each other and the company with its environment (Gros, 1994, p. 69). Applying this definition to internal communication of a given company, information exchange shall take place between its employees at various levels of its structure: vertically, horizontally, diagonally, in a formal or an informal way, in an oral or written form, using different communication tools.

Communication overlaps with human resources management processes. The quality of communication influences employee motivation, their work satisfaction, commitment, energy, productivity and efficiency (Weinstein, 2002, pp. 281-282). A. Potocki emphasises the fact that the control function is impossible without various communication forms. Thus, it can be stated with full responsibility that managers function and fulfil the tasks defined by communication (Potocki, 2001, p. 25). Another researcher mentions the recruitment procedure as a crucial factor in the whole system of internal communication (Martyniak, 1997, p. 24). Additionally, R. Winkler states that communication constitutes an inherent and, to a great extent, fundamental factor pertaining to learning processes and knowledge management (Winkler, 2008, p. 189). Analysing all areas of human resources management, it can be concluded that actually each area requires effective communication (recruitment, selection, induction, assessment, development, abovementioned motivating, remuneration, dismissal).

Erroneous communication, and especially lack of it can lead to gossip, rumour, which is consequently exaggerated, grows out of proportion, causes apprehension, and, as a result, can provoke work dissatisfaction, frustration, misunderstanding, conflict, crisis, and even dismissal. Table 1 presents a brief list of authors dealing with the subject of negative consequences of erroneous communication or lack of it.

Table 1. Negative consequences of erroneous internal communication between employees and employers

Author	Negative consequences
P. Senge	Erroneous communication can contribute to establishing and strengthening improper thinking and behaviour patterns in employees (Senge, 2002, p. 218).
W.V. Haney	“Communication mistakes” within a given company lead to the loss of mutual trust, the emergence of dislike (hostility) between employees, difficulties in cooperation, delay in project realization, absence growth, or even such phenomena like acts of sabotage or a strike (Haney, 1992, p. 8).
A. Potocki	Communication gaps concerning the organizational function can lead to conflicts between employees, between employees and their superiors, and, as a result, they can prevent them from completing their tasks (Potocki, 2001, p. 25).

Source: own research.

All the elements presented above shall result in the destruction of the employer’s image (initially in the eyes of their employees, further on, these negative consequences can be noticeable outside a given company and known to external representatives of the labour market).

Mobbing is another issue inseparably linked with the employer’s image destruction. This term, referring to the organisation of personal relations within a company, was used in 1984 by a German psychiatrist, Heinz Leymann, working in Sweden at that time (Marciniak, 2011, pp. 15-16). Initially Leyman defined mobbing as mental torture used towards particular employees in economic institutions. Later on, he added that mobbing is a process of employee harassment lasting no shorter than 6 months, influencing a given employee at least once a week, damaging their dignity, personality, mental or physical integrity, constituting a threat to their employment, and having a negative impact on workplace atmosphere and efficiency. Labour Code defines mobbing as activities or behaviour concerning a given employee or directed against this employee, consisting in persistent and long-lasting employee harassment or intimidation, leading to lowering their self-esteem of professional capabilities, humiliating or aiming at their humiliation, isolation or elimination from a group of co-workers (art. 943 § 2. K.P.). Mobbing is also described as a certain communication type, words, facial expressions, gossip, door slamming, document throwing, isolating the victim from their colleagues. Such behaviour is exceptionally destructive and is as painful as a physical attack (Romer, Najda, 2010, p. 15).

Another issue which might have destructive influence on the creation of the company’s image is discrimination at workplace. The Labour Code includes a regulation concerning a ban on employee discrimination which reads as follows: Employees should be treated equally when it comes to the process of employment and dismissal, working conditions, promotion, access to training in order to increase their professional qualifications, especially regardless of their sex, age, disability, race, religion, nationality, political opinions, union membership, ethnic origin, faith, sexual orientation, and also regardless of their labour contract type: for a specified or an indefinite period of time, full-time or part-time (art. 18<sup>3a</sup>. § 1. K.P.). Thus, this regulation concerns equal treatment of employees in every area of human resources management.

It should be also taken into account that all abovementioned irregularities might bring about negative, or even tragic consequences influencing a general image of a given company. There have been many disasters and tragic events resulting from negligence and malpractice in the area of human resources management (e.g. due to overwork, or lack of appropriate training).

## 5. Conclusion

The employer's image destruction is costly and results in a significant number of negative consequences. Probably, as it is difficult to assess the phenomenon with the help of clear-cut criteria, not every employer wants to be aware of it or is aware of it. Meanwhile, these consequences will be undoubtedly noticeable both on the labour market and on the markets offering various services and goods. The only "positive" outcome of the employer's image destruction may be opening new doors for their rivals: giving them a better position and more opportunities on the market (providing they do not destroy their image as well).

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# Chapter 32

## **Implementation of Personnel Function Concept in Students Organizations**

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*Robert Szydło*

### **1. Introduction**

The knowledge based economy (KBE) is the most appropriate concept of economy nowadays. It is a result of recognition of knowledge and technology as key factors in economic growth (OECD, 1996). It is characterized by a couple of factors such as: knowledge as a main source, ongoing globalization, higher importance of networking in business, turbulence of business and increased value of education (Mikuła, Pietruszka-Ortyl, Potocki, 2007). Another important characteristic of the environment in which we exist is the possibility of changing the lifestyle of both groups and individuals (Masłyk-Musiał, 2003). Those two factors intertwine and are creating a new form of environment for companies. And companies need to be in a process of constant change and development. Out of many functions in a company – managing personnel function (PF) seems to be very important. In KBE those are worker and their knowledge that is the most important factor of development and success. From the second point of view, the surrounding is affecting also young people who are about to finish their education. The system of higher education is based on public universities and other, private higher education institutions. The aim of both is to prepare young people for a challenge which is waiting for them after graduation – the job finding. Companies requires a high level of competencies, which may be hard to obtain by fresh graduates. But the formal education is not the only possibility of developing competencies which is offered for students by higher education institutions. Many students are choosing to develop their potential and employability through the active membership in various Students Organizations (SO). Those groups both registered as internal university organizations and legal entities have a great impact on young people. Those are places when students can implement the knowledge gathered during lectures into practice. The aim of this theoretical article is to show that the concept of PF is possible to implement into Students Organizations. The theoretical aspect of PF will be presented, followed by the areas of interest of PF that are possible to find in the structure of SO. The final part will explain the hypothesis about the possibility of implementation of HRM into SO.

The main hypothesis is that personnel function concept may be implemented in students organizations.

It is required to cover two more topics in order to prove that statement. The first one is about the legitimacy of students groups to be described as organizations from the theoretical point of view. The second topic is about the benefits of implementing personnel function for stakeholders of student organizations.

## 2. The definition and evolution of personnel function

To answer the question about the legitimacy of implementing PF in SO, the definition of PF must be presented. The personnel function is one of the basic functions of the organization. It is realized by specific teams and departments (HR department), managers and more and more often by external outsourcing companies. Based on literature study two different understandings. The narrow and the wide one. The narrow one refers PF as entirety of tasks and duties, which company should realize towards its employees (Szalkowski, 2006). The most important part of this definition emphasis the usage of PF only for companies and employees, so people who stays within the employment relationship, based on job agreement. This definition is coherent with the common understanding of personnel function as referring for employees only. The wider definition puts the PF in reference to entirety of actions connected with functioning of humans inside the organization (Pocztowski, 2008). Not only companies are the places, where groups of people are working. Similar tasks are being realized in foundations or associations. The first definition will not allow to use the personnel function concept towards people “who are active and do the task as a members of those organizations”. It is important to note that some of the staff of both foundations and associations are employed, some have voluntary agreement, and some are just people who sympathize with the organization. In common understanding they are “workers”, or workforce of those organizations, as they are realizing task given by people responsible.

## 3. Areas of interest of personnel function

The PF has been developing since the prehistoric times (Pocztowski, 2008). Hunting required specified cooperation, tribes had leaders and the job was divided between the tribe members. Since then PF developed through pre-industrial era until post-industrial one (Tab. 1).

Table 1. Development of personal function

<b>Development stage</b>	<b>Forms of work</b>	<b>Areas of Personnel Function</b>
Pre-industrial era – the time of artists and generalists	Hunting, supply collection, agriculture, sailing, building houses, handcraft	Work division, leadership, developing certain skills, recruiting, selection, developing employees and planning of the employment

Industrial era – the time of specialists	Developing of industry, mass production, easy jobs, fixed job-time	Organizational structures, fixed time of work, costs of work, labor relations, remuneration on a basis of working time, assessment by direct supervisor
Post-industrial era – Time of team work	Elastic job time, computers, lean management, development of services	Multitasking, client-oriented work, remuneration on the basis of results and potential, group-work, assessment by wider group of people

Source: own study.

Pre-industrial era was a time of artists and generalists. The main tasks/jobs for humankind were strongly connected with daily life and survival. Men were responsible for hunting, building houses or sailing. Women were taking care of supply collection or preparing clothes. Coming closer to the present times, mass producing was not there yet. Goods were produced by artists and highly skilled masters of their profession. If a master wanted his or her shop to continue, he or she needed to find and train another person, an apprentice. It is important to notice that apprenticeship were even more than ten years long – and the time was bound with the profession. The most important jobs, while considering PF, were recruiting, selection and developing the employees. Selecting a wrong apprentice might cause a serious problems for masters.

The production process during industrial age was massively changed. Mass production not only decreased the price and increased the quantity but also influenced the workers surrounding. The fact is that many more people were given a chance to work and earn money, but they were treated as a production factor. The tasks of personnel function evolved and recruitment ceased to be the most important task. There were many people who wanted the job. The tasks for people dealing with personnel function were to prepare the description of work, set the correct framework for employees, measure the costs of work and conduct the direct supervision.

With the change from industrial to postindustrial era, the tasks of PF changed again. The pressure was moved from direct supervision and costs of work to multitasking and client oriented work. Development of workers, and assessment conducted not by one direct supervisor but by a wide range of coworkers were the key points to the success of the enterprise.

The PF areas of interest were changing according to the time and development of industries. Nowadays there are various tasks that are realized by personnel function. They are as follows:

1. Gaining employees.
2. Evaluation process.
3. Developing workers.
4. Motivation.
5. Shaping conditions of work.
6. Participation of workers in management processes.
7. Personnel movement.
8. Outplacement.

The first task, according to the chronological order, is to gain an employee. This task consist of few smaller, but not less important tasks such as planning the workforce, recruitment process, selection tasks and introduction employee to the workplace (Ściborek, 2010).

After the adaptation process is finished, work of employee is being evaluated based on evaluation process, which is the second area of interest of PF. The evaluation system of employees is created based on their workplace description, duties and performance. The most important criterion is the effectiveness of an employee. It is measured on few levels that are various based on the type of an organization (Oleksyn, 2014). The evaluation process should be a tool to realize the goals of an evaluation system. The employee, as well as the company will benefit from it in many ways, i.e. rise of motivation and work happiness, selecting candidates for higher positions, assessment of skills or improving the development program (Król, Ludwicyński, 2006). After the evaluation – some of the workers will get high marks, some probably very low. Creating a reward and recognition system is important for the full use of evaluation process.

Another point of interest of PF is an answer for a question about development of the employees. Should it be on the job, or off the job development? It is an important process not only in preparing an employee to work, but also an important factor of gaining new skills and knowledge in general. It consist of planning, implementation and control tasks out of which all are crucial for the effectiveness of actions (Suchodolski, 2006).

In a time when employees are the core value for the company, motivation is an important factor and task of PF. It should be focused on both stimulating and sustaining the internal but also external power to act and work within the company (Kopertyńska, 2008).

How the work should be organized and when to allow employees to work with their full potential? Good conditions of the works must be provided. It includes safe workplace, sufficient amount of breaks, social room and general conditions such as temperature, lights or humidity of air. It all have a great impact on workers (Piekarz, Stabryła, 1983).

Nowadays employees want to have a bigger impact on management processes, so some of the companies are eager to allow best employees to participate in those tasks by giving some advices, ideas or simply by informing them on what is going on (Listwan, 2005).

Some employees must be moved from one workplace to another. Instead of simply firing people, the outplacement process is run. It should be understand as moving a person from one company to another. A form of help in keeping the continuity of employment despite the change of employer (Berg-Peer, 2004).

The areas of interest of PF are diversified which makes it hard to control for unexperienced people. It is important that HR departments be run by people who are prepared to this task.

#### **4. Organization – definition**

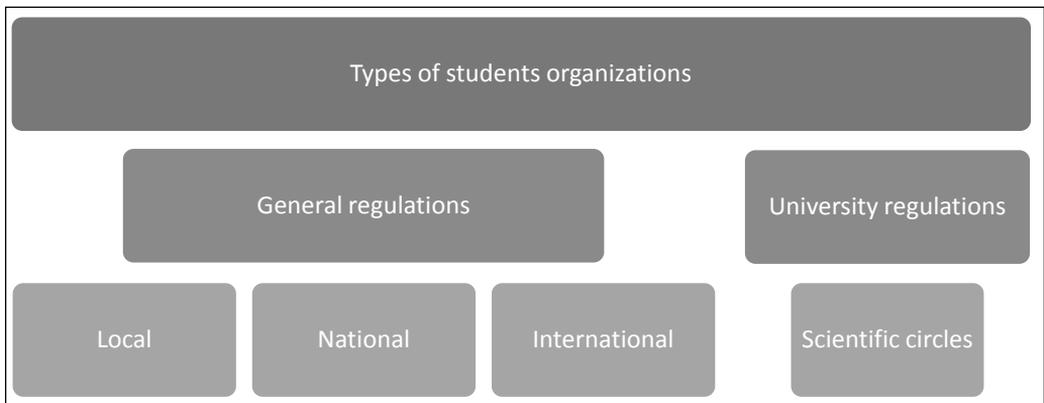
While presenting the different approaches for PF, the word organization was mentioned. What is an organization and how it should be understood? According to the very general definition it is entirety in which, every element is contribution to the success of the whole (Kotarbiński, 1975). This definition is based on social sciences and may be implemented in Management, Sociology and Psychology. Tanenbaum (Zieleniewski, 1978) claims that organization is an arrangement, in which all units are so well-connected to one another that they ace as a whole, but each unit has its own job to do. It emphasis the aspect of a structure that has different tasks, but are arranged in a way that they look like one unit. Finally the definition based on management, that says that organization is a group of people who work together in an orderly and coordinated man-

ner to achieve a set of common goals (Gryffin, 2004). This definition is the closest to the common understanding of organization.

## 5. Students groups

According to the Act of higher education (2009) students are allowed to form various groups/unions. Students unions operating at universities in Poland may be divided into two main types. (Sanetra, 2011). There are organizations that do not have a separate legal personality. Those are usually informal groups formed by students in order to implement a particular scientific project or scientific circles. Although scientific circles operate on the basis of the statute, they are internal organizations, integral part of university thus they do are not included in any register. The second type are students organizations registered as associations or foundations in the National Court Register (KRS) in accordance with polish law – they are a part of official NGO register. They usually operates at the University but they are not the part of it. It is on the base of cooperation agreement. Both types of the organizations are involved in various projects aimed at support the development of students. These include scientific research, students conferences, trainings and workshops as well as events aimed at integrating students community. Many authors in their work say, that despite the lack of accurate determination of the issue of students organizations, they should be threatened as non-governmental organizations (NGO) (Skiba, 2004; Szaniawska, 2005). Only within one comment to the Act, the author presents the point of view, in which the SO without legal personality should not be qualified as NGOs. The structure of students organization is showed in the Figure 1.

Figure 1. Types of students organizations



Source: own study.

Organizations based on university regulations are mainly scientific circles. They are not included in any official register, but according to the internet portal studentnews.pl there are about 1900 scientific circles in Poland. If we assume that each of them gathers from 10 to even 70 people, it gives us about 20 000 students involved in those organizations.

The range of the activities is the key to divide organizations registered in KRS. They operate locally, on national level and internationally. The most recognizable international organizations include AIESEC, BEST (technical), AEGEE (European), IASTEE (technical), ELSA (legal), IFMSA (medical) and ESN (European). In total there are about 15 huge organizations in Poland. The largest national organizations include the Independent Student Association (NZS), Association of Polish Students (ZSP), or Students Forum BCC. Local organizations are represented for example by WIGGOR association from Wrocław.

## **6. Is it legitimate to implement PF in SO?**

To address this issue, it is necessary to cover it from both theoretical and empirical point of view. To consider it legitimate from the theoretical point of view, two questions must be answered. First of them refers to the possibility of using the term personnel function regarding to an organization, a not only company, and second to student unions as an organizations.

Can the term PF be used regarding organizations and not only companies?

As it was mentioned before, there are two types of definitions. The common one and the wider one. According to the wider definition of PF it is legitimate to use the term regarding to organizations. The aspect of organized work is emphasized, rather than various types of employer employee relation. Not only companies are the places, where groups of people are working. Similar tasks are being realized in organizations such as foundations or associations. It is the historical context of usage the terms personnel and function only to the companies which is the reason of sticking to the common, narrow definition.

So is it possible to treat students unions as organizations?

By analyzing multiple definitions of an organization, the key factors that gives the possibility of treating a group as an organization are gathered. There are different and separated units, which are connected and are realizing a common goal with an organized manner.

Each students group – no matter registration base, have a structure, and documents such as regulation code and statute. Statute is a formal document in which common goals and mission of each students union is presented. So there is a presence of a common goal. Regulation code, as well as statute contains the structure of students union. Positions in a managing body and the internal structure is strictly described. Most of the unions work is based on projects. All the members are signed to one of the projects which are realized in the given year. This gives us the separated units from the organization definitions. And the fact that all the projects are based on general goals written in statute shows that those separate parts are realizing a common goal. The managing body proves the rules.

In this case, students unions may be treated as organizations. And if they are organizations, the PF concept may be legitimately implemented.

That was an analysis started from the theoretical point of view. The empirical one is also very important. It is important to understand the practical aspect of students organizations. Despite the size of the organization, PF concept elements are present in each of them. For some organizations it is only limited level, but some processes are implemented. The scale is shown in the Table 2.

Table 2. Taks of Personnel Functions

<b>Personnel Function tasks</b>	<b>Registered in accordance with General Regulations</b>	<b>Registered in accordance with University Regulations</b>
Gaining employees	✓	✓
Evaluation process	✓	✓ limited
Developing workers	✓	✓
Motivation	✓	✓
Shaping conditions of work	✓	✓
Participation of members in management processes	✓	✓
Personnel movement	✓	✓ limited
Outplacement	✓ very limited	✓ very limited

Source: own study.

The Table is built based on personal experience and observation of two different organizations. International students organization AIESEC and local learning circle KNRO (Learning Circle of Personal Development). The process of gaining employees consist of few different tasks. Starting from promotion of recruitment, selection and introduction. Those are task which are realized in quite a complex way. In AIESEC organization, recruitment is being held 2 times a year. Members of recruitment project are using various channels to present the possibility to students and the applicant is supposed to pass 4 stages of recruitment before joining the organization. On-line application form is the first stage. Applicants are answering questions about their motivation,

Expectations and skills. After that there are interview and assessment center. Implementation and integration weekend is the last stage. While considering learning circles, it is possible to meet at least 2 stages of recruitment (online application and interview). For some of the learning circle e.g. KNRO it is also assessment center and integration and implementation weekend (but the last one has no influence on the recruitment decision).

Evaluation processes depend on the scale of the organization. The big, international or nationwide are able to run them in more structured ways, whereas the small ones really on face to face control. In AIESEC almost each person is supported by a more experienced member. The results are evaluated by a support person, leaders and also 360 degree method is introduced there. KNRO runs only face to face control and rather open meetings with general, not structured feedback. It is a limited presence.

Every students organization is established to develop their members. It is visible in their mission or vision, and is begin done in various ways. The most popular ways are action learning, feedback giving or training and conferences. It is the widest aspect of PF which is developed in students organizations.

Motivation is harder than in companies because it is based mainly on internal motivation. There is no salary so there is no motivation based on it. It is hard for leaders to motivate students to work

and act as their duties are. Motivation is strongly connected with shaping conditions of work. Ensuring the conditions and atmosphere of work is one of key elements for students organizations.

The character of AIESEC as an organization encourage participation of each members in management. Even project member can give his or her opinion to the leader and local committee president. During meetings of local committee every person can rise a case and explain point of view. The intensity of contacts and task combined with not big number of members equals with the flat and direct management of learning circles. For bigger circles there is usually separated management board, but friendly relations between members enables participation in management of every engaged student.

Movement from one position to another is for every students organization a crucial tool of action learning. This is the reason that in some organizations changing position is bound with application and revive board. It is to check the member and adjust the position to a student.

Outplacement is not a common aspect of PF in students organization. In some of them it is possible to gain a support in finding another development possibility but is depends mainly on people who are running them.

## 7. Benefits for stakeholders

Implementing PF in students organizations may be beneficial for all stakeholders. What we understand by a stakeholder of students organization? Three different groups can be identified.

Those are organization itself, students and universities. The main influence factors are shown in Table 3.

Table 3. Benefits of stakeholders

<b>Organisational</b>	<b>Students development</b>	<b>University</b>
↑ of structuration	↑ possibilities of development	New way of developing competencies
↑ of effectiveness	feeling and working like inside of a company	Complementary to National Qualifications Framework
more professional culture	new opportunities of cooperation with different entities	Unique learning point in the University offer
better simulation of business work		

Source: own study.

Benefits for organization itself are connected with management. Implementing personnel function give an increase in structuration. The clear structure will also have an influence on effectiveness of the organization. Internal organization culture is an important aspect of work, especially for young people. It gives members a touch of professional working life and prepares them to professional work in a company. It is also connected with better business simulation which will benefit in increasing of understanding of team and company dynamics and work behavior.

Because of PF, students receive more possibilities in both personal development and cooperation with different entities. They may also be engaged in professional environment and get used to working in a conditions which can be met in companies.

There is also one more stakeholder, which is university. Well organized students organizations may be treated as a great way of developing competencies. What is more – this way is complementary with National Qualification Framework, which describes what kind of competencies should a graduate acquire during studying process. Students organizations may be also a good and strong point in university educational offer. It allows to present university as an entity that takes care of both theoretical and practical preparation of young people to enter the labor market.

## 8. Conclusion

Personnel function concept may be implemented in students organizations. This is based on both theoretical and empirical properties. For theoretical point of view, students unions are organizations as they are described in professional literature. And PF concept may be implemented into organizations as it is described in the wider definition of PF. Empirical aspect also shows that even without formal implementation, most of the PF areas are already covered in organizations of every type. There are also wide benefits of stakeholders, such as students organization itself, students and university.

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# Chapter 33

## **Organizational Culture – Its Measurement and Relationships with Selected Areas of Human Capital Management on The Example of NKL Tool<sup>1</sup>**

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*Grzegorz Łukasiewicz, Łukasz Sienkiewicz*

### **1. Introduction**

The concept of organizational culture as a set of values, attitudes, beliefs and expectations shared by most members of the organization, even though it operates in the organization and management science since the seventies of the last century, is still very popular among both the scientific community and business practitioners. This is because it is a key element of modern enterprise intangible assets which, because of their rarity, difficulty in imitation or the lack of suitable substitutes are treated as a source of sustainable competitive advantage.

However, creation of the organizational culture, is a very long-term process, dependent on a number of factors such as environment (national culture), type of organization and its features, the values and attitudes of individual members of the organization. Although under the influence of the above factors it constantly undergoes significant modifications, it also affects multiple sub-systems of the organization. One of them is human capital management, wherein said influence is manifested, among others, in the process of acquiring employees, their remuneration, appraisal or development and thus affects the efficiency of the whole HR function.

Identification of interrelationships between organizational culture and human capital management, in turn, requires appropriate tools. The Tool for the Measurement of the Value of Human Capital (Narzędzie Pomiaru Wartości Kapitału Ludzkiego – NKL) can serve as an example. This tool enables a comprehensive measurement and evaluation of human capital of the company, together with an analysis of contextual areas, which includes, among others, organizational culture.

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The focus of the article is the analysis of the theoretical aspects of organizational culture with special emphasis on its links with selected areas of human capital management, and the presentation of the NKL tool, enabling managers their detailed identification and measurement.

## **2. Organizational culture – its basic assumptions and classifications**

While defining organizational culture there is a similar situation as in the case of a number of other concepts in the economic literature, namely we have to deal with numerous concepts of this construct and the lack of an explicit consensus as to its substance<sup>2</sup>.

One of the first definitions of organizational culture was suggested by E. Jacques (1951). According to the researcher organizational culture is a customary, traditional way of thinking and acting, which new members must get to know and at least partially accept it, if they want to be accepted as employees (Sikorski, 2002, p. 2). Whereas R. Goffy and G. Jones treat organizational culture as a kind of glue that bonds the whole organization (Goffy, Jones, 1996). Analysing the organizational culture is difficult not to refer to the perception of this concept by G. Hofstede and E. Schein. Their scientific work has been included into the canon of literature in this area for decades. G. Hofstede sees organizational culture as a mental programming which distinguishes the members of an organizations from the members of another organization (Hofstede, 2007, p. 16). This programming comes from the social environment in which each of us grew up and from which we gained our life experiences (family, school, places of work, community).

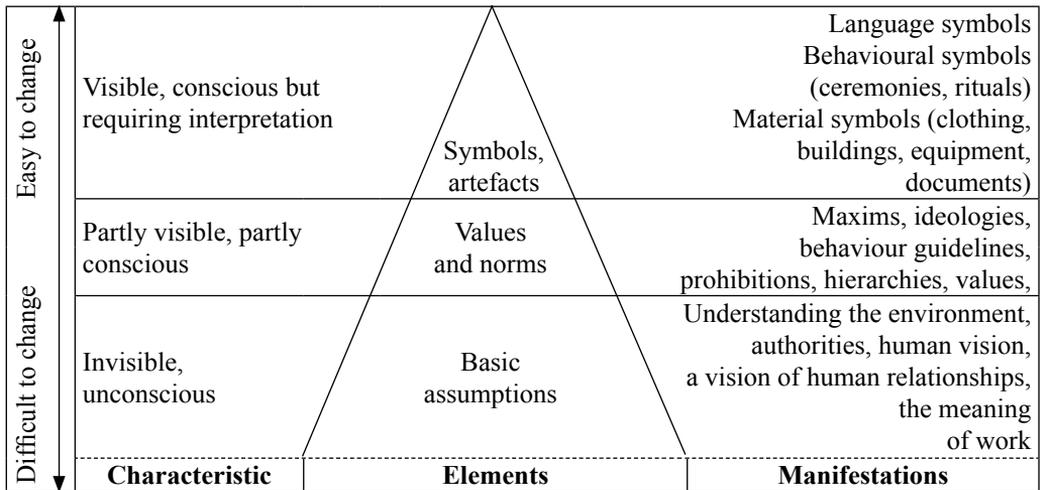
The definition of culture according to E. Schein is, in turn, similar to earlier concepts presented by E. Jacques. E. Schein focuses on rules relating to specific areas of social life in the organization, stating that organizational culture is a pattern of basic assumptions, learned, discovered and developed by a certain group, a certain community, in the process of learning how to successfully solve the problems of external adaptation and internal understanding, which worked fairly well for certain period of time in order to be validated and which will be sent to the new members as the appropriate way to perceive, think and feel concerning those problems (Sikorski, 2002, p. 3).

In the analysis of organizational culture its components play a key role. Their accurate identification and measurement allows the researchers to determine its type occurring within the organization. The most frequently mentioned components of organizational culture are: cultural values, basic assumptions, social and organizational norms, ways of communicating, stories, narratives, myths, metaphors, stereotypes, organizational rituals, symbols, customs, traditions, organizational heroes, taboos, cultural patterns, cultural artefacts and subcultures (Sułkowski, 2012, p. 72). These exemplary components are in turn assigned to different levels of culture, with the most common positioning of presented levels based on the classification proposed by E. Schein (Fig. 1).

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<sup>2</sup> Numerous definitions of organisational culture are discussed among other in: Stańczyk, 2008, pp. 19-22; Sikorski, 2002, pp. 1-4. This article summarises the definitions most common in literature on the subject.

Figure 1. E. Schein model of organizational culture



Source: Czerska, 2003, p. 13.

Analysis of levels of organizational culture, particularly the identification and interpretation of the individual components of a given level, allows to indicate differences between the cultures present in the given organizations and at the same time, on the basis of established criteria, proposing appropriate typology, for example positive – negative culture or weak – strong culture.

Distinction between strong and weak cultures deserves particular attention, mainly due to the use of this dichotomy in the NKL tool. According to G. Aniszewska the following features prove strong organisational culture:

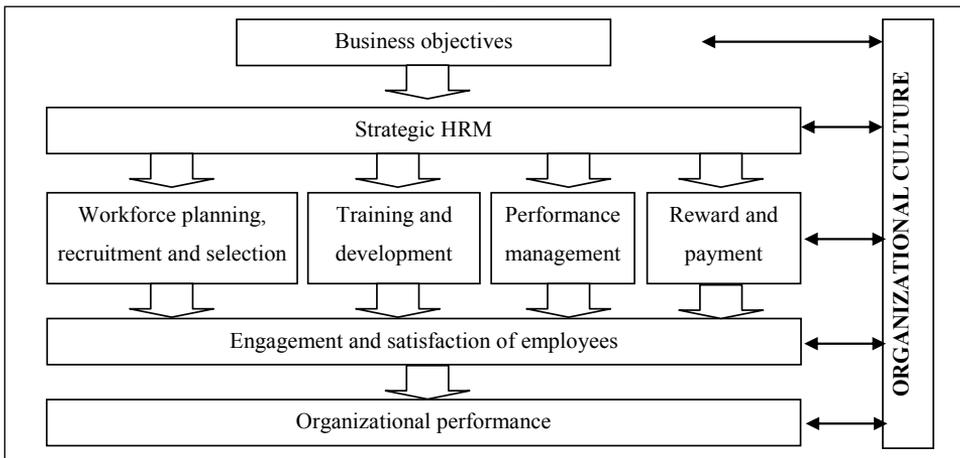
- distinctness – means that for employees it is clear what standards and values are desirable in an organization, and what are not;
- degree of dissemination – knowledge of standards and rules cannot be limited only to top management that develops the strategy for the organization, including its vision and mission. In a strong culture the vast majority, and in many cases all employees, know well and share the values and standards adopted in their organization;
- depth of rooting – mere knowledge of the norms and principles is not enough to ensure that culture in the organization can be described as strong. Workers should in fact apply them in their daily work;
- scope of application – in a strong culture norms and values relate to numerous areas of the enterprise, and often enter the private sphere of employees, e.g. their form of pastime;
- method of sustaining – in a strong culture employees are motivated to adhere to values and standards; this motivation can have both positive (awards, praise) and negative (penalties, sanctions) character (Aniszewska, 2007, p. 23).

### 3. Organizational culture in the context of human capital management and organizational effectiveness

Organizational culture cannot be analysed without reference to the basic areas of human capital management. Interactions between culture and activities within personal function are very strong and at the same time expressive. Management style preferred by the owner or top managers has a significant impact on the type of organizational culture. The literature, in particular, has pointed to the relationship between transformational leadership and capabilities in shaping the culture that supports innovation (Shafie, Siti-Nabiha, Tan, 2014; Shiva, Roy, 2008), different management styles and organisational learning culture (Froehlich, Segers, Bossche, 2014) or processes related to knowledge management (Birasnav, Goel, Rastogi, 2012). The management style and leadership qualities are very important foundations on which organizations build their culture. This applies, especially, to young companies, in which norms and values, as well as myths and heroes have the source in their founders.

Leaders and their leadership qualities are not the only factors influencing organizational culture. A lot of activities carried out within the framework of human capital management, both at the strategic and operational level, take on great significance in shaping organisational culture. At the same time it should be noted that the relation of the activities of organizational culture is bi-directional, i.e. on the one hand, their content and scope stems from the prevailing culture, and on the other they can strengthen present or build a new culture themselves, as shown in Figure 2.

Figure 2. The relationship between HRM and organizational culture



Source: own work.

Among the areas of HRM the following aspects have the most influence on organisational culture:

- planning, recruitment and selection of new employees – organizations define criteria by which they will organise the selection of candidates for new employees as early as the search begins. Shared values are among these criteria. Therefore the aim of the selection procedures is the selection of such candidates whose values are consistent with organizational values;

- development of human capital – this area plays a very important role, as the consolidation of the current culture – and the more importantly – the change is carried out with the use of training tools. It facilitates changes in attitudes and implementation of existing norms and values to everyday activities;
- performance management (evaluating employees) – through appropriate selection of criteria employees are informed about desired behaviours, consistent with the organization's accepted values and principles;
- rewarding – employees' behaviours, in accordance with the guidelines in the area of organizational culture, should be recognised in the form of awards or bonuses. Incentive systems, therefore, take account of the criteria that reward persons behaving in accordance with the adopted system of values and organizational standards.

Human capital management system, which takes into account the basic principles of organizational culture, shapes suitable working environment and thus influences the growth of satisfaction and engagement of employees, which in turn results in economic performance of the organization. For this reason, organizational culture is treated as a potential source of competitive advantage and above-average financial returns (Lee, Yu, 2004; Prajogo, McDermott, 2011).

#### **4. Measurement of organizational culture**

Organizations that want to manage their organizational culture must face the problem of its identification and measurement. According to the widely accepted saying – “if you cannot measure it, you cannot manage it” (Kaplan, Norton, 2001, p. 38) – effective and efficient management of organizational culture is conditioned by properly chosen methods of measurement.

In the measurement of organizational culture the two approaches used by researchers are in focus – quantitative and qualitative. It is difficult to indicate which approach should be recommended in the study of organizational culture. The choice of approach depends primarily on the purpose of the study and the specificity of the tested organization. As indicated by M. Kostera “qualitative analyses do not compete with quantitative analyses. They are just different and are suitable for the clarification of other aspects of organizing and managing, formulation of other problems and research questions. In other words, qualitative analysis can reveal what quantitative analysis cannot – and vice versa” (Kostera, 2007, p. 9). For this reason, in many cases, researchers use triangulation of research methods, which relies on combining various methods to obtain the most detailed and comprehensive empirical evidence. With regard to research of organizational culture such approach often finds supporters. The measurement of organizational culture can therefore be carried out using the following methods: documentation analysis, passive observation, questionnaire surveying, participatory (active) observation and individual conversations (Starosta, 2014, p. 290).

In the case of questionnaire/survey research of company organizational culture a range of proven tools is available. Each of them is characterized by certain advantages and disadvantages, but despite this the appropriate selection of tool makes it much easier to identify and measure organizational culture. The most commonly used tools include, among others (Turek, 2013, pp. 68-72; Starosta, 2014, p. 291): Organizational Culture Inventory (OCI), Harrison's Organizational Culture Survey (HOCS), Organizational Culture Profile (OCP) and the model of competitive values by C.S. Cameron and R.E.

## **5. Measurement of culture and potential analysis of causal relationships using NKL tool**

As the above discussion shows, organizational culture plays a key role in the functioning of modern enterprises. Hence, the need for the use of tools for its identification and measurement in enterprises is increasing. One of such tools is the Human Capital Value Measurement Tool (NKL) – developed in the framework of the project “Human capital as an element of company’s value” implemented in partnership of the Polish Agency for Enterprise Development (project leader) and the Department of Human Capital Development of the Warsaw School of Economics (project partner).

The opportunities offered by NKL tool for measuring and analysing the relationship between organizational culture and selected areas of the company are presented in the following part of the article. For this purpose, the results of the survey, which was conducted in 20 enterprises in the testing phase of the tool, will be used. These companies represented different areas of activity, with a predominance of the services sector. Moreover, they differ in terms of employment. 5 of the surveyed companies are micro-enterprises, 4 companies are small, 7 medium and 4 large companies. Field research was conducted in the period of April-June 2014. The study was carried out by a specially-trained teams of experts, possessing full knowledge of the tool. In the 20 analysed companies a total of about 560 employees (with small differences between surveys) were investigated. The data collected during the research were subjected to statistical analysis covering:

1. Statistical analysis of survey data and the preparation of their results for individual companies.
2. Analysis of dependencies between NKL elements.
3. Statistical analysis of survey data and development of summary reports for micro, small, medium and large companies.
4. Analysis of the impact of demographic factors (gender, age, education, work experience, vocational group) and the category of enterprise on the development of qualitative dimensions of human capital.

Exemplary dependencies between the questions in the questionnaire for the study of organizational culture representing different areas of organizational culture and demographic characteristics, and category of enterprises are presented in Table 4.

Tables 5-8 present statistically significant responses to questions 5, 6, 8 and 10 included in the survey for the analysis of the organizational culture depending on the size of enterprise. This combination allows to demonstrate the relationship between the answers to the question and the said size of the company. For example, with the increase of enterprise workers knowledge on the strategy decreases, which may be due to its lack of or very poor information on this issue inside the company (Tab. 6). In micro enterprises, more than 85% of respondents said (answers “definitely yes” and “rather yes”) that their companies have developed a strategy. In large companies the percentage decreased to almost 67%.

Table 4. Collective analysis of the significance of dependencies

Area	Question number	Size of enterprise	Sex	Age	Education	Years worked in company	Years worked in general	Vocational group
ORGANISATIONAL VALUES AND PRINCIPLES.	1							+
	2	+						
	3							
	4	+				+		
VISION AND GOALS	5	0.0320302						
	6	0.0417597		+	+	+	+	
	7				+			
	8	0.0261313	0.030369			0.0465854	+	+
FLEXIBILITY AND PROACTIVITY	9	+						
	10	0.00787669				+		
	11							
	12	+				+		
	13			+		7.37963e-006	+	
14	+		+		0.000451372			
ORIENTATION ON DEVELOPMENT	15					0.0011067		
	16					0.00236283		
	17					+		
	18							
	19		0.0191146					+

Key: The cells with confirmed statistically significant dependencies p-value have been presented. “+” determines statistically significant correlations with unacceptable number of observations.

Source: own work.

Table 5. Company I work for has clearly set goals and directions for action (in %)

	Micro n = 23	Small n = 80	Medium n = 180	Large n = 275	Total n = 558
Definitely yes	47.8	38.8	33.3	28.7	32.4
Rather yes	47.8	55.0	49.4	47.6	49.3
Rather not	4.3	6.3	13.9	19.3	15.1
Definitely not	0.0	0.0	3.3	4.4	3.2

Source: own work.

Table 6. My organisation has a clear strategy for the future (in %)

	<b>Micro n = 23</b>	<b>Small n = 80</b>	<b>Medium n = 179</b>	<b>Large n = 272</b>	<b>Total n = 554</b>
Definitely yes	26.1	10.0	19.0	18.4	17.7
Rather yes	60.9	66.3	55.9	48.2	53.8
Rather not	13.0	23.8	20.7	27.6	24.2
Definitely not	0.0	0.0	4.5	5.9	4.3

Source: own work.

Table 7. In my company there are goals common for employees of various levels in the organisation (in %)

	<b>Micro n = 23</b>	<b>Small n = 80</b>	<b>Medium n = 179</b>	<b>Large n = 271</b>	<b>Total n = 553</b>
Definitely yes	21.7	13.8	11.7	11.4	12.3
Rather yes	47.8	66.3	55.3	46.9	52.4
Rather not	21.7	18.8	25.7	35.8	29.5
Definitely not	8.7	1.3	7.3	5.9	5.8

Source: own work.

Table 8. My company reacts well to competition and changing business environment (in %)

	<b>Micro n = 23</b>	<b>Small n = 80</b>	<b>Medium n = 174</b>	<b>Large n = 276</b>	<b>Total n = 553</b>
Definitely yes	26.1	25.0	16.7	13.4	16.6
Rather yes	69.6	62.5	56.3	53.6	56.4
Rather not	4.3	11.3	23.0	28.3	23.1
Definitely not	0.0	1.3	4.0	4.7	3.8

Source: own work.

Whereas Tables 9 and 10 present statistically significant responses to questions 8 and 10, depending on gender. In the case of the statement “My organization provides a variety of programs for the development of competencies, e.g. coaching, mentoring” responses “rather not” and “definitely not” were given by 51% of men. Among women, this type of answer was given by almost 60% (Tab. 10).

Table 9. In my company there are goals common for employees from various levels of organisation (in %)

	<b>Male n = 325</b>	<b>Female n = 184</b>	<b>Total n = 509</b>
Definitely yes	14.2	10.3	12.8
Rather yes	49.2	61.4	53.6
Rather not	32.0	22.3	28.5
Definitely not	4.6	6.0	5.1

Source: own work.

Table 10. Organization provides a variety of programs for the development of competencies, e.g. coaching, mentoring (in %)

	<b>Male n = 318</b>	<b>Female n = 174</b>	<b>Total n = 492</b>
Definitely yes	8.8	12.6	10.2
Rather yes	40.3	27.6	35.8
Rather not	38.4	40.8	39.2
Definitely not	12.6	19.0	14.8

Source: own work.

The NKL tool, in addition to simple analysis of the dependencies between the items in questionnaire and demographic characteristics of respondents also allows for the identification of potential cause and result of the test results of organizational culture with human capital indicators calculated in the tool. Examples of such relations are presented in Table 11. In the most elaborate version of the tool for large companies the number of indicators of human capital amounts to 81. They are divided into five groups, namely indicators of cost, quantity, structure, quality and efficiency and profitability. In addition, users of the tool can analyse mentioned relationships with 15 financial indicators.

Table 11. Exemplary correlations between questions from organisational culture survey and human capital indicators

<b>Correlation component (1)</b>	<b>Items in questionnaire for which correlation with component 1 is higher than 0.7</b>	<b>Value of correlation coefficient</b>
Acquisition costs	The employees in my company are aware of the core values and agree with them	0.7634
	My company is trying to initiate new services and products, which competition does not have	0.7609
Replacement costs	The employees in my company are aware of the core values and agree with them	0.7605
	My company is trying to initiate new services and products, which competition does not have	0.7644
HC efficiency	The company where I work is open to environment and reacts rapidly to market needs, and if necessary modifies practices	-0.7198
HC performance	The company where I work is open to environment and reacts rapidly to market needs, and if necessary modifies practices	-0.7604
	Customer feedback and recommendations are always taken into account in the design and implementation of organizational changes	-0.7186

Rate of return on invested capital ROIC	The company where I work is open to environment and reacts rapidly to market needs, and if necessary modifies practices	-0.7336
	Customer feedback and recommendations are always taken into account in the design and implementation of organizational changes	-0.7721
Capital Employed Efficiency CEE	Owners and managers act in accordance with the established values and principles	-0.7910
	The employees in my company are aware of the core values and agree with them	-0.7105
	The company where I work has clearly defined objectives and directions of action	-0.7690
	My organization has clearly developed strategy for the future	-0.7705
	Employees have a shared idea as to what the organization will be in the future	-0.7572
	The company where I work is open to environment and reacts rapidly to market needs, and if necessary modifies practices	-0.8300
	Customer feedback and recommendations are always taken into account in the design and implementation of organizational changes	-0.8142
Return on equity ROE	The company where I work is open to environment and reacts rapidly to market needs, and if necessary modifies practices	-0.7217
	Customer feedback and recommendations are always taken into account in the design and implementation of organizational changes	-0.7594
Effectiveness of added value creation	The company where I work is open to environment and reacts rapidly to market needs, and if necessary modifies practices	-0.7446

Source: own work.

Presented relations between items in the questionnaire for the study of organizational culture, and demographic characteristics or indicators of human capital were calculated in the NKL tool and create a range of possibilities in the management of organizational culture. HR managers, as well as top managers, can shape the values and organizational norms that generate tangible benefits in the area of both human capital and in financial terms.

## 6. Conclusion

Organizational culture, because of its intangible nature, is considered a source of competitive advantage. Its characteristics considered from the point of view of the resource-based theory of the firm, such as rarity, inimitability or lack of substitutes, cause it to become an object of interest for both theorists and practitioners of management.

The main goal of high-level managers in relation to organizational culture is to develop such a culture, which will efficiently support the realisation of adopted strategy. Typologies of cul-

tures – one, two, but also three-dimensional presented in the article offer a great help in this case. The knowledge of these typologies, and the characteristics of different types of cultures above all, allows for the identification of the current culture and to determine, if necessary, the direction of its change to the one that will improve the functioning of the company. Such a culture should be referred to as a “strong”, i.e. should be distinctive, with a high degree of dissemination, deeply rooted, covering many areas of the company and supported by appropriate measures. The NKL tool presented in the article is a support tool in measuring chosen features of such a strong culture.

Its full application includes, apart from the analysis of organizational culture, the study of qualitative dimensions of human capital such employee satisfaction and engagement, interpersonal relations, competences and knowledge sharing. The results of these analyses may be used to identify cause and effect relationships between distinguished dimensions and financial indicators or human capital measures. In this way NKL tool covers different areas of the enterprise in a comprehensive manner by providing managers with information to support decision-making processes, not only in terms of organizational culture, but also in the area of human capital.

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# Chapter 34

## **The Model of Leadership in Learning Organization**

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*Magdalena Gorzelany-Dziadkowiec*

### **1. Introduction**

The concept of a learning organization is the opposite of the traditional ways of managing the organization, which does not attach much attention to the learning and use of knowledge. To make the process of organizational learning was followed by learning must involve all levels of the organization.

In any organization, regardless of its specific activities play a crucial relationships. Important is the relationship between managers and their clients, employees. The role of managers is to develop relationships, behaviors and actions taken by the organization. It is therefore essential to organizational learning to play the steering wheel, whose task is to stimulate all members of the organization for entrepreneurship, openness to change and learning. Managers need to take action trigger with employees desire to do new things that were willing to seek areas of changes, as well as to those changes were willing to make.

The necessity of knowledge management, which is considered a strategic resource organizations to drive change in the organization of work, as well as transforms today's organizations in the so-called. learning organizations, based on knowledge that allows them to improve competitive position. Management of learning organizations requires adequate knowledge and competence not only employees, but also and above all managers. For these reasons, the aim of this article is on the differences of the traditional and the learning organization, as well as the attempt will be made to formulate a model of leadership in learning organization. They will form part of the empirical research conducted in the SME sector in the Małopolska province, which will have to answer the question whether the SME sector solutions benefit from learning organizations and whether it improves their competitiveness. Also, research will be carried in the direction of what qualities characterize leadership in organizations learners.

## 2. The specificity of the functioning of learning organizations

The concept of a learning organization was formed in the 90s of the twentieth century, although its roots must be sought in Ch. Argyris and D. Schon (Wait, 2007, p. 12), and even earlier – in the concept of decision support systems of the 50s. Organizational learning emerged with the advent of the information society, which is crucial knowledge and information. Learning organization is now seen as a tool of modern management. The success of the organization of the twenty-first century depends on the ability to perceive and look at new ways of doing things, with the involvement of the organization as a whole (Kłak, 2010, p. 142).

P. Senge is recognized as one of the most important architects of the idea of a learning organization, and defines a learning organization as one in which people seek ever new possibilities of achieving the desired effects, creating new patterns of stereotyped thinking, develop teamwork, constantly learn. In the literature you can find many definitions of learning organizations, making their review (Gorzelany-Dziadkowiec, 2015, pp. 5-6) it can be stated that all have a positive connotation. Learning organization is an organization capable of change, it is flexible. In an organization of this type of people they are eager to acquire and create knowledge and its use. We are happy to share their knowledge, work in teams, as well as try to modify their behavior in response to new knowledge and experience. In organizations learners also it plays an important experiment (Gorzelany-Dziadkowiec, 2015, p. 8).

In the literature you can find a multitude of concepts defining characteristics of learning organizations. Basic principles of learning organizations are focused on the following characteristics: learning from mistakes, continuous staff training and the planned training, personnel development led by management, delegation and decentralization, taking risks, encouraging experimentation, frequent review of operational procedures, search for ways to improve the performance of, making decisions based on facts and close cooperation between departments. The key to learning organization is the leadership and management of intellectual capital.

Very important in discussing the concept of a learning organization is to draw attention to the fact that this organization is an organization skilled in performing the tasks, creating, acquiring and transferring knowledge, as well as modifying their behavior in response to new knowledge and experience. The concept of knowledge does not make sense without reference to the ability to raise – that is, to the learning process.

M.E. Mc Gill and J. Slocum seeking a change in paradigms, processes and management practices, and the central point of his concept suggests an organization that “know”, “understand”, “thought” and “learns”. The amount of knowledge and information are increasing exponentially, information overload forces a skilful selection and their influence on decision-making in organizations. Therefore, we can say that knowledge resources rapidly become obsolete. At the present time before organizations, there are two difficult tasks. Firstly, they must have current information and latest knowledge, on the other hand should be able to use information and knowledge in order to gain a competitive advantage and secure the survival of (Zimniewicz, 2009, pp. 74-75).

Knowledge is one of the intangible resources. It is characterized by the fact that it is created, built and accumulated in the enterprise, and you can not get on the market. Proper use of knowledge gives wisdom, and this becomes a key competence for the company.

This approach to learning organizations leads to the conclusion that those managing organizations should forget the outdated management concepts and the ability to learn faster than the competition can be one constant element of competitive advantage (Senge, 2004, p. 19).

Comparison learning organization and traditional ways of managing organization are shown in Table 1.

Table 1. Traditional organizations and learning

<b>Traditional Organization</b>	<b>Learning Organization</b>
Punishing mistakes	Learning from mistakes
Sending employees on training courses	Continued staff training and planned training
Action on the basis of operating procedures	Adapting to the situation of working procedures
Manager allocates tasks, monitors and controls personnel	The management conducts staff training, use the expertise of employees
Control and command execution	Delegation of powers, decentralization
Do not take risks, cautious behavior on the basis of formal instruction	Risk taking
Rebirth experiment	Encouraging experimentation
Keeping revision of the structures and processes only after the “disaster” or radical changes in the environment	Routine revision of operational procedures
Discouraging questioning the effectiveness of work	Encouraging questioning the effectiveness of work
Discouraging staff to suggest solutions	Encourage staff to suggest solutions
Making decisions based on intuition and / or established procedures	Making decisions based on empirical data
Difficulties in conducting close cooperation and task – releasable from other departments	Close cooperation with tasks together with other departments

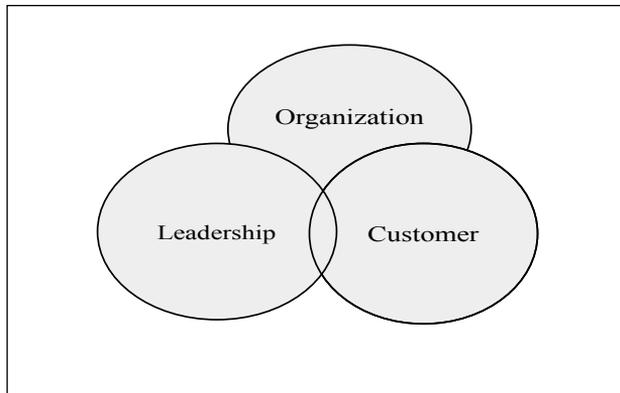
Source: Mikula, Ziębicki, 2001, p. 270.

Presented in Table 1 principles of the learning organizations are necessary to ensure that organizational learning could exist, but does not prejudice the fact that the organization obtains the title of a learning organization. Visible are also significant differences in the functioning of traditional and learning organizations. It should be noted that CK Prahalad systematically denied the traditional, hierarchical and static approach to management. He argued that global enterprises to build, Polish managers must have aspirations beyond what the company can achieve using current resources, and secondly they must be willing to change the rules of the game. They can not play by the rules that guide international corporations. And the third skill that must themselves develop the steering wheel (the owners) is the maximum use of those resources they already have (Prahalad 2010a, p. 31). For this to happen that managers should engage in learning and self-development. Leaders must invest in yourself and so for example: if someone is a lack of education can not teach others when someone gets sick he can not heal others if someone is poor can not help the poor (Prahalad 2010b, p. 30). For these reasons it is important to draw attention to leadership in learning organization.

## 2. Leadership in learning organization

In any organization, regardless of its specific activities play a crucial relationships. Important is the relationship between managers and their clients, employees. Heightened awareness of managers is being developed in the triad organization, the customer, the manager (Fig. 1).

Figure 1. Areas of awareness of managers



Source: own work.

As shown in Figure 1 leadership in learning organization must be aware of the relationships that exist within the organization, relationships with customers, but also the managers must be aware that they need to improve. Managers self-improvement should take place not only at the professional level, but also at the level of personal development.

Keep in mind that the role of managers is to develop relationships, behaviors and actions taken by the organization. It is therefore essential to organizational learning to play the steering wheel, whose task is to stimulate all members of the organization for entrepreneurship, openness to change and learning. Managers need to take action trigger with employees desire to do new things that were willing to seek areas of changes, as well as to those changes were willing to make. Managers managing the organization must pay attention to all management areas that need to improve through amendments, and include: organizational structure, organizational culture, decision making, motivation, leadership, training, planning (the pursuit of a common vision), Information Systems. To people in the organization to react to changes and willing to undertake new challenges must provide them with access to information, stimulate cooperation (team spirit and support) and leave freedom to choose and solve problems, to tolerate risk, as well as secure financial resources, material and human (Czekaj, 2007, p. 24).

In a learning organization are open borders between superiors and subordinates. The basic idea is to experience both sides were mutually available and transmitted also to other interested parties. In an organization of this type of dividing lines between the band and management, customers and suppliers, the organization and the environment. The structure of such an organization is flexible and conducive to intensify the flow of information.

Managers in organizations should cultivate learners “culture of different sentences”, which should be deeply convinced that the clash of ideas enriches the experience of the staff and thus

increases their potential of knowledge and creates in them a friendly attitude towards experimentation and the possibility of making mistakes. In such an organization criterion for the selection of staff is not possessed knowledge and ability to learn. In this particular area there is great potential that management should use (Ziemiwicz, 2009, p. 79).

From managers in organizations are required to led to what is expected, which means that they are expected to effectiveness (Drucker, 1994, p. 13). Its effectiveness managers in organizations learners may increase by changing their behavior, wrote P. Senge managers in organizations learners need to “change the way of thinking, they see the world anew” (Senge, 2004, p. 86) have to think systemically. Systemic thinking means the art of view of mutual relations, not separate objects, character changes over time, rather than static snapshots. In systems thinking sees a whole. Systems thinking is a cornerstone in the concept of learning organizations. This concept becomes necessary to change the way of thinking, meaning the transition from view to view parts of a whole, from seeing people as passive puppet to view them as active participants in shaping reality, of action in view of today to create the future (Senge, 2004, pp. 89-91).

The practice of systems thinking starts with understanding a simple concept, referred to as feedback, which shows how actions can strengthen or weaken each other. Systems thinking provides a rich language to describe the types of relationships and patterns of change.

### **3. Managers and their roles – an empirical analysis**

To the attainment of research and prove the research hypothesis being studied in small businesses. We evaluated 25 companies in the cosmetology, catering, bakery and confectionery, dentistry. The research was to answer the question of whether small businesses benefit from solutions learning organizations, and whether it improves their competitiveness. The research was also conducted in the direction of what qualities characterize leadership in organizations learners.

Companies that were examined were based on earlier studies having emerged as learning organizations (i.e. as a result of earlier studies identified features such as: a shared vision, flexible structure, culture open to change and innovation, delegating permissions management, motivated employees, education). As a research method was used interview and a questionnaire with a five – point Likert scale and the study of domestic and foreign literature. The scale of response was of 1-5 where 1 is that the behavior does not occur at 2 – is absent, 3 – part is partially absent, 4 – occurs, 5 – there is a very large extent. The research was conducted among managers (owners) and employees of enterprises. Results of this study are depicted in Table 1.

Table 1. Leadership in learning organization – the results of empirical research

<b>Leadership – evaluation among employees</b>	<b>The scale of answers</b>				
	1	2	3	4	5
Does the company punish for the mistakes?	80%	20%	0	0	0
Do superiors encouraged to experiment?	0	0	70%	20%	10%
Do you use a new experience?	0	0	10%	50%	40%
Are conclusions drawn from failures?	0	0	70%	20%	10%
Does management encourage risk-taking?	0	20%	30%	40%	10%

Are the boundaries between superiors and subordinates open?	0	0	70%	20%	10%
Is cultivated a “culture of different sentences”?	0	0	70%	30%	0
Do managers change their behavior (see their mistakes)?	0	30%	50%	20%	0
Are employees encourage to generate ideas?	0	0	50%	30%	20%
Are employees open to new knowledge?	0	0	0	40%	60%
<b>Is Mr. / Ms as superior:</b>					
Open to admit a mistake?	0	40%	50%	10%	0
Open to modifies your behavior?	0	50%	15%	35%	0
Open to people?	0	0	0	20%	80%
Open to listen to people?	0	0	0	30%	70%
Open to tolerate dissenting point of view?	0	0	60%	20%	20%
Open to allow employees to take the risk?	0	30%	50%	20%	0
Open to motivate teamwork?	0	0	0	10%	90%
Open to motivate employees to change?	0	0	0	60%	40%
Is solutions specific to learning organizations improve the company’s competitive position?	0	0	0	80%	20%

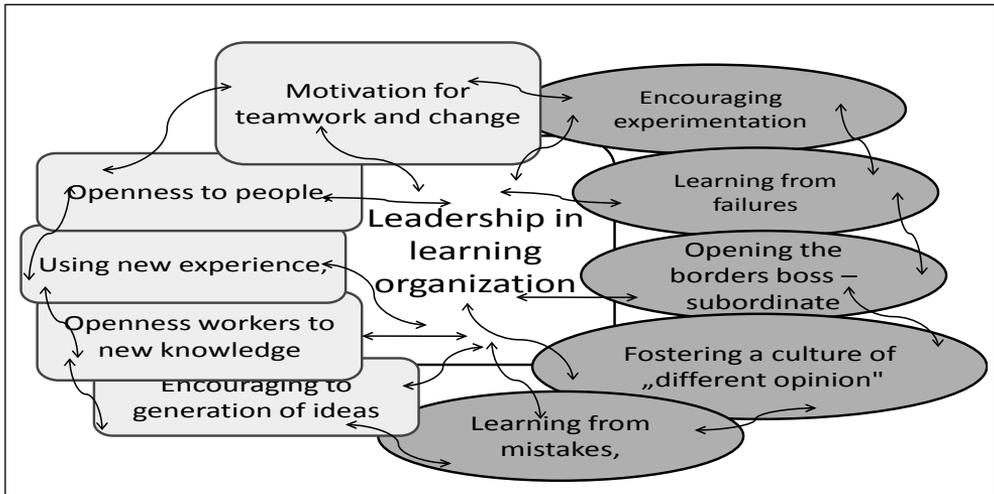
Source: own work.

When analyzing the statement presented in Table 1 it can be stated that the assessment made by the leadership of employees and superiors is no different. This means that leadership is rated similarly by employees and supervisors. For example: workers claim that superiors partially modify their behavior (see mistakes that rated 50% of respondents), while 30% felt that the superiors do not modify their behavior, 20%, they see mistakes. Looking at the assessment made by the managers it can be noted that 50% of respondents answered occupying a managerial position that they do not modify their behavior and 35% that partially modifies. Of course, admitting a mistake and learning from mistakes is the hallmark of learning organizations, for these reasons, this area requires changes in the surveyed enterprises.

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The study allowed us to create a model of leadership for learning organizations, which is illustrated in Figure 2.

Figure 2. Model of leadership in learning organization



Source: own work.

When analyzing Figure 2, it can be stated that leadership in a learning organization should be characterized by specific behaviors. It should be focused on making changes especially in the area of human resources management. These activities, which in the Figure are marked in dark ellipses in the surveyed enterprises need to be amended because it does not exist. Activities in other areas are taken.

It is worth quoting the concept of W. Peace, which indicates a gentle style of management. Indicated management style does not mean weakness, but honesty, openness, exposure to criticism, but also to make the difficult choices and accepting responsibility for them. The author presented the concept says that the typical leaders who have a legendary self-confidence and unshakable stubbornness and lead a difficult, lonely life at the top distinguishes it is that it tries to be sensitive to criticism, open to discussion and does not hide his own human frailties.

In his dictionary gentle management does not mean weak management, openness to discussion is a sign of common sense, not indecision. Criticism from subordinates does not necessarily imply a lack of respect. Conversely firm management does not have to be effective. Sometimes under the guise of self-confidence lies arrogance or fear, firmness is sometimes a euphemism for authoritarianism and pragmatism callousness. Openness is an effective technique to manage people and intentionally exposing themselves to criticism is an effective management style (Peace, 2006, pp. 97-99).

Another very important element to which managers should pay attention to the model of leadership in the learning organization is what to ask the person in the mirror? Well, it is vital to periodically perform self-esteem, look at yourself from a distance, in isolation from the everyday hustle and bustle associated with running a business and ask yourself a few key questions. This applies both to people who direct as well as people who are in positions of employees. Self-esteem concerns all people in the organization (Kaplan, 2008, pp. 45-46).

In conclusion, it is worth noting that the leaders of learning organizations must be versatile with a wide-eyed persons, which will allow them to view full picture of the situation. The great-

est danger faced by leaders is a trap of their own egos especially when all the praise them for outstanding performance. This situation often results in a strongly hierarchical, but it can happen in any organization. The leadership comes mainly about people, about this so they can take maximum advantage of their potential and achieve the objectives of the organization (Palmer, 2013, pp. 212-213).

## 4. Conclusion

Leadership, to be effective must be adapted to the circumstances and groups of people with whom managers have to deal, and which have lead. The article indicates the important role of leadership in organizations and then equally from management. Organizations that wish to be learning organizations require a completely different style of leadership than the one to which accustomed over the period of their durations. Learning organizations can and even should be stimulated through effective leadership. Leadership in learning organizations is a continual process that starts from noticing the necessary changes in managers, to induce a willingness to change attitudes among all members of the organization.

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# Chapter 35

## **Aims and Directions of the Employment Restructuring in the Company**

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*Anna Nowak*

### **1. Introduction**

In the times of the free market economy the companies are forced to a continuous initiation of changes, competing and adapting to the market requirements. In such conditions, the economic mechanisms are working effectively and ruthlessly. The mechanisms eliminate the ineffective, non-competitive economic subjects from the market, and the rest is forced to react to the economic situation up to date. The subjects have to limit the costs of work, and what comes with it, they have to restructure the employment.

The employment restructuring is a crisis situation for every organization. To the changes are subjected not only the relationships between the people dismissed and the employer, but also the dependencies within the organizational structure, the rules of cooperation between the job classes, and individual attitudes of people toward the work. Supposing that the employment restructuring has to be complex, its integral part should be the minimization of the negative results of the process and supporting the dismissed workers. Thereby, the restructuring process should proceed in accordance with the rule: maximum limitation of the unbeneficial result of the dismissals, acquire of the most important participants in the process to cooperate (trades-union, the management of the all levels, local institutions), active action of the company towards the activation of the labour market.

This article presents the problem of the employment restructuring using the example of restructuring in a selected company. The history and activity range of the company were presented. There were discussed the reasons for restructuring, its aims and directions. There were also presented the assumptions of the restructuring process, its advantages, threats connected with the initiation of the process. There were also given the advantages that the company has reached through initiation of the program.

## 2. Definition of the restructuring

The company restructuring is defined as a radical change in its strategy. The aim is to recover the competitiveness on the market and threshold profitability (Makowski, 2002, p. 170).

The basic aim of the restructuring is the improve the effectiveness in managing the company, that can be obtained mostly through changes in the existing economic structure (Nalepka, 1998, p. 23).

The aim is to give it features of modernity, elasticity, innovativeness and adaptiveness. However, the main aims that are realized within the restructuring process are reduction of employment, elimination of unnecessary production and non-production assets, increase of competitiveness, increase in the integration of actions and increase of the organizational structure.

In the face of the aims, restructuring has to change the company and adapt its activity to the efficient functioning in the market conditions. However, it has to be mentioned that the change itself is not sufficient. This change has to be advantageous, it has to allow the company to adapt its activity in a way corresponding to new conditions and conducive to the increase in the value of the company.

Therefore, restructuring is a complex process. There are few components that decide about the effectiveness of this process, the most important are (Berliński et al., 2003, pp. 65-66):

- well prepared project of changes and its initiation,
- right people in right places,
- ability to use the external environment (market chances),
- ability to overcome temporary obstructions,
- continuous supervision and control over the initiated changes.

Well prepared and initiated restructuring program that considers the above elements should bring particular results for the company. Most of them are: an increase in the management effectiveness, better use of the company asset, limiting the costs of activity, better use of skills and qualifications, increase in the efficiency of employed people, higher effectiveness and profitability of the company and the inflow of new technologies, the chance for a better development of the company. Therefore, the fact is that the restructuring process brings particular changes in the social, economic, and structural activity of the company. The changes differently affect people, it depends on the number of the factors which condition their professional and private life. A radical change, which the restructuring is, despite the common opinion, does not have to be accepted by the workers with difficulties. Because sometimes a radical change is easier to accept than a small change, because only a few elements of the new strategy remind the old procedures (Carr et al., 1998, p. 73).

## 3. Employment restructuring

Employment restructuring is an intended action. Its role is to carry important changes in the area of human resources in the company, the aim is to adapt the worker potential to the needs of the organization which acts in a very competitive environment. Mainly, it is connected with dismissals, however, it can be a change that has a quality character (change in the qualification, professional or position structure). Mostly, the employment restructuring includes (Jurkowski, 2001, pp. 296-298):

employment reduction (downsizing), reduction in the management levels (delayering) and professional reconversion.

According to M. Egeman (2000, p. 36) professional reconversion is a process which aim is to adapt the workers to new conditions of the company functioning on the labour market, and recovery of the professional activity of the workers, who have lost their job or whose dismissal is connected with the processes of restructuring.

Often, there are some negative situations during the employment restructuring. The failure in the restructuring process can be caused by a whole group of phenomena that are caused by the reduction in employment, i.e. (Pocztowski, 1996, p. 173): centralization, crisis mentality, loss in inovativeness, politicization, priorities atrophy, loss of trust, increase of conflicts, limited communication, atrophy of the team work, weaker management.

The way of carrying the restructuring speaks for the culture of the company, its proper management can minimize the negative results, both the social and economical. When planning the particular actions, what has to be considered are the economic and social criteria, because what is cost effective does not have to be socially effective. What is important in this process is to accurately prepare the whole organization, management cadre and also the workers. It helps in reaching the aims of restructuring and also in minimizing the negative results of the employment reduction. M. Sidor-Rzǎdkowska characterizes these actions as follows (2003, pp. 75-77):

1. Open communication with workers. Important is not only to give information, but the way in which they are given.
2. Preparing single-valued criteria of the worker reduction. It can be the following criteria, i.e. job seniority, effectiveness, social criterion.
3. Informing the workers about the decision immediately. The uncertainty can cause the lowering in the company effectiveness.
4. Care for a proper form of parting company with the workers that are included in the reduction.

The basic matter is a proper announcement of the dismissals in the company. Therefore, proper preparation and training of the management cadre. They are responsible for giving the information about the reduction in the company. Their duty is to individually talk with each person dismissed.

A negative occurrence in the restructuring processes is also looking for apparent savings, so different types of actions, also the program of the monitored dismissals, the outplacement (Nogaj, 2001). People dismissed should not be left alone because it will be a reason for a negative opinion about the management board of the company.

#### **4. Case study: situation of the selected company**

The restructuring process in the company chosen for the study began on January 1, 1998. Its aim was to improve the profitability and competitiveness of the company, and one of the main elements – the employment restructuring. The effect of the carried actions was 50% reduction of employment at comparable (in 2001 even higher) level of production and wider assortment.

#### **4.1. History of the company**

The company selected for the study is a Polish company from the corn market, producer of pasta, salt sticks, flours, groats, oat flakes and also cereal. The company boasts with more than 100 years of traditions, referring to the mill that was built in Lublin in 1881. The formal activity of the company has started in 1948. The most intensive development was during the 60s and 70s. This is when the assortment has been extended: there has begun the production of groats, oat flakes and pasts. Still, the company was developed and modernized. There was a demand for new ways of development and increase of the production possibilities. In 1982 has begun the production of the salt sticks, in the first half of the 90s, there was introduced a new technological line for the production of pasta. Thanks to this, the production of pasta has tripled. Dynamic development of the organization was observed in the second half of the 90s. In 1995, the company has changed the legal form into a joint stock company, however "the change of the company ownership (from national to private) does not guarantee its effectiveness and competitiveness" (Egeman, 2000, p. 13).

Time between 1998 and 1999 was a period of deep restructuring. The company has introduced an integrated system of the quality management ISO 9001 (the certificate was obtained on January 14, 1998), there had been made changes in the work organization, the company has reduced the employment.

Now, the company has a strong position in the market, however, it competes with few companies. Both, the management and the workers understood that the existence of the organization depends on the customer and his needs. That is why, the company tries to fulfil it, and even exceed.

#### **4.2. The aims and directions of the employment restructuring in the selected company**

Both, the theoreticians and practitioners are dealing with these issues. Many times they have been saying that hard and complex process of restructuring requires an individual approach, that an individual model cannot be created, because each organization is different, and the situation and assets are unique (Egeman, 2000, pp. 15, 24-26). That is why, the stage that should precede the restructuring is a diagnosis of the company situation. The management board has made a deep economical analysis, and then the decision about the restructuring was made.

M. Egeman says that "the aim of restructuring is recovery, maintenance or increase of the competitiveness on the market" (Egeman, 2000, p. 25). In case of the selected company, the aim was to keep and increase the advantage in the market of corn-dairy products. However, the situation of the company at this moment was good, but there were some fears of the rivals. Therefore, there is a situation of the development restructuring, not repair (Pawlak, Ludwicki, 2001, p. 234, 238).

The program of restructuring implied that the effect of the actions should be "obtaining a clear division of functions, decisive powers and reals costs as the basics of the controlling" (*Program...*, 1997). This program included also a measurable aim for 1998: 54% increase in income in relation to the level of 1997, realized by the team reduced by 30%.

The restructuring was carried in two stages. The first stage included the liquidation of the accenary activity, reorganization of the departments, divisions of the production sphere in the centre of the flour production, centre of the pasta production, and reduced accenary activity. The second stage included a change in the purchase and storing activity, initiation of automation of the pack-

aging process, liquidation of ineffective production plants, increase in the effectiveness. Realization of the first stage was carried in 1998, the second stage in 1999. Such planned restructuring meant a need to reduce the employment. It was calculated, that the optimal level of employment after the first stage is 784 people, the aim was 591 workers. It was established that this aim will be reached on December 1999. The decision was made, that there will be a possibility for some workers for an early retirement and outsourcing. However, some situation required the economic-reason dismissals (they were connected with payment of allowances). All decisions, aims and assumptions of the restructuring and the anticipated scenario had to be given to the workers: management cadres, and workers of all levels, the trades-unions, and also other partners of restructuring, so the local institutions, and some central level institutions (employment exchange, public administration, self-government). The management board has met the managers of all organizational units and representatives of the trades-union. The assumptions of the restructuring were presented, and people were obliged to give the information to all workers.

The next steps were connected with legal duties: notifying the Employment Exchange, negotiations with the trades-union.

A proper communication is especially important – or the most important – element of the restructuring process. It is essential to introduce all changes – after all, restructuring is a change, even radical. The actions ended with success. “Active and open communication is an antidote to uncertainty connected with changes (...). The manager responsible for realization of the process has to bring the “overdosage” of communication. It is said, that you cannot be too thin or too rich, the same is with communication. Lack of communication is the most common reasons for failures in the programs of changes” (Clarke, 1997, p. 219).

In the discussed company, it was a success to build a network of contacts on many levels. However, the duty of communication was mostly the duty of managers of departments, units and objects, workers of the HR department and representatives of the trades-union.

One of the most important action from the first stage, was the analysis of the employment structure. The review and evaluation of the cadre (in respect of quality and numbers) allowed to define the area of dismissals. It is worth to mention, that the first stage of restructuring included dismissals of 57 people working in administration, so the dismissals were not only limited to the production sphere.

In the second stage, the most important was to separate the department of purchase and storing of cereal. The company has used the capital outsourcing – on the basis of its property, there has been created an individual economic subject being a part of the company. This object employed 65 ex-workers of the company subjected to the research.

The hardest decisions of the second stage were liquidation of unprofitable objects: 2 mills and investment warehouse and mill machines in the small town near Lublin.

Unfortunately, the restructuring process was not finished on time. The last stage was connected with the initiation of the full automation of packaging the products. This process was introduced between 2000 and 2001.

Most people who are participating in the restructuring processes in different companies, says that very hard stage of the employment restructuring is to determine the criteria according to which people will be chosen. It was not easy in the discussed company too. The task to prepare the criteria was given to the managers of the organization units. They were obliged to prepare them in league with the unionists. Together, they prepared the following criteria, that were later confirmed by the management board (Kryteria, 1997):

1. The professional usefulness on the position – the individual evaluation is made by the superior.
2. Qualification that fulfils the standards of the ISO 9001, essential trainings and powers to perform a job.
3. High-availability to perform work (sickness absence or other).
4. Right to retire.

In 1998, there were 352 people dismissed, in 1999 – 112. 58 people left the company in 2000, in 2001 – 48 people. During the first two years, thanks to the outsourcing, 25 people from the technical department and more than 70 people from the purchasing department have not lost their jobs. In the next period, 29 people were included in outsourcing: 19 of them were employed in the transport companies (5 people in 2000, and 14 in 2001). 10 people have found a job that was packing the products.

## 5. Conclusion

The success of the restructuring in the selected company was mainly influenced by a social program, so the program of the protective actions, especially:

- ensuring a renewed employment in a moment of creating an additional places,
- paying the allowances,
- paying the retirement allowance in accordance with ZUZP,
- financing the trainings when worker wanted to retrain or acquire some new powers,
- possibility of further instalment pay or extinguishment of the home loans that were taken by the people dismissed,
- cooperation of the HR department with the Employment Exchange Office (looking for new jobs).

Especially significant for the workers was the guarantee given by the company, that in case of free positions, people who were dismissed will have the priority to retake the position. This promise was kept, after starting the new factory of cereals, 30 people were employed in service of machines and packing.

The ones who were dismissed had the possibility to retrain. There were 8 people who declared a willingness to gain some new qualifications. The costs of these trainings (driving license, computer trainings, service of accumulator cars, in a few cases the accounting course), and in once case the postgraduate studies, was covered by the company. The organization was also interested in the further history of the workers. Now, 7 people work professionally, so the expenses were a good investment.

The effect of carried restructuring is a change in the employment. According to the information from the HR department, there has changed the number of the positions where workers are dealing with easy things, however, there was increased the technical service, laboratory and informatics. The differences can also be observed in the structure of education, age and gender. The level of education is higher, the age of workers is lower, there are also less women. Change in the education level and age is positively evaluated by the management.

During the restructuring process, there were employed several dozen of new workers. There were more than 20 graduates of universities who joined the company within the apprentice program and internship for the best students. Most of these people were employed in the positions of the specialists (accounting department, controlling, marketing, and also informatics), some of them as a technologists and machine operators, and also laboratory assistants.

Therefore, restructuring does mean only dismissals and reductions, but also employment; not only a reduction in the positions (8 were liquidated, including 4 executives), but also creating new ones (also 8). They are the argument for the changes in the work organization (the positions of the executives and also in the stock-taking department), and also new thinking and perceiving the company.

Appointing the executive responsible for personal matters and administration testifies that the company appreciates the meaning of the workers and wants to consciously manage the human resources. The fact is that the first and the most important tasks of the HR executive was to prepare a new system of wages, based on the elements of valuing the work.

The management board opinion is that the company has succeeded in the restructuring process. Thanks to the undertaken actions, first of all, liquidation of the unprofitable objects, using the outsourcing, employment, reduction and increase in the effectiveness, the costs were seriously limited, increasing the competitiveness of the company. The indirect effect of restructuring is also the consciousness of all the organization members, that the largest potential have people – their creativity, openness and elasticity toward the changes. This is the basic condition of the company innovativeness and its ability to adapt to changes, after all this what decided about the position on the market.

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# Chapter 36

## Learning Organization on the Example of Commune

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*Julia Gorzelany-Plesińska*

### 1. Introduction

Modern organizations that want to grow must focus their attention on resource assets. Human capital and the wider knowledge are the most valuable resources of the organization to optimize its activities based on the use of the concept of a learning organization. In a learning organization, people are still looking for new opportunities to achieve the desired effect, are creating new patterns of stereotyped thinking, develop teamwork, constantly learn. Learning organization is capable and open to knowledge, to adapt to the changing conditions of operation. This state is achieved through openness employees to new ideas and trends and the continuous improvement of employees. This organization initiates and supports activities and constantly transforms itself.

One of the sources of competitiveness of municipalities is to use methods of business management by governors of municipalities and thus affect the development of municipalities, and thus the regions.

For these reasons, the aim of this article will be to identify how to use the concept of learning organizations by the governors of municipalities can affect their development. They will form part of an empirical study conducted in one of the municipalities near Krakow, which will have to give an answer to the question of whether the municipality is a learning organization and whether this affects its development.

### 2. The nature and specifics of learning organizations

The origins of the concept of a learning organization dates back to the 50s, when there is the concept of systems thinking. The basic premise of the system was examining the functioning of the organization, not only from the point of view of the whole, but also from the point of view of individual employees. Before there was this conception organizations mainly focused on their needs, goals, structure. By so. systems thinking trying to change the way of thinking of management that takes into account the ambitions and expectations of individual employees,

not just strive to achieve the objectives. However, these systems were not anywhere practical application, but the idea became the basis for creating the tools used by practitioners. One such tool was the decision support system, designed for supervisors to facilitate decision-making. In fact, it boiled down to build a model that accurately described the existing organizational solutions and possible future alternatives. In the 70s the idea of systems thinking has returned within the organization learners. The first comprehensive work on the subject was published by Ch. Argyris and D. Schon in 1978. Years 80<sup>th</sup> is a period of seeking competitive advantage by organizations in the broadly defined capabilities, including the ability to learn. (Wait, 2007, p. 12). And so P. Senge saw opportunities in learning. Becoming an author and creator of a learning organization Senge presented his concept in his book "The Fifth Discipline" (Senge, 2004) which it is treated as a breakthrough, because only from their expression has been a significant increase in interest in the concept of a learning organization.

In literature many definitions of learning organizations because they are summarized in Table 1.

Table 1. Summary definition of learning organizations by various authors

<b>P. Senge</b>	<b>C. Sikorski</b>
Organization, which is still expanding its capabilities, which created new patterns of thinking, where people constantly learn and develop aspirations of the team (Senge, 2004, p. 19)	This organization maximum flexibility, in the routine, habits and stereotypes do not replace the dynamic reality (Sikorski, 2000, p. 162)
<b>A. Joshapar</b>	<b>S. Gherardi</b>
Organization, in which the main role adaptation and promotion of activities aimed at team, individual and organizational learning (Batorski, 1998, p. 55)	Organization where efficiency is less important, trimmed, and the organization is focused on speed, flexibility and adaptive changes (Gherardi, 1996, pp. 39-41)

Source: own work.

When reviewing the definition of learning organizations can say that those managing organizations should forget the outdated management concepts and the ability to learn faster than the competition can be one constant element of competitive advantage.

Because a large contribution to the concept of learning organizations filed P. Senge worth paying attention and explain the characteristics of learning organizations designated by him. These include systems thinking, personal mastery, mental models, building a common vision for the future and collaborative learning (Senge, 1998, pp. 17-19).

Systems thinking is the fifth title, the most important, integrating all the other discipline. Its main objective is ability to perceive the organization as a whole, while taking account of the individual components and the interactions between these elements. Systems thinking is, therefore, the ability to perceive and analyze the phenomena and processes through holistic view, seeing relationships, and identify principles of operation of systems.

Personal mastery should be understood as a specific level of proficiency and personal development, it is a creative approach to life and to reality. It is a process of permanent striving to broaden their skills by humans and consistently made towards implementation of the assumed his earlier targets. Personal mastery can be achieved by mobilizing managers to pose real employees,

but ambitious targets and by introducing various training programs through which executives can improve their skills and expand their knowledge.

Whereas mental models is the ability to analyze the assumptions and mechanisms that lie within ourselves, in order to bring beneficial change to their habits and beliefs.

A common vision of it originates from the personal vision of the organization. The closer your personal goals are to those of the members of the organization, the more complementary their aspirations, the easier it is to build a common vision for the entire organization.

Collaborative learning is the last one of the five disciplines, which exchanged P. Senge. Through collaborative learning must be understood joint action, but also and solving common problems in the organization should be sincerity and a special form of communication. The basic condition becomes perfect flow of information. This flow should rely on the fact that instead of sitting alone on a solution, you should be able at any time to use the solutions generated in other departments or to other employees of this department, and then share their successes with others.

Complementing the features of Learning Organizations listed by P. Senge is worth mentioning the organizational culture, which should be characterized by great openness to change, collaboration, application of new solutions, as well as the free flow of information and stimulating communication.

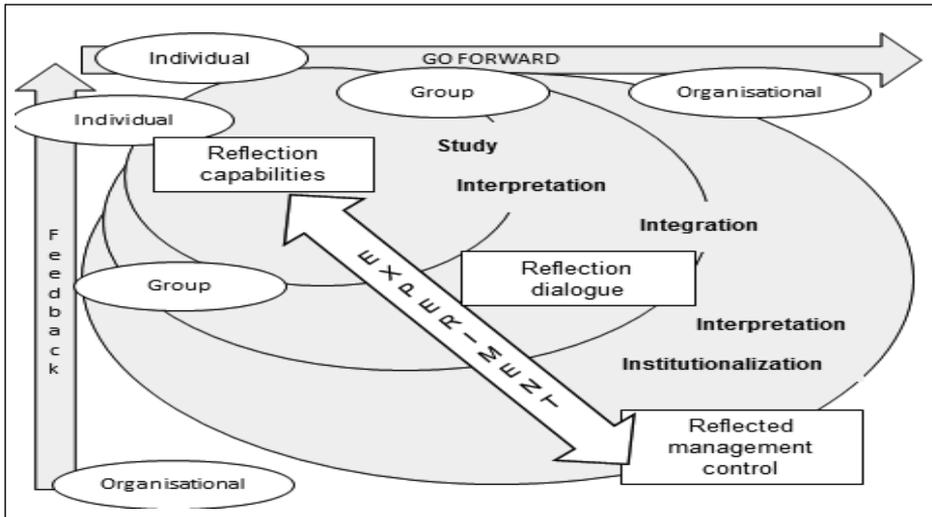
In summary it can be stated that the organization is a learning organization capable of change, is flexible. In an organization of this type people are eager to acquire and create knowledge and its use. They are happy to share their knowledge, work in teams, as well as try to modify their behavior in response to new knowledge and experience. In learning organizations also experimentation plays an important role.

### **3. Conditions for the existence of organizational learning**

The primary objective of the municipality is to meet the needs of residents and can be treated as a special kind of system. In the municipality operates a number of different organizational units because of the subject and scope of operation and fulfilled functions. The organizational units of the municipality are council, the board and the office. In contrast, interactions are different types of connections and relationships between individuals. These links can be of organizational, social, economic, legal, or technical. The municipality has specific statutory functions that are contained in the Law on Local Self-Government. The municipality mainly performs public tasks in its own name and for its own account, and the scope of its activity comprises all activities of local significance (Purgat, Resztel, 1997, pp. 14-15). As a result of the complexity of the tasks of the municipality it becomes difficult to manage and often business management methods are transferred to local government. Also on the ground managing the municipality can be transferred to the concept of organizational learning. However, be aware that creating a learning organization is not about creating new organizational solutions from the ground up but is perfecting what the organization is. Organizational learning is the acquisition of knowledge and use it in all areas of activity. Because organizational learning is a complex, dynamic and multi-level process of change in individual and common level of knowledge and action worth learning organizations look through the prism model "4I" extended to "5I". Model "4I" was proposed by M.M. Crossan, H.W. Lane, and R.C. White and shapes the thinking and research

in the field of learning organizations. However, according to the authors of the model relatively few organizations build a learning process according to this model. Model “4I” conceptualizes organizational learning as a dynamic, multi-layered process which distinguishes the structure of organizational learning at the individual, group and organization. Then there are microprocesses learning that take place at various levels and connect them is this: cognition, interpretation, integration and institutionalization. Also important are the relationships between the different levels. Model “4I” illustrated in Figure 1.

Figure 1. Model „4I”



Source: Crossan, Lane, 1999, <http://www.jstor.org/stable/259140> [03.25.2015].

When analyzing the model shown in Figure 1, it can be stated that learning takes place when the individual recognize the patterns of their past and present experiences use in the current operating environment. At the individual level study marks the beginning of the process of change (development), this means recognizing patterns and the development of intuition. The process starts with knowledge as a single process, and may evolve into a process in which groups form ideas, discuss, and discuss. Thus, the study could lead to the current mental models – that is, the structure of skeletons or knowledge to help bring information on individual and group level. This is due to an interpretation that is a process taking place at the level of a group. Units in a way verbalized put into action their insights and ideas. Often at this stage metaphors are used to boost other intuition and imagination. Ideas are accepted by the group. Integration is another process on a “4I”, which occurs at the level of the group/organization. Integration is understood as a collective problem-solving and a shared understanding of new ideas. At this stage shall also analyzes how to transform ideas into action. The common understanding of the integration process leading to coordinated actions such as batch creation of new ideas. The last process in the model “4I” is the institutionalization, that means embedding knowledge gained individually and in groups, systems, procedures, infrastructure, the so-called “Organizational code”. Institutionalization occurs at the organizational level. This is what is not included and visible in the model “4I” is a re-

relationship between the levels, otherwise you can call them triggers to know. Conceptualization of the relationship occurs in two dimensions of intentionality and mechanism. Intentionality refers to the degree to which a person consciously and actively seeking new knowledge. People can actively seek that information for the realization of a particular purpose, e.g. want to increase sales, this direct query to the database. In this area of great importance to the psychological aspect of the individuals and groups to collaborate, access information and to demonstrate creativity. The mechanism instead refers to whether the results are empirically verified (i.e. based on experience), or whether the results are informative.

It should be noted that the process of cognition, interpretation, integration and institutionalization must be complemented climate of organizational learning. Building a learning organization should occur under the influence of authority and leadership. For these reasons, the concept of a learning organization can be implemented in the municipality mainly people working for the municipality, as well as individuals so managers need to be aware of the need to learn. Managers must be aware that in order to bring the intended learning outcomes must it take place at all levels of the organization. Also, managers need to be aware that they might make mistakes and need to modify their behavior.

Another condition that must be met in order for organizational learning has taken place is to create the right environment – a culture conducive to learning. At this point, attention should be paid leave by officials in the bureaucracy and recognize the only barriers to settling the matter but being beyond the barriers – that is to help people as possible in solving problems. By creating an environment for learning in the municipality should remember to adjust the structure and prevailing organizational rules, should move away from centralized structures and replace them with flexible structures that will look at the organization and the processes taking place in a new perspective. The renovations should be also a system of communication – informative, so as to ensure free movement of knowledge. Necessary for organizational learning is to increase the rights of employees by increasing autonomy in the implementation of tasks does not mean that managers lose their impact. Please note that participation was used at all levels so that all members learn at the same time. Implementation of organizational learning strategy also requires knowledge of how learning in the organization and obtaining information. Therefore stewards of municipalities implementing its strategy of organizational learning need to know that changes should be made slowly, they should be planned and through leadership stimulate employees' willingness to change, teamwork, knowledge and continuous improvement. The most common errors committed in creating a learning organization is the lack of sufficient knowledge about the organization's environment and competitors, outdated models of thought, time pressure resulting taking hasty action, lack of funds to carry out the necessary studies, management limited only to copy others instead of seeking solutions to the specific characteristics of the organizations underestimate the importance of strategic thinking (Wait, 2007, pp. 16-17).

#### 4. Michałowice commune as an example of a learning organization – an empirical analysis

To illustrate that the municipality can be a learning organization studies have been conducted in the commune Michałowice. The study aimed to diagnose the municipality Michałowice in terms of learning and then the directions for improvement of performance in the analyzed using a model commune cobwebs. Municipalities analyzed diagnostic questionnaire was used with a five-point Likert scale (based on the use of the model “4I”, “5I”, EFQM and the method of M. Czerska and R. Rutka (Gorzelany-Dziadkowiec, 2015, pp. 37-45). Answering the questions in the questionnaire used a five scale according to which 1 means that the action is never taken, 2 is not taken, 3 – sometimes it is and sometimes it is not taken, 4 – is taken, a 5 – is taken very large extent. The results are depicted in Table 2.

Table 2. The questionnaire diagnosis of a learning organization in the commune Michałowice

Areas with a learning organization	Weight	Weight Rating					Rating action
		1	2	3	4	5	
<b>TO KNOW, INTEGRATION, INTERPRETATION</b>							
<b>Structure</b>							
The organizational structure is flat?	10	x	-	-	-	-	0.10
Do employees participate in management?	25	-	x	-	-	-	0.50
Are hierarchical dependence weak?	10	-	x	-	-	-	0.20
Is there teamwork?	40	-	-	x	-	-	1.20
Do people self-assemble to implement projects?	5	x	-	-	-	-	0.5
Whether the structure is decentralized?	10	-	-	x	-	-	0.3
Sum: N = 100							2.35
<b>Strategy</b>							
Are the objectives jointly formulated?	10	-	x	-	-	-	0.2
Is the policy of the organization is aligned with the objectives?	40	-	-	x	-	-	1.2
Is the policy of the organization to conduct education among employees?	20	-	-	-	x	-	0.8
Is running the company focused on innovation?	10	-	-	x	-	-	0.3
Is the organization able to make rapid adjustments in the operation if necessary?	10	-	x	-	-	-	0.2
Does the organization have a shared vision of the future?	10	-	-	x	-	-	0.3
Sum: N = 100							3.0
<b>INTEGRATION (REFLECTED IN DIALOGUE)</b>							
<b>Determinants of creativity</b>							
Does your organization move away from bureaucracy (a large number of procedures and regulations)?	25	-	-	x	-	-	0.75
Do people in the organization learn from mistakes?	15	-	-	x	-	-	0.45
Are people in the organization motivated to change?	10	-	-	x	-	-	0.30

Have people in the organization the opportunity to learn by observation?	15	-	-	-	x	-	0.60
Have people in the organization the opportunity to learn by experience?	10	-	-	-	-	x	0.50
Are people in your organization able to experiment new solutions and initiatives?	15	-	-	-	x	-	0.60
Are people in the organization integrated and focused on the goals of the organization as a whole?	10	-	-	x	-	-	0.30
Are people in the organization evaluated for effects?	10	-	-	-	x	-	0.40
Sum:	N = 100						3.90

<b>Teamwork</b>							
Do people in the organization would be happy to work in teams?	20	-	x	-	-	-	0.40
Do people in the organization implement projects?	30	-	-	x	-	-	0.90
Does it encourage people in the organization to teamwork?	10	-	-	x	-	-	0.30
Is there any comparison and discussion of team activities?	5	x	-	-	-	-	0.05
Do people in the organization learn from their experiences?	15	-	-	x	-	-	0.45
Do people in the organization learn from the experiences of other?	10	-	x	-	-	-	0.20
Do people in the organization to share knowledge?	10	-	-	x	-	-	0.30
Sum:	N = 100						2.60

<b>Communication</b>							
Does the organization have a full and complete information?	20	-	-	x	-	-	0.60
Does your organization is open access to information?	10	-	-	x	-	-	0.30
Is the flow of information structured?	10	-	-	x	-	-	0.30
Is the decision-making powers sufficient?	15	-	-	x	-	-	0.45
Is the flow of information used to manage?	25	-	-	x	-	-	0.75
Is styles of communication in the organization open?	10	-	-	x	-	-	0.30
Does your organization problems solved collectively in an orderly manner?	10	-	x	-	-	-	0.20
Sum:	N = 100						2.90

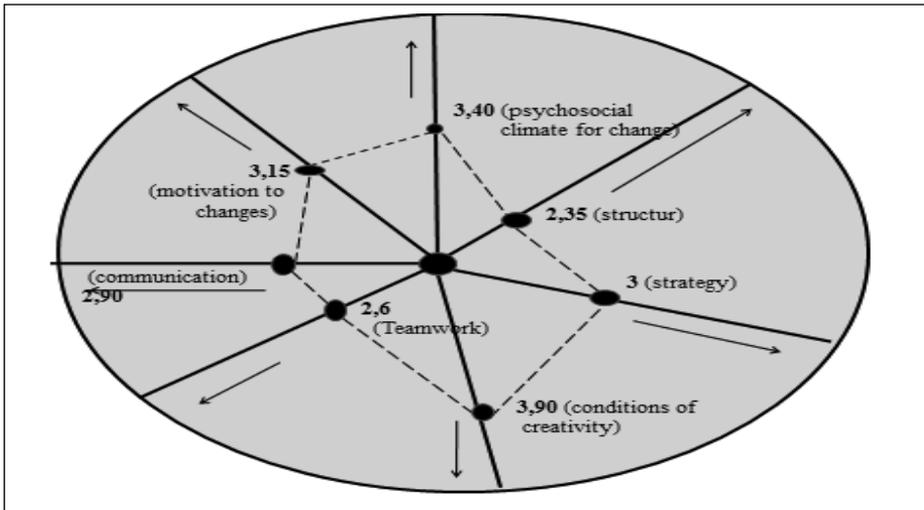
<b>INSTITUTIONALISATION</b>							
<b>Motivation to change</b>							
Does your organization support the changes?	20	-	-	x	-	-	0.60
Does your organization train people in a developmental way?	20	-	-	-	x	-	0.80
Does your organization training is performed through a substantial selection	20	-	-	-	x	-	0.80
Does your organization operates substantial reward system willingness to change?	10	-	x	-	-	-	0.20
Does your organization rewarded with creative restlessness?	15	-	-	x	-	-	0.45
Does your organization is as innovative attitude by rewarding?	15	-	x	-	-	-	0.30
Sum:	N = 100						3.15

<b>Psychosocial climate change</b>							
Is the team participates in the preparation process of change?	25	-	-	-	x	-	1.00
Does your organization prefers the activity of employees?	20	-	-	-	x	-	0.80
Does your organization people adopt an open attitude towards learning and change?	10	-	-	x	-	-	0.30
Does your organization support people receive when making changes?	20	-	-	x	-	-	0.60
Does your organization people feel that change is an opportunity and not a threat?	15	-	x	-	-	-	0.30
Is your organization includes interpersonal communication partner?	10	-	-	-	x	-	0.40
Sum:	N = 100						3.40

Source: own work based on Gorzelany, 2015, pp. 37-39.

When analyzing the statement presented in Table 2 it can be stated that all the diagnosed areas require changes. It is not evident in the analyzed learning community. Weighted rating in all areas is less than 4. For a better illustration of organizational learning in the Municipality of Michałowice results in Table 2 were transferred to model cobwebs, which is illustrated in Figure 2.

Figure 2. Model cobwebs for the Commune Michałowice



Source: own work based on Gorzelany, 2015, pp. 41-43.

Every day organizations do not use, nor does it describe their behavior through simple maps action. Such maps should include not only the structural parameters, but also other elements such as communication, teamwork, creativity conditions, or motivation to change. It is worth noting that the creation of such a map containing a collection of related items that could determine the course of the organization. The concept of organizational cobwebs spider diagram

illustrates that can be holistically developed in the conceptualisation of the business model (organizational). Changes to the diagram are made by the selection and combination of the seven parameters. By analyzing Figure 2 we can see that the submitted parameters, actually created, are of great importance for the creation of organizational independence. Each of them can be an area of changes in the organization. Analyzing the cobwebs model shown in Figure 2 if the parameters were evaluated at 3-3.6 points, a beam produced is called pernicious concentration (dashed line in the Figure). If, however, these parameters have been evaluated at four points or more, the generated beam is referred to as the successful focus (shown solid line).

## 5. Conclusion

In conclusion it can be stated that, in the commune Michałowice there is no winning focus. When analyzing tell you that in the analyzed organization of activities in the area of strategy, structure, motivation to change, psychosocial climate to change, communication, conditions for creativity and teamwork are not characterized the study of the organization as a learning organization. The areas in which the organization has a fatal focus needs to think about making changes in parameters characterizing this focus. Therefore, building a learning organization should answer the questions of where is the spider in our organization cobweb, and then determines areas that need to be modified and improved. Building a learning organization model based website is a complex process consisting of certain stages. To sum up this part of the considerations it should be noted that in the first place changes should be introduced in the conditions for creativity and psychosocial climate change, because there quickly analyzed the municipality can get the hallmarks of a learning organization. Meanwhile, developments in these areas can trigger positive changes in other parameters.

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# Chapter 37

## **Corporate Pro-ecological Initiatives and Employee Identification with the Company**

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*Agnieszka Leszczyńska*

### **1. Introduction**

Actions taken by companies for environmental protection result not only from legal conditions – they are also a response to the requirements of external stakeholders. These activities translate into financial and ecological results and the company image. The question about their impact on internal stakeholder – employees – remains open. Among the various stakeholders considered in existing research it appears that “employees as the unit of analysis have received scant attention in the literature” (Aguilera et al., 2007, pp. 836-863). This article analyses the issue of impact of pro-ecological initiatives on employees’ identification with company.

Studies into the relationship between company initiatives and employee attitudes are rarely conducted with regard to pro-ecological efforts. They are more commonly focused on the concept of CSR and can be roughly divided into two categories. In the first category, scholars analyze how corporate social activities affect the prospective employees (Albinger, Freeman, 2000, pp. 243-253; Backhaus et al., 2002; Greening, Turban, 2000, pp. 254-280). These studies support the notion that CSR creates a good reputation for business and increases its attractiveness as an employer. In the second category, the scholars focus on the impact of corporate social activities on current employees (Brammer et al., 2005; Maignan et al., 1999; Peterson, 2004, pp. 296-319; Rupp et al., 2006, pp. 537-543). They discussed how corporate social performance affects the perceived image, attitudes, and intended behaviors of employees. When referring to the previous studies on employee responses to pro-ecological initiatives one should emphasize that they usually used qualitative research methodologies. They proved that pro-ecological activities have an impact on performance of sales staff (Larson et al., 2008, pp. 271-277), employees’ commitment to the organization (Brammer, 2007). With a few exceptions the relationship between EC identification and commitment to the firm has not been emphasized in an ecological context. Therefore this study extends the existing research stream on employee reactions to pro-ecological initiatives. The goal of this paper is to gain a better understanding of the mechanisms through which pro-ecological initiatives foster employees’ support to their organizations’ goals.

The article includes two parts. The first of the same is primarily theoretical and presents various deliberation on the relations between pro-ecological initiatives and employee-company

identification, as well as factors that may affect the same. The second part presents the results of empirical studies conducted in this area.

## 2. Research background

To analyze the employee-company (E-C) identification, the concept of involvement is used. As a significant dimension of work attitudes, organizational commitment is the psychological identification that an individual feels toward his or her employing organization (Mowday et al., 1982). Organizational commitment reflects an employee's relations with an organization and has implications for the decision of maintaining membership (Meyer, Allen, 1997). Commitment has been treated as a three-dimensional construct involving affective, continuous, and normative components (Gilliland, Bello, 2002, pp. 24-43; Meyer, Herscovitch, 2001, pp. 299-326; Verhoef et al., 2002, pp. 202-216). Among the three components of commitment, the link between affective component and proecological initiatives is more precise based on the Social Identity Theory (SIT).

Based on the SIT literature, if an organization attempts to engage in proecological activities, its employees can be proud of being members of this organization. The employees can feel that their organization cares about the present and future of world, even it is not a profitable decision for the organization, at least in the short run. When considering the increasing attention of people to the global environmental problems in the recent times, people working for such an organization can feel an increasing commitment to it. Moreover, according to the propositions of SIT literature, the comparison of organization with competitors can also strengthen the level of organizational commitment. Some authors raise up a question that involvement constitutes an emotional attachment to, identification with, and involvement in the organization (Allen, Meyer, 1990, pp. 1-18). This understanding of the issue is in line with the concept of organizational identification. In the article we assume that the identification concerns the degree of overlap between an employee's self-concept and his or her perception of the company (Larson et al., 2008, pp. 271-277; Lichtenstein et al., 2004, pp. 16-32). Ashford and Mael (1989) described organizational identification as a process of self-categorization. It can occur through: (a) self-evaluation – employees can identify themselves with a company if they perceive that its attributes are attractive, and (b) reflected evaluation – if employees believe that outsiders have a positive perception of their company (Collier, Esteban, 2007, pp. 19-33). The factors that are likely to be associated with identification are the distinctiveness of the group values and practices in relation to those of comparable groups, the prestige of the group, in competition with, or at least aware of other groups (Ashforth, Mael, 1989). Based on the SIT literature, organizational membership may also become an important dimension of one's identity and affects the self-description of an employee. Identify distinctiveness refers to an organizational level attribute that is specific to one company and not articulated by others. This identification may decide the competitive advantage over others and constitute its strength; the distinctiveness of the organization is interrelated with its attractiveness.

EC identification corresponds to a specific form of social identification where individuals develop a feeling of oneness with, or belongingness to an organization (Ashforth, Mael, 1989). Social identification is guided by two underlying mechanisms that fulfil some of individuals' psychological needs (e.g. belongingness, self-esteem, meaningful existence) (Bhattacharya et al., 2009; Cropanzano et al., 2001, pp. 164-209). The first mechanism is a categorization process

which corresponds to individuals' efforts to classify people, including the self (i.e. self-categorization), into social groups of reference that make more sense of their lives. Concurrently, through a self-enhancement process, individuals also try to affiliate themselves with social categories that reflect a positive and distinctive external image in order to boost their self-esteem (Hogg, Terry, 2000, pp. 121-140).

Involving the employees in executed activities is, without a doubt, conducive to the level of their involvement. It is in line with the role theory, according to which the identification is strengthened by the participation. Employee can experience profound changes in their identities by participating in pro-ecological initiatives. Through participating in activities, their morale is rising and the value system is spreading. In consideration of the above, the following research hypothesis was proposed:

H 1: Employees' participation in proecological activities has a positive relationship with E-C identification.

Perceived external prestige (PEP) is the way in which employees believe outsiders see their organization (Herrbach, Mignonac, 2004, pp. 76-88; Smidts et al., 2001). PEP consists of employees' reflected evaluations of the organization's reputation (Brown et al., 2006). Employees care about the organization's reputation because external stakeholders' admiration or disregard for the organization's image has implications for employees' self-regard and organization identity (Dutton, Dukerich, 1991). At the same time, in relation to proecological activities, it can be assumed that they have an influence on the attractiveness of current/potential employees with pro-ecological orientation. A company that carries out activities in the field of environmental protection is perceived as more attractive. This concerns also the recipients. Therefore, it is expected that pro-ecological initiatives have influences on organization through perceived external prestige (Bartels et al., 2007, pp. 173-190; Larson et al., 2008, pp. 271-277; Smidts et al., 2001). From the standpoint of pro-ecological activities, kind of initiatives can reflect a positive organizational image that enhances employees' pride and willingness to be associated with such a reputable organization (Peterson, 2004, pp. 296-319; Turker, 2009, pp. 189-204). The pride employees reinforce self-esteem and encourages them to identify with it.

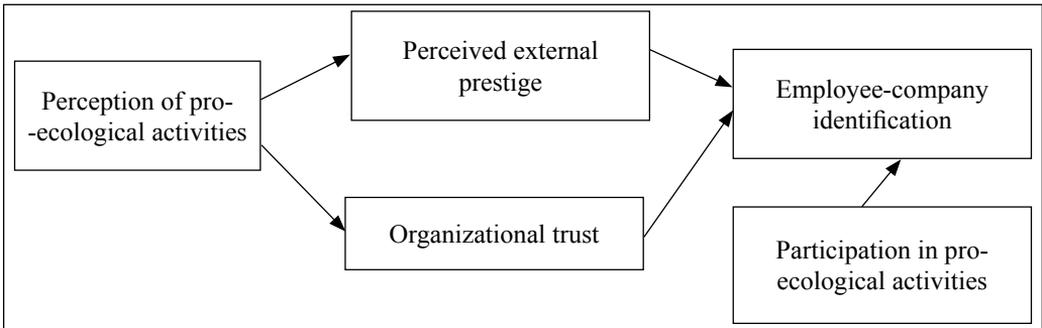
H 2: PEP mediates the positive relationship between perceived pro-ecological initiatives and EC identification.

The factor that shapes the identification with organization is also trust. Degree of trust is largely reflected by an organization's capacity to create and preserve strong relationships with its stakeholders and, as a result, to improve intra and inter-organizational cooperation and performance (Colquitt et al., 2007, pp. 909-927). The organizational trust is an important variable in the long-term EC relations. Trust integrates the organization, reduces uncertainty, supports teamworking. A series of research confirmed the impact of trust on belongingness to their organization (Dirks, Ferrin, 2002, pp. 611-628; Ertürk, 2010; Lee, 2004; Mulki et al., 2006; Perry, 2004, pp. 133-149; Straiter, 2005, pp. 86-101). By referencing the activities in the field of CSR Hansen et al. (2011, pp. 29-45) proved, that trust mediates the effect of perceived CSR on employees' behaviors because perceived CSR sends important signals to employees about an organization's ethical stance and moral values. Employees with a high degree of organizational trust develop a strong perception of similarity and attachment to their organization.

H3: Organizational trust mediates the positive relationship between perceived pro-ecological initiatives and EC identification.

The abovementioned deliberations allowed to propose the following research model:

Figure 1. Research model



Source: own work.

### 3. Research methodology

The selection of companies was purposeful. The selection included companies which carry out any kind of activities for the protection of the environment. A total of 180 questionnaires were sent to 6 production companies (2 chemical, 1 machinery, 2 from the food industry, 1 cement plant) and distributed among 30 employees per firm. 92 questionnaires were sent back. Nearly three-quarters (70%) of respondents were women. Front-line employees (58%) and middle management employees (42%) were dominant. The median age of respondents was 30-39 years and 55% have been employed for more than 5 years within the organization. We used a 5-point Likert-type scale to measure all constructs.

Due to a rising pressure on the execution of proecological activities we could expect that pro-ecological initiatives would reflect some organizational norms and values that are considered as attractive, or at least socially acceptable. We focus on employees' perceptions of their organization's initiatives designed to protect and promote the natural environment. Specifically we ask about the perception of special programs which organization implement to minimize its negative impact on the natural environment. The scale was reliable (Cronbach's alpha = 0.7). EC identification was measured as ties between the employee and company. Three items, the statements "strong ties", "sense of belonging", and "part of me" were used (e.g., "I feel strong ties with my company") after Kim et al. (2010, pp. 557-569). PEP was assessed with the three items developed by Bartels et al. (2009) designed to measure employees' evaluations of their organization overall reputation "(Name of Organization) has a good reputation". The scale reliable was 0.4. Organizational trust was valued through the perception of the organization as honest and truthful (2 questions). The scale was reliable (0.55). The involvement in proecological activities was valued through the participation in such initiatives ("To what extent I participated"). The scale was reliable (Cronbach's alpha = 0.67).

We conducted a single factor model for these data which revealed a poor fit ( $\chi^2 = 173.34$ ; NNI = 0.76; CFI = 0.80; GFI = 0.83; RMSEA = 0.11), suggesting that no single factor model accounts for a majority of the variances explained. Therefore, in the course of further analysis, the model that encompassed all the variables was implemented.

## 4. Results

The means, standard deviations and correlations among the variables used for this study are displayed in Table 1.

Table 1. Descriptive Statistics

	Variable	M	SD	1	2	3	4
1.	Perceived pro-ecological initiatives	3.8	.42	1			
2.	Organizational trust	3.5	.66	.57	1		
3.	PEP	3.1	.53	.35	.18	1	
4.	Participation	3.4	.44	.68	.20	.17	1
5.	EC identification	3.2	.58	.22	.61	.30	.49

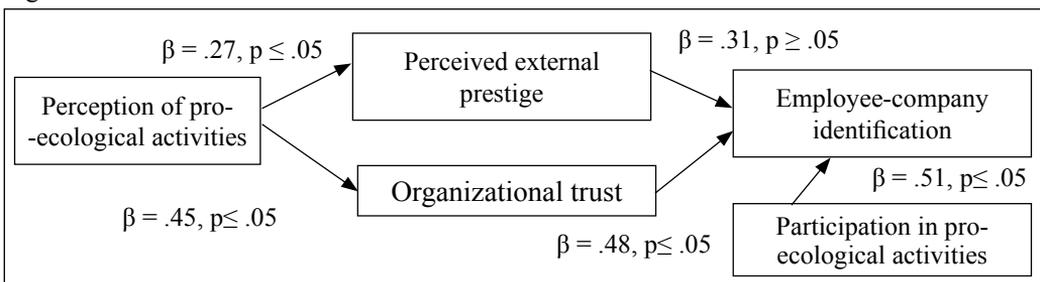
Source: own work.

According to the acquired results, the perceived proecological initiatives positively relate to EC identification ( $r = .22$ ;  $p \leq .05$ ). However, this interrelation is not strong. With employees' identification also PEP is positively associated ( $r = .30$ ,  $p \leq .05$ ). The strongest interrelation occurs between the identification and organizational trust ( $r = .61$ ,  $p \leq .05$ ). The acquired results did not confirm the occurrence of statistically non-significant interrelation or negative correlation.

Structural model was tested for all 5 factors. The overall fit of this model is good (NFI = 0.92; NNI = 0.87; CFI = 0.93; CAIC = 16.8; SBC = 37.8; RMSEA = 0.17). The results of testing the direct interrelation of perceived proecological initiatives-EC identification was non-significant ( $p \geq .05$ ). Therefore, mediated model is more appropriate and should be preferred. The mediation analysis showed that the introduction of mediators (PEP, trust) was valid. Employees' perceptions of proecological initiatives positively influence PEP ( $\beta = .27$ ,  $p \leq .05$ ) and trust ( $\beta = .45$ ;  $p \leq .05$ ). However, the results did not confirm the impact of PEP on the EC identification ( $p \geq .05$ ); thus, PEP doesn't significantly mediate the relationship between perceived proecological initiatives and employees' identification. The identification is created through strengthening of PEP to a small extent.

Participation in proecological activities supports the EC identification ( $\beta = .51$ ;  $p \leq .05$ ; Figure 2). The participation in activities carried out by the organization strengthens the emotional attachment to it; it satisfies certain psychological needs of the employees. When a company pro-ecological initiatives satisfy employees' psychological needs, people tend to identify themselves with the company. The results are in line with, among others, Berger (2006), Bhattacharya.

Figure 2. Results of verification of model



Source: own work.

More precise verification of said mediation required the assessment of:

- the influence of the independent variable on the intervening variable;
- the influence of the independent and intervening variables on the dependent variable.

The fact that a given variable has the status of a mediator may be derived from significant regression coefficients observed for said relation if secondary analyses also reveal the presence of significant regression coefficients. Sobel's test was employed (Tab. 2). This technique involves two steps:

- investigating the total indirect effect which consists of testing the total indirect effect of perceived pro-ecological activities on EC identification through our set of mediators (i.e. PEP and organizational trust);
- testing the hypotheses regarding individual mediator in the context of a multiple mediators model.

The total effect was the correlation between the predictor (independent variable) and the dependent variable equal to the standardized regression coefficient of the predictor on the dependent variable without taking into consideration the intervening variable ( $\beta_c$  regression coefficient). Furthermore, the analysis considered the regression coefficient of the predictor on the intervening variable ( $\beta_a$ ) and the regression coefficient of the intervening variable on the dependent variable with the predictor control ( $\beta_b$ ). The product of these coefficients  $\beta_a\beta_b$  attests to the extent of the indirect effect. The indirect effect ( $\beta_c$ ) is the regression coefficient of the independent variable on the dependent variable in the course of intervening variable control. Bootstrapping was employed to avoid the assumption of normal distribution.

Given the total (PEP+trust) direct and indirect effect, it should be observed that the direct effect was statistically insignificant ( $p \geq .05$ ). Sobel's test demonstrated that PEP does not serve a mediatory role ( $p \geq .05$ ). (At the same time, organizational trust appears to fully mediate the link between perceived proecological initiatives and EC identification (Sobel test = 5.6;  $p \leq .05$ ), as confirmed by the results of bootstrapping. In the case of PEP, the indirect effect is insignificant because the range of trust determining its extent includes the zero value.

Therefore, the total indirect effect of perceived pro-ecological initiatives on EC is due exclusively to employees' organizational trust.

Table 2. Results of the intervening variables test

Mediators	Env.init on mediators	Mediators on EC iden	Indirect effect	Direct effect	Total effect	Bootstrapping 95%
PEP	.39**	.12	.10	-	-	-.03; .12
Trust	.45**	.41**	.37**	-	-	.22; .52
Total	-	-	.35**	.18	.48**	.16; .48

Source: own work.

## 5. Conclusion

EC identification is a key psychological process for understanding why proecological initiatives can reinforce employees' favorable relationship with, and attitudes towards an organization. This study makes an attempt to explain the psychological implications of employee perceptions of, and participation in proecological initiatives. Involving employees in these initiatives has such

benefits as finding out their needs (Bhattacharya et al., 2008, pp. 37-44), and enhancing corporate internal legitimacy (Liu et al., 2009). Participation in proecological initiatives strengthens ones emotional attachment to the company, consequently support employees' self-categorization process through which they affiliate themselves with organizations that share their values in order to strengthen their self-concept. Participating in such activities may be a tool for motivating the employees. The research also suggests that pro-ecological initiatives support organizational legitimacy by impacting EC identification recognized as a strong driver of employees' favorable outcomes at work. These results contradict the view that perceived proecological initiatives fosters employees' identification through a self-enhancement process which could be based on the organization's external reputation. These results may stem from the fact that employees ignore the external image, and, as a result, they do not pay any attention to PEP. Employee consider company image building as more interrelated with trust than with PEP.

Considering the importance of organizational trust in the execution of pro-ecological activities it appears purposeful to focus on the process of communication and launching, which will translate into positive perception of employees. This should in turn encourage employees to identify more intensively with their organization and to advocate its legitimacy towards external stakeholders.

The results allow to better understand the circumstances under which pro-ecological initiatives could improve the legitimacy of organization. The research is also important for HR managers. Proecological initiatives can have an effect on employees' identity and strengthen identification. From the HR standpoint, the promotion of pro-environmental strategies should strengthen the organization–employee relationship by designing initiatives that increase organizational trust and employees' identification. The research confirms, that pro-ecological initiatives have an effect on the behavioral response of employees. Initiatives can contribute to foster employees' identification, and thus relationship with their organization. From this perspective, they do have a particular strategic significance.

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# Chapter 38

## **Internet Communication as a Method of Employer Branding<sup>1</sup>**

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*Urszula Bukowska*

### **1. Introduction**

The aim of the article was to determine the significance of online communication in employer branding. Several research methods were used to achieve this goal. The first of them was the analysis of the literature in the field of employer image, the psychology of internet and communication. Websites of analysed companies were the next object of study. It was checked whether they contain information about the company as an employer, and if so, what it concerns. 101 listed companies (over 20% of all listed on the Warsaw Stock Exchange on May 11-13, 2015) were randomly selected for the purpose of the study. Then survey was carried out using a questionnaire. The questionnaire contained questions aimed at determining the significance of online communication in external employer branding. Questions were also asked with regards to methods used by respondents in vertical communication within the organization and the quality of this information. Respondents were also asked to assess their employers. 71 respondents participated in the research. They were chosen deliberately in the way that they worked for different enterprises. All respondents had a university degree because it was assumed that this level of education potentially increases the chance of web communication experience. Most respondents worked in small enterprises (31%), and 24% of them respectively in the micro and large ones, and about 20% of them in the mid-sized ones. The following branches were represented: banking, construction, commerce, culture and arts, media, publishing, advertising, PR, science and education, industry, telecommunications, personal services, business services and others.

### **2. Employer branding – communication aspects**

It is assumed that employer image, i.e. the way how it is perceived in the labour market, is a dynamic category. It adapts as a result of actions taken by an employer or by competition or

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changes performed in labour market, internal or external. Four phases can be pointed out in employer branding – EB (Bukowska, 2013b, p. 73). The first of them contains a double course of action that includes examinations of current image and defining the ideal one. Comparison of these types of images, the current and ideal ones, allows the identification of image gap.

Inspecting the current image two factors are assessed: its impact strength and its benefits for employer, i.e. its place on a scale of positive-negative (Fig. 1). Due to the fact that internal image can be different than the external one, it is sensible to study both of them.

Figure 1. Employer’s image matrix

Strength of the image	Strong negative	Strong positive
	Weak negative	Weak positive
Benefits for employer		

Source: own work.

To study the internal employer’s image it is advisable to take an advantage of an employee opinion survey. It is a credible source of information about employees’ expectations, and last but not least, feedback that employer is interested in these expectations and considers them as important (Bukowska, 2013a, p. 35). Therefore the employee opinion survey influences the positive employer branding (EB), both indirectly and directly.

The participation of an organisation in competition for the best employer can be another source of knowledge about such image.

It is recommended to monitor online resources to evaluate the external employer image. It is a matter of analysis of comments concerning the organisation. These comments are written often by current and former employees of this organisation. Also portals dedicated to job and employers, for instance [www.gowork.pl](http://www.gowork.pl), where there is a tab “Opinions about employers” are important. Then there are discussion forums that are created at the local and social portals and concern employers. One of the authors drew attention to the fact that monitoring of online resources means not only reading information about organisation that is available in the internet but also counting positive and negative opinions about employer that appear in particular time, identification of places, where employees of the organisation speak their mind the most often as well as determining the ratio of true to false information (Kozłowski, 2012, p. 50). As already mentioned, the first phase of EB covers also defining of the ideal image. It is shaped as a result of identification of specific for the organisation, achievable at the given time identity elements that are attractive for target segment of the labour market. It means that the target segment of the labour market is important. It is therefore necessary to analyse the human resources of the organization (Bukowska, 2013b, p. 74). It allows the proper selection of benefits offered to employees, and associated with the organisation they work for. In the literature, a package of rational, emotional and auto-expressive, employment related benefits is defined as employment value proposition (EVP) (Wojtaszczyk, 2012, p. 106; Lievens, Van Hohe, Ansel, 2007,

p. 48). Regardless of their specific characteristics, employees expect that employers communicate openly. They expect mainly the information what they are required to do, what kind of objectives they should achieve and how their job is assessed. It is crucial for them to be informed about HR policy. The communicated information should be of sufficient quality. Openness in communication means also free flow of information from employees to employer.

The second phase of employer branding covers the implementation of the ideal image. The course of this phase depends on the identified image gap and above all on the current image. Placement of employers on the image branding (Fig. 1) indicates the type and intensity of actions that should be taken in the second phase of the employer branding. If the image is strong and positive it is sufficient to promote it. If it is positive but weak, it is necessary to both promote and establish it. When it is negative, it is crucial to eliminate the negative opinion of the employer and create the positive one. Information about the required changes the employer can gather by means of aforementioned employee opinion survey. The objective of this survey is, as previously shown, not only the general opinion about the employer, but also particular factors that may become carriers of identity (Bukowska, 2013a, p. 32). If opinion on them is negative, the employer gets information what should be changed.

It is extremely valuable for this phase if an organisation participates in the competitions for employers, even if they are not winners. This way, they can not only gain a certificate proving their positive image, but also the certifying authorities indicate opportunities for improvement and change as a result of comparisons with other organisations.

The third stage of employer branding, i.e. promoting and establishing, covers communication techniques that are used, both on the internal and the external labour market. It is *inter alia* the Internet, which will be described later in this article.

Control occurring in the last stage refers not only to the correct course of planned activities, but also the adequacy of these measures to the dynamic environment of the organisation. The control is required, among others, because of the changes in employees' needs and expectations. These changes are results of personal, family and professional situation of employees. It turns out that the perception of benefits offered by the employer alters with time. It may be noticed that access to some benefits decreases their attractiveness (it can be explained, among others, by the fact that rare goods are more attractive). Sometimes employees face some difficulties to identify own needs (Bukowska, 2013b, p. 79).

The same tools that were used in the first phase can be used to control the image of employer, namely employee opinion survey, competitions for the best employer and monitoring of online resources.

Indicated actions are designed to ensure that the employer gained positive and strong image in the labour market. Their implementation is possible thanks to the communication between employer and stakeholders in internal and external labour market.

### **3. The Internet as a communication tool**

The use of information technology to communicate means to communicate via a computer (Computer-Mediated Communication). The narrower meaning is attributed to the Internet communication, which is taking place "in one of the internet environments" (Miotk-Mrozowska, 2009, p. 24). Usually both terms are used interchangeably in the literature.

The taxonomy of web services enabling communication was built in 2001. The following elements have been pointed out (Wallace, 2001, pp. 4-7):

- World Wide Web,
- Email,
- Asynchronous discussion forum,
- Synchronous chats – Internet Relay Chat (IRC),
- Text based virtual reality – Multiuser Dungeons (MUD),
- Internet – based graphical multiuser world (metaworlds),
- Interactive video and audio transmission. The popular messenger Skype is given as an example of this environment.

The author of this taxonomy noted that some elements have common characteristics; moreover, they are internally different (Wallace, 2001, p. 4). Currently these objections are gaining in importance because new functionality is being added to the individual services. It is possible to include information about users' status in email, which was previously indicated as a characteristic of instant messaging (IM) services. There is a constant progress of web services since the taxonomy was built. For example, telephony, radio and Internet TV were developed. Almost all of these services can be used to communicate within the organisation.

Internet communication may take the form of (Miotk-Mrozowska, 2009, p. 25):

- unilateral communication – issuing a statement into cyberspace, e.g. on a website;
- interactive synchronous communication – the active exchange of information by senders and recipients of messages, who are simultaneously in informatics space. IRC, metaworlds and MUD are used here;
- asynchronous interactive communication. It, likewise the previous one, requires an active exchange of information, but the sender and recipient of information do not need to be simultaneously in the information space. The transmission of information is in this case delayed in time. Here emails can be used.

The researchers note that the Internet can be counted both to a group of reactive and interactive media. Therefore, it is considered as a means of interpersonal and mass communication (Miotk-Mrozowska, 2009, pp. 32-33). It is also important that it is almost impossible to use non-verbal messages in the Internet (Miotk-Mrozowska, 2009, p. 33). The apparent anonymity of users is also essential (Zajac, Krejtz, 2007, p. 193). Of course, some of the objectives and methods of using the Internet exclude the anonymity (Wallace, 2001, pp. 8-9). The question “with whom or with what happens the interaction in the Internet?” can be answered: “with another real person, with the created image of that person or with a computer that shows the virtual image” (Miotk-Mrozowska 2009, p. 34). However, the asynchronous nature of the message allows the recipient to take control of an incoming message who gains the ability to check the information received. Moreover, this recipient is activated in such a way that they can also become the sender of information (Białobłocki et al., 2006, p. 112). That is when it comes to interactive communication. The specificity of Internet communication results also from a smaller significance of physical appearance and visual aspects of the sender and the recipient, time is of less importance (Zajac, Krejtz, 2007, p. 193). The last attribute does not apply to synchronous interactive communication.

The importance of Internet communication, also for enterprises, increases continuously. Undoubtedly, the spread of mobile devices contributed to that. They allow the use of the earlier indicated Internet services (Web, email, instant messaging, including Skype) without wired connection to the network.

## **4. Internet as a tool of employer branding**

### **4.1. Employees' opinion about their employers**

Everyone almost continuously assesses during their life. We do not always do it consciously; nevertheless, the opinion about the object is formed as a result of this assessment. The employer might be an object of such assessment.

Due to that employees, who participated in the survey, were asked whether their employer has an attractive image, whether they have confidence in them and also whether they would recommend their employer to a friend. The confidence was gauged because it is treated as a factor that is integrally connected with the image of the employer. On the one hand, it contributes to the building positive image of the employer, but on the other hand, the positive image of the employer influences the building of trust. It turned out that less than the half of respondents (42%) give the employer their confidence, just slightly more than 40% of respondents felt that the image of their employers is attractive. It is noteworthy that not all respondents who had confidence in the employer assessed its image as attractive and vice versa, some said that although the image of their employers was attractive, they did not trust them. Interestingly, not all respondents who had the confidence in their employers and/or felt that their employer had a positive image would recommend that employer to a friend. This was probably due to the fear of taking responsibility for any disappointment of their friends.

Unfortunately, it failed to identify predictor variables of a positive image of the employer and the confidence in the employer neither for the demographic-social purposes of respondents, nor in the characteristics of their employers (analysed by the size of a company and line of business). It means, *inter alia*, that among organisations, whose image was assessed as positive, there were micro, small, medium-sized and large enterprises, representing various businesses, similarly as among those whose image was described as unattractive.

Due to the fact that it is considered that insignificant fluctuation of employees is one of the consequences of a positive image of the employer, respondents were asked whether they would like to change their jobs and if they are looking for a new job. Willingness to change jobs was declared by 21% of respondents, but only 14% of them were looking for it. The study has shown that only some respondents, who negatively assess their employer, were looking for another job or said they wanted to change jobs. It can be assumed that the negative perception of their employability and lack of recent experience in changing jobs was the moderator variable in relationship between attitude and behaviour. Almost all of them had seniority in the current organisation amounting to more than 11 years. On the other hand, there were some respondents who positively assess the image of the employer and they had confidence in it, but they were looking for a new job. Such responses were given by young people, who were at stage of their career characterized by the highest frequency of job changes resulting from the search for the perfect workplace.

### **4.2. Potential of the Internet in the external employer branding**

Communication between an employer and stakeholders is essential in creating the image of an organisation. Therefore various techniques and tools, including the Internet communication, are used. Unilateral and interactive asynchronous communication is one of such techniques

in the employer branding in the external labour market because it uses website of the organisation and social networking sites, both of professional (e.g. Goldenline, LinkedIn) and social (e.g. Facebook) nature.

The following topics are crucial for stakeholders from the external labour market and above all for job-seekers: recruitment, development opportunities, remuneration.

The subject of this research is therefore the website of employers, in the context of the following issues:

- tabs concerning employment,
- the content of these tabs.

101 websites of companies listed on the Warsaw Stock Exchange were analysed, i.e. more than 20% of all listed companies ([www.gpw.pl/lista\\_spolek](http://www.gpw.pl/lista_spolek)). Companies located in all 16 regions of Poland were selected randomly and proportionally. It turned out that over 30% companies did not publish information about themselves as employers. In other cases, such information was disclosed in tabs “job” or “career”. Sometimes it was to be found in tabs concerning corporate social responsibility, in social reports. Often (in 34% companies), the aim of employment-related tabs was only to present current job postings but in some cases there was information: “there are currently no job vacancies” and in two cases the job offers were outdated, dating back more than a year.

However, there are such enterprises (36%), whose websites promote the image of the employer. In such cases, usually the process of recruitment is described, guides for job candidates are presented. They concern, for example, advice on how to prepare for a job interview. Slightly fewer analysed websites (12) contain information about development possibilities (training, career path). Only in the eight analysed cases information about the remuneration and benefits was presented. It is noteworthy that information about communication tools used internally in the organisation (e.g. an internal social networking site, intranet, radio broadcasting system, newspaper) was mentioned in the two analysed cases. In a few cases, employee branding, i.e. attitudes and behaviours of employees, was used to promote the image of the employer. It consisted in presenting the activity of employees in their free time, e.g. their involvement in charitable activities.

Among the enterprises that promote the employer image in the Internet there were entities of all sizes and lines of businesses, similarly as among those who do not promote, which can be considered as a surprising finding of the study.

Respondents were asked in the questionnaire, among others, if they had sought information about the employer prior to being employed, about the way to get such information and if not, what were the reasons for not seeking any such information. It turned out that, contrary to predictions, the group of people that had not sought information about the employer was more numerous (57%). The most common reason for not seeking such information was that “this information does not have any meaning for me” (54% of respondents who do not seek information about the employer). Less frequently they pointed to the difficult situation in the labour market and the fact that “when I undertook the job, it was no such a habit to inquire about an employer” (more than 16%), as well as the fact that “knowledge about this employer was common in my environment” (more than 12% of responses).

As already mentioned, the population of respondents who before employment had not inquired about the employer was less numerous (43%). They could indicate any number of methods used to search for information about the employer. 83% of them said that they had searched for information on the website of the employer. The following ways of obtaining information

belong to often used methods: interviews with people who work with the employer and online forums about employers (more than 50%). Less frequently, the information was found in the media (22%), in the rankings of employers (16%), an analysis of sustainability reports (11%) was indicated very seldom. Importantly, the website of the employer was placed third in the ranking of the reliability of sources of information about the employer. Conversations with the people who work for the employer are considered as the most reliable source of information (46% responses) while online forums about employers take second place (18%). This can be explained by the fact that people working in the particular company are trusted more than employers. In the event of discrepancy between information about the organization provided by employees and employers, oftener job candidates trust advices given by employees (orally, online) than employers (on websites, social reports).

On the one hand, the employers do not fully exploit the Internet's potential to shape their image; on the other hand, employees have limited trust in this tool. However, it can be assumed in the future employers will be more interested in using diagnostic tool, i.e. search engine optimization (SEO), which allows achieving the highest rank on the organic search results pages (e.g. employer's website) for key words (<https://slownik.intensys.pl>). However, this would concern those employers who knowingly use the website to promote their image in the labour market.

### ***4.3. Internet as a tool of the internal EB in the opinion of employees***

The exchange of information and opinions between employers and employees is one of the factors that enable an organisation to operate. It is also essential for EB. This is achieved using communication tools. A catalogue of these tools is very comprehensive. The choice of tools depends primarily on the selected communication channel: oral, written or visual. Moreover, this selection is determined by the specificity of the company and the people working for it.

Therefore, in the survey, respondents indicated communication tools and techniques used by their employer to communicate messages to employees (downward communication) and in the other directions (upward communication). The techniques were selected from the proposed list; it was possible to indicate any number of answers. In the first case, it was possible to choose among 13 techniques (radio broadcasting system, 'face to face' meetings with the staff, meetings with managers, who communicate the information to subordinates, newsletters and brochures, email, Internet, Intranet, IM, phone, teleconferencing/video conferencing, dashboards, etc.). In the second case, 10 techniques were available ("face to face" meetings with superiors, who communicate the information to superiors, e-mail, Intranet, IM, phone, employee opinion surveys, teleconferencing/video conferencing, etc.). Respondents were also asked to share their opinion if these techniques provide the topicality, correctness, completeness, credibility and brevity of information. The study leads to the following conclusions:

- for the most part, enterprises use more than one communication technique. To communicate downwards 4 techniques and to communicate upwards 3 techniques are used on average;
- the number of communication techniques used increases proportionally to the size of the enterprise;
- techniques that are used the most commonly to communicate downwards are 'face to face' meetings (indicated by 76% of respondents), phone (59%), meetings with employees and email (both 57%);

- the most often techniques of upwards communication are ‘face to face’ meetings, meetings with employees (59%), phone (50%), meetings with superiors when they pass the information to their superiors (48%), email (45%);
- although email is considered to be the online method enabling interactive asynchronous communication, in 10% of cases it is confined to sending messages and is the tool of unilateral communication;
- email was the most frequently indicated tool used in an organisation for purposes of vertical communication. It applies to enterprises of all sizes and all lines of business. By contrast, tools such as Intranet or instant messaging, are used mainly in big companies operating in the field of banking and business services. However, in two cases it was indicated that IM is used in micro-enterprises (culture and arts, commerce), but it was free software;
- 30% of companies represented by surveyed employees, in general, do not use Internet communication in relationships employers-employees. These are mainly commercial enterprises (micro and small), but, surprisingly, also medium-sized enterprise operating in the telecommunications industry, specializing in setting up fibre-optic links for broadband Internet;
- the majority of the respondents (61%) believe that tools of vertical communication used in the enterprise ensure the topicality, accuracy, completeness, reliability and brevity of information;
- 69% of respondents who have reservations about the quality of the information provided in vertical communication negatively assess the image of the employer. Furthermore, reservations about the quality of information are expressed also by all respondents who would like to find a new job;
- reservations about the quality of information concerned mainly the completeness and brevity of information.

## 5. Conclusion

Employer branding is associated with the communication of an organisation with stakeholders. Job candidates are considered as such stakeholders in external labour market while employees are regarded as such stakeholders in internal labour market. The development of information technology has contributed to the usage of the Internet communication in relations between employers and employees or job candidates. It turns out, however, that the promotion of the employer’s image via the Internet in the external labour market is not common. Information about employers and employment published on websites is often sketchy and outdated. But there are employers who knowingly promote their identity, pointing to such features as recruitment, development paths and remuneration.

Employees, however, are a little sceptical about the information provided by the employer on the website. The information provided by the persons hired by the particular employer, both orally and via online forum, is considered as the most trustworthy. Therefore, it is a key issue for the employer, who thinks about their image, to care of employees and their needs. As a result, they, consciously or unconsciously, create a positive image of the employer. These needs relate, inter alia, to communication and quality of information. To meet these needs online services are used, among them emails. However, it is sometimes used for purposes of unilateral communi-

cation instead of interactive one. Finally, the potential of Internet communications in shaping the internal and external labour market is not fully exploited.

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# Chapter 39

## **The Construction and Validation of a New Scale for Measuring Leader Behaviours Stimulating Creativity and Intrapreneurship of Employees**

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*Paweł Podolski*

### **1. Introduction**

Despite the critical analysis of the concept of leadership brought by Chomsky (1999), the importance of leadership for companies development has been rising. The need to rival hyper-competition or mass customization in a dynamic environment characterized by rapid changes in technology, a shortened product life-cycle or global competition requires a leadership style perfectly suited to the situation and culture in which an organization operates. Therefore, a key resource seems to be the creativity of workers employed in a company and their intra-entrepreneurial attitudes, understood as the ability and willingness to engage in proactive activities, allowing them to create innovative strategies of functioning and developing their organization (Podolski, 2015). Polish Leadership Styles Questionnaire is one of the first measures of leadership styles, which are fully developed and validated in the Polish organizational culture.

### **2. Theoretical background for the Polish Leadership Styles Questionnaire**

#### ***2.1. Leadership and leadership styles***

Leadership can be defined as a process, in which one individual affects other members of a group in the completion of group and organizational objectives (Shackleton, Wale, 2003, pp. 308-309). There are four main types of leadership theory: theories of features, theories of behaviours, situational theories and interactive theories that connect them. By creating the Polish Leadership Style Questionnaire (PLSQ), it was based on one of the most widely studied and described situational theory – the theory of leadership types according to Bass (1985; Bass, Bass, 2008).

According to the theory proposed by Bass (1985; Bass, Bass, 2008), there are three types of leadership: transformational, transactional and laissez-faire (or laissez-faire).

The transactional leadership style is based on creating a clear structure and division of roles. Interactions with team members are transactions in which certain benefits are offered in exchange for the effects of work. The transactional style consists of two components: management-by-exception and contingent rewards. A contingent reward consists of granting an award if the level of task completion, determined in advance by the leader, has been achieved. Management-by-exception, involving the search of errors and their correction, causes subordinates to focus on maintaining a given state: they do not want changes, they focus on avoiding mistakes and thus are not inclined to take risks, which is necessary in creative and entrepreneurial activities.

The second type of leadership highlighted by Bass (1985; Bass, Bass, 2008) is laissez-faire, or a non-interfering management style, which involves the avoidance of taking any position. This includes distancing from problems and having little concern for the workers, performed tasks or production. In most organizations, especially those well structured, this type of leadership does not occur. For this reason, the PLSQ does not distinguish the laissez-faire leadership scale.

The transformational leadership style involves inducing the involvement of employees based on their internal motivation, stimulating activity and emotional relationships between the leader and the group members, responding to the needs and aspirations of employees and the conversion of their individual values into group values in order to achieve collective goals (Jung, 2001, pp. 185-195). As Bass (1985; Bass, Bass, 2008) indicate, transformational leadership involves four factors: inspirational motivation, idealized influence, individualized consideration and intellectual stimulation.

However, many studies (e.g. Bono, Gerhardt, Illes, Judge, 2002, pp. 765-780) have shown that the factors described above that comprise the leadership styles are not entirely distinct. Moreover, it is indicated that the structure of these factors was established beyond the theoretical background and gives the impression of interpretation of results of the factor analysis, rather than the effect of development of the theoretical model. For this reason, when creating the PLSQ, it was decided to base it on general operationalisations of both types of leadership, without regard to a factorial distinction, treating them instead as a broadening of the adopted definition.

## ***2.2. Relationship between leadership style and creativity***

It has been shown that the transformational leadership style significantly affects group members' creativity (Shin, Zhou, 2003, pp. 703-714) and organizations' innovativeness (Jung, Chow, Wu, 2003, p. 525-544). Research shows that there is a positive relationship between group creativity and the fact that the leader is perceived more as a transformational one than transactional (Sosik, Kahai, Avolio, 1999, pp. 1-30). The transformational model of leadership can be treated almost as a synonym for creative leadership (Strerberg, Kaufman, Pretz, 2003, pp. 455-473). T. Amabile (2012), similarly to Sternberg et al. (2003, pp. 455-473), stresses the role of leaders and leadership style in stimulating creativity, pointing to the important role of leaders in shaping the internal motivation of their employees by taking such actions as providing challenges, greater freedom, adequate resources, support and encouragement and paying attention to team design. Internal motivation aroused among respondents leads to greater creativity measured by the indicators of divergent thinking (Jung, 2001, pp. 185-195).

Groups working under the leadership of transformational leaders achieve significantly higher rates of fluency (the number of ideas produced by the group) and flexibility (the number of different types of ideas produced). The available studies usually confirm the positive effect of transformational leadership, not only on creativity itself (Jung, 2001, pp. 185-195), but also on the climate conducive to creativity, which is directly related to the team's success in creative endeavours (Amabile et al., 1996, pp. 1154-1184).

### ***2.3. Relationship between leadership style and intra-entrepreneurship***

Leaders' support for intra-entrepreneurship, through, inter alia, favouring employees' creative ideas and providing funds for their implementation, is one of the most important organizational factors stimulating entrepreneurial attitudes (Elenkov, Manev, 2005, pp. 381-402).

It has been shown that transformational leadership is associated with the stimulation of intra-entrepreneurship both directly and indirectly – the mediator is an organizational identification, defined as a psychological bond between the employees and their organization (Moriano et al., 2014, pp. 103-119). However, no such link was found in the case of laissez-faire leadership, and transactional leadership proved to weaken intra-entrepreneurship (Moriano et al., 2014, pp. 103-119). A transformational leader, by providing ideological explanations that link followers' identities with the collective identity of their organization (Jung, Chow, Wu, 2003), builds an organizational identification, which translates into employees' willingness to engage in the implementation of organizational goals (Kark, Shamir, Chen, 2003, pp. 246-255). The leader's strengthening of intra-entrepreneurial attitudes requires a favourable organizational culture that supports risk-taking and innovativeness.

### ***2.4. Polish Leadership Styles Questionnaire***

A leadership style is one of the most important factors influencing the creativity of developed solutions and intrapreneurship attitudes of employees of a given organization (Shin, Zhou, 2003). It is also a factor that can be changed relatively easily – the team management method can be learnt. In the environment of Polish organizations that base their activities on creativity and innovative actions, the lack of a leadership style measuring tool adapted to Polish conditions seems perceptible. For this reason, having presented the above objections to Bass' model, it was decided to create a simple, easy-to-use questionnaire tool that would meet the requirements of Polish entrepreneurs – the Polish Leadership Styles Questionnaire.

## **3. Design and validation tests of the PLSQ**

### ***3.1. Item generation***

The base pool of 100 items was generated in accordance with the rational strategy (Hornowska, 2007), i.e. deductive strategy (theoretical; Zawadzki, 2006), because the questionnaire was

made based on the theories of leadership that can be found in literature – primarily Bass' theory (1985; Bass, Bass, 2008).

### **3.2. Linguistic analysis**

The next stage of constructing the questionnaire was the analysis of generated items in terms of language. It was made by two students of Polish philology and a Master's degree graduate in Polish philology. Based on the linguistic analysis made, 30 items were re-formulated.

### **3.3. Itemmetric analysis**

Because of the need to take account of linguistic customs and cultural conditions of subjects, the itemmetric analysis was made (Zawadzki, 2006), which according to the solution used by Anleitner, John and Löhr (1986, pp. 61-107) included: intelligibility of items, ambiguity, abstraction, linguistic specificity of an organization and availability of experiences in an organization.

The itemmetric analysis was conducted on a sample of two organizations: one from the service industry and one from the precision industry. The study involved 30 subjects. Based on the itemmetric analysis results, 21 items have been removed from the pool, which were incomprehensible, too abstract or deviated from the specifics and experiences available within the organizations.

### **3.4. Accuracy of content**

The next step in constructing the Leadership Style Questionnaire was to assess the accuracy of content of test items made using the competent judging method. The purpose of this method was to verify which statements are consistent with the defined types of transactional and transformational leadership.

Based on the definitions of both leadership styles provided, four competent judges – masters of psychology, divided the items to two leadership scales and made a scaled assessment of the items. By performing this step, two items were removed from the scale. The judges' unanimity was 95%.

### **3.5. Internal accuracy of the PLSQ**

#### **3.5.1. Study 1**

The purpose of this study was to eliminate items, which are not specific to any factor, and at the same time strongly correlate with each of the factors or items which are weakly correlated with distinguished factors. The exploratory factor analysis (EFA) was used for calculations).

**Study group.** The study involved 60 people aged  $M = 35.43$ ;  $SD = 7.12$ , including 11 women and 49 men – employees of an organization from the precision industry.

**Tools and procedure.** The experimental version of the Polish Leadership Style Questionnaire (PLSQ) used in the study consisted of 77 items, which the surveyed answered on a five-point scale, where 1 meant "never" and 5 "always".

**Results.** As a result of the exploratory factor analysis made using the principal components method with Varimax rotation, 16 principal components with the intrinsic value (eigenvalue) above unity were obtained. However, the first two factors explained more than 39% of the variance. For the first factor, the percentage of the variance explained was 29.27% and 10.33% for the second. Based on the results of the factor analysis conducted, 27 items, which were included in the questionnaire, were selected.

### **3.5.2. Study 2**

The aim of the selection study was to use the exploratory factor analysis to verify the internal structure of the experimental version of the Polish Leadership Style Questionnaire and identify items that will enter its final version.

**Study group.** The sample was consisted of 60 people aged  $M = 27.81$ ;  $SD = 6.34$ , including 46 women and 14 men – employees of an organization from the service industry.

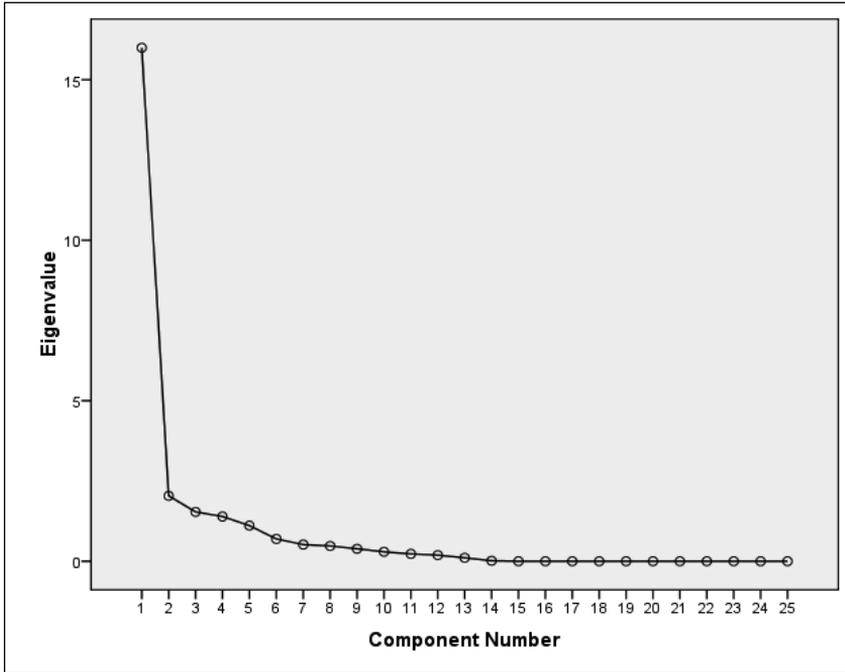
**Tools and procedure.** The experimental version of the Polish Leadership Style Questionnaire (PLSQ) used in the study consisted of 77 items, which the surveyed answered on a five-point scale, where 1 meant “never” and 5 “always”.

**Results.** As a result of the exploratory factor analysis made using the principal components method with Varimax rotation, 5 principal components with the intrinsic value (eigenvalue) above unity were obtained. The first two factors explained 69.80% of the variance.

In the next step, the obtained scales were analysed over Cronbach’s method. This ratio is used to measure the error variance in the average correlation between test items, i.e. pairs of terms in the questionnaire. In accordance with Cronbach’s recommendation (1951, pp. 297-334), the coefficients of internal compliance  $\alpha$ Cronbach were calculated separately for each scale. For the scale of the transformational leadership, composed of 15  $\alpha$ Cronbach items, it was 0.974, while for the scale of the transactional leadership, composed of 12  $\alpha$ Cronbach items, it was 0.894. After making the accuracy analysis, two items were removed, one from each of scale as they contributed to reducing the accuracy of the scales.

Then, we conducted another exploratory factor analysis using the principal components method with Varimax rotation, 5 principal components with the intrinsic value (eigenvalue) above unity were obtained. At the theoretical stage, the existence of two factors (transactional leadership and transformational leadership) was assumed – this assumption has been confirmed – in the scree chart (scree plot; Cattell, 1966, pp. 140-161) two main factors were distinguished (Fig. 1).

Figure 1. Scree plot



Source: author's own calculations.

The first two factors explain a total of more than 72.13% of variance. For the first factor, the percentage of explained variance was 63.99%, and for the second factor – 8.15%. Factor loadings for respective positions of the two scales after rotation are shown in Table 1.

Table 1. Factor loadings for particular items of the PLSQ after rotation

Item	Component	
	1	2
The leader recognizes and responds to the needs of others	.925	.268
Social needs of employees are met	.897	-.039
The leader builds a positive, stimulating atmosphere for thinking	.896	.346
Employee development is supported by leaders	.887	.291
The leader cares about good relations between employees	.854	.390
The leader is responsible mainly for checking correctness	.843	.078
Results of work are often controlled by the superior	.830	.343
The leader is a respected and reliable person	.790	.312
The leader appreciates the work of team members in the final result	.784	.336

The main emphasis is put on realistic and measurable goals, rather than visionary and innovative	.752	.437
Employees are motivated by emphasizing the meaning of performing a task	.747	.543
The leader is able to persuade others to his vision without using compulsion	.734	.469
It is important to control actions of employees	.696	.409
The leader reacts quickly to mistakes of his subordinates	.656	.588
Receiving awards is strongly dependent on the effects of work	.630	.283
It is more important to keep a good level of performance of work than seeking innovation	.617	.504
The leader tries not to make hasty conclusions about the work of others	.612	.407
Employees are involved in the objective defining process	.598	.538
It is important to achieve a particular result in a particular time	.352	.188
Speed and accuracy of work is more important than making a method perfect	-.072	.909
Employees are not willing to risk	.146	.817
Bonuses depend on whether work was done according to a specified standard	.150	.767
Employees try to avoid mistakes	.380	.638
The leader is an innovative person who likes innovation	.556	.636
Before passing a judgment on someone, the leader tries to understand his/her position	.607	.627

Source: author’s own calculations.

The next stage of validation of the Leadership Style Questionnaire was to re-analyse accuracy using Cronbach’s method. For the scale of transformational leadership, composed of 14  $\alpha$ Cronbach items, it was 0.975. In contrast, for the scale of transactional leadership, composed of 11  $\alpha$ Cronbach items, it was 0.915. Therefore, the accuracy of both scales of the questionnaire, as measured by  $\alpha$ Cronbach, is very high and provides good accuracy of the tool.

Another method to analyse accuracy of the questionnaire was the split-half method. In order to examine accuracy using the split-half method, the tool was divided into two parts so that each of them included a half of the test items to measure the same feature. The test items were divided at random. A high correlation proves high accuracy of the tool – the higher the correlation coefficient between the results obtained using the two halves, the greater the inner compliance of the tool. Spearman-Brown’s coefficient for the scale of transformational leadership was 0.960, while in the case of the scale of transactional leadership it was 0.965. This shows high accuracy of the tool. Other statistics of accuracy for the scale of transformational leadership are shown in Table 2, and for the scale of transactional leadership in Table 3.

Table 2. Statistics of split-half accuracy in the scale of transformational leadership in the PLSQ

Cronbach's Alpha	Part 1	Value	.938
		Item number	7
	Part 2	Value	.967
		Item number	7
	Total item number		14
Split-half correlations			.923
Guttman's split-half coefficient			.953

Source: author's own calculations.

Table 3. Statistics of split-half accuracy in the scale of transactional leadership in the PLSQ

Cronbach's Alpha	Part 1	Value	.882
		Item number	6
	Part 2	Value	.759
		Item number	5
	Total item number		11
Split-half correlations			.933
Guttman's split-half coefficient			.964

Source: author's own calculations.

### 3.6. External accuracy of the PLSQ – criterion

**Study group.** The studied group consisted of 90 people aged  $M = 26.4$ ;  $SD = 4.67$ , including 51 women and 39 men – employees of the service industry, other than in the pilot studies and analysis of accuracy stages, because according to the recommendation by A. Anastasia and S. Urbina (1999), the assessment of test validity should be carried out on a different sample than the one that was the basis for the selection of position.

**Tools.** In order to demonstrate convergent validity, the measurement was made using such a psychometric tool, with which, based on theoretical assumptions, important relations were foreseeable – the Multifactor Leadership Questionnaire (MLQ-5X; Bass, Avolio, 1997). The MLQ-5X consisted of 45 statements. The respondents took a position on them on a five-point scale from 1 “not at all” to 5 “frequently, if not always”. The PLSQ consisted of 25 statements, which the respondents approached on a five-point scale, where 1 meant “not at all” and 5 “always”.

**Results.** Pearson's  $r$  correlation analysis showed a strong positive relation between the PLSQ and the MLQ transformational leadership scales –  $r = 0.86$ ;  $p < 0.001$ . This allows making a conclusion that the scale of transformational leadership of the PLSQ is accurate. Pearson's  $r$  correlation coefficient between the PLSQ and MLQ transactional leadership scales was  $r = 0.47$ ;  $p < 0.001$ . A significant, positive correlation, although with a weaker strength than in the case of the scale of transformational leadership allows making a conclusion on the accuracy of the scale of transactional leadership of the PLSQ.

### 3.7. Leadership style and creativity

**Study group.** The study involved 50 people aged  $M = 21.34$ ;  $SD = 2.25$ , including 29 women and 21 men – students of the University of Economics in Kraków.

**Tools.** The PLSQ, described in subchapter 2.7.2, was used to measure the leadership style. The creativity level measurement was made using the Creative Behaviour Questionnaire (KANH, Popek, 2000) consisting of 60 statements to be approached by the respondents in accordance with their own behaviour on a three-point scale: true, partially true, false. The results are evaluated within four scales: conformism – K (passivity, adaptive rigidity, lack of criticism, stereotypical way of thinking and low self-esteem), non-conformism – N (independence, activity, originality, openness, high self-esteem), algorithmic behaviours – A (reconstructive imagination, convergent thinking, intellectual rigidity, low reflectivity, cognitive passivity), behavioural heuristics – H (creative imagination, divergent thinking, intellectual flexibility, creativity, high reflectivity, cognitive activity). N and H scales form the creative behaviour sphere, while K and A scales the generic behaviour sphere.

**Results.** Based on the conducted Pearson's  $r$  correlation analysis, a strong positive correlation between the style of transformational leadership and the sphere of creative behaviour (N and H scales)  $r = 0.47$ ;  $p < 0.001$  and a strong, negative correlation between this style of leadership and the sphere of reproductive behaviour (K and A scales),  $r = -0.53$ ;  $p < 0.001$  were observed. In the case of transactional leadership, significant correlations between the sphere of creative behaviour  $r = -0.13$ ;  $p = 0.368$ , or generic behaviour  $r = 0.24$ ;  $p = 0.091$  were not found. The results of Pearson's  $r$  correlation analysis of leadership styles with each of the scales: K, A, N, H are shown in Table 4.

Table 4. Results of Pearson's  $r$  correlation analysis of leadership styles with each of the scales: K, A, N, H

		Scale K	Scale N	Scale A	Scale H
Transformational leadership	Pearson's correlation	- 0.502	0.491	- 0.483	0.375
	Significance	$p < 0.001$	$p < 0.001$	$p < 0.001$	$p < 0.01$
Transactional leadership	Pearson's correlation	0.137	- 0.063	0.320	- 0.190
	Significance	$p = 0.345$	$p = 0.664$	$p < 0.05$	$p = 0.185$

Source: author's own calculations.

## 4. Discussion on results

The importance of leadership as a factor of organizational culture is thought to increase, due to the fact that the macro and micro environment of companies has become more and more instable. The leadership style may have a great influence on such aspects of functioning of an organization as: job satisfaction and efficiency, work motivation, creativity and intrapreneurship of employees.

The Polish Leadership Styles Questionnaire is one of the first measures of leadership styles, which are fully developed and validated in the Polish organizational culture. Despite the limitations of the results of the first pilot studies, which primarily include the small sample size and lack of analyses on the predictive validity and therefore the relation between the PLSQ scales and

intrapreneurship, the PLSQ seems to be a valid and reliable scale for measuring leader behaviours stimulating creativity and intrapreneurship of employees.

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# Chapter 40

## **Strategic Management and Human Resource Management as the Establishment of Innovative Entrepreneurship Features Cultural Institutions in Poland**

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*Wojciech Witkowski*

### **1. Introduction**

In this publication, reference points were the cultural institutions, entrepreneurship, human resources embedded in realities of innovative activities. Although, the state patronage of the arts gives a kind of reserve, it is not a firm base for modern contemporary art from various artistic genres. Rights, duties of the young artist and the value of his work forces him to find the new realities of the twenty-first century market economy. To work well today's cultural institutions have to try to combine elements of culture, entrepreneurship, strategic management and human resources management, taking into account innovation. The cultural sector in Poland should be one of the most important and dynamic factors of socio-economic development of the state. In the world culture is an important employment sector, source of revenue and profit from the creative industries. According to Magdalena Sobocińska: "Participation in culture takes place at the individual level, but the benefits resulting from it contribute to build human capital, as well as trust and social capital" (Sobocińska, 2008, p. 16).

Development of this sector undoubtedly contributes to raising the quality of life. It uses the cultural heritage of the country and strategic planning, marketing, human resource management at cultural events or emerging new goods of art and culture, that the country generates. Through various actions at events and other activities the cultural sector raises the image space, which are cities, regions or even the states themselves. Their image value takes on a new dimension. Moreover, richer cultural offer favours the development of cultural tourism, because viewers are moving farther and more often.

The aim of this article is to draw attention to the importance of strategic management and human resources management in the current reality of activities of cultural institutions in Poland. The apparent lack of market experience, successive research solutions in the field of cultural institutions, force researchers to analyse the experience of foreign democracies. Book publications,

numerous ministerial reports and other studies do not provide homogeneous guidelines for the development of culture in our country. The lack of central, state centre dealing with the systematic study of cultural institutions, which should lead national and international research on culture, is a chance for an interesting job for young scientists.

## 2. Culture and other related definitions

Present conditions of the functioning of cultural institutions in Poland are the result of political changes and the creation of tough global competition in the twenty-first century. It is the effect of numerous demographic changes, the increasing role of new technologies and an economy based on new information, services and new ways of managing human resources. All these changes require a new approach to the role of employees, their exploration and management. Nowadays companies are interested in acquiring and maintaining for a permanent contract creative, innovative and entrepreneurial employees. Those having high development potential, are a guarantee of company increase in the value. Entrepreneurship in culture is associated with the ability to: management, efficiency, innovation, effectiveness and modern marketing. Today's best assets are people – human capital. Investing in “good” employees and the formation of a specific structure of employment gives the opportunity to build competitive advantage. K. Mazurek-Łopacińska drew attention to this fact in her research work (1992): “In conditions of an increasing competition customer's satisfaction is the most important factor for long-term success of the company” (Mazurek-Łopacińska, 1996, p. 76).

Today's customer has the unlimited choices of different products and services. Globalization has affected cultural space and given rise to a new type of customer. It can be described as a human being of both sexes with very high demands, expecting individual treatment. If such customer is satisfied with the service provided in 100% – gives the service provider the long-term loyalty. In the case of the scope of issues undertaken in this publication there should be cited one of the definitions of “culture”. The term “culture” means: “the entire material and spiritual heritage of humanity collected, preserved and enriched in the course of its history, passed down from generation to generation” (*Słownik języka polskiego*, 2002). However, in the adopted general meaning for this article, culture is an undertaking aimed at familiarizing as many participants as possible with the products of artistic activity and some elements of technical applied culture. According to R. Rutkowski (1982) the essence of culture in this sense will be “dissemination of culture understood as an organized set of targeted activities aimed at expanding the scope and intensity of participation in culture the widest circles of society” (Rutkowski, 1982, p. 29).

Management in culture and art is a relatively new scientific field, however in the study is an important and a new element that attracts more and more attention. Conducting entrepreneurship activity (business activity) combined with cultural activities becomes a very crucial factor of improving the difficult situation of culture in Poland, and in the world. Present leaders – business managers should have specific features and skills of adapting quickly to changing economic conditions and effectively use marketing, strategic management and human resources management as characteristics of innovative entrepreneurship of these units. Traditional cultural management has been focused on goals such as growth and productivity. In the modern world, according to M. Kostera (2013) also needs such as the promotion of values, attitudes, environmentally friendly and non-instrumental ethics and broadly understood cooperation between or-

ganizations have been created. New growing culture and art, depending on appearing choices and services is to satisfy a variety of tastes and needs. This gives the possibility of lifting, equalising or decreasing its levels in accordance with the needs of the recipients of this culture. New and important activity and at the same time the term, is “strategic management”, which cultural institutions in Poland did not have and use before 1989. Nowadays, at changing the way of thinking about culture this issue appears more frequently. Its defined main assumption is primarily process of information and decision-making, supported by functions of planning, organizing and controlling. Its aim is also to decide on key problems of the company’s activities such as: survival and development with particular emphasis on environmental impacts and the main factors of own production potential. From the point of view of the goal, the organization of culture is seen here as an entity that creates values for its social partners and stakeholders also known as the interested parties and as the subject exchanging with them these values to other values, e.g. the resources, social acceptance, which are necessary for survival and proper development of the organization. Ensuring the long-term development and survival of the organization is the main task of strategic management. As M. Kostera (2008) claims: “Generally, contemporary European and American management science deal with the study of the phenomenon called the organization and its special cases, which are management and entrepreneurship” (Kostera, 2008, p. 19). And studies of cultural institutions in Poland should go in the search of such aims and in this direction – strategic management, human resource management and the creation of innovative entrepreneurship.

The most important component of any organization is the above-mentioned culture that is produced by its participants. According to M. Kostera (2013) “organization is a culture, and thus it is worthy to examine before all shared meanings that shape the thinking and actions of participants of the organization (...) Often, low labour productivity, insufficient quality of manufactured products and services are caused precisely by the specificity of culture of the organization” (Kostera, 2013, p. 71).

In addition to strategic management in cultural institutions an important place is occupied by human resource management, which according to M. Armstrong (2000) is: “a strategic and consistent approach to managing an organization’s most valuable asset – the people working there who individually and collectively contribute to the achievement of its objectives” (Armstrong, 2000, p. 19). Human resource management is the interrelationship of the various activities which are aimed to ideological and philosophical justification, which includes: employment, knowledge, developing and rewarding people.

### **3. Culture and it’s innovations**

Innovation by B. Glinka (2008) is an important factor in determining the speed, direction and value of economic development. Numerous studies, through the analysis of entrepreneurship in the world and in Poland at the turn of recent years have shown a connection of the sphere of culture and its value to the economy. Innovation, modernization based on the respect of property and economic freedom, and therefore also culture that supports entrepreneurship, there are the features of twenty-first century.

The influence of innovation according to Ch. Hampden-Turner, A. Trompenaars (1998), D. Landes (2000), D.C. North (2004), L.E. Harrison, S.P. Huntington (2003), J.T. Hryniewicz (2004), J. Kochanowicz, S. Mandes & M. Marody (2007) may extend in different directions,

depending on geographical position. Innovation and creativity are the basis for the competitiveness of modern organizations, both individuals and the corporate. More and more often they are the subject of detailed process of studies. Because the essence of entrepreneurship is innovation, thus on the base of its implementation through the processes, products and services its level is measured.

In Europe the examples of such activities are researches *Innobarometer/Innovation Scoreboard* carried out by *Business Innovation Observatory* appointed by the EU, and acting at the European Commission. Polish falls in these studies fairly negative, little optimistic and not promising. This situation is due to the fact that Poland is very cautious about innovations, introduces them long and with difficulties, there are also no relevant research centres. However, this situation recently is slowly improving. Investing in young people, intellectual capital, modern and innovative research projects today becomes the new norm. There are corresponding processes to attract talented people and those who are not afraid of scientific challenges.

To sum up the discussion of innovation it can be repeated after P. Drucker (1992): “Therefore innovation and entrepreneurship are needed to the same extent for society and the economy, public institutions and businesses. Innovation and entrepreneurship do not change everything from scratch, but introduce changes step by step – in an article, rule of acting, a public service; they are not planned, but focus on one or another occasion and need; they are introduced conditionally and will disappear if they do not bring the expected and necessary results; in other words, they are pragmatic and not dogmatic rather modest than pretentious. That’s why they allow to any society, economy, industry, public service or the company keep its flexibility and self-defence” (Drucker, 1992, p. 271). The innovation process according to B. Glinka (2011) is: “the process by which ideas are transformed into concrete offer or solution and implemented in practice” (Glinka, Gudkova, 2011, p. 85). Whereas the innovation management itself, according to her, is control and support to make the innovative implementation successful, “with a reasonable level of costs and satisfactory outcome/level of benefits” (Glinka, Gudkova, 2011, p. 85). Culture conduces to innovation, because the survival and development of the modern organization depends largely on the generation and impressed with the necessary innovations.

In addition to the features mentioned, there may be social innovation or even innovative management by the use of practical knowledge, enabling the achievements of desired results in the organization. These activities, skills and diverse knowledge about ways of influencing people – constitutes an innovative management in our time. Changes in work patterns that have occurred in the last century in organizations, resulted from a substantial increase in an employment in part-time jobs, indirectly from outsourcing and increased requirements for specialists, professionals, and sought with them greater competencies. The creation of a new model of professional competence management by G. Filipowicz (2014) results from the dynamic development of companies by technological progress, changes in the organization’s environment caused by competition and changing scope of tasks in the labour market.

#### **4. Cultural institutions in Poland and the changes in them**

Since the beginning of political transformation in Poland we can observe the introduction of “new” solutions for financing and management of cultural institutions. According to the Act on Organizing and Conducting Cultural Activities, the organizer of cultural institutions in Poland has a very important role. In his responsibility is to provide the resources needed to initiate and

carry out cultural activities as well as to maintain cultural objects in which this business is conducted. Analysing further, legal persons outside the public sector may be present as an organizer of cultural institutions, but only when they created it together with a public entity (e.g. local government unit). Polish legislator naturally allows the possibility of conducting cultural institutions by the private sector and civil society, however to a limited extent. The rules are regulated by provision in the Act, which according to experts raises a lot of confusion, especially in the scope of cultural activity in conjunction with businesses. Such form of the Act does not prejudge what is the nature of this activity (economic or non-economic). Referring, in the context of law interpretation, the Act should be classified as economic activity. However, the legislator in the amendment decided that in the first place should be applied provisions of the Act on Organizing and Conducting Cultural Activities, and only incidentally the rules of doing business. As result it can be understood that the activity carried out by private entities is not, and cannot be an economic activity. In such a situation it seems to be logical that it can be aimed at profit, and if profit appears, it has to be transmitted to the statutory objectives of the institution. The perfect solution would be to create a capacity to accommodate two types of cultural activities, which would open the market to private entrepreneurs in the context of economic activity and strictly cultural activities of an institutional nature (e.g. museums, theatres, opera houses, concert halls, etc.), subsidized with public funds. At the moment, private and social entities are not able to participate in the creation and development of entrepreneurial culture. The dominance of public administration in the context of the "only" organizer of cultural institutions leads to organizational and programme constraints, and as a result to the lack of creativity and innovation in the direction of enterprise.

It is necessary to briefly reflect on the most important concepts of entrepreneurial competence to make a permanent changes in the system of culture in Poland. It would serve a good new strategic management and human resource management of contemporary cultural institutions in the spirit of innovative entrepreneurship. To acquire adequate knowledge different forms of education and training for future managers, entertainers and its employees, in combination with the techniques of business is needed. Moreover, the need to overcome the economic crisis and implement effective measures to re-launch the economy should start a new entrepreneurial culture solutions. The common correlation between business and culture is evident in American culture funding system. According to official data, in the United States culture is financed only 40 percent of money from individual states and the federal government. The rest of the money comes from private or corporate sponsors and patrons. For Americans, this is not an evidence of insufficient involvement of the state in culture, but confirmation of the force of "free market", also within the culture. The famous economist Milton Friedman in his book "Free choice" (Friedman, Friedman, 2006) described the American model of sponsorship of Chicago's cultural institutions. These include the Art Institute, Newberry Library, Chicago Symphony Orchestra, University of Chicago, the Museum of Natural History and Crerar Library. The American model of sponsoring culture currently cannot be accepted on the spot in Poland, or even in the European Union, because it is a system resulting from specific historical circumstances.

This American system of model for financing cultural institutions in Poland should be introduced increasingly and shortly to life. Its biggest advantage is the fact that in addition to additional funding for these institutions, it generates factor also possible to learn from the business (wealthy companies and institutions), learning the correct entrepreneurship. Cooperation in the field of entrepreneurship would be a mutual advantageous process for both parties. Cultural

institution would receive next to additional financial resources, new business knowledge, which would allow for further development. While the rich business would find a suitable place to invest their profits profitable, as a sponsor or patron of art, at the same time allow for a reduction in pay income taxes. As a new and interesting example of governance and funding of cultural institutions in Poland, for example, should be given The Grand Theatre – National Opera. This theatre, in addition to a grant of the Ministry of Culture and National Heritage, receives additional funds from the sale of tickets for shows and other measures on the activities of additional paid in terms of manufacturing, trade and service. Good strategic management will also generate funds from contracts or sponsorships and donations for participation in many foreign tours. The fact that such activities, the theatre is, however, in Poland, only a small prelude to the development in this direction for other cultural institutions.

## 5. Conclusion

On the base of the literature of this article a rule has been adopted that sector, including cultural creative industries, involves the production of goods, consumer services and indirect services such as designing advertisements. Data and definitions used here are in accordance with the classifications used by the Central Statistical Office and Eurostat. Cultural industries produce, offer and distribute cultural goods intended for mass reproduction and mass consumption, e.g. a piece of music, as well as goods requiring consumption in the place of manufacture, such as show. As claimed by D. Lavoie “entrepreneurship is deeply rooted in the culture and totally shaped by it” (Berger, 1994, p. 45). Comprehensive research on organisations and smooth functioning of cultural institutions so far has not been conducted in Poland. Thus, it is necessary to quickly introduce transparent and concrete system of evaluation indicators and testing their activities. In our country the range of currently used indicators for assessing the activities of cultural institutions, is very narrow. As well as the researches, the indicators are not catalogued and systematized, and their interpretation, made without a thorough analysis, is not formulated on the basis of optimal and true values. Furthermore, it is necessary to create tools for forecasting of skills for work assessment with activities in this sector. Therefore, as soon as possible cultural studies should be combine with different data sources, while making additional assumptions and estimations, e.g. in the direction of entrepreneurship or innovation. There is a need to use both the data recorded, as well as research-based of representative and voluntary. The complexity of the problem of the study of entrepreneurship in terms of culture is very difficult, because entrepreneurship is an individual feature of human personality. The feature that stands out intelligence, innovation, ability to perceive conditions and the relationship between economic phenomena. There is also the ability to organize commercial, industrial, and cultural services, providing income advantage over the cost of acquisition.

Thinking about tomorrow for this sector we should be aware that in order to continue the rapid development and modernization of the world, we have to learn to better use our entrepreneurial potential. It is necessary to redefine many of the phenomena and new dimensions of entrepreneurship, because “There is no culture of entrepreneurship, as there is no society without culture, which is a kind of ‘network behaviour’ defining patterns and standards of conduct. Without this network could not even exist the market, and therefore, entrepreneurship” (Piecuch, 2013, p. 111). Probably a long time in culture the result of economic calculations will not be taken into

consideration and there will be no redundancy process or flexible and logical recruiting based on the appropriate outsourcing endorsed by professional external audit. In this sector there are also unknown, industry innovative business development tools, such as: franchising, venture capital, crowdfunding, social bonds pay for success, leasing, factoring or clusters and incubators in relation to the possibility of a real improvement in the situation of the sector. Furthermore, it should also be considered whether it is possible for people from culture world without the knowledge of the rules of market, strategic management, human resource management, marketing and finances?

According to the author of this article, effective and rapid development of the world requires the management of cultural institutions in Poland continuous interest in innovation activities of various nature. Today should be sought in cultural institutions proper strategic management, favorable human resource management, ground breaking and pioneering innovations for small modernization in action. All these proceedings are designed to quickly bring measurable results. It can be stated boldly that the organizational culture strongly determines the development of cultural institutions. The system of beliefs, values and opinions of employees of such institutions affects their attitudes and behaviours. That people create innovative cultural patterns in action, and then apply to them. The new organizational culture to stabilize social relations and provides its participants with a relative, a permanent foothold. Such culture excludes what is individual, and directed to the common elements. This creates a harmonious way a whole, thus the feeling of insecurity of the organization in a changing environment full of crises is reduced to a minimum. Proper strategic management and human resources management in cultural institutions in Poland is in the author's opinion, the most important element of their exit from the impasse.

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# Chapter 41

## **The Participation of Employees in Corporate Governance Process in Companies of Gas and Oil Sector**

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*Piotr Bartkowiak, Marta Woźniak-Hoffmann*

### **1. Introduction**

The participation of employees in corporate governance is not new subject. However, it takes special meaning in case of companies which have strategic importance, which are surely companies in gas and oil sector. In practice it is commonly known that workers care only for the high salary with minimum work. Observations, scientific debates (S. Rudolf, K. Sedlak or T. Listwan) and psychological research indicate reverse trends. Workers want to feel needed and useful in their work. They want the companies, in which they are hired, develop in the right direction and achieve competitive superiority because they are aware of the fact that their lives depend on this development. In the European Union, therefore in Poland as well, legislation has gone towards worker participation, however not everywhere it is applied in the same way. Including workers in supervisory boards is a process that is not unified and understood in the same way in whole European Union. In Poland worker participation in supervisory board has resulted from necessity of using law in practice of Privatisation Act – at first it was the Act dd. 13 July 1990 of state-owned enterprises privatisation (Dz.U. 1990 No. 51, pos. 298) that was improved considering employees point of view by the Act dd. 30 August 1996 of commercialisation and privatisation of government enterprises (Dz.U. 1996 No. 118, pos. 561). Nevertheless, even now it is indicated to use employees' potential also in the aspect of corporate governance, what is more – the tendency is visible not only in Poland but in Hungary, Slovakia and Czech Republic as well.

### **2. Methodology of the research**

Within the article, analysis of literature and own companies sources was led considering workers representatives in supervisory board as an institution of corporate governance in companies of gas and oil sector. The aim of acknowledging the validity of the problem of governance, verification of employees presence in owners supervision structure was led in Poland, Hungary,

Czech Republic and Slovakia. Moreover, not only companies with the biggest interest of National Treasury were analysed but also private enterprises.

### **3. Essence and meaning of workers participation in companies activity**

Using workers participation in enterprises comes from stakeholders theory. The theory is understood as a contribution of various groups of interests in managing of different forms and methods (Mendel, 2002, p. 16), so group of interest is defined as every group or a person that influences or is influenced by aims reached by a company (Freeman, 1984, p. 16 for Mendel, 2002, p. 16). Three main attributes of stakeholders:

1. Strength – understood as possibility of forcing own determination against faced resistance.
2. Legitimacy – legality of the stakeholders' powers do making demands against a company.
3. Persistence – is felt when in mutual relations of a stakeholder and an enterprise high sensitivity occurs or demands are important for stakeholders (Mendel, 2002, pp. 18-19).

Each of these strengths occurs in relation with the rest of them and therefore combining different strengths of various types of relations appear between an enterprise and stakeholders with smaller or bigger influence of once onto another.

In stakeholders theory a specific type of participation has been separated – workers participation. It is defined as “direct influence on each other coming from division of power (in conditions of trust, tolerance and cooperation) of different levels of managing to reach mutual acceptance of goals and performed action, basing on information and communication exchange” (Zimniewicz, 1991, p. 81). Another definition, that underlines even more the necessity of workers engagement to reach positive effects of enterprise work is a definition presented by J.R.P. French, J. Israel and D. Aas saying that this term “refers to a process, in which two or more sides influence on each other during plans preparation, realising specific politics and making decisions. The term concerns decisions, that may have an influence on those that have made them and those who are represented by them” (as per: Daniecki, 1998, p. 39).

Pope John Paul II in encyclical *Laborem Exercens* dd. 14 September 1981 said about necessity of subjective treatment of a human in a work process. Social studies of Catholic Church is of the opinion that a human has to work for continuous development of science and technics and permanent improvement of a cultural and moral level of society. Work distinguishes humans among other creatures (Jan Paweł II, 1981, p. 2). “Man has to subdue the earth, because is a person that is a subjective being capable to planned and deliberate action, capable of deciding for themselves and aiming to fulfil themselves” (Jan Paweł II, 1981, p. 9) Therefore, a human is always a subject in work process, and never should be its object. Such approach was frequently discussed facing economic ideas, of which “supporters understood and treated work as some kind of ‘merchandise’ that an employee – especially labourer in industry – ‘sold’ to an employer and at the same time an owner of capital i.e. a group of tools and means enabling production. This way of understanding work had been proclaimed earlier (...)” (Jan Paweł II, 1981, p. 10) and it gave way to more humanistic approach towards that matter. In such meaning, it is emphasized that because of subjectivity every human desires – by their own work – the sense of co-responsibility for an organisation in which they work, for both given payment and maybe even more “sense that even working on common, they work ‘for their own’ as well” (Jan Paweł II, 1981, pp. 23-24).

Meanwhile, very often a human not only has lack of meaning of work but they work only in view of necessity to survive. Such attitude to work appears among employees of private companies and among employees in companies of National Treasury. Taking the second case into consideration it may be assumed that it would be easier to gain the sense of solidarity and co-responsibility for civil possessions in which they work and which they care about. However, also in such companies it is very common to meet own needs and desires and not to care for anyone.

In Poland, employees after commercialisation, and then privatisation resulting from loss of the position of a co-host relating with position of self-government obtained theoretically at the same time different forms of influence onto an enterprise. The influence was both contribution of employees' representatives in supervisory boards or management boards and right to buy unpaid shares of a privatised company (Wratny, 2004, pp. 113-115).

S. Rudolf's considerations from the same period as the J. Wratny's article present different approach towards questions of forms of workers participation existence taking the place of existing one in former system. The author claims that during system and privatisation changes "works councils were disappearing, ending its existence with the decision about privatisation, also so called group forms of work organisation disappeared, but from different reasons, that created significant autonomy for employees in their workplace. However, very popular in western countries works councils or obligatory worker's representations in supervisory boards of companies did not emerged" (Rudolf, 2004, p. 105). As it can be easily noticed during the process of commercialisation and privatisation the accusation considering the lack or not adequate involvement of employees into company managing matters appeared.

For such kind of process different institutional solutions have been used, i.e.: works council, which in Poland acts on the provision of the Act of informing employees and having consultations (Dz.U. 2006 No. 79, pos. 550).

Institutional solution resulting from this Act in Poland is works council occurring e.g. in Norway or in other European Union countries, in which such solutions as companies councils or workers representatives. In Poland additionally an employee's representative can be chosen to a supervisory board or a management board, whose function results also from the Act of privatization and commercialization of government enterprises (Dz.U. 1996 No. 118, pos. 561).

As a rule – like every solution, participation also may have its strengths and weaknesses that are presented in the Table 1.

Table 1. Advantages and disadvantages of workers participation

<b>Advantages of workers participation</b>	<b>Disadvantages of workers participation</b>
Raising the motivation to work, favouring the growth of commitment to work, releasing the initiative, contributing to the increase of efficiency of activity, productivity and quality of work	Time consumption of meetings, leading consultancies and settlements
Promoting the integration of employees' interests with the interests of the company	Long time between the occurrence of the problem and its solution, after consultation and discussion

Preventing alienation	Deterioration of cooperation between employees by possibility to manipulate information
The sense of belonging to a company that uses abilities of an employee and the resulting job satisfaction	Using workers to sign documents accepting solutions less favourable than possible to reach
The sense of influence on management decisions	

Source: own elaboration based on Mendel, 2002, p. 56.

The valuable advantage of benefits of participatory management over their disadvantages means that essentially most authors strongly advocates a participatory approach in enterprises. P. Drucker also stresses that “the relations within the organization will evolve in the direction of partnership – with the employees of the organization, with people employed in outsourced companies, but working within the framework of internal teams and persons from outside employed on contract. And these relationships should be organized in the form of a long-term partnership within the changes” (Drucker, 2009, p. 102). However, as it can be noticed, even if the forms of participation in companies exist, they are not the same for all employees. It may be seen that, especially in companies with a majority share of the National Treasury, where many trade unions remained so far, they are the main recipients of participatory powers. M. Gładoch even writes that “after 1989 there was a change in the approach to the function of trade unions, to whom – especially recently – many privileges considering cooperation with the employer were granted. Consequently mainly they are trade unions and not representatives of whole staff adopt participatory authority” (Gładoch, 2008, p. 61).

#### 4. Corporate governance process in economic entities

Corporate governance is interpreted differently, as owners supervision or corporate domination. For the need of this article the author uses the term “corporate governance” meaning “the supervision over enterprise run by different stakeholders, and among them also by its owners” (Zajac, 2008, p. 425).

Within corporate governance the agency theory is reflected, that treats relations between economic subjects as relations between a superior and an agent. Relations of agency appears when the situation of one person depends on another’s action. The negative trend of the theory refers to issues related with problems of taking risk of agents, while the positive one depends on creating and monitoring contracts and organisations. (Jeżak, 2010, pp. 145-146). In case of companies that are strategic for a country very often the main shareholder or a shareholder with special right to vote is National Treasury. As a specific subject in civil relations having legal personality pursuant to Article 33. of civil code appears in economic trade by its organisational units and is a special public body (Gilejko, Chordecki, 2000, p. 320).

In situation, when National Treasury as a special public body comes into relations with subjects by their representatives, also corporate governance in companies is made by a General Assembly representative. Depending on quantity of shares it may be a General Assembly of one or

more persons. In such specific companies also the composition of Supervisory Board is very often determined by law (Czerniawski, 2011, pp. 300-314).

Sometimes there is a conflict of interests between employees' participation in managing of an enterprise and the corporate governance and owners' functions or managers of companies. It is observed that not every employee is oriented to multiply employers' wealth and on maximum engagement at work, although in XIX century Chester Barnard noticed that only those organisations were successful that gave their workers a proper field of ease, because only they were adequately innovative (Barnard, 1997, p. 24). Taking the European Union into consideration and its commonly used solutions, the German legislation has a big influence, accustomed from many years to *Mitbestimmung* model, that may be explained as co-deciding (Wratny, 2010, p. 372).

Taking companies into consideration the supervision is performed depending on style represented usually in a region or a country.

Anglo-Saxon model of supervision is a one-level system, only with management board and general assembly. In this model concentration of possession is low, that's why stock market plays an important role. In this model the reliance of payments on results of an enterprise is high. As shareholding is dispersed and value of stock market is high, then the market of corporation control acts with great activity (Lis, Sterniczuk, 2005, p. 123).

Continental and Japan model of corporate governance, which includes both German and Japan system is a basic example of two-level domination, in which there is a management board, supervisory board and general assembly. It combines protection of shareholders' interests and employees of a corporation. In German model, an organ of control and representation of shareholders interest is a supervisory board. Members of a supervisory board are usually representatives of majority shareholders or institutional investors. Pursuant to the law also representatives of employees sit in supervisory boards of German corporations. (Lis, Sterniczuk, 2005, pp. 129-131)

Just from the presentation of models it can be concluded that participation of employees in supervision of a company may be more successful in the continental model which, because of two-level supervision, enables active participation in processes of management work evaluation.

In most countries of European Union the continental model occurs, therefore in European law the problem of co-deciding or the participation of employees has been presented as works continued since 1960 for regulation of European Stock-offering Company Status (Wratny, 2010, p. 372). Further works of the European Union institution led to constitution of the Directive No. 2001/86 which is to unify participation solutions in every constituent of a European company (Wratny, 2010, p. 373). In Poland representation of employees acts basing on a few documents including the Act dd 7<sup>th</sup> April 2006 of informing employees and having consultations (Dz.U. 2006 No. 79, pos. 550).

## **5. Corporate governance shaping in gas and oil companies**

Polish gas and oil companies due to previous commercialisation and then privatization are under Act of Commercial Companies. Therefore, when supervisory board was established, some places are given to employees. According to these laws, the quantity is guaranteed until more than 50% of shares of a company is owned by State Treasury (Wratny, 2010, p. 376).

In Polish Oil and Gas Company and its daughter companies, State Treasury has controlling interest. Automatically, the company is obliged to respect all laws related to commercialisation

and privatisation. In connection with it, one employee was chosen for being a representative in supervisory board as well as one employee was established as a member of board members ([www.pgnig.pl](http://www.pgnig.pl)).

In another Polish company in this sector, in Orlen S.A. State Treasury has minority stake – only 27.52% shares. Orlen as a trade mark was established in 1999 after May 1998, when Ministry Council decided to establish oil consortium from fusion of Centrala Produktów Naftowych CPN S.A. and Petrochemia Płock S.A. Orlen does not have an employees representative in supervisory board in management board ([www.orklen.pl](http://www.orklen.pl)).

In Lotos S.A. State Treasury is the owner of more than 50% of shares. Lotos is oil consortium which makes its business in Poland and abroad. This company is engaged in extraction and processing of crude oil as well as wholesale and retail sale of petroleum products. Lotos was established from Gdańskie Zakłady Rafineryjne, which was named previously as Rafineria Gdańsk. The company on its website doesn't present presence of employees representative in its supervisory board. However, due to the Act of privatization, such person should be chosen ([www.lotos.pl](http://www.lotos.pl)).

In the next part of this article, the participation of employees in corporation governance will be presented in specific countries and companies having their activity in gas and oil sector.

In the Czech Republic, continental corporate governance model is used. The employees can appoint their representatives for supervisory board. According to the law, in State Treasury companies, it's obligatory to appoint 1/3 of candidates of supervisory board by employees, independently from the employees quantity in a company. A candidate can be chosen either from workers or from outside. In private sector in stock companies the possibility to choose the employees representative into supervisory board was done in case of employment higher than 50 persons (Stollt, Kluge, 2006, p. 6). It was only limited as an obligation just for these companies in which State Treasury has majority when new law entered into force in March 2012 ([www.workers-participation.eu](http://www.workers-participation.eu)).

For example, private company Lama Energy Group does not have in its supervisory board neither in board management the employees representatives. In 2002 company as a part of previous Česká naftařská společnost s.r.o. was specialized in consultation in the field of oil and natural gas production. Thanks to that, the company was able to invest into its own exploration, survey and oil and gas production in the Czech Republic. The company develops its activity in Czech market, but does not apply participation solutions in frame of employees participation in corporate governance ([www.lamagroup.cz](http://www.lamagroup.cz)).

In Hungary, similarly to Czech Republic the model of two tier board system is dominant. According to the law, in all limited and stock companies, independently from owner structure, the board management and supervisory board are obligatory. The rights of Hungarian supervisory boards are usually limited. They can supervise the board management activity and act as representative of shareholders. Their sessions are done rather rarely. The general assembly can take decision about enlargement of rights of supervisory board. The usual activity of these boards is limited to holding meetings once or twice a year to approve all important reports covered by statutory duty or business plans, as well as control over the organization by imposing requirements regarding the presentation of information and the temporary control of accounting books and documents of a company. The main authority of the supervisory board is being entitled to convene a shareholders meeting when in their assessment management activity is not in accordance with the law, agreements, statutory or general assembly decision or in case, this board considers

these actions to be detrimental to the interests of company or shareholders. In enterprises, where at least 200 full-time employees are hired, representatives of employees must represent one-third of the supervisory board. Such representation at the level of corporate management is mandatory in both state owned companies as well as limited liability and stock companies in private sector. Employees representatives are nominated by the works councils or central works councils, they are obliged to respect works councils. As a result, representatives are elected from trade union activists (Stollt, Kluge, 2006, p. 9). In Hungary, the main company in gas and oil sector which makes its activity since 1991 is MOL, in which 24.1% is owned by Hungarian State Treasury. In 1995 the company established its branch in Slovenia. In 2013 the net turnover was 24.1 bln USD. According to the law, the member of supervisory board is a representative of trade union ([www.molgroup.info](http://www.molgroup.info)).

On the other hand, in Slovakia employees representatives have to be appointed in companies, where dominant owner is State Treasury ([www.worker-participation.eu](http://www.worker-participation.eu)). In private sector in stock companies, the law obliges to establish employees representative in direct vote among the candidates – workers in case when company owns capital in the level of at least 25,000 EUR and employment in level of at least 50 full-time employees.

In Slovak Republic, in oil and gas sector Slovnaft was the dominating company. In 2003 it was taken over by Group MOL. In connection with preservation of organizational structure of Slovnaft and internal Slovak law, in supervisory board of Slovnaft the employees have their representative in company boards ([www.slovnaft.sk/en](http://www.slovnaft.sk/en)).

## 6. Conclusion

The workers participation in corporate governance structure depends on many factors. One, main determinant – after comparison of few gas and oil companies is law regulation. In these companies, where activity and organizational-law form is determined by law, an employees representative exists in supervisory board. These ones, where it's not obligatory, usually don't use such privilege. It is worthy to think deeply about effectivity of this corporate governance and by continuing this subject to make proper researches.

Undoubtedly, the important problem is the way of representation as the employees representative is obliged to present the employees interest, on the other hand – as an owner representative to be engaged in company development, sometimes by accepting the cost of employees entitlement. That's why some of authors write negatively about these relationships, negating the possibilities of connection of corporate governance with employees participation (Romanowski, 2014).

Therefore, it is needed to make further researches and observe the European and international solutions in this matter.

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## **PART IV**

# **MARKETING APPROACH TO THE PROCESS OF MANAGING THE CONTEMPORARY ENTERPRISE. TRENDS – TOOLS – INSTRUMENTS**





# Chapter 42

## **Innovations in the Process of Changing the Retail Structure. The Case of Poland<sup>1</sup>**

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*Grażyna Śmigielska, Karolina Orzeł*

### **1. Introduction**

The retail structure is characterized by dynamic changes. It was very visible in Poland after the changes of economic and political system in 1989 when the retail sector first became very fragmented and then in the mid-nineties the concentration process started. The important role in this process was played by direct investment which brought about the new retail formats or speeded up the development process of those that had already existed.

In the paper it is proposed that the theories of retail change should be supplemented by the theory of developing competitive advantage to explain the whole process of retail change – not only the development of existing institutions but also the creation of the new one. The case of Alma – Polish delicatessen store is presented to show how the strategic window opened by foreign investment was used to develop a new successful retail format.

### **2. Innovation in retailing to change its structure – some theoretical views**

The character of innovation in retailing is the result of the nature of retailing and its function in the economy. The essence of it is to change organization of the retailer operations in such a way that it is accepted by consumers who use value for money criterion (Tallman, Blomstrom, 1962). The consequences of innovation resulted in changes in the range and ways of the retail operations fulfillment. They mainly include: the analysis of the supply and demand, risks taking, physical distribution, building assortment, and sales (Szumilak, 2004, p. 16).

Innovations played an important role in improving the position of retailing in the economy due to the fact that many retailers got a powerful position in distribution channels. It was the consequence of introducing technological innovations understood as “new technologies and

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related to them new techniques of doing business” (Surówka-Marszałek, 2014, p. 184). In the mid of the nineteenth century the first department store, which could be considered as the retail technological innovation was founded. New techniques related to this technology included: preselection, advertising, delivery directly from producers. Then, the other innovative institutions appeared, changing the structure of retailing and simulating the process of concentration. An important role in this process played the organization of retail outlets as a chain (organizational innovation), first introduced by A&P, in 1912.

Thus retail market constantly changes its structure. There are several theories which try to explain this phenomenon and describe different aspects of the retail institutional change (Omar, 1999). They include: the wheel of retailing, the dialectical process, retail life cycles, natural selection in retailing, the retail accordion theory, and the Markin-Duncan adaptation theory. Wheel of retailing and the retail life cycle theory try to explain how the institutions behave from their beginning (the moment they were founded as a kind of innovation), through the stage of their maturity until their decline showing, let’s say, standard behavior of the whole concept e.g. supermarket or hypermarket. The other theories show how individual businesses could react to the environmental changes and in this way not to follow the standard course of action. So the theory of natural selection in retailing (based on Charles Darwin’s theory of evolution of species by the action of natural selection) proposes survival of the fittest. It says that no retail institution is safe from environmental changes and there is always a threat of decline yet on the other hand the fittest will survive. The fitness are this businesses which are able to avoid threats and use the opportunities coming from the environment to better fit in it.

This approach has been further developed by Markin and Duncan (1981). In their view retail institutions survive owing to adaptation. Thus survival depends on delivering value to the market. Institutions which cannot adapt to the changing market environment are replaced by those which are more adaptive. This approach contributes to explanation of great diversity of retail sector in which different retail forms co-exist. It should be noticed that the share of a particular institution in the national market depends on the activities undertaken by individual companies. For example, in the USA still many department stores can be founded due to the process of adaptation to changing environment (recently many of them have introduced e-commerce) whereas in most European countries they have been replaced by the shopping centers.

If a new retail institution offers value for money and is accepted by a client it is copied by competitors what finally leads to institutional change.

The process of adaptation is also emphasized by the view which describes the emergence and growth of retail institution as the dialectical process. However, in this view institutions do not survive due to adaptation to the environment but to the other institutions taking some ideas appreciated by clients. A good example is the adaptation of different sales promotion activities (stamps, loss leaders, TV commercials) by discount stores which avoid promotional cost in the introduction stage of their development.

Each of these views contributes to explain the phenomenon of the development of retail institutions and the process of changes in retail structure. The focus here is on changes which take place in institutions yet they do not explain how it happens that innovation appears for the first time. This weakness could be eliminated by referring to the theories of competitive advantage development.

### **3. Competition and problems of developing the competitive advantage in retailing by introducing new technologies**

According to M. Porter the essence of strategy is to cope with the competition (Porter, 2008, p. 1). In retail sector it is very difficult due to the fact that the environment is very dynamic and competition takes place at least at three different levels<sup>2</sup>:

- vertical competition,
- intertype competition,
- horizontal competition.

Vertical competition takes place when retail institutions compete with institutions from the other stages of distribution channel, for example, with the wholesales or producers having their own distribution via Internet or own stores.

Intertype competition involves competition among different retail institutions: supermarkets, hypermarkets, discounters, grocery stores, and so on. It becomes more vivid when the new retail institution enters the market.

Horizontal competition takes place among different companies operating the same retail format e.g. chains of supermarkets, discounters or the Internet businesses selling product to the same market segments in a very similar way.

Thus on the retail markets that are well developed, like in western European countries, the competition is very intensive. On the other hand, there is retail environment which changes very fast. Retail businesses operating in such a turbulent environment have to adjust to the fast changes in consumer preferences and competitive situation as well as to technological changes.

It is noticed *inter alia* by W. Alderson who developed the concept of ecological competition which could be applied to retail companies (Alderson, 1957). The first important idea of this concept, which was then stressed by M. Porter, was that a company should look for and choose the place in the market which will allow it to stay on it for a long time. It should be somehow unique, and this uniqueness could be achieved by the location, operating methods, or assortment. The second important idea of ecological competition was that market opportunities are not limited to the established structure created by the enterprises existing on the market but it constantly evolves. That created a strategic windows and opportunities to find market niches. By operating in a market niche an enterprise could differentiate itself from competitors and constitute market opportunity for these businesses which decide to target them. By the same token they become threats for these businesses which neglect them.

The concept of ecological competition is rooted in the theory of non-perfect competition developed by the E. Chamberlin and W. Robinson but actuates it by stressing that businesses should adjust to the market changes. W. Alderson developed the E. Chamberlin and J.M. Clark theory into the theory of market behavior. He indicated several sources of potential differentiated advantage e.g. market segmentation, the way a company communicates with its customers, the way a company delivers products to consumers, product development, processes development and product innovation.

The goal of the company is to find the position in the industry in which it could find the best position itself towards the five competitive forces and influence them to its favor.

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<sup>2</sup> Some authors like Samli indicate even five levels, see more in: Samli, 1989.

According to Porter, the process of developing sustainable competitive advantage SCA starts from analyzing the changes which take place in the environment to find out the opportunities and threats important for strategy formulation (Porter, 2008). In other words if a company wants to be successful it should constantly follow environmental changes in order to find the opportunities to be exploited and threats to be avoided. In the knowledge based economy one of the most important ones are technological changes. The new technologies which are strategically important are not the innovations with the short life cycle but the change in knowledge how the world is organized.

New technology is crucial for the development of competitive advantage if it improves the efficiency of supply chain or if it changes the industry structure, so its general attractiveness is higher (lower) due to change in the entry barriers, bargaining power of suppliers and buyers, or the industry competitiveness. Porter also indicates conditions to sustain the advantage as a result of applying new technologies:

1. The company has lower cost than competitors or differs from them by other characteristics, being the important buying decision criteria.
2. It is difficult to copy new technology.
3. The company gets the advantage of first mover, independently from the benefits coming directly from technology.

He stresses that if a new technology improves the industry structure, it is beneficial even if it is easy to be copied, because the industry structure is crucial for developing competitive advantage. It is true for retailing, which since the twentieth century has been undergoing concentration process as a result of developing new retail forms and their adaptation to the changing environment which includes IT implementation and globalization processes. The globalization had crucial impact on the changes that have been taking place in Poland and other post communist countries since the nineties.

#### **4. Retail structure changes in Poland**

The changes in Polish economy at the beginning of the nineties were probably the most visible in retailing. Private entrepreneurs set up many outlets as well as stalls and kiosks. At the same time many retail co-operatives and companies belonging to the state had no idea how to compete successfully in the new conditions so they were dissolved. As a result the number of retail outlets grew up rapidly to get the total number exceeding 940,000 in 1994 and the market became very fragmented.

As the Polish market opened to foreign investment international retail companies got interested in it. They found out a lot of opportunities for them because of (Murphy, 1997):

- the retail structure was underdeveloped; there were no modern retail institutions e.g. discount stores, hypermarkets, malls and category killers,
- there was a big potential market,
- there was no legal framework regulating activity of mass merchandisers and protecting small shops,
- producers were very weak and they did not have a lot of practice in negotiating,
- tax regulations which were favorable for direct foreign investors.

The first foreign retail chains – Billa and Globi started their supermarkets in Poland at the beginning of the nineties. The main goals of first investors were to search and evaluate the market. When they found that there were good conditions for development then next companies entered. In 1994 Dohle Handelsgruppe GmbH established the first hypermarket in Poland called Hit. The next year the French operators of hypermarkets chains followed Dohle by opening Auchan, Geant. Leclerc, and later on – Carrefour, It was the beginning of rapid growth of this format of retailing. In two years' time (1994-96) 27 hypermarkets were established. They were mainly free-standing shops with the sales space of 2-5,000 m<sup>2</sup> (Palacz, 1999). During the next two years thirty new hypermarkets were opened. They were bigger (6-14,000 m<sup>2</sup>) and a lot of space was offered to shopping malls.

A very rapid growth was also noticed as far as discount shops are concerned. They were similar to hypermarkets, a completely new format in Polish retailing. They have been developed since the mid – nineties by foreign investors (Netto, Tengelmann, Casino) but also by a domestic company – Elektromis<sup>3</sup>. The number of discount shops offering wide but shallow assortment, limited services but low prices grew very fast so in 1999 there were 734 outlets.

As far as mass merchandising is concerned, also format called “category killers”<sup>4</sup> was brought into Polish retailing as a result of foreign investment. “Category killers” are successful in home furnishings (IKEA), DIY – “Do It Yourself” branch (Practicer, Obi, Nomi, Castorama), everything for the office (Office Depot). Along with the mass merchandisers also the other forms of retailing were developed e.g. convenience stores, network marketing and mail ordering companies.

Foreign direct investment speeded up the process of concentration in Polish retailing. By the end of 2002 mass merchandisers (hypermarkets, supermarkets, and discount shops) comprised 32% of FMCG, in which:

- hypermarkets (170 stores) – 18%,
- discount shops (1,200 outlets) – 7%,
- supermarkets (900 stores) – 8%.

Simultaneously, the number of small family owned shops and middle size stores, mostly organized as chains rose although their market share fell down. It was possible because the total sales grew up.

Foreign investors have brought into their management techniques as far as organization of supplies and marketing activities are concerned. Most of them try to compete within prices so they have to reduce costs mainly by:

- negotiating low prices with suppliers,
- building own logistic centers in which they employ modern technologies,
- offering their own label products,
- introducing new methods of stock control.

To make consumers aware of low prices messages underlining them are conveyed to customers. In this way chains try to create a low price image. Local magazines, radio, TV, direct mail, billboards are most often used as promotional media. Sales promotion tools (loss leaders, sales, rewards, samples, and so on) make an important contribution to a low price image. Most of them are completely new for Polish consumers, who seem to be very sensitive to price reductions. But

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<sup>3</sup> Elektromis sold its discount chain Biedronka to a foreign company – Jeronimo Martins.

<sup>4</sup> Category killer – a discount retailer that offers a complete assortment in a category and thus dominates a category from consumer's perspective; see more: Levy, Weitz, Ajay, 2009.

consumers sensitive to sales promotions are not loyal consumers. To create store patronage other activities are undertaken e.g. logo exposure, chain credit cards, extra services, quarantines, free transport, sponsoring. An important role in the promotion of self-service stores is played by merchandising. Foreign investors who imply them widely have also brought their rules.

The activities taken by the international retail companies operating in Poland have got a significant impact on retailing structure. The most visible it became on FMCG market where foreign chains of supermarkets, hypermarkets and discount stores started to compete very intensively on three levels characteristic for retailing. Polish stores started to have problems with survival. One of them was a big store called Supermarket KrakChemia located in Kraków.

Supermarket KrakChemia was opened in April 1995 in Krakow. This shop had an area of about 5.5 thousand square meters and offered both groceries and consumer electronics as well as clothing, shoes and small appliances. In addition, since the beginning within trading post numerous retail and service points were located. It therefore met the requirements of hypermarkets, and yet it was named (probably due to owners lack of knowledge) “supermarket KrakChemia”. “Supermarket KrakChemia” initiated the era of modern retail offering its customers more than 80 thousand products that could be purchased within the air-conditioned facility, what at that time was rarely found. Width and depth of the range was KrakChemia’s competitive advantage over foreign supermarket chains just entering the Polish market. So the next two new stores under the KrakChemia brand were opened.

Yet in 2002 the retail market’s price competition became so intensive due to the development of foreign retailers that Krak-Chemia managers started thinking about changing the strategy because they probably would not survive competing directly with hypermarkets due to the fact that prices were much higher (Karczewska, 2013).

In September 2003 the repositioning strategy towards the delicatessen chain become implemented. In this way KrakChemia wanted to differ from competitors. The board idea was that shops resemble famous French Gourmet deli chain that has stores, among others, in a luxurious Parisian department store – Lafayette (Sobczak, 2004, p. 44). This entailed changing the image. This was communicated to customers, among others by adopting a new name “ALMA”, which was registered on 20<sup>th</sup> May 2004.

The consequence of the new positioning was to replace the assortment; the existing two facilities dropped from the sale of: apparel, footwear, household appliances, and focused only on sales of food and chemistry products. At the same time, the company decided to sell the supermarket Home-Hobby-Garden in Krakow. Another step taken by the company was the conclusion, on 16<sup>th</sup> June 2004, a preliminary contract for sale of real estate Castorama Poland joint stock company with its registered office in Warsaw, that anticipated acquisition of the company’s employees, working in the Dom-Hobby-Garden site in Krakow. All these steps were dictated by the new concept of enterprise development in the direction of establishing a network of delicatessen.

Alma delicatessen strategy of offering a wide and high-quality assortment of food and non-food goods frequently purchased as well as a high level of service was communicated to customers under the slogan “You will buy everything, as you prefer”. To build the image which reflects the distinctive positioning as delis also modernization of facilities was required. The area of shops was arranged in a classic, retro style, and with reference to the tradition of Galicia 100 years ago. Repairs were made and a new logo was introduced. The dominant color was bottle green. Regular metal shelves were changed for retro arranged shelves, at the bottom of which Alma logo was situated. Constant elements of space were introduced as well as the layout of each store. Also

standardized attire staff underwent transformation to become branded clothing effective in all stores. An important element of the new image became customer service. To provide the top quality level Alma started training workers for professional service in order to meet the needs of refined customers. Cashiers were encouraged to establish friendly contact with customers during operation, so that they feel special. In this way, favorable conditions were created to ensure that buyers shopped in a relaxed and friendly atmosphere (Karczewska, 2013).

To strengthen the image, in March 2007 Alma Market company introduced its own brand, the Krakowski Kredens (*Cracovian Cupboard*), classified in the premium grocery product category. The brand includes various product lines such as: meats, lards, soups, canned vegetables, mushrooms, mustards, juices, preserves, sweets, teas, and liquors. All products are produced specially to meet the demands of the Krakowski Kredens brand by small local companies, and are prepared according to historical Galician recipes. In the initial phase of brand promotion, Krakowski Kredens products were distributed at displays located in Alma delicatessen chain stores. Since March 2014 products of Krakowski Kredens have been made available in each of Alma Market stores as well as at 45 independent sales points at prestigious locations in major cities<sup>5</sup>.

The next stage of targeting customers was the launch of 30<sup>th</sup> September 2007, the online store delivered to one's home by Alma24.pl. Alma24.pl offer is the largest on the Internet, includes nearly 15 thousand products selected from bestselling ones in grocery stores. The range is constantly supplemented in accordance with the expectations of Internet users. Deliveries are made by specialized vehicles, adapted to provide food, because in the online delicatessen Alma24.pl one can also buy meats, cheeses, dairy products, frozen food and ice cream. This service has become available for residents of 6 agglomerations: Katowice, Krakow, Lodz, Tri-City, Warsaw and Wroclaw. Most purchases are made by regular customers who usually opt for such form once every two weeks. As a result of intensive development in 2009, the number of Alma24.pl customers increased six-fold compared to 2007.

In March 2012, Alma joined the Listonic application system that makes it easy, having a mobile phone application for QR codes, create shopping lists, promotional delis in the newspaper first added QR codes to help customers plan purchases using a mobile phone or a web page: <http://listonic.com>.

## **5. Conclusion**

The analysis has shown that the theories of retail change describe the process of new retail institution development and the business, representing institutions reaction to the changes in order to survive yet they do not explain how a new institution is created.

Thus the case of Alma which until 2003 had operated as a hypermarket is only a partial explanation of Markin and Duncan theory which suggests that retail institutions survive via adaptation to the changing environment. Alma not only survived but also gained the competitive advantage by means of introducing a new format that did not exist on the Polish market – of big deli stores. This success cannot be explained by the theories of retail change in which during the first stage of development a new retail institution competes for prices.

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<sup>5</sup> <http://www.almamarket.pl/en/investors/corporation>

The success of Alma is better described by Porter's theory of developing sustainable competitive advantage which suggests looking for strategic niches that are open due to environmental changes and business position in them. The Markin and Duncan theory explains the further development of Alma when it introduced e-commerce and the latest mobile technology serve the clients better.

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# Chapter 43

## **Analysis of Entry Strategy of International Grocery Retail Chains in Poland**

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*Paweł Kowalski*

### **1. Introduction**

In the last 25 years, globalization processes have undergone sudden acceleration. A significant impact on the dynamics of this phenomenon had such factors as the development of Internet use, the emergence of new advanced telecommunications technologies, increasing the number of resources and transport networks and the creation of new post-communism states which made up free market economy markets. The analysis of the impact of these factors on the activities of various business organizations in the world economy led to conclusion that in the midst globalized sectors and enterprises, retail chains deserve special attention, which in a sense are doomed for the internationalization of its activities and try to combine a global strategic perspective with local conditions, adjusting their business models, formats and concepts of retail activities to the needs and expectations of local consumer markets. The global retailers used to expand their activities by the simple replication of an already proven formats (Salmon, Tordjman, 1989, p. 3).

Global retailers with their increasing knowledge and strategic and operational competences are aggressively expanding across worldwide markets using the same formats and standardized marketing programs. Some empirical studies discovers that firms with global strategic motivations favors a higher value entry mode (Harzing, 2002, p. 211) and apply a global strategy preferred a wholly-owned subsidiary. Nevertheless, franchising has been widely used as an alternative method for global retailers. A quick look at economic data regarding to a retail form of businesses organization points to the growing importance of retail companies in a global economy – among the top 200 companies on the list of the Financial Times Global 500 in 2014 you can find 10 international retail chains, with the greatest of them, Wal-Mart being ranked in 10<sup>th</sup> place – just after Apple, Google, ExxonMobil, Microsoft, Berkshire Hathaway and GE (FT 500 2014). The goal of this study is to broaden the scope of potential theoretical development in retailer market entry mode strategies. Specifically, aware of the extant retail literature that does not offer any complex theoretical framework facilitating retailers a choice among different types of entry modes. The author wants to examine the strategies of foreign retail enterprises operating in the Polish retail market within last 25 years, taking into account 3 important dimensions:

- strategies of entering into the Polish market;
- retail format chosen in the phase of growth and maturity of the Polish retail market;
- level of competitiveness in the Polish retail market.

## 2. Entry strategies of international retailers

Business growth is recognized to be highly relevant for the success of a retail company but simultaneously, it is more difficult to achieve because of some factors which have to be fulfilled. These include the power of large retailers and the crowding out of independent retailers as well as the increasing level of concentration in many retail markets combined with market saturation in many product categories.

Flexible growth strategies, therefore, become more important. Retail companies usually do not use these strategies in isolation but in combination, as the example of Tesco's internationalization. If a retail company wants to enter a completely new country or establish a new store format (e.g. a food company entering into electronics retailing), then an acquisition helps achieve critical mass quickly. From that point on, the company can grow by establishing new sites and opening stores. Furthermore, in the context of the increasing concentration in retailing, companies then often make a major step forward by acquiring smaller chains that leave the market. Larger, divisionalised retail store groups like Metro with different retail formats often implement different growth strategies for different formats and/or markets. For example, Carrefour operates its hypermarkets in most parts of the world as own outlets, while it franchises its system in the Middle East. The difficult market conditions in this region and the local knowledge of its franchise partner are the probable reasons for this strategy. Most of Carrefour's convenience stores all over the world are franchised, and the expansion of supermarkets stems at least partly from franchised outlets.

The analysis of internationalization process of retailers indicates the main three methods of internationalization applied by foreign investors in retailing FMCGs (Borusiak et al., p. 38):

- organic growth – entering the market and expanding operations through investments in company's own outlets,
- contract growth – entering the market and expanding operations through contract relationships (e.g. franchising agreements),
- growth through mergers and acquisitions – entering the market and expanding operations through acquiring the whole company, purchasing its part or merging with other enterprises.

All the above mentioned strategic options should be also consider under a conceptual framework which could explain a dynamics of foreign direct investment. One of the most relevant in retail internationalization context is OLI theory formulated by Dunning (1993). The framework provides a perspective for determining the entry mode strategy a firm will select to enter new foreign markets considering a set of factors that have deterministic effects like ownership (O), location (L), and internalization (I) advantages. These three actors have an impact on a firm's entry mode decision by affecting management's perception of asset power (O), market attractiveness (L), and costs of integration (I). Using Dunning's OLI framework as a basis of entry strategy choice, we can propose a new conceptual model in Table 1, which explains a global retailer's mode choice of entry between four modes of entry.

Table 1. Evaluation of global retailer's mode choice of entry

	<b>Involvement/ control</b>	<b>Cost</b>	<b>Dissemination risk</b>	<b>Returns</b>
Green investment (wholly-own)	High	High	Low	High
Acquisition/ Mergers	High	High	Low	High
Franchise	Low	Low	High	Low
Joint venture	Low	High	High	High

Source: own work.

The analysis of the OLI theory in retailing lead some important conclusions as pointed out Sternquist (Sternquist, 1997, p. 263). Firstly, retail ownership can take the form of product innovation (e.g. a new retail concept) or of process innovation (e.g. a new way of producing a known concept). Secondly, asset-based advantages refer to unique products or a superior company reputation, for example private labels' products. In the dichotomy of retail ownership advantages Sternquist suggests that asset-based advantage or product innovation reflects "what/how to offer", whereas transaction-based advantage or process innovation implies "how to produce the offer". The development of clearly definable, unique, customer driven concepts reflects "what/how to offer", while the improvement of capabilities for producing and managing the concepts represents "how to produce the offer". By utilizing a clearer or unique concept, a retailer can differentiate itself from competitors. Thus, retail ownership advantages lie in unique concepts and operational capability. A unique retail concept is denoted by overall retail brand image, retail facilities, and services offered and it provides a competitive advantage and strategic leverage to international market growth. After discussion on the classification of different retailer's entry strategies, let us move on to the application of the knowledge to Polish market.

### 3. Entry strategies of international retailers between 1990-2014

As indicated in the introduction, the analysis of entry strategies of International Retailers should embrace three dimensions – time, entry modes, retail format. Additionally, after reviewing research data, we decided to add to entry mode also exit mode because some international retailers back out of Poland. All in:

- strategies of entering into the Polish market;
- retail format chosen in the phase of growth and maturity of the Polish retail market;
- level of competitiveness in the Polish retail market.

All the above mentioned options of international strategic development we could observe in the last 25 years which depicts Table 2.

Table 2. Development of international retailers in Poland

Year of Entry	Owner	Entry mode	Retail format	Store Brand	Number of outlets (highest level)	Year of exit	Exit mode	New Owner
1990	Rewe (German)	green investm.	supermarket	Billa	11	2001	sale	Auchan (Elea)
1991	GIB (Belgium)	green investm.	supermarket	Globi	26	2000	sale	Carrefour
1993	Reitan (Norway)	franchising	supermarket	Rema1000	66	2003	sale	Jeronimo Martins
11994	Ahold/Allkauf (Dutch/German)	green investm.	hypermarket supermarket discount sup	Allkauf Max Sezam	8	2006	sale	Carrefour
	Dohle Handels	joint venture	hypermarket	HIT	13	2002	sale	Tesco
	Metro Group (Germany)	green investm.	whosale hypermarket	Makro Cash and Carry	30	na	na	na
11995	Rewe	green investm.	supermarket	Minimal	25	2010	sale	E.Leclerc
	Dansk Supermarked (Danmark)	green investm.	supermarket	Netto	300	na	na	na
	Tesco (UK)	acquisition	supermarket	Tesco/Savia	36	na	na	na
	Jeronimo Martins (Portugal)	acquisition	discount supermarket	Biedronka	350	na	na	na
	Docks de France	Joint Venture	large store	Robert	11	1997	takeover	Auchan
	Spar	franchising	large store supermarket	Spar	200	na	na	na
	E.Leclerc	franchising	hypermarket	E.Leclerc	43	na	na	na
1996	Auchan	green investm.	hypermarket	Auchan	86	na	na	na
	Rewe	green investm.	discount supermarket	Minimal	25	2010	sale	E.Leclerc
	Casino	green investm.	hypermarket discount supermarket	Geant Leader Price	19 142	2006	sale	Metro Tesco
1997	Metro	green investm.	hypermarket supermarket	Real,- TIP		2012	sale	Auchan
	Carrefour	green investm.	hypermarket	Carrefour	97	na	na	na
	Intermarche	franchising	supermarket	Intermarche	205			
	Edeka	acquisition	discount supermarket	E-discount	45	2003	sale	Royal Markety
	Tengelmann	green investm.	large store	Plus	210	2007	sale	Jeronimo Martins
	Julius Meinl AG	acquisition	large store supermarket	Julius Meinl	9	2006	sale	Tesco
1998	Ahold	green investm.	supermarket hypermarket	Albert Hypernova	15 183	22006	sale	Carrefour
2001	Schwartz Group	green investm.	discount supermarket	Kaufland	190	na	na	na
2002	Schwartz Group	green investm.	discount supermarket	Lidl	517	na	na	na
2008	Aldi	green investm.	discount supermarket	Aldi	100	na	na	na

Source: own work based on the review of *Handel* journal content 1994-2014, <http://magazynhandel.pl/>.

The careful analysis of the data in the Table leads us to a few important conclusions:

1. First wave of entry was between 1990-1994 and the main foreign retailers were Belgium, Norway, German and Dutch retailers; the main method of entry was green investment and franchising; dominating formats – supermarket and hypermarket.
2. Second wave of foreign retailers' entries began in 1995-1998 when the current key retail chains entered into Polish market like Auchan, Tesco or Jeronimo Martins; the main method of entry was green investment and acquisition; the dominant format – hypermarket, supermarket, large store.
3. Third wave can be dated at 2001 and on is marked by entry discount chains (Kaufland, Lidl and Aldi); the dominant format was discount supermarket.

This waving character of entries is not something specific but it involves a necessity of more in-dept analysis.

#### **4. Discussion on entry strategies of international retailers between 1990-2014**

To sum up market entry strategies of foreign retailers in Poland, we conclude that majority of entry strategies took the form of greenfield investments as well as acquisitions of existing entities operating in the sector (e.g. Tesco's acquisition of Savia). The latter option was however chosen rather less often due to difficulties with poor storage facility base in which it would be impossible to introduce unified marketing mix solutions.

Investors were interested in purchasing standard large-format facilities in top locations, whereas a lot of facilities of the given network did not meet their expectations. The networks, on the other hand, were not willing to give up the facilities holding the best prospects for the future (Pilarczyk, Stefańska, 2013, p. 155) In the period of expansion established were joint ventures – companies with foreign or mixed capital. However, this form of entry didn't prove to effective long-term because of unbalanced market positions foreign retailers and their Polish partners which generated conflict of interests. Consequently, the following phenomena were observed:

- mergers and acquisitions by foreign retail enterprises – takeover Savia by Tesco, Biedronka by Jeronimo Martins, in 2012 Real was overtaken by Auchan;
- withdrawal of foreign enterprises from the Polish market – Dohle Handels whose HIT hypermarkets were sold to Tesco; the Dutch Ahold, the French Casino group or the German Tengelmann, Edeka, Rewe, Julius Meinl all the retailers backed out of the Polish market.

Additionally, we can observe that the first concerns of foreign retailers in terms of the format strategy were hypermarkets. It is clear from the analysis of data that building a retail chain generally require a longer period of time to make a strategic decision on entering a market. This period takes usually about 3-4 years and is designed to assess the market situation and opportunities in the market (Alexander, 1995, p. 85). Therefore, hypermarkets appeared in Poland only in 1993. It seems that the more expansionary in the first phase (early entrants), showed a group of Dutch, German and Scandinavian (e.g. Makro Cash and Carry, Ahold/Allkauf) which gave the them a strategic advantage over other international companies.

In turn, the French networks have traditionally approached the process of entering the Polish market very carefully. At the time a final decision, the process of further expansion already progressed much faster. The complexity of strategic action policy provides purchase of land for

the construction of new facilities. By not fully validated data, most of the network already has construction areas intended for new construction across the Polish.

If we want to make a snapshot of Polish food international retailers in the end of 2014 we can observe that finally 3 groups of retailers dominated the Polish food retail market.

At the initial phase of the Polish retail market development, a dominant entry format was hypermarket which was gradually complemented by supermarket during the second wave of foreign retailers' entries and discount supermarket and convenience store at the third wave. One can observe an obvious pattern of international grocery retailers which started from the largest hypermarket format and slowly introduce retail outlets in a form of supermarket. Here, it should be noted that at the initial phase foreign retailers were interested in purchasing large-format facilities in top locations, but they had difficulties in finding attractive locations or Polish retail enterprises with desirable standard of facilities, that's why they sometimes preferred to enter in supermarket format.

It should be also noted that we can divide international grocery chains operating in Poland into 3 distinct groups:

1. A group of French grocery retailers – Auchan, Carrefour, Intermarche and E.Leclerc; with a distinct leader position of Carrefour.
2. A group of German retailers – Metro Group, Schwartz Group, Aldi with a distinct leader position of Metro Group and a growing importance of discounters.
3. A group of other retailers – Tesco, Dans Supermarket and Jeronimo Martins.

The distinct position of leaders of the first two groups like Carrefour and Metro Group is based on a differentiation strategy in which a main advantage is diversified portfolio of formats and retail concepts like Carrefour Express, Carrefour Market and Carrefour or real (sold to Auchan), Odido, Makro and specialty consumer electronics chain Media Markt and Saturn. The situation on the Polish retail market depicts Table 3.

Table 3. International retailers in Poland in 2014

<b>Retailer</b>	<b>Format</b>	<b>Store brand</b>	<b>Number of outlets (end of 2014)</b>
Auchan	hypermarket	Auchan	86
	supermarket	Simply Market	34
Carrefour	hypermarket	Carrefour	96
	supermarket	Carrefour Market	138
	convenience store	Carrefour Express/Globi	486
Intermarche	supermarket	Intermarche	205
	supermarket	Bricomarche	95
E.Leclerc	hypermarket	E.Leclerc	43
Metro	convenience store	Odido	1905
	hypermarket wholesale	Makro	30
	hypermarket	Saturn	20
	hypermarket	Media Markt	53
Schwartz Group	hypermarket	Kaufland	182
	discount supermarket	Lidl	530
Aldi	discount supermarket	Aldi	100

Tesco	hypermarket supermarket	Tesco Tesco Express	86 369
Dansk Supermark	discount supermarket	Netto	334
Jeronimo Martins	discount supermarket	Biedronka	2587

Source: own work based on <http://www.kpmg.com/pl/pl/issuesandinsights/articlespublications/strony/raport-wyzwania-i-priorytety-sieci-spozywczych-w-polsce.aspx>.

The entry and division of the Polish retail market between the above mentioned foreign retailers triggered off a series of complex market processes which can include (Stefańska, Pilarczyk, 2010, pp. 1-19):

- establishing new distribution channels,
- building new relations with suppliers,
- trade concentration,
- accelerating integration processes,
- disseminating merchandising techniques,
- popularising modern methods of customer service,
- introducing the latest methods of store and network management,
- developing new ways of co-operation within distribution channels, particularly to popularize Franchising.

As we can conclude from a review of the processes, the emergence of foreign grocery retailers determined a structure and processes of retail sector in Poland. Interestingly, Poland in the midst of nineties became the most competitive European retail market due to numerous foreign retailers who decided to enter into Polish market and develop their operations. For some of them like Casino, Dohle Handles, Rewe or Ahold the competition turned out to be too heavy and forced them to withdraw from Poland. These who stayed, for years have dominated the retail market and largely impede a growth and development of Polish capital retailers.

## 5. Conclusion

The analysis of entry strategies of international grocery retailers in Poland reached to a few important conclusions. Firstly, we could observed three waves of entries which had its own specificity in terms of preferred entry strategy – mainly green investment and retail format. Secondly, we discovered a certain logic of format portfolio which begins form large, usually hypermarket format to gradually step down to smaller formats – supermarket and convenience stores and finish in a form of discount supermarkets. As to the last one, we can put a thesis that their late development in the Polish market was caused by omnipresence of local grocery markets which for years played an important role in Polish trade system. Thirdly, our present retail grocery market is dominated by two national group retailers – the French one and the German one and 3 foreign retailers who try – Jeronimo Martins even successfully – to compete with them.

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# Chapter 44

## **Type of Activity Versus the Sources of Marketing Information Used by an Enterprise – Results of a Survey**

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*Marek Rawski*

### **1. Introduction**

In the conditions of the contemporary market economy, the success of an enterprise, which may be defined in a variety of ways, is largely dependent on the efficiency of using marketing in the management of a company. The efficiency and effectiveness of marketing decisions is mostly dependent on the ability to define, gain access to, evaluate and apply the potential sources of information. There are multiple sources of information, yet the role of each is different for the enterprises and it changes with time.

This paper aims to present the graded importance of multiple sources of acquiring information by the enterprises engaged in various types of business activity (manufacturing, services, commerce) on the Polish market. The paper also discusses the frequency of use of identified sources of information, presenting the selected features of the enterprises and the characteristics of the markets they serve. The presented theses have been supported by the results of the research conducted by the faculty of the Institute of Marketing at Cracow University of Economics in 2013, focused on the scope and prerequisites for corporate application of marketing. The author of this paper was in charge of recognizing the role of marketing in the process of making marketing decisions by the enterprises. The sample included 442 enterprises employing over 50 staff. The enterprises were randomly selected among the companies currently operating on the Polish market<sup>1</sup>. Within the surveyed enterprises, 37.1% were engaged in manufacturing, 36.9% in services, and 26.0% in commerce.

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<sup>1</sup> More on the details of research provisions, the selection of the sample, and the technical side of the research project in Kapera, Kuziak, Niestrój, 2014, pp. 21-28.

## 2. The importance of primary sources of information

Personal experience taking into consideration from research cored in 1999 year by Department of Marketing Cracow University of Economics (see Pilarski, Rawski, 1999, pp. 61-86), as well as results of research of other academic centers (for example, see: Dietl, 1998, pp. 13-17; Wilmańska-Sosnowska, 2001, pp. 573; Kędzior, 1997, pp. 20-23; Mazurek-Łopacińska, 2002, pp. 12-13; Fonfara, 2001, pp. 19-26; Kowal, 2012, pp. 210-216; Szostek, 2012, pp. 2-9), it accept for main sources from which enterprises derive marketing information, and which were analysed in the survey, include their own records, their own observations and experience, findings of specialized market research agencies, and secondary external sources. The importance of particular sources of information for various types of enterprises varies, as shown by Table 1.

Table 1. The frequency of selecting the importance of various sources of marketing information across various types of activity (expressed in %)

Specification		The importance of the selected sources				
		Vital	Very important	Significant	Marginal	Unimportant
Enterprise own marketing research	W	16.9	29.7	28.7	10.3	14.4
	U	21.0	21.6	25.8	11.6	20.0
	H	20.8	29.2	23.9	9.2	16.9
Research commissioned to specialized agencies	W	2.2	10.2	15.0	22.6	50.0
	U	3.9	11.2	12.9	17.9	54.1
	H	1.6	15.1	14.3	21.4	47.6
Information provided by external sources	W	6.7	31.6	37.8	11.4	12.5
	U	6.4	31.0	39.0	11.8	11.8
	H	5.3	37.9	38.6	9.9	8.3
Enterprise own records	W	24.9	37.0	24.9	6.9	6.3
	U	20.7	43.9	22.2	5.3	7.9
	H	27.9	38.0	27.9	3.1	3.1
Enterprise own experience and intuition	W	39.1	45.7	11.2	1.0	3.0
	U	40.7	35.6	15.5	4.6	3.6
	H	38.8	43.4	16.2	0.8	0.8

Note: W – manufacturing companies, U – service providers, H, commercial companies

Source: own work.

A scrutiny of the data listed in Table 1 allows to observe certain regularities. Even though the importance of various sources of information varies, yet the same characteristics can be noticed among the enterprises engaged in various types of activity. The most frequently used items include enterprise own experience and intuition. Depending on the type of the conducted activity, those two sources have been described as vital and very important by 82% to 85% of enterprises (40% considered it vital). Every twelfth service enterprise considered the foregoing sources marginal or without importance. The same opinion was held by every twenty fifth manufacturing enterprise and every sixty second commercial enterprise. Generally speaking, there are not many indications of attributing that source to the features of enterprises or their markets. Among

the manufacturing enterprises, the indications to this source have been differentiated by the competitive structure of the market and the category of end consumers.

The enterprises operating on the dispersed markets are more likely to consider the above sources vital (by 6 p.p.), yet the enterprises serving entities financed from the state budget more frequently consider them vital (by 13 p.p.). None of the enterprises catering for individual customers considered those sources marginal or without any importance. For the service enterprises, the only feature bringing variety in the application of those sources is the intensity of competition on the market. The enterprises operating on weak competition markets are much less likely to consider those sources vital (by 25 p.p.) and more likely to consider them without any importance (by 18 p.p.). Enterprises operating on moderate competition markets are more likely to consider the sources vital (by 11 p.p.)

The importance of that source varies among commercial enterprises depending on the financial standing of a company, the dominating capital structure and owners' oversight. It is true that the companies with the dominant foreign capital and foreign oversight, or with mixed capital structure, are much less likely to consider that source of information vital (by 19 and 14 p.p. respectively). At the same time, none of them considers the source marginal or without any importance. Those companies which have both domestic capital and oversight are much more likely (by 7 p.p.) to indicate that source as vital.

Company's own records may be an important source of marketing information, and it is comparable for companies engaged in various types of activity. That particular source of information is considered vital or very important by 62 to 66% of companies (every fourth manufacturing company and every fifth service company considers it vital). Generally speaking, there are no many differences in indications depending on the features of the companies and their markets. Among the manufacturing companies, the rank of that source of information is dependent only on the dynamics of the market. The companies operating on a dynamic market are more likely to consider that source of information vital (by 5 p.p.) Companies active on the declining markets are much less likely to consider it vital (by 15 p.p.), and more likely as marginal (by 21 p.p.) or without any importance (by 12 p.p.).

The frequency of indications of that source of information for companies depends on the dynamics of the market and the diversification of customers. The companies which operate on the dynamic markets are much less likely (by 6 p.p.) to show that source as vital. The companies operating on markets with a few groups of clients with diversified needs are less likely to consider that source vital (by 4 p.p.). The significance of the source for a commercial enterprise is dependent on the dynamics of the market and the diversity of customer needs. The enterprises operating on the declining markets are more likely (by 6 p.p.) to consider that source vital, while for the enterprises dealing with customers that need individual approach are more likely to indicate this source as vital (by 13 p.p.). In turn, enterprises dealing on the market with a few groups of customers which display specific needs, such indication is much less likely (by 9 p.p.). The enterprises operating on the markets with no distinctive diversification of customer needs indicate that source much less likely (by 3 p.p.).

Market research records are less frequently used as a source of information, even though the frequency of use of that source is similar for the enterprises engaged in various types of activity. Over 42-50% of enterprises indicate that source as vital or very important (on average, every fifth commercial or service enterprise and every sixth manufacturing enterprise considers that source vital). Every seventh manufacturing company, every fifth service company and every

sixth commercial company considers that source unimportant. Generally speaking, the differences in indications of that source within various features of enterprises and the markets they serve are negligible. The differences in choosing that source depend on the variety of customer needs and market volatility. The enterprises that operate on the market with no distinctive differentiation of customer needs are much less likely (by 5 p.p.) to consider that source vital. Yet, they are more likely to consider it without importance (by 13 p.p.).

The enterprises operating on the market whose customers need an individual approach are much more likely to consider that source vital (by 5 p.p.). The enterprises operating on the market with volatile changes in customer preferences are much more likely to indicate that source as vital (by 10 p.p.), and also they are much less likely to consider that source having no importance (by 6 p.p.). The companies functioning on the market where customer expectations are negligible or non-existent are more likely to consider that source without importance (by 20 p.p.). They are much less likely to consider that source vital (by 8 p.p.). The enterprises functioning on the market with significant yet slow changes in customer preferences are less likely to consider that source vital (by 20 p.p.). Among the service companies, the importance of that source is determined by market volatility, the intensity of competition, the range of operation and the degree of diversity of customer needs. The companies functioning on the market where customer needs change fast are more likely to consider that source vital (by 6 p.p.), and less likely to consider it unimportant (by 6 p.p.). The enterprises operating on the market where customer needs are negligible or non-existent are less likely to consider that source vital (by 7 p.p.) and more likely to consider it unimportant (by 19 p.p.). The enterprises operating on the market with moderate competition are more likely to indicate that source vital (by 7 p.p.).

The companies operating on markets with weak competition are less likely to consider that source vital (by 7 p.p.) and more likely without importance (by 26 p.p.). The enterprises functioning on regional market are less likely to consider that source vital (by 7 p.p.) and also less likely to indicate it as having no importance (by 7 p.p.). The companies functioning on the market without a large diversity of customer needs are less likely to consider that source vital (by 3 p.p.) and more likely to indicate it as having no importance (by 14 p.p.). The enterprises dealing on the market which requires an individual approach to customers are more likely to consider that source vital (by 3 p.p.) and less likely to indicate it as having no importance (by 7 p.p.).

The frequency of reaching for that source of information by the commercial enterprises is determined by the volatility of the market, market dynamics, diversity of customer needs and the degree of adjustment to the contemporary market economy. The enterprises operating on the rising market are more likely to consider that source vital (by 5 p.p.) and less likely to indicate it as the one of no importance (4 p.p.). None of the enterprises operating on a declining market would consider that source vital. The companies functioning on the market with rapidly changing customer preferences are likely to indicate that source as vital (by 10 p.p.) and less likely to consider it as of no importance (by 8 p.p.). The companies operating on the market undergoing minor changes or none at all are less likely to indicate that source as vital (by 8 p.p.) and less likely to consider it of no importance (by 16 p.p.). The companies functioning on the market where an individual approach to customers is required are more likely to consider that source vital (by 11 p.p.) and less likely to indicate it as of no importance (by 6 p.p.).

The enterprises which consider their adjustment to the contemporary market economy above the industry average are more likely to indicate that source of information as vital (by 5 p.p.) and less likely to consider it unimportant (by 8 p.p.).

Marketing information derived from various external sources is definitely less likely to be applied, even though the frequency of its use is similar within companies engaged in various types of activity. Over 38-43% of companies consider that source as vital or very important (every fifteenth manufacturing or service company, and every nineteenth commercial enterprise consider it vital). Every eighth manufacturing company, every fifth manufacturing or service company, and every twelfth commercial company consider that source unimportant. In general terms, the differences in the frequency of use of that source across the features of enterprises and their markets are negligible. Financial standing of a company is the only feature that diversifies the importance of that source amongst manufacturing companies. The companies that consider their financial standing to be very good are more likely to indicate that source as vital (by 20 p.p.). Yet, they are more likely to consider it unimportant (by 3 p.p.).

None of the companies which consider their financial situation difficult describe that source as vital, and they are more likely to consider it unimportant (by 6 p.p.). The indications of importance of that source for service companies are dependent on the variety of customer needs, volatility of the market, and the financial standing. Companies operating on the markets where changes of customer preferences are negligible or non-existent are more likely to consider that source vital (by 5 p.p.) or even more likely to define them as unimportant (by 14 p.p.). Companies operating on the markets where customers' needs change quickly are less likely to consider that source vital (by 4 p.p.). In turn, the companies operating on the markets with little diversity of customer needs are more likely to consider that source unimportant (by 16 p.p.). Those functioning on the markets with a few groups of customers with clearly defined needs indicate that source as unimportant (by 8 p.p.).

The companies with a good financial standing are more likely to consider that source vital (by 4 p.p.), and less frequently unimportant (by 5 p.p.). None of the enterprises in a difficult financial situation has considered that source vital, and they are more likely to describe it as unimportant (by 8 p.p.). The financial standing is the only factor that decides about the importance of that source for commercial companies. Those companies which describe their financial situation as very good are more likely to consider that source vital (by 3 p.p.). The companies which have an average financial standing are more likely to consider that source unimportant (by 7 p.p.). The companies with a poor financial situation are less likely to describe that source as vital (by 14 p.p.), and they are more likely to consider it unimportant (by 12 p.p.).

The importance of the results of the research commissioned to specialized agencies is negligible. All types of enterprises have ranked the importance of that source in a similar way. Over 12-17% of enterprises describe that source as vital or very important (every forty fifth manufacturing enterprise, every twenty sixth service enterprise, and every sixty third commercial enterprise consider it vital). That source proved to be unimportant for a half of manufacturing companies, over one half of service companies, and almost a half of commercial enterprises. In general terms, the differences of the importance of that source along the features of companies and the markets they serve are substantial. The importance of that source for the manufacturing companies is decided by six features; the category of the end user, the diversity of customer needs, the intensity of competition, competitiveness of the market structure, financial standing of companies, majority capital and owners' oversight. The importance of that source for service companies is dependent on the degree of adaption to the contemporary market economy, the category of served customers, majority capital, owners' oversight and market volatility. Amongst

the commercial enterprises, the importance of that source is dependent on majority capital, owners' oversight and the financial standing<sup>2</sup>.

### 3. Vital and very important sources

Further analysis will focus only on vital and very important sources of information (jointly) The data listed in Table 2 demonstrate the significance of vital and very important sources of information across various types of companies.

Table 2. The incidence of choosing the significance of vital and very important sources of information across various types of companies (in %)

Specification	Type of company		
	Manufacturing	Service	Commercial
Company own market research	19.1	18.0	19.4
Research commissioned to agencies	5.1	6.4	6.4
Information furnished by the external sources	15.6	15.8	16.8
Company own records	25.4	27.5	25.5
Company own experience and intuition	34.8	32.3	31.9
Total	100.0	100.0	100.0

Source: own work.

The analysis of the data listed in Table 2 indicates that the importance of various sources of information varies in mostly the same way for companies engaged in various lines of business. The companies are most likely to indicate the use of their own experience and intuition (on average every third company); the manufacturing companies are slightly more likely to indicate that source. The second most important source are companies' own records (on average, every fourth company). Again, the service companies show slightly bigger preference here. Most likely, the great importance attributable to companies' own records as a source of marketing information is the consequence of significant modification in data storing and processing. The data, collected in a variety of ways, inform about the processes and events that take place both inside a company as well as in its environment.

The efficiency of the external information system has improved, allowing to extend the use of information. On average, every fifth company (predominantly a commercial type) uses its own marketing information as a source of information. Every sixth company uses information furnished by the external sources, yet the commercial enterprises are more likely to do so. The least popular (on average, every sixteenth company) is the research commissioned to the specialized agencies; clearly manufacturing companies rank lowest in the use of such information (on average, every nineteenth company). It is interesting to note that the ranking of the incidence of use of various types of information is identical for companies in various lines of business, yet the distance in the incidence varies. To give an example, companies own records are used less frequently than experience and intuition, yet with the manufacturing companies by 9 p.p., with the service

<sup>2</sup> Due to the fact that the importance of that source is marginal, no detailed characteristics of its application have been provided.

companies by 5 p.p., and with the commercial companies by 6 p.p. By the same token, the differences between using companies' own marketing research and companies' own records vary depending on the line of business. The manufacturing and commercial companies are less likely (by over 6 p.p.) to use their own marketing research, while the service companies by almost 10 p.p.

The sources of marketing information which are used in the process of gathering information may be arranged in various ways. The division into the primary and secondary is important due to the cost of acquiring information (Kaczmarczyk, 2002, pp. 136-139; Pieczykolan, 2005, pp. 62). That is because the primary sources allow to meet the need for information of the marketer who makes the decisions (e.g. the features of objects, people, events, conditions) (Rawski, 2012, pp. 258; *Systemy...* 2005, pp. 112-114). Secondary sources allow to gather the already existing information which has been collected to implement other objectives which are not related to the existing needs of the decision maker – marketer (Sojkin, 2009, pp. 74-89; Unold, 2001, pp. 62-66). Once we assume the organizational boundary of a company to be the division line, the secondary and primary sources may be divided into the internal ones (inherent to a company) and the external ones (to be found in the enterprise environment). Once the classifications of information sources overlap one another on the cost basis, it is possible to distinguish four basic sources of information, grouped in line with the efficiency of their application:

- secondary internal sources,
- secondary external sources,
- primary internal sources,
- primary external sources.

Table 3 shows the frequency of use of certain sources of information in the process of gathering marketing data by the enterprises of various categories.

Table 3. The importance of various categories of sources of information for companies in various lines of business (in %)

Specification	Primary sources			Secondary sources			Total		
	W	U	H	W	U	H	W	U	H
External sources	5.1	6.4	6.4	15.6	15.8	16.8	20.7	22.2	23.2
Inxternal sources	19.1	18.0	19.4	60.2	59.8	57.4	79.3	77.8	76.8
Total	24.2	24.4	25.8	75.8	75.6	74.2	100.0	100.0	100.0

Note: W – manufacturing companies, U – service companies, H – commercial companies

Source: own work.

The analysis of the data listed in Table 3 allows to ascertain negligible importance of primary sources for all types of companies. Every fourth company uses those sources, commercial companies in the lead. Also the importance of external sources is low. Every fifth company uses those sources, and the manufacturing companies are not frequent users. The rationality of companies' conduct merits attention. Decisively, the cheapest sources of information prevail, i.e. the secondary internal ones (over 60% of indications amongst the manufacturing companies and over 57% amongst the commercial enterprises). In turn, the primary external sources are least frequently used (on average every twentieth manufacturing company and every sixteenth service or commercial company).

In principle, the frequency of use of primary internal sources and the secondary external ones by the companies is similar, even though some differences are apparent amongst various types of companies. The primary internal sources are more frequently used (in relation to the secondary external sources) by the manufacturing companies (by almost 4 p.p.), and service companies (by over 2 p.p.). The commercial enterprises use those sources less frequently (by almost 3 p.p.). This might be attributable to the fact that the distribution of information in Poland (the secondary external sources) is still insufficiently developed. Also, the quality of information furnished by the external sources is low. That situation has inclined companies to launch their own procedures of information acquisition. The domination of secondary sources over the external sources may be attributable to the fact that companies consider their marketing issues as operating problems.

#### **4. Conclusion**

In summary of the presented information it is possible to formulate a few conclusions:

1. The importance of particular sources of information is the same for all types of enterprises. Companies' own experience and intuition are the foremost, while the research commissioned to specialized agencies seems to be least important. It is intriguing to note that the importance of information furnished by the external sources is relatively low, for all types of companies. This may be attributable to the low awareness of the availability of such information, or insufficient instruments of searching for it.
2. The differences in use of various types of information by the enterprises in various lines of business are negligible, and yet some regularities may be observed. The manufacturing companies are more likely (in comparison to other types of businesses) to use information provided by the external sources. The service companies are more likely to use their own marketing information; they are more likely to commission research to specialized market agencies as well as to use their own experience and intuition. The commercial companies are more likely to use their own records.
3. Within the manufacturing companies, there are eight discernible features differentiating the importance of particular sources of information. Most differences can be found in the use of information collected by the research commissioned to specialized agencies (six features of companies and their markets). Least differences could be found in the use of companies' own records and the information provided by the external sources. As far as the service companies are concerned, the importance of various sources of information is attributable to nine features of the companies and their markets. Most differences can be found within the use of companies' own research (six features of the companies and their markets). Least differences are discernible within the use of companies own records as well as their experience and intuition (two features each). Among the commercial enterprises, most differences were apparent in the importance attributable to companies own marketing information (four features). Least differences were found in the use of companies own experience and the application of information provided by various external sources (one feature each).
4. Having analyzed jointly the indications of all types of companies about the importance of various sources of information it is clear that their importance is attributable to ten various features of companies and their markets. Most differences are attributable to the variety of customers' needs (seven cases), volatility of the market (five cases) and companies' financial

standing (five cases). Least difference is attributable to the range of operation (one case) and the adjustment to the contemporary market economy (two cases). Among the service companies, variety of customers' needs is the most common reason for the differentiation of source importance (seven cases), market volatility (five cases). Least differentiation is attributable to the range of activity (one case).

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# Chapter 45

## **Trends in Marketing Activities for the Brand Image. Examples of Applications**

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*Beata Tarczydło*

### **1. Introduction**

Free market and increasing competition result in the entrepreneurs' activities reaching more and more often to deeper regions of the consumer's brain, emotions, conscious and unconscious thinking processes; a supposition seems to be justified that they may cover also imaginations, judgements or stakeholders' opinions. Increasingly, brand managers face the challenge of developing and implementing efficient marketing activities programmes which allow for methodological shaping of the brand image.

Therefore, this article aims at presentation of trends observed in current marketing activities for the desired brand image, including: internet marketing, neuromarketing, sensory marketing, experiential marketing, holistic marketing, as well as experiential branding and neurobranding. Theoretical considerations will be illustrated by examples of applications of the state of the art trends, techniques and marketing stimuli in the activities targeting the Starbucks brand image.

### **2. Brand image and its meaning**

It is presumed that brand image is a set of opinions, judgements, and images attributed to it (for more extensive elaboration on image and the methodology of its formation see: Tarczydło, 2013, pp. 16-178). In the management of market objects (such as organisation, person, product, municipality, etc.) marked with a brand the important role in the current market conditions is played by conscious formation of its unique image. In practice it means that a brand should be identified with a set of unique features, for example such as Volvo with safety and reliability.

Due to the created images, customers can distinguish between brands and this is particularly important in the environment of intensive competition and corresponding activities of the providers. The meaning of the brand image is related to the psychology of human behaviour. Studies show that a consumer acquires something beyond goods and benefits, in the first instance he purchases the images whereas the aspects of sentiments related to the brand have a much stronger

impact than the aspects of reason at the time of making the decision to buy. Emotions and brand perception turn out to be stronger than rational considerations.

### **3. The marketing approach to formation of brand image**

The idea of marketing approach to building the brand image should be understood as activities relevant to the principles and philosophy of marketing. In other words, it is related to skilful application of tools, procedures, strategies and marketing concepts in the process of creation and maintaining of an appropriate brand image.

In the present market conditions, formation of a brand image constitutes a set of activities targeting the mind, soul, and body of the recipient, which is related to understanding of the behaviour of a person who responds at all levels at the same time: psychological, physical, and spiritual.

Moreover, new economic reality results in the fact that marketers may and should (on the basis of: Kotler, Keller, 2013, pp. 15-17):

- use the Internet as a powerful information and sales channel (more in: Doligalski, 2013, pp. 13-233),
- collect fuller information about markets, customers, and competitors,
- use social media to strengthen the communication related to the brand,
- facilitate and speed-up external communication between customers,
- send advertisements, coupons, samples, and information to customers and other stakeholders,
- with the aid of mobile marketing, reach out to customers in motion,
- produce and sell individually differentiated goods,
- improve purchasing, recruiting, trainings, and internal and external communication,
- facilitate and speed-up internal communication between employees by using Intranet,
- improve cost efficiency by skilful use of opportunities created by new media and communication channels, by which they significantly influence the opinions and connotations attributed to the brand, or its image.

### **4. Contemporary purchaser and studies of his/her behaviour to support activities for the image**

At present, for the purposes of effective marketing activities for the brand, entrepreneurs seek knowledge on the processes taking place in the human nervous system, particularly in the brain (see: Booth, Freeman, 2014, pp. 177-189; Skowronek, 2012, pp. 115-123; Zaltman, 2003, pp. 79-108 and 151-172; Sołoducha, 2010, pp. 39-62 and 103-128).

As revealed by the recent scientific discoveries in the field of neurobiology and psychology, the consumer's decisions and choices are influenced not only by conscious assessments but mostly and primarily by subconscious reactions (more on consumer behaviour in: Stasiuk, Maison, 2014, pp. 6-458). Studies on significance of a brand image show phenomena which confirm researchers' opinions (Kahneman from Princeton University, Zaltman from Harvard University, Damasio from Southern California University, Zajonc from Stanford University, Schacter from Yale University, and others), that decisions are made by humans subconsciously (emotionally?), and only thereafter they try to rationalize their choices (more in: Szymusiak, 2012, pp. 24-26).

Sensory purchaser (a person responding to sensory perceptions, creating his/her own subjective worlds of sensations and feelings) is susceptible to various stimuli, additional attractions, including the neurotechniques. It is claimed that as much as 95% of human processes and behaviour take place subconsciously (Zaltman, 2003, p. 5). Yet subconsciousness constitutes thinking processes which are inaccessible to conscious mind but they influence evaluations, feelings and behaviours as a specific type of “shortcut” enabling assessment of the environment, its interpretation and quick initiation of the given purchase.

To understand the behaviour of sensory purchasers, so called neurostudies are necessary, i.e. tracking the activity of the brain with focus on the areas which become activated in response to the triggered marketing stimuli (compare with: Ariely, Berns, 2010, pp. 284-292; Mostafa, 2014, pp. 343-372). Methods such as eye tracking, face tracking, voice analysis, reaction periods, computer tomography, functional magnetic resonance, positron tomography, electroencephalography, testing galvanic skin reaction, or study over face muscle expression, are particularly useful (see more: Szymusiak, 2012, pp. 137-345). Such studies and research raise the value of the results, since they allow to access the brain and read directly the signals originating from it and the occurring reactions, which however raises justified ethical and moral doubts. In addition, the efficiency of the neurostudies process is determined by interdisciplinary expertise, application of an expensive and complex apparatus, as well as limitations in scientific mapping of the brain functioning.

## **5. Trends in marketing activities for the desired brand image**

While considering understanding of purchaser behaviour it must be stated that effective marketing activities assume various forms and scopes.

In the present marketing conditions, specific role is played by internet marketing activities (also referred to as virtual marketing, e-marketing, on-line marketing, cybermarketing) covering a wide range of activities performed on the web. In the methodological activities of internet marketing the following factors should be considered: purchaser’s behaviour on-line; creation, provision and exchange of the offered values; branding and promotion; relationship services and marketing; communities and networks; and communication by means of social media, or mobile commerce (compare with: Dann, Dann, 2011, pp. 8-402).

Specific role in the pro-image activities is also played by neuromarketing which is targeted at central nervous system and its component – human brain (see more in: Woźniak, 2012, pp. 9-170; Renvoise, Morin, 2007, pp. 5-10). In general terms, neuromarketing consists in application of measuring tools used in psychophysiological research and the studies on human behaviour in the process of optimisation of marketing stimuli. In particular, it covers: specific methodologies of research, creation of communication message as provided for by the neuroscience, and uses the neurotechniques to support marketing activities, including the sales process. Exerting skilful impact on senses and emotions, use of neurolinguistics, neurowriting, and complex sensory-linguistic measures generates various results. Well considered activities which apply neurotechniques can be classified as tools communicating with the human brain. Appropriate music, composition of smells, colours, shapes, temperature, taste aspects, situational context, prices, etc., are important stimuli that influence human behaviour and decisions, including the ones related to purchase, which also may and should be used in the formation of brand image.

One of the elements of neuromarketing is sensory marketing, which consists in exerting impact on human senses controlled by the brain right hemisphere. Sensory marketing strategy makes an assumption that the brand owner should use the following: detectors (of smell, sound, vision, taste, touch), impressions (related to smell, sound, vision, taste, and touch), and sensory expressions (e.g. scent brand logo, identifying sound, colour composition, pleasure, material and shape, etc.) as a basis for creation of an individual's sensory experience (compare with: Hulten, Broweus, Dijk, 2011, p. 154). Researchers perceive sensory marketing as a source of opportunities in the scope of sensory strategies and sensory impressions of the organisation which wants to improve brand awareness and create its image related to identity, lifestyle, and customer's personality. Generally, it is related to the purchaser's emotional state, i.e. pleasure (= well-being) and activation – identified with the feeling of interest and excitement (more on emotional branding see: Gobe, 2009, pp. 3-309).

This in turn is related to experiential marketing, in a sense focussed on generating appropriate perceptions, both emotional, and rational. Whereas experience should be understood as internal and subjective response to direct or indirect interaction taking place between the brand (or a related enterprise) and the stakeholder over the entire period of their mutual relation and leading to involvement on the rational, emotional, sensory, physical, and spiritual level (compare with: Schmitt, 2011, p. 6; Smilansky, 2009, p. 17; Boguszewicz-Kreft, 2013, p. 8).

K.L. Keller (2011, p. 203) states that experiences which may be "sold" are: entertainment, education, aesthetics, and escapism (escape from daily life problems into the world of illusions and dreams). B.H. Schmitt (1999, p. XIII) states that experiences created for the stakeholders should cover impact on senses, feelings, thinking, acting, reactions, and relations. Moreover, in the process of purchase the customer should have an opportunity to experience various sensations.

An important area of marketing effort is experience branding, i.e. brand management focussed on creation of the stakeholders' positive sensations and emotions. This is related to the need for personal involvement of an individual in enterprises marked by a brand.

Generally, the experience branding seeks to integrate the brand into the purchaser's daily life in such a way that he/she could make purchase decisions on the basis of personal experience and not indirect communication forms. Ordinary participation in brand related events consists in conscious choices by the interested party and provides for an opportunity for his/her involvement in keeping with his/her personal potential (capacity, hobby, skills, talents, situation). Undertaken activities should positively surprise and should differentiate the brand from the other competitive brands. Most often, implemented measures should appeal to the addressee by attracting his/her attention, interest, desire for use and active participation. Gained experience or sensations should influence emotions, move, raise feelings, but also provide rational arguments, and in consequence generate in a sense quantifiable reaction to the brand, which has an impact on its image.

Attractive measures, stirring emotions and creating experience related to the brand, worked out in every detail, should precisely target stakeholders' expectations and create their opinions, images, and judgements on the brand. This allows for explaining the phenomenon, or even the principle, of the buyers, fans, or generally stakeholders' purchase processes being directed by the brand.

And finally experience branding is aimed at building relationship due to creation of opportunities for personal encounters, for example by well-considered actions, events, and measures. The described phenomenon serves well in the experiential brand creation, which in practice can-

not exist without creation of the brand proper image. The most recent trends in the described areas are so called neurobranding, i.e. the set of methodological activities in the scope of neuromarketing for the brand (see more in: Steidl, 2014, pp. 4-246). It is related to specific influencing the human central nervous system (in particular the brain and the senses). Under the influence of neuromarketing stimuli (for example: smells, temperature, images, shapes, colours, light, furnishings, accessories, music, etc.) it is possible to control the influence over the human consciousness and subconsciousness, which shapes the individual's decision making processes and behaviour.

The mentioned tendencies are applied in holistic marketing in which a set of activities should be incorporated that are targeted at the addressee's/stakeholder's mind, soul, and body; this is related to the fact that the sensory purchaser reacts at all levels at the same time: physical, and spiritual.

The concept of marketing in the 21<sup>st</sup> century was described by P. Kotler and K.L. Keller (2013, pp. 20-24) pointing out to the so called pillars of holistic marketing: 1) internal marketing (marketing department, management, other units); 2) marketing of results (sales revenues, brand and customer capital, aspects of ethics, environment, law, community); 3) relations marketing (customers, channel, partners); 4) integrated marketing (communications, goods and services, channels).

Summing up, for effective creation of brand image in the present market conditions, main assumptions underlying marketing activities should consist of: 1) creation of value for the customer, management by means of marketing results sheet which includes brand awareness, ensuring customer's satisfaction and loyalty, ensuring quality of the offered goods; 2) shaping key competencies, benchmarking against the best in the world, devising new ways to achieve competitive advantage, acting in interdepartmental teams which manage processes, presence both in the traditional market and the virtual sphere; and 3) building partnership networks, upgrading benefits of each of the partners, their generous remuneration, limiting the number of suppliers, and targeting results.

Interest in the problem of how the brand owners use innovative marketing activities to create the desired brand image has led to empirical studies.

## **6. Examples of application of innovative marketing activities for the Starbucks brand**

For the purposes of this study, a Starbucks brand case study was performed from the perspective of the applied marketing activities and their impact on the created brand image. The research material has been gathered using participatory observance methodology in the cafeteria located in the Central Railway Station in Warsaw. Available Internet resources related to the analysed brand have also been subject to scientific scrutiny.

Table 1. Characteristics of the subject of study and the created brand image

<b>Criterion</b>	<b>Collected information</b>
General information	The origins of Starbucks Coffee Company trace back to 1971, the first cafeteria/place of sales of quality coffee and accessories was established in Western Avenue, USA. As at the end of 2014, Starbucks owned 21,160 coffee shops in 63 countries and territories, including 38 in Poland. The name has its origin in the name of the first officer in Herman Melville's Moby Dick. Graphic symbol of the Starbucks group has the shape of a siren well known from Greek mythology. Logo has evolved over the years, in the original version the siren was bare-breasted, and the colour of the logo was brown. At present, the colour of the logo is green, and the siren's breasts are hidden behind her hair
Market offer	Under the Starbucks brand, many types of products are offered: coffee, tea, hot chocolate, frozen drinks, desserts, and bottled drinks; coffees with fat-free or soya milk, decaffeinated with additional syrup or cream; seasonal offers such as special Christmas coffee blend; bakery products such as cakes, biscuits, muffins, and tarts; sandwiches and salads; popular frozen Frappuccino drinks; accessories for preparing and serving coffee; frozen Vivanno drinks (without colourants, sweeteners or high fructose syrup), as well as other so called healthy food products offered in diversified venues, which also generates value for the customers
Stakeholders	Employees, customers, media representatives, business partners, Web surfers, others depending on activity, e.g. beneficiaries, subjects of voluntary activities, etc.
The brand and its image	Starbucks is a global brand identified with a chain of coffee shops and most of all with an exceptional coffee, although diversified activities may be observed in various places due to variable target market. The analysed brand is assigned with the following features: global, exceptional (excellent taste of the coffee, coffee masterpiece), corresponding well to individual expectations, prestigious, healthy, etc.

Source: own work using: <http://www.starbucks.pl> [16.05.2015].

The presented description of the object of study – Starbucks brand – serves as an inspiration for analysis of the methods of creation of its image by marketing activities.

Table 2. Observed pro-image marketing activities for the Starbucks brand

<b>Tendencies in marketing activities for the brand image</b>	<b>Examples of activities</b>
Internet marketing	<p>Information service, social media profiles, brand positioning.</p> <p>Involving Internet users, skilful integration of the brand into daily life, relationship building by creating opportunities for personal meetings, chain expansion.</p> <p>Coffee seminars, e.g. “Four foundations for coffee-brewing”, “Welcome to Africa”.</p> <p>Videos, notes, likings, events.</p> <p>Creation of needs, e.g. with headings such as “taste and aroma which make the hear beat stronger” or “everyone deserves a moment of pleasure”, with attractive photos</p>
Neuromarketing and sensory marketing	<p>The smell of coffee, spices, food, leather, wood, “luxury”.</p> <p>Comfortable temperature.</p> <p>Images related to coffee, nature; professional photos in cafeterias and Internet resources.</p> <p>Shapes – the image of prestigious and comfortable interior.</p> <p>Colours – balanced, shades of brown, natural wood.</p> <p>Light – variable, pleasant and discreet cafeteria with specific climate but well-lit food.</p> <p>Furnishings – modern, safe, comfortable.</p> <p>Accessories – attractive.</p> <p>Music – no music but the sound of voices.</p> <p>Situational context – the need to wait in a safe place for a person with whom one has business connection.</p> <p>Clear product/price offer.</p> <p>Considering the psychological aspect of activities, e.g. the principle of social proof, other people enter and stay in the cafeteria (they can be seen in the window) I also want to drink an excellent coffee; the principle of authority (clearly marked with the Starbucks brand), I have already heard about this exceptional corporation and it is an opportunity to verify if it is as exceptional as it is claimed; the principle of limited accessibility (there is always a queue there, many customers) the interest and the desire to use the offer is even higher</p>

Elements of the experiential marketing	<p>The surprise effect (after leaving the crowded unpleasant platform, a welcoming, busy “world-class” cafeteria); the first-impression effect – pleasant interior, happy people, contrast as compared to the external environment, brand identification and desire to use; certain doubts whether it is not too expensive; large choice; personification (name on the mug); competent, young, nice personnel; positive surprise over the range of the offer; diversified opportunities, e.g. the area where spices can be added to taste or the vi-fi area, a quiet corner, etc.; sounds, smells, furnishings – all aimed at sensing/perception of high quality.</p> <p>Location, safety, decent conditions, comfort, large choice it is possible to indulge in it, experiment, get influenced by merchandising (attractive exposition) while queuing, access to Internet, comfortable furnishings, additions to coffee as desired (spices, syrups, etc.), customer chart, awards, application for mobile devices which allows for quick tracing of the nearest coffee shop and placing an order, etc.</p>
Holistic marketing covering experiential branding and neurobranding	<p>Activities are addressed to the heart (exceptional brand, influencing the senses, ethical sourcing of coffee, tea, cocoa, support for growers), to the reason (e.g. large choice, diversified prices), and to the spirit of the stakeholders (socially responsible company, pro-ecological, highly involved, caring for relations and high quality).</p> <p>High standards achieved and respected throughout the chain; professional personnel, especially the baristas, exceptional furnishings and high quality products, attention to detail.</p> <p>Integrated marketing activities both in the real and in the virtual world, considering present market environment</p>

Source: own work on the basis of participatory observations and analysis of Internet information resources, e.g.: <http://www.starbucks.pl>; <http://www.starbucks.pl/coffee>; <https://www.facebook.com/StarbucksPolska>; <http://www.starbucks.pl/menu-list>; <http://www.starbucks.pl/responsibility>; <http://www.starbucks.pl/coffeehouse>; <http://www.starbucks.pl/about-card> [17.07.2015].

In the course of the conducted studies, a wide range of activities were observed from the area of innovative marketing activities for the Starbucks brand. In particular, different sensors, impressions, and sensory expressions are used which influence human central nervous system. Moreover, the marketing market strategy encompasses holistic approach which meets the sensory purchasers expectations and other market conditions. Doubts arise as to the ethical aspect of the solutions applied, which on one side generate value both for the offer provider, and for the customer, but on the other side they act by subliminal stimuli, they impact the processes in the human brain and his/her market, including purchase, behaviour.

## 7. Conclusion

Performed secondary and primary research lead to conclusion that development of a branded market object is determined by application of innovative marketing activities for the brand and its image which are adequate to the conditions.

In the current market environment, correct neurobranding strategy seems to condition the creation of the purchasers' involvement and emotional experience, which improve confidence in the brand, loyalty, profit, and most of all, they constitute an important element of creating its appropriate image.

Development of marketing tools, methodologies, and procedures is adjusted to the current market context and the needs of the sensory purchaser. In principle, each tool in the modern neuromarketing campaign serves to inform, educate, entertain, stir emotions, create experience, encompasses stimuli addressed to the left and right brain hemisphere, while respecting holistic treatment of a human being as an individual with heart, reason, and spirit, which has been presented using the example of the Starbucks brand.

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# Chapter 46

## Customer Strategies as a Tool of Loyalty

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*Dagmar Lesakova*

### 1. Introduction

Maintaining and increasing customer loyalty is one of the greatest marketing challenges in today's turbulent, highly competitive and fragmented markets. In recent years, academics as well as practitioners have increasingly directed their attention to the loyalty problem. Until now, academic research on loyalty has however been focused on measurement aspects and correlation between loyalty and customer characteristics. Research on loyalty strategy is very scarce.

Most academics agree that relationship marketing can be defined as a customer oriented approach in which a seller wishes to build a long-term relationship with a buyer in such a way that both the objectives of the buyer and the seller are met (Levitt, 1983; Morgan, Hunt, 1994; Reichheld, Sasser, 1990). The relationship strategy consists of creating and strengthening strong relationships between a company and its customers through gathering individual customer information and acting upon this information (Payne, 1995). In general building long-term relationship is supported by gathering information about customer characteristics and needs and by using this information to communicate with these customers in a more or less personalised manner (Kohli, Jaworski, 1990).

Under the "reward strategy" we understand offering discounts, rebates, or goods. On the contrary, the "relationship strategy" means using information to tailor offerings to individual customer's tastes, buying patterns or value to the company. In today's business, most attempts to increase customer loyalty can be classified either as reward strategies or relationship strategies. Most authors believe that only the relationship strategy is able to stimulate customer loyalty (Payne, Frow, 2005; Dick, Basu, 1994; Gummesson, 2004). In practice however, we expect most companies to develop reward strategies, because these are much easier to implement. The aim of our research is to analyse the implementation and characteristics of both strategies and of their perceived contribution to customer loyalty. The paper is an outcome of the research project VEGA 1/0224/15.

## **2. Theoretical background of customer loyalty**

Since the focus of the paper is on strategies that are considered to increase customer loyalty, we start by examining why customer loyalty is so important. Secondly, we discuss two important, yet very different strategies: the relationship and the reward strategy.

Customer loyalty is defined in several ways. Dwyer (1997) defines customer loyalty as the virtual exclusion of other exchange partners that are able to provide the same benefits. As a consequence he measures loyalty on the basis of the extent to which customers stay with a particular supplier. Other frequently used measures of customer loyalty are the number of repeat purchases and the customer's share of wallet (that part of the category budget that a customer spends in a particular company). Other authors express criticism of such description of customer loyalty, and argue that such definitions ignore the factors that explain customer loyalty (Christopher et al., 2002).

We define customer loyalty as a customer behaviour that is characterised by a positive buying pattern during an extended period (measured by means of repeat purchase, frequency of purchase, share of wallet, or other indicators) and that is driven by a positive attitude towards the company and its products or services.

More and more research studies are focused to bring a prove that customer loyalty brings higher profits, company growth, customer satisfaction, etc. The reason why profits can be improved is the fact that customers show a lifecycle profit pattern: the longer the customer

Stays in the company, the more profitable he becomes thanks to growing revenues, cost savings, positive references and decreased price sensitivity. As a result, lifetime value is the business driver. Several studies show that two-thirds of the average company's business comes from its present, satisfied customers, that it costs five times as much to acquire a new customer as it costs to service an existing customer and that ninety percent of unhappy customers will communicate their dissatisfaction to at least nine other people (Myers, 1991).

The studies above indicate that two dynamics determine profitability: improving retention rates or improving the contribution per customer. Several authors have therefore suggested methods for measuring the profitability of relationships (Grönroos, 1994; Payne, Frow, 2005). Other authors have suggested strategies to improve customer retention rates (Reichheld, 1993; Reichheld, Sasser, 1994). In our research we focus on two strategies: the relationship strategy and the reward strategy.

### **2.1. Loyalty strategies**

Most attempts to increase customer loyalty can be attached to either a relationship strategy or a reward strategy. Evidently, both strategies can be combined. In the following text we will briefly discuss the characteristics and usage of both strategies.

P. Kotler's (2002) statement that companies must move from a short-term transaction-oriented goal to a long-term relationship-oriented goal, explains the core of the relationship marketing concept. While in transaction marketing the relationship with the market is reduced to discrete transactions, the relational exchanges between seller and customer play a central role in relationship marketing. The main characteristic of a relational exchange is its position within a history of previous exchanges and an anticipated future of expected exchanges. A discrete

transaction on the contrary occurs independent from previous or future transactions (Spreng et al., 1996).

Relationship marketing can be defined as a customer oriented approach in which a seller wishes to build a long-term relationship with a buyer in such a way that both the objectives of the buyer and the seller could be met (Shiffmann, Kanuk, 1997) Consequently the relationship strategy consists of creating and strengthening relationship between company and its customers through individual customer information and delivering „tailor made solutions“ based upon this information. In general, we can state that building long-term relationship can be supported by gathering information about customer characteristics and needs and by using this information to communicate with these customers in a more or less personalised manner (Dwyer et al., 1997).

The reward strategy consists of rewarding customers for their loyal behaviour with „hard benefits“ in order to keep or improve their current level of loyalty. Examples of hard benefits are gifts, prizes, trips, etc. Reward programmes exist in different forms depending upon the type of reward, which is used, the type of customers at which they are directed, or the conditions that need to be fulfilled for receiving rewards, and so on. Also the use of reward programmes is rather frequent, many authors point out that they are just cheap promotional tool with short-term impact (Hunt, 1994). Recent studies see the reward programme mainly as a first step in the process of building a close relationship. Keeping customers solely on basis of hard benefits is not a sustainable strategy in the long-term. after the heading.

### **3. Research objectives and methods**

In our research we follow two main objectives. The first objective is to explain the use and characteristics of the relationship and reward strategies in Slovak companies. Do these companies learn about their customers and act upon this knowledge in tailoring their offer, do they just limit themselves to rewarding their customers with hard benefits, or don't they do anything? The second objective is to explore how the companies perceive the impact of relationship and reward strategies on loyalty.

The relevant data were collected through a questionnaire, which was distributed in 300 randomly selected small and medium sized enterprises (SME). As a result we received 92 positive answers, which is a response rate of 30.6 percent. The sample consisted of the companies active both in B2B sector (65%) and B2C sector (18%). 17% were active in both consumer and business markets. Of the respondents 42% were involved in commercial activities, 68% in production activities and 42% in service activities (some respondents had overlapping activities).

We asked the companies to indicate on a five-point scale the level in which they pursue the relationship strategy and reward strategy (1 – lowest level, 5 – highest level). As a measure of relationship strategy we used extend of tailoring offer (communication, distribution, product, price) to individual customer tastes, buying patterns, or value to the company. Respondents indicated on a five-point scale how deep they are adapting their marketing activities to the specific characteristics of the particular customer/customer segment. As an indicator of the level in which the relationship strategy is implemented in a company, an average value from the individual evaluations was calculated. In order to define the three intervals – categories to which the companies were allocated (below the average, average, above the average), standard deviation of the average was calculated.

The reward strategy was analysed based on the intensity by which the reward system is used in marketing strategy (on a five-point scale). Average note was used as an indicator of the level to which a reward strategy is implemented.

#### 4. Research results

Our research results brought remarkable findings, which are presented in Table 1. The total respondent sample was split up into nine cells on basis of three criteria: scores equalling 1 (companies with no relationship or reward strategy), below-average scores (scores < 3.1 for the relationship strategy and < 3.4 for the reward strategy) and above-average scores (scores  $\geq$  3.1 for the relationship strategy and  $\geq$  3.4 for the reward strategy). Table 1 indicates the results.

Fifty percent of the companies with above average reward strategies also have above-average relationship strategies, compared with only 26.9% for companies with below-average reward strategies. 35.7% of companies with above-average relationship strategies also have above-average reward strategy, compared with only 11.7% for companies with below-average relationship strategy.

Table 1. Classification of companies involved in reward and relationship strategies

Reward strategy	Relationship strategy			
	Score = 1	Below-average	Above-average	Total
Score=1	25%	18%	11%	54%
Below-average	8%	11%	7%	26%
Above-average	6%	4%	10%	20%
Total	38%	34%	28%	100%

Source: own calculation.

Since rewarding customers seems to be much easier to accomplish than building relationships with them, it is surprising to see that more companies are pursuing relationship strategies (62%) than reward strategies (46%). However, the relationship strategy results should be interpreted with care. The majority of the relationship scores are below average (34%), which implies that several of the relationship strategies are not of a sophisticated nature. Furthermore, relationship strategies have various level of importance. There is for example a large difference between companies who only use geographical segmentation to determine target group for communication and companies who adapt their communication medium and communication message to the behavioural and psychographical characteristics of their target group.

A remarkable finding is that respondents are convinced that their firm's marketing objectives are significantly better served by a relationship marketing strategy than by a reward strategy. This supports the finding that more companies are pursuing relationship strategies than reward strategies. It also supports the academic belief that keeping customers solely on basis of hard benefits is not a sustainable strategy in the long term. Both strategies are best suited to stimulate customer retention (78.8% versus 67.1%). Their smallest impact is on the process of identifying prospect customers (27.0% versus 11.9%).

Table 2. Degree to which relationship and reward strategies contribute to marketing objectives

Marketing objective	Relationship strategy	Reward strategy
Customer retention**	78.8	67.1
Customer development**	72.2	65.4
Prospect customers gaining**	66.8	38.0
Lost customers regaining**	56.6	24.8
Prospect customers identifying**	27.0	11.9

5-point scale, % stated = high + very high degree (scales 4-5).

\*\* significant at 99% confidence interval, \* significant at 95% confidence interval.

Relationship strategies can only be realised by using database information. The more information a company collects, the easier it becomes to develop the customer loyalty.

In spite of the fact that companies agree that keeping customers solely on the basis of hard benefits is not a sustainable strategy in the long period, 74% of all companies implement some kind of reward strategy, which is more (+8%) than share of companies pursuing relationship strategies.

We made a distinction between four types of reward programmes on basis of two criteria: the nature of the reward (financial versus non-financial) and the process of receiving the reward (collection versus non-collection). Financial rewards are rewards such as money, vouchers, price reductions (or other monetary rewards). Non-financial rewards are gifts such as products, trips, prizes etc. Collection rewards are rewards for which the customer needs to collect points during a time in order to receive a reward. Non collection rewards are rewards that the customer receives immediately. Nearly half of the respondents use some type of reward programme.

Table 3. Types of rewards programmes

	Collection rewards**	Non-collection rewards**
Financial rewards*	31.8%	19.0%
Non-financial rewards**	10.1%	14.9%

\*\* significant at 99% confidence interval, \* significant at 95% confidence interval.

The Figures in the Table show that collection rewards are more popular in the companies than non-collection rewards. Moreover, financial rewards are more frequently used than non-financial rewards. Only larger companies are using more non-financial collection rewards.

Companies believe that relationship and reward strategies differ with respect to their competitive strength and future importance. We asked the respondents to express their agreement/disagreement with various statements regarding the reward and relationship strategy. Table 4 demonstrates clearly that respondents have a preferred attitude towards the relationship strategy. Reward strategies are considered as being non-differentiated from the competition and easy to copy.

This corresponds with the view of many authors that reward programmes should mainly be seen as a first step in the process of building a close relationship. The hard benefits are considered to be the first tool that brings customers into the programme. Since relationship strategies are much harder to build and less easy to copy, more than three quarters of respondents (81%) believe that these strategies will become more important in the future. Until now, satisfaction with both

strategies is rather low. More than half of the companies under review (55%) claim that its relationship strategy needs improvement in order to be competitive in the near future.

Table 4. Statements true for reward and relationship strategy

<b>“Our relationship/reward strategy is”:</b>	<b>Relationship strategy</b>	<b>Reward strategy</b>
Differentiated from competition**	58.7%	15.5%
Easy to copy**	30.4%	58.3%
Very important for the future**	81.3%	45.9%
In need for an improvement**	55.8%	22.2%

5-point scale, % stated = high + very high degree (scales 4-5).

\*\* significant at 99% confidence interval, \* significant at 95% confidence interval.

The more sophisticated the relationships and/or reward strategies are, the more respondents believe that their strategies are differentiated from competitors: companies with above-average relationship strategies were convinced of the differentiation advantage of its relationship strategy from the competitors. The same is valid for the reward strategy.

## 5. Conclusion

The primary focus of our research was to explore the implementation of relationship and reward strategies in slovak companies. We focused on determining the extend, in which companies are pursuing particular strategy and perceive the influence of relationship and reward strategies on loyalty. Relationship strategies were assessed on basis of the level, in which the customer data are used to adapt marketing activities to individual customers’s tastes, buying behaviour, or value to the company. Reward strategies were assessed on the intensity by which it is used in the marketing strategy.

Companies are well aware of the importance to build long-term relationships with their customers.

Respondents were classified on basis of relationship and reward scores into nine different cells. Surprising was the fact that more companies are pursuing relationships strategies (62%) than reward strategies (46%). Several of the relationship strategies are however not of a sophisticated nature. A remarkable finding is that respondents are convinced that their firm’s marketing objectives are significantly better served by a relationship strategy than by a reward strategy. Respondents show a preferred attitude towards the relationship strategy. Reward strategies are clearly viewed as non-differentiated from the competition and easy to copy. The more sophisticated the relationship strategies and/or reward strategies are, the more respondents believe that their strategies are differentiated from competitors.

With respect to reward strategies, non-collection reward programmes are more popular than collection rewards. Moreover, financial rewards are more frequently used than non-financial rewards.

Companies have discovered the value of building individual relationships with their customers. Taking into account the importance that respondents attach to relationship marketing in the future, it could be expected that companies invest more in customer retention and relation-

ship strategies. Reward strategies on the other hand can loose on their competitive power. They might be considered to be a competitive necessity and no longer as a competitive advantage.

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# Chapter 47

## **C2C Networks as Part of Rationalizing Consumer's Behavior in the Market**

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*Michał Teczke*

### **1. The essence of global conditions of operation of the enterprises**

Enterprises operating in contemporary market conditions often function in virtual world. Changes occurring worldwide force adaptation to relations between different entities operating in intertwining spheres of supply, demand, political, legal conditions and social expectations. The need to obtain revenues allowing to not only vegetate, but also to develop, pushes enterprises towards global markets where they can seek new customers. Internationalisation of sale is an opportunity for development of enterprises which can find recipients for manufactured products more easily. The belief that small and medium-sized enterprises are “condemned” to pursue sales only locally should be considered incorrect nowadays. Important elements supporting sales network development on international markets, are the sector where enterprise operates and the possibility to use virtual distribution networks. It can be noticed that enterprises using e-commerce are able to achieve the status of global enterprise with definitely smaller expenditures than the enterprises using classic methods of distribution.

The literature on the subject contains many definitions of internationalisation. Some authors believe that internationalisation comprise every business operation which is established beyond the country of origin of the organisation (Helm, 1997, pp. 12-13). Another depiction is a statement that internationalisation of enterprise is expressed in its high commitment to the activities on global markets, and it equals its intensive or multilateral international connections (Pierścioneek, 2003, p. 454). Internationalisation is one of the major elements having effect on variability of international relations. Resulting in, e.g. processes of transfer and transnationalisation (understood as a degree of a given economy's connections with global economy, mainly by transnational corporations). This process happens through flow and allocations of the resources, e.g.: flow of management staff, technology, methods of organisation and other, from one economy to the other. This process is favourable for the development of international relations, causing creation and dissemination of both the material and psychosocial values. Internationalisation differs from globalisation in the fact that international bonds are not required to possess a global nature and may

concern only the chosen territory or field. Globalisation is the highest degree of internationalisation (Krystek, 2002, p. 5). An important moment was fixing of the notion of entrepreneurship within the group of phenomena of international nature (international entrepreneurship). It was defined as combination of innovations, proactivity or openness on taking risk to which national barriers do not apply and which is aimed at creation and development of value creation chain in the organisation (Gabrielsson, Kirpalani, Dimitratos, Solberg, Zucchella, 2008, p. 386).

E-commerce market evolves extremely dynamically, every year increasing turnover it generates. Apart from increasingly popular trade of goods made via electronic media, e.g. via Amazon, eBay or Polish Allegro group networks, virtual sales networks such as Steam, Origin, Xbox Live or PSN enjoy growing popularity. These networks are used by enterprises of the IT industry to integrate the community forming it, and, on the other hand, to sell products and services created both by large and small enterprises. However, internationalisation or, in a broader perspective, globalisation is not only a domain of the enterprises. Globalisation processes relate also to the people who often feel themselves to be the citizens of virtual communities. (Codogni, Duda, Kusa, Kudelko, Peszko, Teczek, Waclawik, Wąchol, 2013, p. 104). These processes should be used at building bonds between consumers and business which could become one of the elements improving quality of the offered products.

The literature on the subject raised the issue of relations between manufacturer and consumer. In the case of each of the activities of business nature defined relations must occur between the participants of transactions. Enterprises are willing to bear large costs to persuade its recipients that they care for society development. Corporate Social Responsibility (CSR) becomes more and more important issue for a large number of business entities. CSR is based on the assumption of sustainable business, according to which the enterprises take account of not only the economic aspects, but also undertake actions consistent with the social or environmental needs. The so-called Responsible Practices not only mean compliance with the formal and legal requirements, but additionally increased investments in human resources, relations with employees, contractors or customers, and environmental protection.

## **2. The importance of C2C unions as compared to other relation models of business entities**

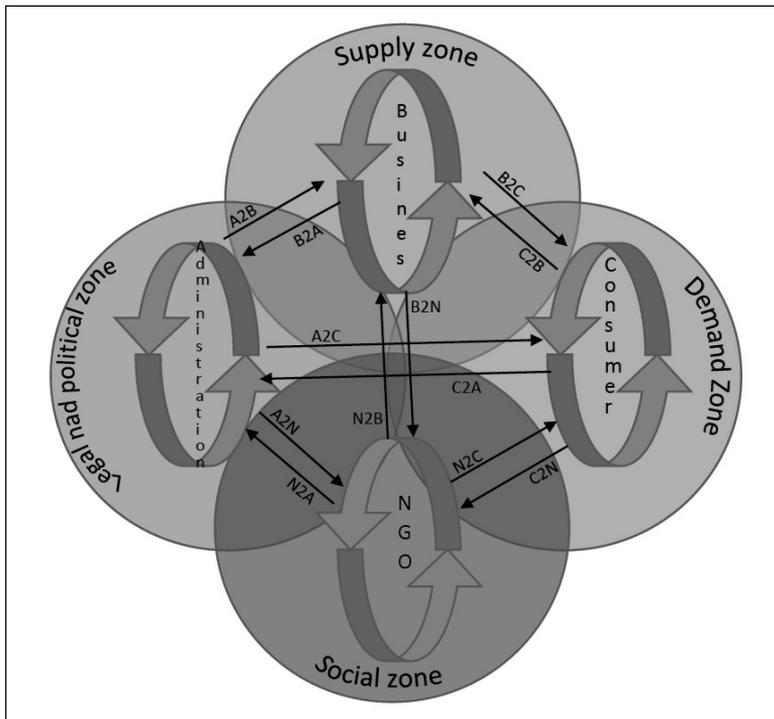
It can be noticed that, while relations at the level of B2C (business to consumers) and B2B (business to business) are well developed and described in the literature on the subject, topic of C2C (consumer to consumer) and C2B relations (consumer to business) has not been exhausted. C2C relations are defined as categories consisting of, among others, discussion groups or forums where consumers may meet and exchange their opinions. This group includes also Internet stock exchange, fairs of consumer goods or collectors' items. Synchronous communication (real-time, e.g. via chat or web communicator) and even e-mail are typical actions of this model and more and more often constitute competitive advantage which businesses achieve. C2C model was used to create online auctions where individual customers (consumers) meet and purchase-sale transactions have the nature of bazaar and auction. A pioneer of this form of trade is eBay.com (mfiles.pl). Globalisation of the enterprises' activities results in the fact that an increasing part of transactions is implemented electronically. Mechanisms of electronic market enable to conclude various kinds of economic transactions, both between enterprises and institutions as well

as between seller and retail recipient (Banasikowska, Woźniak, 2003, p. 392). Possible relations between various entities include:

- B2B business to business,
- B2C business to consumer,
- B2A business to administration,
- B2N business to non-governmental organisations,
- A2N administration to non-governmental organisations,
- A2B administration to business,
- A2C administration to consumer,
- A2A administration to administration,
- N2A non-governmental organisations to administration,
- N2C non-governmental organisations to consumer,
- N2B non-governmental organisations to business,
- N2N non-governmental organisations to non-governmental organisations,
- C2A consumer to administration,
- C2B consumer to business,
- C2C consumer to consumer,
- C2N consumer to non-governmental organisations.

Mechanisms occurring between particular models are presented in Figure 1.

Figure 1. Types of transactions



Source: own study.

- B2B relations – Any interactions taking place between two or more economic entities. The most frequent forms of relation is sale of own products or purchase of materials. However, we should not forget about other forms of relation, such as knowledge transfer or possibility of cooperation.
- B2C relations – The most common form of relation between a business entity and a consumer. It normally concerns trade of goods or services sold by the producer. Worth emphasising is a significant growth in e-commerce, namely a broadly understood Internet trade. According to the data presented in e-commerce report, the value of electronic purchases market in Poland in 2013 amounted to 26 billion zlotys, to compare with RTV, household appliances and IT markets which amounted to 23 billion zlotys (biznes.newseria.pl).
- B2A relations – These include mainly exchange of information and processing of public administration orders. We should also mention lobbying as a tool used by business environments to obtain favourable system solutions.
- B2A relations – They often have the nature of “charity”, associated with transfer of resources (financial or material) for the purposes of charity.
- A2C relations – above all are concentrated within the area of law arrangements enforcement. By introduction of relevant regulation the administration may directly influence the size of actual demand of consumers.
- A2B relations – focus on creation and enforcement of legal standards governing business operation. It should be pointed out that this spectrum is very broad, from tax regulations to restrictions or bans on trade of some goods.
- A2N relations – scope of activities includes subsidising of some initiatives performed by NGOs (e.g. facilitating the access to cultural events for the disabled). An important side of these relations are also social consultations in which NGOs often play a significant role.
- Implementation of A2A – in these relationships in the first place we should mention a cooperation between different government agencies. Such cooperation may be realised at local (e.g. cooperation of several communes in order to build a road), central (e.g. establishment of a new central operational region for conducting special rescue activities throughout the whole country) and international level (inter-governmental cooperation).
- C2A relations – are mainly citizens’ performance of obligations imposed on them by specific acts. E.g. payment of tax liabilities, applications submitted to relevant offices, and other.
- N2B relations – these relations usually have intermediate character. By actions of NGOs the enterprises can modify their activities to successfully correspond to social expectations. It takes place through introduction of activities at CSR level. The enterprises more and more often introduce principles of good practice functioning internally, which are to constitute a set of superior principles valid in a given enterprise (e.g. good practices in relations with employees – they should describe, in clear and transparent manner, the relations between employer and employee).
- N2A relations – NGOs influence the shaping of law. By their activities they draw attention to the problems of specific social groups. Naturally, not all postulates may be realised, but the voice of the community concentrated around a non-governmental organisation is surely more noticeable than that of the individual inhabitants.
- N2C relations – these relations are exceptionally strong. NGOs use social resources, then respond to specific needs of local communities.

- N2N relations – cooperation of NGOs is often the basis for preparation of various kinds of applications. Common operation at the same time makes it possible to emphasise multisided nature of local communities' expectations.
- C2N relations – usually are limited to transfer of donations for the purpose significant from the consumer's point of view.
- C2C relations – It can be assumed that the vast majority of C2C type of relations is performed by means of auction platforms and webstores. In Poland an unquestionable leader is allegro.pl platform. Recently, decrease in market share can be noted in case of the market leader, which is allegro website. It results from the fact that e-commerce market has become much more competitive. It is caused by, e.g. emergence of such enterprises as Amazon, Zalando or Groupon. Network trade model became more common, therefore, more specialised sellers appeared in this segment. An important factor is also the fact that in connection with its size, Allegro became a place where many offers may be easily missed (Forbes).
- C2B relations – relations being the main area of interest for this chapter. This type of relations, is usually limited to the possibility of transaction with primary owner of product or service. A customer who did not use the ticket for airplane may propose reselling of this ticket to the airlines. However, it seems that in the field of this subject there exists a very large gap, which requires additional discussion. It could be deliberated on how valuable for the enterprises a feedback from consumer to the manufacturer, generated by using of the contemporary technology, is.

The starting point for the discussion on C2C concept is to understand the changes that occur in relations between consumers and business. Consumers become more and more aware of their position on the market. A great number of manufacturers of goods and services, as well as relative ease of comparing the offers of various sellers, result in the increasing purchasing power of buyers. Consumers not only use specialist sites enabling to browse the products or compare their prices in different stores, but also mutually transfer subjective opinions both on the offered products and services and the manufacturers.

Globalisation of activities to the same extent affects small or medium-sized enterprises and corporations and consumers. As a result, small enterprises face rapid development of sales networks of competitive enterprises, corporations are not able to identify a specific market as home, and consumers at of purchasing will benefit from the possibilities to obtain additional source of information from other buyers.

### **3. Concepts of solutions based on C2C relation**

A thesis may be stated that nowadays the most basic definitions, substantial for economics, are changing. Talking about the demand for goods or services was always connected with the need for transaction in a given place and time. It seems justified to state that time and place cease to play significant role, especially in the case of C2C relation. While operating on e-commerce market, the place where we physically are is of minor importance. Nothing stands in the way to make purchases outside the borders of the country in which we are. Consumers more and more often go beyond the narrow understanding of the term "buy", while the terms "I have" or "I am" become more and more important. This phenomenon can be especially clearly observed in the sector of modern/high technologies. Consumers group together into circles of common preferences.

Relations established between the members become an important determinant of shopping preferences. For one group of recipients the possession of the latest model of mobile phone will be a distinguishing feature proving their social status or the condition of possession. For others the same object will be recognised as a sign of prodigality or snobbery. Consumers may be very strongly attached to some brands of, e.g., vehicles, phones, computers, cosmetics. Search for value added in the form of possession of a prestigious product often results from pressure that is put on a person by other consumers. Therefore, a natural phenomenon is a pursuit of consumers to improve activities of enterprise so as to ensure that they match their needs. More and more people are aware that, while the voice of a single consumer remains unnoticed, people gathered in networks have real impact on policy of the enterprises. Thus the reversal of well-known dependencies can be noticed – not only enterprises change consumers' preferences, but consumers themselves demand changes in functioning of products they own. Enterprises begin to understand that they cannot ignore voice of the consumers. Basing of potential improvements only on staff of employed specialists may prove less efficient than organised group of customers using product every day and sharing their observations with the enterprise. Optimal results are received with the use of both perfectly supplementary methods.

Day by day, more and more customers buys online and their preferences are reaction on impulses flowing to them from the network e.g. via social media (e.g. Facebook or Twitter). By growth in use of electronic media we can observe so far unreachable pace of information flow and resulting dynamic changes in consumers' behaviour all around the world. It is also possible to note that the enterprises have smaller impact on directions of information flow than we think. It results from the fact that virtual world allows the consumers to participate in creation and spread of new products.

Creation of C2C networks has been based on the concept of orbital networks formed by small manufacturers. Thus, an extremely interesting transformation of B2B concept into C2C concept can be observed. Orbital relations consist in combining of small and medium manufacturers into a network to reduce costs of functioning. Enterprises associated in the network pursue common purchasing policy, flow of technologies or external services. As a result, by reducing costs of functioning, they are able to become a strong rival against much larger entities, including world leaders. In a natural way the consumers imitate these activities by creating their own more or less formal networks, purpose of which is to take advantage of common interest. There is an interesting interaction between consumers' networks and enterprises. Enterprises understand that cooperation with groups of consumers brings real benefits, and ignoring their postulates brings losses. One of the examples of specific relations between business and consumers' networks are group purchases performed by using Groupon company. This enterprise seeks on the one hand the manufacturers willing to offer their products or services at a significantly lower price, while, on the other hand, associates the recipients in network of users, offering them promotional prices near the place of their residence. Large popularity is proven by number of 53.9 million active users (annual growth in quantity of users in the period of 31.12.2013-31.12.2014 amounted to 10.2 million (groupon.com)).

Another example of consumers' impact on functioning of the organisation is use of change.org website, where consumers may compose or sign petitions addressed both to enterprises and public officials. At the present moment, more than 85 million users have taken advantage of the opportunity to sign petition online (change.org). Users gather in networks of consumers expressing the same opinion. Successes of realised campaigns include elimination of five-dollar fee for use

of debit card by the owners of the Bank of America accounts (more than 305 thousand people signed petition in this case). Other successes include resignation from the campaign “Perfect Body” by Victoria’s Secret, removal of controversial text “Kids Eat Right” from KRAFT’s processed cheese or forcing introduction of blocking mechanisms protecting against stalking on the linkedin network.

The activities of European Consumer Centres Networks should also be noted – they are financed by the European Commission, EU Member States, Iceland and Norway. ECC-Net’s tasks include:

- informing consumers about possibilities the EU Single Market offers;
- assistance in solving individual consumer problems/complaints associated with the cross-border transactions;
- delivery of information on the domestic and EU legislation and judicial practice;
- delivery of comparative studies regarding the prices, legislation and other issues essential for the consumers;
- delivery to the European Commission the information on consumer problems in the EU.

ECC-Net is responsible for distribution of information about consumer protection system on the common European market and assists in amicable solving of cross-border disputes between entrepreneurs and consumers. It facilitates also access to information, as well as disseminates consumer topics and connects domestic projects with EU projects (cross-border issues or advice provision with regard to other EU member states (consumer.gov.pl)). It may be said that this is a form of passive network. Each inhabitant of the EU, Norway and Iceland is its member, even if he/she is not aware of its existence. Operation of ECC-Net is extremely important as it opens “a safety umbrella” over the EU inhabitants, becoming an important stimulus to create intra-community interactions taking place both between consumers (C2C) and between consumers and business (C2B and B2C).

It should be stated that contemporary managers cannot afford to ignore needs and opinions of their customers. Customers must be regarded as an integral part of the business operation they run. By using common and increasingly cheaper access to information the recipients search for information on offered goods or services. The problem which the conscious consumers grapple with every day is the quantity of offers. Far too much time is needed to preview all the possible offers while their complexity and risk of committing error confuse and concern the customers. Customers with decreasing degree of enthusiasm look at a business model in which the enterprise is in the centre and the recipients revolve around brand passively waiting for a signal generated by the enterprise. As a result the role of the recipients undergoes a continuous change. A customer which was often isolated, reduced to the role of a passive recipient, today is more and more often involved in the circulation of information and his/her activity is stimulated by the manufacturers. Enterprises are forced to adjust to the changes taking place on the market or accept the loss of market share Access to information. Well oriented consumers having full access to information, are able to make conscious consumer decisions. For many enterprises using policy of hindering flow of information to the consumers this is a total novelty they must face today. People have a natural tendency to connect with each other according to possessed interests, needs and experiences. Fast growth rate in access to the Internet and the related facilitations in mobile communication (telephony and applications) make the process of consolidating recipients easier. Created consumer networks, in which members share defined views and feelings, are not restricted to geographical or social circles, they revolutionise new markets and transform those

formed long time ago. It can be noticed that a natural tendency to build the communities, being one of the foundations of human functioning, finds its new manifestation in virtual communities.

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# Chapter 48

## **Trust and Predicting Consumer Behavior in the Health Market in the Light of CART Regression Tree Method<sup>1</sup>**

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*Grażyna Plichta*

### **1. Introduction**

In the contemporary market, asymmetry of information and non-parametricity of relations between entities frequently occurs. Therefore, when making decisions related to the conclusion a transaction, the element of trust takes on importance. Trust performs a significant role in the majority of decision-making processes connected with purchasing goods and services in all markets, including healthcare services and the health market. We can adopt a thesis that trust is of great significance in the area of performing healthcare services.

The research problem undertaken in the paper concerns defining individual dimensions of trust in the process of choosing a physician or the place of healthcare services performance. Having regard to thorough presentation of the issue and the verification of the adopted assumptions, the results of the survey which concerned the problems of knowledge about the market of healthcare services, health and costs including its care were used. As a result of the conducted analyses with the use of CART regression tree method, regression models showing the significance of specific dimensions of trust in the process of using services in the health market by consumers were built and assessed.

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## 2. Trust versus consumer behaviour in healthcare-related services – the outline of the problem

Trust is the object of interest of numerous scientific disciplines in spite of the existing problem connected with adopting one, universally applicable definition of this term<sup>2</sup>. The presence of trust decreases the level of uncertainty and risk (Sztompka, 2004, p. 308)<sup>3</sup>. Depending on the situation, we talk about so-called general trust and trust dependent on a particular transaction and relationship between its participants. General trust means relations between the entities which have had no contact with each other before, therefore, it is not based on previous cooperation. It is based on moral grounds and acknowledging by a given entity that other entities follow the same morals. However, they can be also perceived from the angle of other benefits. The presence of trust, among other things, encourages entities to participate in transactions, exchange information, build attitudes characterized by greater self-confidence, namely to decrease distrust (Grudzewski et al., 2007, p. 31). Trust whose presence can be referred to a specific transaction is independent and context-dependent trust. In the first case “trust is the subjective probability by which an individual/entity expects that another individuality/entity perform a given action on which its welfare depends”. In the other case “trust is the extent to which one party is willing to depend (in a given situation with a feeling of relative security!) on something or somebody (e.g. an individual, object, organization), even though negative consequences are possible”. In the definition-based grasp of trust referring to a specific transaction, two factors occur, namely dependence and reliability, whereas in the definition-based grasp of trust describing the other case three factors occur: usefulness, environmental factors (e.g. security), attitude towards risk (e.g. acceptance of risk, risk-aversion). It should be stressed that if between the parties to a transaction mutual trust occurs, arising from following the same standards of the ethical code, conclusion of the transaction is usually related to lower costs. In the case of distrust, the transaction can be concluded only under the supervision of the system of formal rules and regulations which are often subject to negotiations and disputes and are connected with the enforcement of due rights, quite frequently by force (Laske, Neunteufel, 2005).

Trust as an important element of transactions is present in many markets, also in the healthcare services market. Trust in that market is a special and significant factor because products and services offered on it are related to the health and life care of an individual. The decision-making process connected with the choice of place in which healthcare services are provided (i.e. a Surgery, an Out-patient Clinic, a Clinic, a Hospital, etc.) or a specific physician is often connected with uncertainty or even risk. Uncertainty always appears when an entity, in this case a consumer (the recipient of healthcare services), taking a decision on the choice cannot fully predict the consequences of his/her actions, e.g. whether the choice they make will be good or quite the opposite. Apprehensions and

<sup>2</sup> Exemplary representations of the category of trust, among others, by Bhattacharya, Devinney, Pilluta (1998), Blomqvist, Stahle (2004), Doney, Cannon (1997), Gambett (1988), Hosmer (1995), Luhmann (1979), Mayer, Davis, Schoorman (1995), McAllister (1995), Rousseau, Sitkin, Burt, Camerer (1998), Sako, Helper (1998), Sztompka (2007), Zaheer, McEvily, Perrone (1998) were quoted in: Grudzewski et al., 2009, p. 16; Moreover, the overview of the definitions of trust by disciplines were compared in previously published work of aforementioned authors, namely in: Grudzewski et al., 2007, pp. 33-35.

<sup>3</sup> A synthetic overview of theories concerning trust, starting from the forerunners of the sociological approach to this category and ending with the approach from the perspective of other disciplines, also from the perspective of economy, among others in: Sztompka, 2004, pp. 308-327.

uncertainty arise from commonly occurring risk, whereas a natural phenomenon is its minimization. Limitation of apprehension and risk can take place thanks to applying various actions. One of them can be obtaining important information which may considerably reduce risk and accompanying uncertainty. Nowadays, the access to information concerning broadly understood health market and obtaining it is not a problem. However, it seems that the presence of trust performs a definitely positive and significant role in this aspect, namely the limitation of uncertainty. In the case of transactions in the healthcare services market, trust should be discussed in the subjective context, i.e. as trust to the entity providing a healthcare service (namely, the physician), and the objective one, i.e. as trust to a specific place in which healthcare services are provided. We can adopt the thesis that trust can constitute a factor determining decision making related to the use of healthcare services. Specific character of healthcare services is the reason for which uncertainty and the element of risk almost always appear also with regard to elements in a sense complementary with such services. It influences the overall picture of a healthcare service, including in particular competences and intentions of the party providing a service. The recipient/patient, as a party to the transaction, when taking a decision on using the place of healthcare services provision or a specific physician, often does not have a choice. Due to the specificity of the service provided, it is practically in a sense dependent on the service provider. In the situation when the patient needs help and has to use medical assistance, his future as a patient is in the balance.

In addition to undoubtedly significant medical qualifications, it also depends on the communication skills of a physician and medical staff how the treatment will proceed and to what extent the therapy will be effective. The entities implementing healthcare services decide how the patient will be served and what quality of services he will receive. Although the shaping of the patient-physician interaction depends on numerous factors, also the personality of the physician and the patient is significant. It is expected that professionally behaving physician is aware of his personality features and will proceed in the way which will not have a negative effect on the relation with the patient. Moreover, he will initiate an interaction with the patient and steer it, due to which he should possess the skill of talking, active listening, observing and reading non-verbal messages from the patient (Hebanowski et al., 2005, p. 85). In the patient-physician relationship, the patient is undoubtedly a weaker party. Although nothing releases him from the necessity to behave rationally, in the situation of stress caused by an illness, he should have the sense of security and understanding. It should be stressed that when the patient does not understand medical terminology and does not have the skill of asking questions, the ability to remember most important facts concerning the illness, and he experiences the lack of interest in himself and treating him as object from the physician, never will a bond form which would enable the patient to "open" and which would facilitate the whole process of therapy. It should be emphasized that skillful communication is of fundamental character because it builds trust with the patient. It depends on the quality of communication whether the patient will be able to properly inform the physician about the symptoms, undertake treatment, accept the diagnosis made and fulfill the physician's recommendations. Creating proper atmosphere enables to establish good contact with the patient and to fulfill the goal which is making a diagnosis and taking the decision about the treatment (Barański, Piątkowski, 2002, p. 162). The need for interpersonal trust concerns sensitivity related to being ill, as well as the asymmetry of information and unequal relations connected with the specialist character of medical knowledge. Taking the above into consideration, significant factors influencing trust in the health market are, in particular, competences (knowledge and skills), as well as honesty, confidentiality, respect and safety.

Building trust in every situation is based on the conviction that the stronger party will not use its advantage against the weaker party, in this case a patient who is a consumer at the same time. It can be favored, among other things, by the general attitude of trustfulness towards physicians, previous positive experiences, a specific positive emotional relationship between the patient and the physician, as well as professionalism which concerns not only physicians and medical personnel but also the place in which healthcare services are provided.

### **3. Regression trees as a tool describing consumer behaviours in the process of using services in the health market – results of CART analysis**

Consumer behaviours in the health market depend on various factors. The factors also include trust. The dimensions of trust considered when a necessity occurs to use the services of a physician and/or choose a place in which healthcare services are provided (i.e. a Surgery, an Outpatient Clinic, a Clinic, a Hospital, etc.) include: credibility, reputation, competences, reliability, predictability, honesty, kindness and responsibility. Due to the undertaken research problem which concerns the significance of individual dimensions of trust in the process of choosing a physician or the place of providing healthcare services, it was assumed that the significance of individual dimensions of trust depends on general health, knowledge about illnesses and ways of treating them, factors influencing the quality of the services provided and socio-demographic factors as declared by the interviewees (respondents).

An attempt to verify the adopted statements was made based on the results of the survey (in-depth pilot study) which concerned a number of issues with regard to knowledge about the healthcare services market, health, and the costs comprising its care. The sampling for the survey was purposive. The survey included 160 respondents who declared at least average financial situation and at least secondary education<sup>4</sup>. Within the framework of specified characteristics of the population units, the interviewers themselves decided about the choice of respondents with specified control characteristics in respect of the assigned sets of the surveys.

As a result of the conducted pilot study, a considerable quantity of data was obtained. When taking a decision on the choice of a method, a possibility to obtain a relatively good prediction based on a few logical conditions was crucial, therefore, CART regression trees method was applied. Regression trees are an alternative to classical multiple regression method of studying the relationship between the dependent variable and the set of independent variables. CART regression trees method is useful in many areas of the studies conducted in the market, preferences and behaviours, among others. The aim of the analysis with the use of the algorithm for building trees is to find a set of logical conditions of the split leading to a univocal qualification of the objects. The results using regression trees methods can be formulated in the form of a few logical conditions of the type “if – then” (from the tree nodes). The method does not require any initial adoption of any assumptions as of the nature of the relationship between the dependent variable

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<sup>4</sup> In the initial stage of the study, the assumption was to survey a bigger number of respondents. However, existing limitations and objective obstacles brought about a necessity to reduce the number of participants to the indicated number of respondents.

and the adopted predictors<sup>5</sup>. There are two ways of building CATR regression models: the mean with variance and the median with mean absolute deviation. In the study the first method was applied because in addition to shorter analysis time it gives higher predictive validity.

The aim of the analysis will be the prediction of the dimensions of trust with regard to the physician or the place where healthcare services are provided, considering the set of independent variables. The measurement of empirical phenomena of the same or similar character as the one in this paper usually takes place with the use of a scale which constitutes a series of statements to which the respondent has to assume an attitude by marking a response from a continuum – from: “Definitely not” or “Strongly disagree” to “Definitely” or “Strongly agree”. The opinions with regard to the statements concerning individual dimensions of trust (dependent variable) were marked by the respondents in the 5-point intensity scale<sup>6</sup>. It was assumed that the respondents’ opinions are a really existing attitude which is expressed by indicating the proper position of the scale. The summary including the list of statements with the adopted designation is included in Table 1.

Table 1. Statements of the trust scale

<b>Adopted designation</b>	<b>Statements</b>
(Credibility of the physician) Question 12.1	The choice of a specific physician is determined by his/her credibility
(Credibility of the place of service provision) Question 12.2	The choice of specific places where healthcare services are provided (i.e. a Surgery, an Outpatient Clinic, a Clinic, a Hospital, etc.) is determined by their credibility
(Reputation of the physician) Question 12.3	The choice of a specific physician is determined by his/her reputation
(Reputation of the place where healthcare services are provided) Question 12.4	The choice of specific places where healthcare services are provided (i.e. a Surgery, an Outpatient Clinic, a Clinic, a Hospital, etc.) is determined by their reputation
(Competences) Question 12.5	The choice of a specific physician is determined by his/her competences
(Professionalism) Question 12.6	The choice of specific places where healthcare services are provided (i.e. a Surgery, an Outpatient Clinic, a Clinic, a Hospital, etc.) is determined by their professionalism
(Reliability) Question 12.7	The choice of a specific physician is determined by his/her predictability and reliability

<sup>5</sup> More on building prediction models by means of regression models, among others in: Łapczyński, 2010.

<sup>6</sup> Survey questionnaire used in this study consisted of 23 questions (including 5 questions concerning socio-demographic situation of the respondents). The question concerning trust and its significance in the situation of choosing/using a physician/place in order to use healthcare services is marked with number 12.

(Atmosphere) Question 12.8	The choice of specific places where health care services are provided (i.e. a Surgery, an Outpatient Clinic, a Clinic, a Hospital, etc.) is determined by proper atmosphere of the place (e.g. cleanliness, smell, service)
(Honesty) Question 12.9	The choice of a specific physician is determined by his/her honesty (i.e. acting in good faith, keeping promises, telling the truth)
(Responsibility) Question 12.10	The choice of specific places where healthcare services are provided (i.e. a Surgery, an Outpatient Clinic, a Clinic, a Hospital, etc.) is determined by responsibility in respect of conducted activities (e.g. receiving compensation)

Source: own work.

The set of independent variables included quantitative and qualitative predictors. Qualitative predictors were statements of the respondents concerning their socio-demographic characteristics (i.e. sex, age, education, income level and financial situation – questions 19-23 of the survey questionnaire<sup>7</sup>). Variable quantitative predictors adopted for the analysis were statements included in questions number 2, 4, 6 and 9 of the questionnaire.

Question 4 included the statements which, in the respondents' opinion, influence the quality of services provided by physicians. The respondents marked their opinion in a 7-point intensity scale. The summary including the list of statements alongside the adopted designations is presented in Table 2.

Table 2. Factors influencing the quality of services provided by physicians

Adopted designation	Statements
4.1	Level of physicians' education
4.2	Skills regarding the treatment process
4.3	Skills regarding making an accurate diagnosis
4.4	Social competences (e.g. contact with patient, manner of conducting conversation with patient, personal culture, etc.)
4.5	Willingness to help patient to solve a health problem, e.g. reaction to patient's requests, quick help from physician
4.6	Passing all necessary information about health
4.7	Commitment to patient's treatment process
4.8	Diligence in providing services
4.9	Physician's availability for patient
4.10	Access to medical documentation

<sup>7</sup> Socio-demographic characteristics of the respondents; (Note: in the brackets there are numbers adopted for individual categories of variables which are visualized on the regression trees); sex: female (1), male (2); age: 18-24 (1), 25-34 (2), 35-49 (3), 50-64 (4), 65 and above (5); education: primary (1), lower-secondary (2), vocational (3), secondary or post-secondary (4), higher, i.e. bachelor or engineer (5), higher university (6); income, i.e. average monthly net income per person in the household in PLN: below 1,000 (1), 1,000-1,500 (2), 1,501-2,000 (3), 2,001-2,500 (4), 2,501-3,000 (5), above 3,000 (6); financial situation (note: the respondents were explained/described what is understood by the declared financial situation): very good (1), good (2), average (3), bad (4), very bad (5).

4.11	Access to information on time of service delivery
4.12	Timely delivery of services
4.13	Equipping healthcare facility with modern devices
4.14	Competences of medical staff
4.15	Kindness of medical staff
4.16	Sense of security during provision of healthcare services
4.17	Respect for patient
4.18	Treating patient's welfare as the primary goal
4.19	Individual approach to patient
4.20	Availability and clarity of information materials

Source: own work.

Question 2 concerned subjective assessment of own general condition<sup>8</sup>, whereas question 6 – knowledge about illnesses and methods of treatment<sup>9</sup>. With regard to those questions the respondents marked their responses in a 10-point scale, where 1 stood for “very badly”, and 10 for “very well”.

The process including the use of healthcare services is usually connected with passing very important information to the physician (e.g. sensitive, delicate, intimate) on one's own health. In question 9 the respondents expressed their opinion on the significance of such variables as: trust to physicians, security, professionalism, respect, contact. The respondents marked their choices on a 10-point scale where 1 was the value of the category as “definitely not important”, whereas 10 as “definitely important”. The summary including the list of the categories which are significant in the process of using healthcare services with the adopted designation is presented in Table 3.

Table 3. Significant variables in the process of passing information when using healthcare services

Adopted designations	Statements
(Trust to physicians) Question 9.A	Trust to physicians (e.g. referring to competences in respect of knowledge, diagnosis made)
(Security) Question 9.B	Security (e.g. related to discretion as of inclinations, bad habits, health)
(Professionalism) Question 9.C	Professionalism (e.g. competences in performed medical procedures)
(Respect) Question 9.D	Trust (e.g. understanding, respecting patient's will)
(Contact) Question 9.E	Contact (e.g. Skillful passing important (also bad) information about health)

Source: own work.

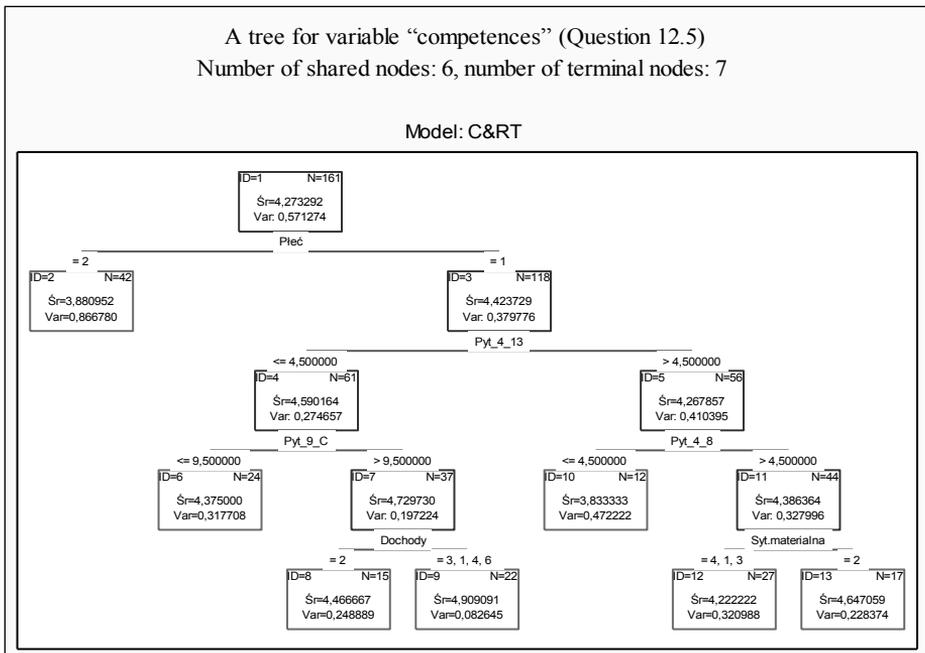
<sup>8</sup> Full wording of question 2 is: *How do you assess your condition?*

<sup>9</sup> Full wording of question 6: *How do you assess your knowledge about illnesses and ways of treating them?*

The rule of obtaining prediction based on a few simple logical conditions and obtaining final forms of prediction models involves conducting subsequent stages of analyses which are required in the process of building regression trees. In the first stage of the procedure, variance was adopted as a principle of the regression tree division. The choice of the principle of split is significant because it exerts impact on the final form of the model. Then the stopping criterion was defined in order to determine moments in which the tree node becomes the terminal node (a leaf). The model quality was assessed and the principles were defined according to which the assignment to the homogenous node (leaf) takes place. The analyses were conducted with the use of the statistical package CART regression trees available in *STATISTICA* software. In accordance with the procedure, eight models of regression trees were built for the dimensions of trust (dependent variables) and each regression tree model was assessed with the use of the information about the variance in the nodes. The exchange of leaves into rules of “if... then” type was made, which enabled to present/describe the models with the use of the list of conditional statements. Since individual trees differ with the number of leaves (terminal nodes), thus, the number of rules for individual trees is not the same.

In this study, due to its limitations, one regression model for variable “competences” will be presented. The regression model for variable “competences” (Fig. 1) has seven leaves (ID = 2, ID = 6, ID = 8, ID = 9, ID = 10, ID = 12, ID = 13), which means that it can be described by means of seven rules. For this model, only extreme results from the scale for each variable will be assessed (and described), thus, two rules/conditional statements describing the model will be formulated.

Figure 1. Regression tree model (CART analysis; variable “competences”)



Source: own work with the use of STATISTICA software.

As a result of the conducted analysis and assessment of two terminal nodes with maximum (ID = 9) and minimum average value (ID = 10) and two rules describing the regression tree model were created.

1. If the respondents are women and they will think that equipping medical facilities with high-tech devices rather does not influence the quality of services provided by physicians (Question 4.13  $\leq$  4.5) and that professionalism is definitely important (Question 9.C  $>$  9.5) and they have income both below PLN 1,000 per person in the household, as well as above PLN 1,500 per person in the household (income = 3, 1, 4, 6), then they agree that the choice of a physician is determined by his competences (the average is 4.90).
2. If the respondents are women for whom equipping medical facilities with high-tech devices rather well influences the quality of services provided by physicians (Question 4.13  $\leq$  4.5), and at the same time they think that diligence in providing services by physicians does not influence their quality (Question 4.8  $\leq$  4.5), then they are not convinced that competences are the criterion of choosing a physician (the average is 3.83).

The proportion of the variance explained through the model is equal to 29%, which means that 29 percent of the dependent variable can be explained based on the independent variables set.

## 4. Conclusion

Building trust is a process which should be fulfilled on numerous levels. In the health market it is important to successively build customer trust, namely the trust of the recipients (healthcare services consumers) to service providers, that is physicians and broadly understood medical facilities (i.e. surgeries, outpatient clinics, clinics, hospitals, etc.). Considering the conducted analyses in effect of which regression trees were built showing the significance of individual dimensions of trust and assessment of specific models (proportion of the explained variance), in a special way it is possible to indicate competences as a dimension of trust which influences decisions related to choosing a physician or a place where healthcare services are provided. It should be added that competences of physicians are important to women for whom professionalism is also definitely important.

To sum up, trust is of great significance for the processes which undergo in the health market, due to which actions undertaken in this area should create the conditions of mutual trust in various relations.

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# Chapter 49

## **The Validity of the Features of the Offer to the Customer in the Area of Product in the Assessment of the Dairy Cooperatives from the Świętokrzyskie Voivodeship**

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*Izabela Konieczna*

### **1. Introduction**

Features of the market offer are the part of the competition between market participants. Competing is associated with improvement of the product itself, and the whole set of activities aimed at persuading the customer to buy. There is no point in developing a product or service that no one wants to buy, yet many businesses decide what to offer first, and then hope to find a market for it afterwards. In contrast, the successful company will find out what customers need or want and then develop the right product – with the right level of quality to meet those needs now and in the future (Marketing and the 7Ps, 2009, p. 4). The aim of the article is to analyze the validity of the offer features for the customer in the area of product in the assessment of dairy cooperatives from the świętokrzyskie voivodeship. In article are analyzed features that determine the value for customer, such as: product components, naturalness of the product, ecology of the product, healthiness of the product, the nutritional value, the width of the assortment, differentiation, product specialization.

### **2. The product concept**

According to P. Kotler and G. Armstrong product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Product can have such forms as: physical objects, services, events, persons, places, organizations, ideas, and mixes of these (Kotler, Armstrong, 2001, p. 43). Product is also defined as a bundle of attributes or features, functions, benefits and uses capable of exchange, usually in tangible or intangible forms (Koontz, 2001, p. 15). Product means the need-satisfying offering of a firm (Perreault, McCarthy, 2002, p. 248). There are four paths of companies' selling decisions: (1) selling something

that already exists, (2) making something that someone asks for, (3) anticipating something that someone will ask for, (4) making something that no one asked for but that will give buyers great delight (Kotler, 2003, p. 140).

Consumers in choosing a particular product or service are guided by its own system of penetration, which puts emphasis on the specific characteristics of the chosen product. Product features that are determining consumer choice must be relevant to the person who is making the choice and at the same time should distinguish the product from competitive products (Domański, 1994, p. 187). The perfect product must provide value for the customer. This value is the eye of the beholder – the company must give its customers what they want, not what the company thinks they want (Marketing and the 7Ps, 2009, p. 4). Most customers think about a product in terms of the total satisfaction it provides. That satisfaction may require a “total” product offering that is really a combination of excellent service, a physical good with the right features, useful instructions, a convenient package, a trustworthy warranty, and perhaps even a familiar name that has satisfied the consumer in the past (Perreault, McCarthy, 2002, pp. 248-249).

Product can “overgrow” in value through the various advantages such as (Detroy, 2004, p. 35):

- the actual, physical, measurable, objective values;
- subjective assessment of the purchaser (his “wish-have”);
- transferred recognition of the name of the manufacturer on the assessment of the product value;
- prestige which will be achieved by the product;
- profit, benefits, advantages achieved thanks to this product;
- valuable experience from previous contact with the product and trust in it;
- experiences of others with the product;
- subconsciously attributed to the product additional value resulting from its (for example) the shape or color;
- “additional benefits”, for example knowledge of impeccable customer service, courtesy, assistance in resale, availability of know-how related to the use of this product.

There are four levels of a product: core, tangible, augmented, and promised. The core product identifies what the consumers feel they are getting when they purchase the product. The tangibility is reflected primarily in product quality level, features, brand name, styling, and packaging. At the next level lies the augmented product. Every product is backed up by a host of supporting services. Often, the buyer expects these services and would reject the core-tangible product if they were not available. The outer ring of the product is referred to as the promised product. Every product has an implied promise. An implied promise is a characteristic that is attached to the product over time (Burnett, 2010, pp. 170-171).

All products fit into one of two broad groups – based on the type of customer that will use them. *Consumer products* are products meant for the final consumer. *Business products* are products meant for use in producing other products (Perreault, McCarthy, 2002, p. 253).

Consumer product classes divide into four groups: convenience, shopping, specialty, and unsought. *Convenience products* are products a consumer needs but is not willing to spend much time or effort shopping for. These products are bought often, require little service or selling, do not cost much, and may even be bought by habit (Perreault, McCarthy, 2002, p. 253). They are of little value and have many close substitutes so they need strong branding and eye-catching colors and designs to make them stand out from the rest (Whalley, 2010, p. 98). *Shopping products* are products that a customer feels are worth the time and effort to compare with competing

products (Perreault, McCarthy, 2002, p. 254). They carry a higher associated risk for a customer than convenience products do. They may be higher priced or it may be that the cost of product failure is high (Whalley, 2010, p. 99). *Specialty products* are consumer products that the customer really wants and makes a special effort to find. Shopping for a specialty product does not mean comparing – the buyer wants that special product and is willing to search for it (Perreault, McCarthy, 2002, p. 255). Specialty goods are unusual, and often quite expensive, products which are commonly sold in niche markets (Whalley, 2010, p. 99). *Unsought products* are products that potential customers do not yet want or know they can buy. So they do not search for them at all. Consumers probably will not buy these products if they see them – unless promotion can show their value (Perreault, McCarthy, 2002, p. 255).

Business product classes are based on how buyers see products and how the products will be used. The classes of business products are: installations, accessories, raw materials, components, supplies, and professional services. *Installations* are durable products. *Accessories* are short-lived capital items – tools and equipment used in production or office activities. *Raw materials* are unprocessed expense items that are moved to the next production process with little handling. *Components* are processed expense items that become part of a finished product. *Component parts* are finished (or nearly finished) items that are ready for assembly into the final product. *Supplies* are expense items that do not become part of a finished product. *Professional services* are specialized services that support a firm’s operations (Perreault, McCarthy, 2002, pp. 257-260).

Products can be classified into categories. One of these classifications is shown in Table 1. It constitutes a comprehensive classification of all goods and services.

Table 1. United Nations product classification

0 – Agriculture, forestry and fishery products	01 – Products of agriculture, horticulture and market gardening 02 – Live animals and animal products 03 – Forestry and logging products 04 – Fish and other fishing products
1 – Ores and minerals; electricity, gas and water	11 – Coal and lignite; peat 12 – Crude petroleum and natural gas 13 – Uranium and thorium ores 14 – Metal ores 15 – Stone, sand and clay 16 – Other minerals 17 – Electricity, town gas, steam and hot water 18 – Water

2 – Food products, beverages and tobacco; textiles, apparel and leather products	21 – Meat, fish, fruit, vegetables, oils and fats 22 – Dairy products 23 – Grain mill products, starches and starch products; other food products 24 – Beverages 25 – Tobacco products 26 – Yarn and thread; woven and tufted textile fabrics 27 – Textile articles other than apparel 28 – Knitted or crocheted fabrics; wearing apparel 29 – Leather and leather products; footwear
3 – Other transportable goods, except metal products, machinery and equipment	31 – Products of wood, cork, straw and plaiting materials 32 – Pulp, paper and paper products; printed matter and related articles 33 – Coke oven products; refined petroleum products; nuclear fuel 34 – Basic chemicals 35 – Other chemical products; man-made fibres 36 – Rubber and plastics products 37 – Glass and glass products and other non-metallic products n.e.c. 38 – Furniture; other transportable goods n.e.c. 39 – Wastes or scraps
4 – Metal products, machinery and equipment	41 – Basic metals 42 – Fabricated metal products, except machinery and equipment 43 – General-purpose machinery 44 – Special-purpose machinery 45 – Office, accounting and computing machinery 46 – Electrical machinery and apparatus 47 – Radio, television and communication equipment and apparatus 48 – Medical appliances, precision and optical instruments, watches and clocks 49 – Transport equipment
5 – Construction services	54 – Construction services
6 – Distributive trade services; lodging; food and beverage serving services; transport services; and utilities distribution services	61 – Wholesale trade services 62 – Retail trade services 63 – Lodging; food and beverage serving services 64 – Land transport services 65 – Water transport services 66 – Air transport services 67 – Supporting and auxiliary transport services 68 – Postal and courier services 69 – Electricity distribution services; gas and water distribution services through mains

7 – Financial and related services; real estate services; and rental and leasing services	71 – Financial intermediation, insurance and auxiliary services 72 – Real estate services 73 – Leasing or rental services without operator
8 – Business and production services	81 – Research and development services 82 – Legal and accounting services 83 – Other professional, technical and business services 84 – Telecommunications services; information retrieval and supply services 85 – Support services 86 – Services incidental to agriculture, hunting, forestry, fishing, mining and utilities 87 – Maintenance, repair and installation (except construction) services 88 – Manufacturing services on physical inputs owned by others 89 – Other manufacturing services
9 – Community, social and personal services	91 – Public administration and other services to the community as a whole; compulsory social security services 92 – Education services 93 – Health and social services 94 – Sewage and refuse disposal, sanitation and other environmental protection services 95 – Services of membership organizations 96 – Recreational, cultural and sporting services 97 – Other services 98 – Domestic services 99 – Services provided by extraterritorial organizations and bodies

Source: <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=16> [23.05.2015].

### **3. An analysis of the validity of the features of the offer for customers in the area of the product in the assessment of dairy cooperatives**

The analysis is based on the results of direct interviews conducted with the help of the questionnaire in 50% of the population of dairy cooperatives from świętokrzyskie voivodship. Cooperatives' executives were asked to assess the validity of the features of the offer for customers in the area of the product. Interview results are shown in Table 2, Figure 1 and Figure 2.

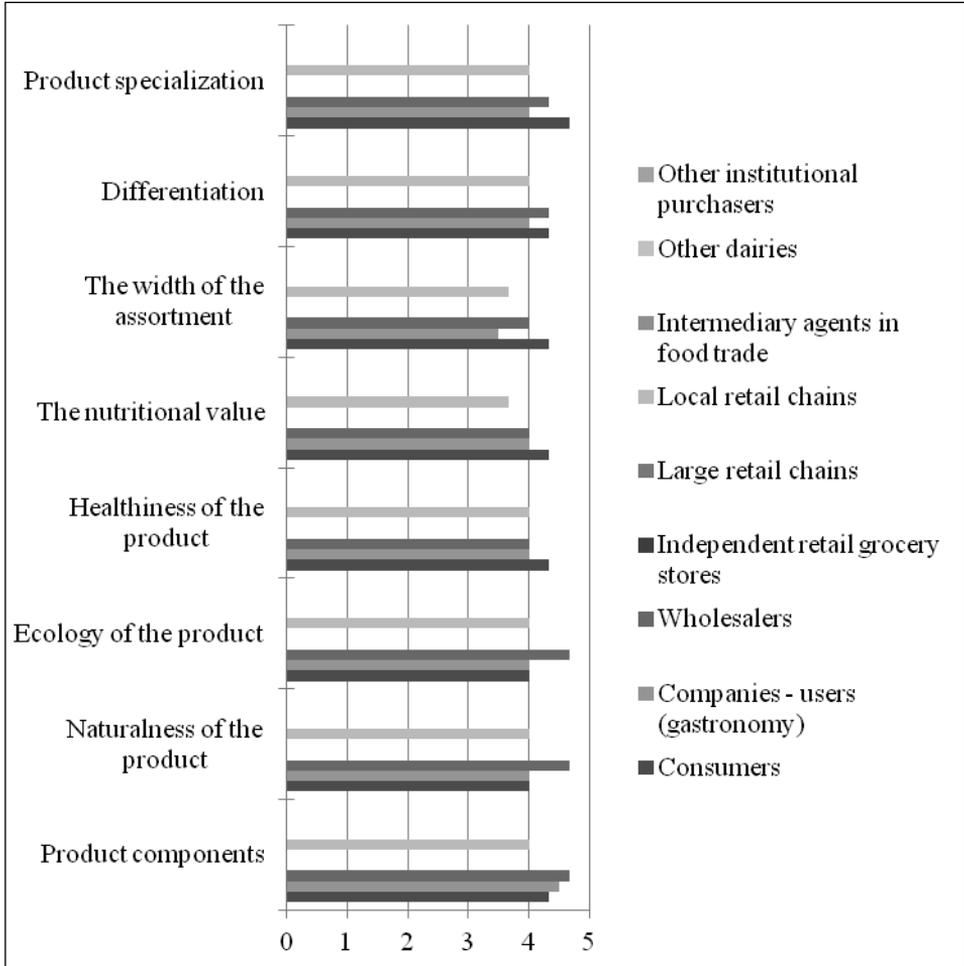
Table 2. The validity of the features of the offer for customers in the area of the product in the assessment of dairy cooperatives from the świętokrzyskie province

Features/elements of the offer		Consumers	Companies – users (gastronomy)	Wholesalers	Independent retail grocery stores	Retail chains		Intermediary agents in food trade	Other dairies	Other institutional purchasers
						Large	Local			
Product components	Mean	4.33	4.50	4.67	0	0	4.00	0	0	0
	Standard deviation	0.577	0.707	0.577	0	0	0.000	0	0	0
	Median	4	5	5	0	0	4	0	0	0
Naturalness of the product	Mean	4.00	4.00	4.67	0	0	4.00	0	0	0
	Standard deviation	0.000	0.000	0.577	0	0	0.000	0	0	0
	Median	4	4	5	0	0	4	0	0	0
Ecology of the product	Mean	4.00	4.00	4.67	0	0	4.00	0	0	0
	Standard deviation	0.000	0.000	0.577	0	0	0.000	0	0	0
	Median	4	4	5	0	0	4	0	0	0
Healthiness of the product	Mean	4.33	4.00	4.00	0	0	4.00	0	0	0
	Standard deviation	0.577	0.000	0.000	0	0	0.000	0	0	0
	Median	4	4	4	0	0	4	0	0	0
The nutritional value	Mean	4.33	4.00	4.00	0	0	3.67	0	0	0
	Standard deviation	0.577	0.000	0.000	0	0	0.577	0	0	0
	Median	4	4	4	0	0	4	0	0	0
The width of the assortment	Mean	4.33	3.50	4.00	0	0	3.67	0	0	0
	Standard deviation	0.577	0.707	0.000	0	0	0.577	0	0	0
	Median	4	4	4	0	0	4	0	0	0
Differentiation	Mean	4.33	4.00	4.33	0	0	4.00	0	0	0
	Standard deviation	0.577	0.000	0.577	0	0	0.000	0	0	0
	Median	4	4	4	0	0	4	0	0	0
Product specialization	Mean	4.67	4.00	4.33	0	0	4.00	0	0	0
	Standard deviation	0.577	0.000	0.577	0	0	0.000	0	0	0
	Median	5	4	4	0	0	4	0	0	0

Scale: 1-5, where 5 – extremely important, 4 – very important, 3 – quite important, 2 – little important, 1 – completely unimportant, 0 – not applicable.

Source: own work.

Figure 2. The validity of the features of the offer for customers in the area of the product in the assessment of dairy cooperatives from the świętokrzyskie province



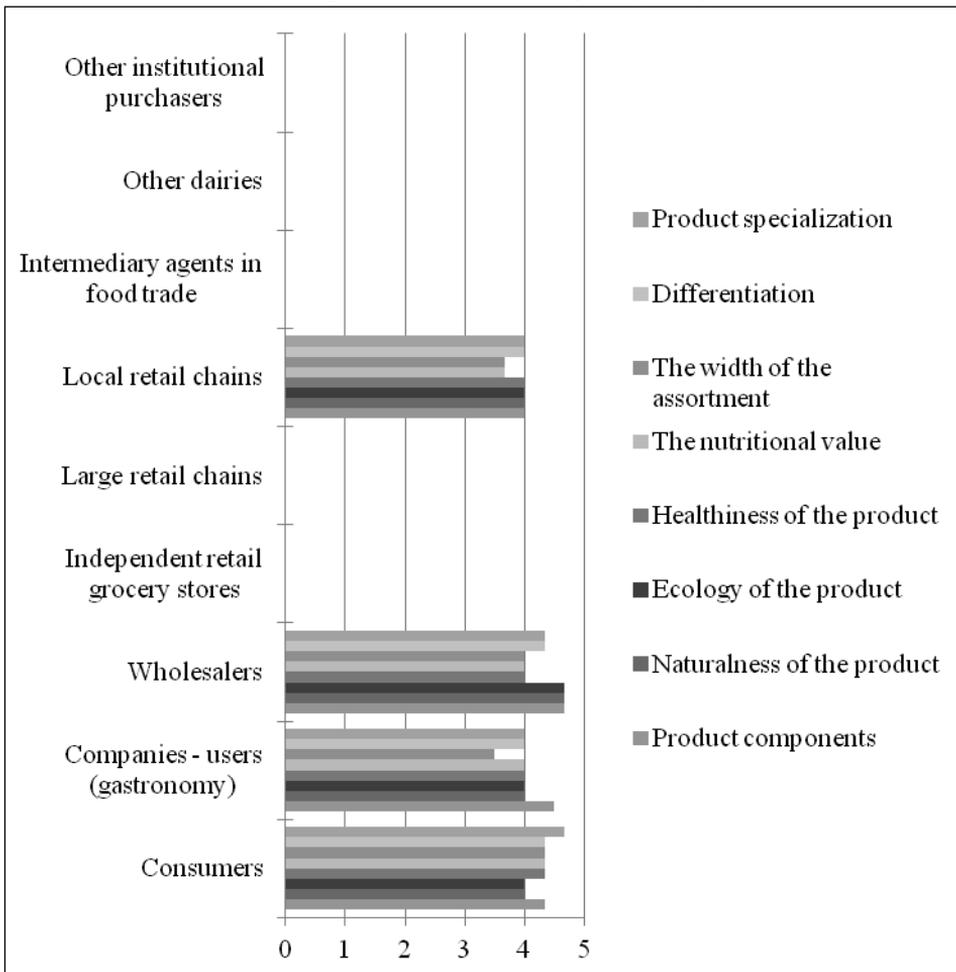
Source: own work.

When analyzing Table 2 and Figure 2, it is clear that:

1. Product components were considered as extremely important for wholesalers (mean rating 4.67) and companies-users (gastronomy) (mean rating 4.5), and as very important for consumers (mean rating 4.33) and local retail chains (mean rating 4.0).
2. Naturalness of the product and ecology of the product were found as extremely important for wholesalers (mean rating 4.67), and as very important for consumers, companies-users (gastronomy) and local retail chains (mean rating 4.0).
3. Healthiness of the product was considered as very important for consumers (mean rating 4.33), companies-users (gastronomy), wholesalers and local retail chains (mean rating 4.0).

4. The nutritional value was found as very important for consumers (mean rating 4.33), companies-users (gastronomy), wholesalers (mean rating 4.0) and local retail chains (mean rating 3.67).
5. The width of the assortment was considered as very important for consumers (mean rating 4.33), wholesalers (mean rating 4.0), local retail chains (mean rating 3.67), and companies-users (gastronomy) (mean rating 3.5).
6. Differentiation was found as very important for consumers, wholesalers (mean rating 4.33), companies-users (gastronomy) and local retail chains (mean rating 4.0).
7. Product specialization was considered as extremely important for consumers (mean rating 4.67) and as very important for wholesalers (mean rating 4.33), companies-users (gastronomy) and local retail chains (mean rating 4.0).

Figure 3. The validity of the features of the offer for particular customers in the area of the product in the assessment of dairy cooperatives from the świętokrzyskie province



Source: own work.

Analyzing the assessment of the validity of the features of the offer for particular customers (Tab. 1 and Fig. 3), it is clear that:

1. For consumers as extremely important is considered the product specialization, while as very important are found product components, naturalness of the product, ecology of the product, healthiness of the product, the nutritional value, the width of the assortment, and differentiation.
2. For companies-users (gastronomy) as extremely important are considered product components. In the same time, the cooperatives' executives pointed out that naturalness of the product, ecology of the product, healthiness of the product, the nutritional value, the width of the assortment, differentiation, and product specialization, are considered as very important.
3. For wholesalers as extremely important are considered product components, naturalness of the product, and ecology of the product, whereas as very important were found the healthiness of the product, the nutritional value, the width of the assortment, differentiation, and product specialization.
4. For local retail chains as very important are considered all indicated features of the offer in the area of the product, i.e. product components, naturalness of the product, ecology of the product, the healthiness of the product, the nutritional value, the width of the assortment, differentiation, and product specialization.

## **4. Conclusion**

Value for customer must be provided by the perfect product. Only when the company knows what the consumers' expectations are, can provide the product that can satisfy the consumer. Cooperatives, like other companies, to be more competitive, must constantly do research to recognize future and current consumers' expectations. An analysis of the validity of the features of the offer for customers in the area of the product based on the results of conducted research in dairy cooperatives from the świętokrzyskie province, shows that all the features of the offer are considered as extremely or very important for such customers as consumers, companies-users (gastronomy), wholesalers, and local retail chains. However, as extremely important are considered different features for each type of customers, i.e. for customers – the product specialization, for companies-users (gastronomy) – the product components, and for wholesalers – the product components, naturalness of the product, and ecology of the product.

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# Chapter 50

## 3.0 Marketing in Museum Tourism?

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*Renata Seweryn, Agata Niemczyk*

### 1. Introduction

Marketing has been evolving over the years, undergoing continuous transformations and has been enriched with new contents. This demonstrates the continuous progress of marketing itself and of the way it is seen by the scientists and practitioners. One of the characteristic features of marketing most recent conception – 3.0 marketing – is paying attention not only to the individual consumer, but also to the whole society; not only to the fact that enterprises may offer products, but also to the fact that they can realize certain ideas and values. Just as 2.0 marketing, its successor aims at satisfying consumer needs. However it is orientated towards human aspirations, values and spirit, thereby taking into account that a consumer is a human in the true meaning of the word. This new marketing can be defined as: consumer and ecological philosophy and actual operation of market entities, which help to meet human needs and bring social and economic satisfaction to both buyers and sellers.

The purpose of this article is the answer to the question whether marketing defined as above is already used in museum tourism. The results of survey conducted in Krakow in 2014 served as the empirical base for the paper. Basing on them attempts were taken to determine whether museum tourism products allow the self-fulfilment of the visitors and whether they support their values which in this case mean broadening horizons and gaining knowledge. Thus, what is the opinion of the visitors about both, the tour guides' knowledge and the way it is presented, the exhibits and their exposition, how much satisfied are they with their reception? Empirical analyses were preceded by the literature review in the field of 3.0 marketing and museum tourism.

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### 2. The origin and essence of 3.0 marketing

When analysing the hitherto history of marketing philosophy one can see that it has undergone the evolution consisting of three stages, called respectively 1.0, 2.0 and 3.0 marketing. Reaching back into the past it should be noticed that the origin of professional marketing is deeply rooted

in the technical and industrial revolution of the turn of the 18<sup>th</sup> and 19<sup>th</sup> centuries, when in some of the market segments or rather in some periods more and more often the imbalance caused by not enough demand was appearing in place of shortages in supply (Deszczyński, 2014, p. 121). Already at that time the aim of (1.0) marketing was to create higher buyers demand for goods, important as it is, those already produced. This, in fact was possible thanks to the standardization and mass production which both helped to reduce the costs and subsequently the prices of goods which in turn made them more available to more and more buyers (Kotler, Kartajaya, Setiawan, 2010, p. 17). However, the references to structured works on the concept of marketing appeared not earlier than in 1900-1923 and the genealogy of 1.0 marketing commonly dates back to the 50s of the 20<sup>th</sup> century (Bartels, 1951, p. 2).

In the 60s of the last century as a consequence of setting the buyer's market and tightening the competition for customers, entrepreneurs started to modify their strategies. Success started to depend on researching the needs before anything could have been produced/offered and forecasting what the prospect customers could possibly buy. Product orientation had to give way to customer orientation (Seweryn, 2008, p. 5). This process led to the creation of 2.0 marketing. This approach, however, presumed that a consumer is just a passive receiver of marketing campaigns. Meanwhile, the development of information and communication technologies (ICT or *new wave technologies*) rendered it possible to connect the interactivity of both individuals and groups. Thus, buyers gained easier access to numerous sources of information which now help them compare the prices and standard of goods (frequently different from what is communicated by manufacturers/offerors (Brzustkiewicz, 2014, p. 2)). What is more, owing to ICT, not only can they collaborate with others, but also express themselves, present their beliefs, values. These in turn in the world of rapid changes and turbulences (when diseases are becoming pandemic, poverty is growing and natural environment is degrading) refer more and more often to social, economic and environmental justice. These values contemporary consumers want to express not only in words (e.g. in social media) but also by actions like i.a. doing shopping. Therefore while seeking opinion about different aspects of a company operation (like environment protection or respect for human rights) they look for those whose mission, vision and set of values are in line with their own desires, those which shall help them in self-fulfilment by improving their standard of living. Modern concept of marketing (3.0) should be geared towards the values. It should reflect not only customer values but also of the whole society worldwide (Visser, 2010, p. 15). Enterprises, institutions and organisations that apply this concept consider a human as a value, they strive for legitimization or approval of their initiatives, take consumer opinion into consideration when developing new products and try to harmonize corporate objectives with social, economic and environmental benefits (Kanter, 2012, p. 40). They offer something more than just the product – satisfying a customer on a higher level, and that is the spiritual level (Bondos, 2013, p. 144).

Summing up, 3.0 marketing is the combination of cooperation, cultural (engaging the customer) and spiritual marketing (Kotler, Kartajaya, Setiawan, 2010, p. 19). Although it tries to meet consumer requirements just as 2.0 marketing, its main focus is on the wellbeing of the buyers, not just satisfying their short-term needs. Furthermore, in their mission, vision and values the companies, institutions and organisations should concentrate more on dealing with social, economic and environmental issues (Porter, Kramer, 2011, p. 64) and thus making the difference to the world; they should focus on “overall” human issues and making people's lives better and not only on the consumer as the addressee of their marketing operations effects. In the long-term the wellbeing of the whole society is more important than of individual consumers (Lambin, 2001, p. 75).

3.0 version has elevated the concept of marketing to the level of human aspirations and spiritual values. One of those aspirations and values, raising the standard of living, certainly is the insight into the world gained by familiarizing with and experiencing it. C.K. Prahalad and V. Ramaswamy (2005, p. 33) claim that more and more often consumers aim at not having the product per se but to have access to desired experiences. This in turn helps them engage in tourism and more. Among many forms of tourism, visiting museums deserves recommending due to the fact that such places expand the knowledge, broaden horizons, provide with aesthetic impressions and experience, moreover they ensure worthwhile leisure time (Corbos, Popescu, 2011, pp. 188-197) and help in achieving self-satisfaction.

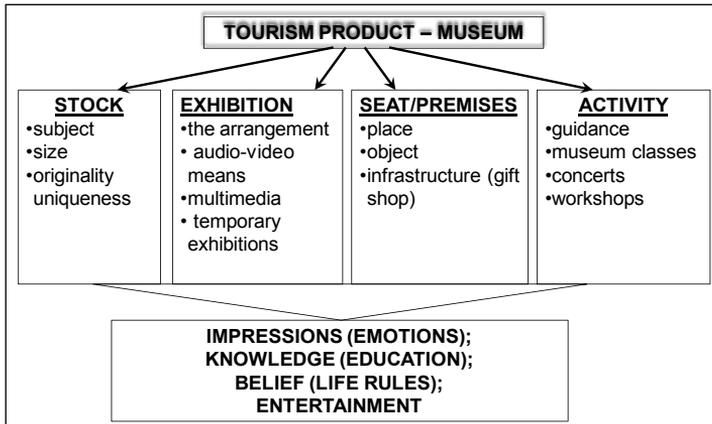
### **3. The specificity of museum tourism**

Cultural tourism and its forms, including museum tourism are pointed out amongst different forms of tourism where social norms are respected, and offered products are tailored to meet particular ideas and values characteristic of 3.0 marketing. The principle argues that enterprises, institutions and organisations should take care of the wellbeing of both the whole society and individual recipients. According to this principle the above entities including cultural institutions have been moving towards sustainable tourism (Middleton, Hawkins, 1998, p. 10 and the following; Weaver, 2005, pp. 10-14 and the following). That is to say, the development of tourism should be programmed in such a way so as to foster restricting the unfavourable changes of social and cultural environment. Obviously, museum activities of that kind will be promoted among its customers – visitors (tourists residing outside the location of the museum).

Subject literature treats museum tourism as “an undertaking geared towards tourism; the aim and main reason for pursuing a trip is a visit to one or more museums” (Mikos von Rohrscheidt, 2008, p. 6). One may talk about museum tourism when the object of “consumption” is a widely understood museum (see Fig. 1) including the stock, exhibition, seat and activity (Niemczyk, 2015; Stasiak, 2000, p. 172). Nonetheless, T. Jędrysiak (2009, p. 39) states that “museums are characterised by increased attractiveness for tourists which determines the size of tourist movement and the power of impact on tourists’ awareness”. Despite the many definitions of museum tourism it would be difficult not to agree with Z. Kruczek (2013) that “separating it as a form per se is of purely theoretical nature; in fact, during a visit one does not only visit the museums as the itinerary only based on museums would be unbearable (except for the experts)”. Generally, in the light of the above museum tourism might be seen as either independent way of travelling or complementary to other forms of cultural tourism. Such an approach is consistent with the idea of cumulative tourist demand whose feature is that the subject of consumption is either one or more museums which are the object-type products, but also might be the element of a bigger entirety – be a part of a tourism product: party, event, route or place.

As a result the museum itself might be either the core of museum tourism product or the component of actual product or even expanded to some other forms of cultural tourism, e.g. culinary tourism, thanatourism, etc.

Figure 1. Components of museum tourism product



Source: Stasiak, 2000, p. 172.

Undoubtedly, it is the museums that form the core of museum tourism. They have undergone a dramatic transformation from “the sanctuaries of culture” to state-of-the-art, multimedia institutions of culture (Black, 2012). Considered as tourism products, they consist of elements such as: stock, exhibition, seat and activity. The effects of the consumption of the aforementioned, as illustrated in Figure 1, are impressions, knowledge, beliefs and entertainment. This in fact emphasises the functions that entities of this kind try to realize. It is clear that their offer should be rich in emotions and experiences to meet the expectations of the contemporary recipient. Experience that tourists gain during their visit and consumption of a museum tourism product influence their level of satisfaction (Lampel, Shamsie, Lant, 2006, p. 23).

When seeking to find values on a market of cultural assets, it is noted that those components of particular cultural offers which are of importance to the tourists are their material components and services which are not recognized for artistic merits. However, they look for spiritual dimension there. In this context, the applicability of 3.0 marketing on the museum tourism market will be sought.

#### 4. The way of presenting museum products and how they are perceived by the participants of museum tourism

In order to identify the evaluation of selected components of the museum offer, referred to as spiritual components of the museum product, i.e. the knowledge of tour guides and their way to convey the information as well as the museum labels and their exposition, that is to say, the components which were mentioned as those attributed to 3.0 marketing, data gained from the survey conducted in Krakow in 2014 were used<sup>1</sup>. The survey’s purpose was to learn the consumer behav-

<sup>1</sup> The research was done as a part of research of the Department of Tourism at the Cracow University of Economics. Topic (No. 035/WZ-KT/01/2014/S/4231) *Museums As Tourist Attractions (seen by the visitors to Krakow)*, leader: prof. UEK dr hab. J. Berbeka, team members: Z. Borek, K. Borodako, A. Niemczyk, M. Rudnicki, J. Sala, R. Seweryn, D. Ziarkowski. Direct survey was carried out in the divisions of the National Museum in Krakow and selected points in the city with the use of an author’s questionnaire survey, on the sample consisting of 605 respondents. Quota sampling was used and the control variables were: gender, age and nationality of the visitors to Krakow.

jour of the tourists coming to the city and their opinion about local museums – the National Museum in particular<sup>2</sup>. The reference population was mainly represented by: women (nearly 61%), residents of Poland (2/3 of the population), respondents aged 19-34 years (19-24 years old – 30%; 25-34 years – 21.5%), respondents with minimum secondary education (about 90%), respondents from the towns up to 100 000 inhabitants (almost 30%), white collar workers (slightly less than 40%) and respondents with average financial situation (close to 43%).

Data summarized in Table 1 allow noting that the respondents highly rated the components of the museum product indicated in the survey. The highest score was given to the museum infrastructure and the presentation of exhibits, as well as to the architecture of the Museum. The high position of the presentation of exhibits – ranked second out of all components – proves that the Museum intention to pass the message hidden in the exhibits is conveyed in a proper way. And a visitor, as it was emphasized before, pursues emotions and spiritual experience. The exhibition itself is the expression of those benefits. Amongst the researched components of the museum product, the highest standard error was noted in reference to the surroundings of the Museum development and additional attractions offered by the Museum. It indicates great variations between opinions about these components of the museum product of the researched cultural institutions. On the other hand, the least differences in opinions appeared in reference to the infrastructure of the museums. The differences relating to those components which – according to the accepted assumption – are reasoned by the concept of 3.0 marketing for cultural institutions were relatively high. Standard error for these variables was 0.65-0.75.

Table 1. The average score of the selected components of museum product

Variable	Average	Median	Standard error
Tour guides' knowledge and the way to convey information	4.26	4	0.72
Tour guides' behaviour	4.37	4	0.65
The work of other Museum staff	4.31	4	0.64
Presentation of exhibits	4.49	5	0.75
Information facilitating the location of particular objects	4.23	4	0.74
Museum labels	4.27	4	0.75
Museum infrastructure	4.53	5	0.59
Additional Museum attractions	4.21	4	0.78
Museum surroundings	4.18	4	0.99
Museum architecture	4.44	5	0.72

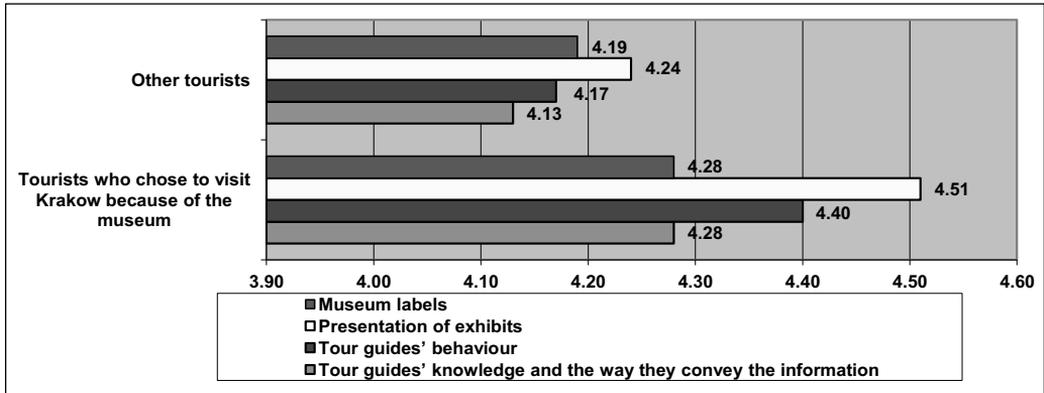
Source: Niemczyk, Seweryn (ed.), 2015.

Out of 605 surveyed tourists in Krakow, a vast majority consisted of people for whom the museums appeared to be the stimulus for visiting Krakow. Taking this aspect into consideration and identifying in the reference population those individuals who decided to visit Krakow for the museums and other visitors to the city, the assessment focused on interesting components of the museum product, having regard to the purpose of the article. In this context it is noted

<sup>2</sup> It should be stressed that the National Museum in Krakow consists of ten divisions located in Krakow (the eleventh division – Karol Szymanowski Museum is located in villa "Atma" in Zakopane).

that both groups assessed the reference components very high, i.e. over 4.0 on a five-point scale (see Fig. 2). Nonetheless, regularity is revealed. The motive of a journey plays a significant role in the assessment of how beneficial the product is, that is what its value is. All identified components were ranked higher by the population of tourists whose visit to Krakow was stimulated by the museums, although the highest rank was given to the presentation of exhibits.

Figure 2. The average score of the selected components of museum product awarded by tourists who chose to visit Krakow because of the museum and other visitors to the city



Source: own work.

High ranks in the assessment given by tourists whose visit to Krakow was stimulated by the museums and lower in the group of other visitors to the city led to identification of their profiles. And those appeared to be similar in terms of gender (the indicator for structural similarity for gender equalled 99.73) and age (the indicator for structural similarity equalled 91.73); both gender and age of the respondents of the above groups were analogical to those in the whole population. With regard to the tourists' place of living, relatively the lowest, yet high, structural similarities indicator (91.33) was observed. Thus, the place of living shall become the subject for further interest.

The analysis of empirical data gained from the research allowed the statement that by far the largest part of tourists came from small towns. It is interesting to note the high fractions of indications of the respondents from rural areas. It can be presumed that it is the sign of changes faced by this kind of areas, which have transformed from agricultural functions to multifunctional areas whose residents are educated (according to the research rural areas were inhabited by 82.91% people with at least secondary education) and cognitively-oriented, seeking cognitive values in museum products.

In the light of presented considerations the effort was made to determine the level of tourists' satisfaction with the perception of the knowledge of the tour guides and the way they conveyed it as well as the museum labels and the presentation of exhibits. Appropriate calculation was made with regard to the place of residence of the individuals and the results were summarized in Table 2.

Table 2. The average score of the selected components of a tourism product according to the tourists' place of living

Variable		Tour guides' knowledge and the way they convey the information	Tour guides' behaviour	Presentation of exhibits	Museum labels
Village	1	4.31	4.44	4.62	4.38
	2	3.25	3.50	4.25	4.00
Town up to 100 000 inhabitants	1	4.16	4.30	4.58	4.25
	2	4.50	3.50	4.33	4.33
Town with 101-500 thousand inhabitants	1	4.24	4.34	4.45	4.28
	2	4.40	4.57	4.28	4.28
City above 500 000 inhabitants	1	4.39	4.50	4.62	4.22
	2	4.50	4.40	4.14	4.14

1 – tourists who chose to visit Krakow because of the museum

2 – other tourists

Source: own work.

On the basis of the above it may be noted that selected spiritual components of the museum product were assessed differently depending on the respondent's place of living. Hence, the tour guides' knowledge and way of conveying information was scored the highest rank by the residents of big cities, whereas the way the presentation of exhibits was more appreciated by the respondents from villages and the museum labels – by the residents of small towns.

## 5. Conclusion

In the context of the considerations presented above, the following conclusions might be drawn:

- marketing as a philosophy of being on the market is an evolving concept;
- museum tourism may be seen as either independent way of travelling or complementary to other forms of cultural tourism;
- contemporary museums in order to adapt to the reality of changing market facilitate access to demanded experiences by interesting exposition or way of presenting exhibits;
- the respondents assessed the way of presenting exhibits on a high level – it was judged better by the residents of rural areas;
- tour guides' knowledge and the way they convey the information was awarded the highest position by the people from the cities;
- the profiles of tourists for whom the museum was the reason for coming to Krakow and other visitors to the city did not differ in a statistically significant way<sup>3</sup>.

Presented considerations clearly show that the aim of the research was achieved. Therefore, the answer to the question *whether 3.0 marketing is already used in museum tourism* is that appar-

<sup>3</sup> Non-parametric Mann-Whitney *U* test and  $\chi^2$  independence test were applied and did not reveal any significant difference between the research groups.

ently there are strong indications for its applicability in the researched institutions. Museum offer is a perfect example of satisfying customer's spiritual needs. It gives the ground for tourists' self-fulfilment, supporting their values through inter alia broadening horizons and gaining knowledge. Certainly, museums will seek to win customers – visitors and create more and more sophisticated offers, which is already visible in Krakow museum market and its offer of temporary exhibitions. A perfect example here is the exhibition of Olga Boznańska works in the National Museum in Krakow, which was so popular that people queued to purchase the tickets. Probably it was not just a specific way of spending leisure time, but also an expression of the need to satisfy visitors' spiritual needs.

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# Chapter 51

## Marketing in Polish Art & Culture Institutions 2014 – Research Results

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*Tomasz Smoleń*

### 1. Introduction

In August of 2014 author made a second research on marketing strategies and activities of cultural institutions and enterprises in Poland. The first one was conducted back in 2010<sup>1</sup>. This time a questionnaire was sent to 250 cultural organizations located in Poland, selected from the ones that participated in the previous research and adding some others from the list of randomly selected address database of such enterprises. After two months there were collected some 77 replies (30.8% of the sample) with the questionnaires filled with the answers to the questions stated along with the information on some properties and important features of respondents. Below there is a set of research results presented, based on the answer to the questions asked.

### 2. Profile of the sampled cultural institutions

The majority of the researched organizations (39.0% of the sample) has the status of local government cultural institution, 49.3% are state-owned companies, 5.2% are private institutions, and just 6.5% were declared as foundations or associations. 44.7% of them have associated branches, away from the place of their headquarters location.

The largest number of participants (49.3%) declared they employed from 11 to 50 people. A group of 28.8% participants employed from 51 to 250 people; 16.4% has less than 10 and only 5.5% more than 251 employees.

The most (88.3%) of the institutions researched are operation on public funds as the main source of funding. Only 11.7% of participants are financed mainly from their own revenues. Some of the cultural institutions participating in the research have additional sources of funding. Namely: 65.5% of respondents used the sponsors, 19.2% – public funds, 47.4% – EU funds and 80.8% use their own revenues as an additional funding source. About 11% of study partici-

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<sup>1</sup> The results of previous research made in 2010 were presented in such publications as Smoleń, 2012a, pp. 313-323; 2012b, pp. 675-686.

pants admitted that the lack the use of additional sources of financing. 15.4% of their indicated the use of additional means of financing their activities from other additional sources (other than those listed in the questionnaire). Among these funding sources there were listed: grants and programs of the Ministry of Culture and other governmental institutions, local and foreign grants and the funds from various foundations. Only 2.6% of respondents are not using any secondary sources for their funding purposes.

The researched companies are making activities on various cultural markets and dealing with different versions of artistic and cultural offerings. Only 14.7% of institutions participating in the study declared only one type of the cultural business they are active in. Many institutions have indicated commitment to a more than three types of cultural activities.

The most popular cultural activities declared by more than 50% of researched organizations were:

- animation of culture (e.g. community center) – 57.7%;
- organization of exhibitions of archival objects (museum) – 56.4%;
- publishing of books – 55.1%;
- sharing books, magazines, on-site (reading) – 51.3%;
- the organization of new art exhibitions – 50.0%.

Other cultural activities that less than 10-50% research participants admitted they are involved in were:

- internet portal devoted to cultural information and publications – 26.9%,
- book lending library – 21.8%,
- theater – 21.8%,
- publishing of video media (DVD, Blu-Ray) – 21.8%,
- music recording publishing – 20.5%,
- ballet – 19.2%,
- publishing of newspapers, printed journals – 16.7%,
- art schooling – 16.7%,
- production of music recordings – 15.4%,
- phonographic products publishing – 14.1%,
- film production – 14.1%,
- operetta – 12.8%,
- opera – 11.5%,
- sharing music and sounds on the spot (listening) – 10.3%.

Less than 10% of participants were indulging in the other cultural activities, not mentioned above:

- sales of visual art works – 9.0%,
- movie rental (DVD, VOD) – 7.7%,
- TV Production – 3.8%.

Other cultural activities were represented by less than 3% of respondents, each. The information stated above was collected from a set of answers, offered by research participants to the questions stated in the questionnaire.

### 3. The marketing activities in cultural institutions – research results

The cultural institutions declared what part of their budgets are allocated to marketing expenses. The majority of research participants (79.5%) spend up to 10% of their total budgets on marketing. Only 15.4% of cultural institutions researched use 11% to 20% of their budgets on marketing, and just 3.8% had the marketing budgets worth more than 20% of their total budgets. Just one company from the group spends more than 31% of their budget on marketing.

The most of organizations declared as the target markets for their cultural offerings: endemic audiences in the city/village (98.8%) where the cultural institution is located. 92.3% of them are directing their offers to regional customers – living in several neighbouring cities/villages. 59.0% of organizations are targeting their offerings to the national customers. Only 42.3% respondents are dedicating their offers to foreign customers.

The first questions asked in the questionnaire used were to learn how the institutions are defining their target audiences and if they have special offerings to meet selected target markets' expectations. The question was if the institution knows exactly to whom the offer is being addressed (Fig. 1).

Figure 1. Does the institution know exactly to whom its offer is addressed? (% in columns)

	<b>% of respondents</b>
Yes, we have one defined group of our customers.	6.4
Yes, we have defined more than one group of our customers.	84.6
No, we do not have any clearly defined target groups of customers.	9.0

Source: own work.

The most of surveyed organizations have defined several target groups of customers to which they direct their offers. But 9% of the researched ones do not have a clearly defined target customers, what is completely wrong.

Having a chosen target market(s), the company should prepare appropriate offers for each of the markets. The next question was to recognize if cultural institutions make preparations of tailored offers made especially for the markets they selected to serve, to meet the needs and expectations of target groups of customers (Fig. 2).

Figure 2. Does the organization carry out activities specifically adjusted to the characteristics and needs of selected groups of customers? (% in columns)

	<b>% of respondents</b>
Definitely Yes	41.0
Rather Yes	53.8
Rather No	5.2

Source: own work.

The majority of the institutions surveyed do adjust their marketing activities to target customers' needs. The slight group of cultural organizations (5.2% of survey participants) declared not to tailor their offers to target market.

The following question was to recognize if the institutions have marketing goals set and are going to reach the goals with specific marketing activities in the market (Fig. 3).

Figure 3. Does the organization have clearly defined marketing goals that it intends to achieve by using appropriately selected marketing activities? (% in columns)

	<b>% of respondents</b>
Yes, we have developed marketing objectives highlighted in a document	26.9%
Yes, we have marketing objectives established 'ad hoc'	61.5%
No, we do not have any marketing objectives set	11.5%

Source: own work.

The most of the institutions are setting marketing objectives 'ad hoc' (61.5%). The smaller group of the cultural institutions researched (26.9%) have marketing objectives set and formalized as documents. The minor group – 11.5% of cultural institutions surveyed unfortunately do not have any marketing objectives set.

Having marketing objectives set, the following step is to prepare plans for marketing efforts to be taken, directed at each of the target groups of customers. So the next question considered if the cultural enterprises had developed marketing plans for their target audiences (Fig. 4).

Figure 4. Has the institution developed marketing plans targeted on defined audience groups? (% in columns)

	<b>% of respondents</b>
Yes, we have developed marketing plans in the form of the document.	28.2%
Yes, we have marketing plans as ordered "knowledge in the head".	48.7%
No, we have no marketing plan, we act spontaneously.	23.1%

Source: own work.

The majority of the companies researched (86.9%) have had marketing plans for defined markets. A minor fault is that the major group of 48.7% do not have those marketing plans formalized as documents, but only as "knowledge in the head". All those companies should have marketing plans documented in detail for their own benefit. Almost quarter of surveyed institutions (23.1%) do not have any marketing plans for defined target audiences. They do target marketing spontaneously, if at all, which may be completely inappropriate for them.

The next question was on the plans for marketing actions in the nearest future (i.e. for the year of 2015) to be applied to companies' selected target clients (Fig. 5). Almost half of the companies (46.2%) declared to have marketing strategies developed for the year 2105, but only as informal "knowledge in the head". No marketing plans, but spontaneous marketing activities was still declared by 28.2% of the cultural institutions participating in the survey. Only 25.6% of the organizations stated they have developed formalized marketing plans for 2015.

Figure 5. Have the institution developed marketing strategies targeted at customers for the following year? (% in columns)

	<b>% of respondents</b>
Yes, we have developed marketing plans in the form of the document.	25.6%
Yes, we have marketing plans as ordered “knowledge in the head”.	46.2%
No, we have no marketing plan, we act spontaneously.	28.2%

Source: own work.

Being asked on how they evaluate the marketing principles knowledge among the employees responsible for marketing decisions in each company (Fig. 6), the respondents most often declared the marketing knowledge level as “high” (47.4%). The second group of respondents named their company’s marketing employees knowledge as “average” (26.9%). A “very high” level of marketing knowledge was admitted by 15.4% of surveyed ones. But “low” and “very low” marks on marketing knowledge was acknowledge by some 10.3% of research participants.

Figure 6. The evaluation of the knowledge of marketing principles among employees responsible for making marketing decisions (as stated by respondents from surveyed institutions) (% in columns)

	<b>% of respondents</b>
Very low	3.9%
Low	6.4%
Average	26.9%
High	47.4%
Very high	15.4%

Source: own work.

Sources of marketing skills and qualifications of marketing decision-makers in cultural enterprises surveyed (Fig. 7) were identified with the answers to the next question. The largest number of employees have learned their marketing knowledge and skills from professional experience in conducting marketing activities (47.4%). More than every fourth company surveyed declared to have employees that studied marketing and management as a subject of their daily or post-graduate studies (25.6%). Some 11.5% employees completed courses or trainings in marketing, the same as number of companies in which employees have little experience in marketing. Only the slight 3.9% of cultural institutions admitted by answering: “it’s hard to say”. In general employees responsible for marketing decisions in surveyed cultural institutions have some marketing experience, but it would be appropriate for them to get some schooling and studying marketing theory for the enhancement and improvement of their marketing qualifications for the future.

Figure 7. Sources of marketing skills of employees responsible for marketing in the cultural institution. (% in columns)

	<b>% of respondents</b>
Specialist marketing education (such as university degree in Management and Marketing, postgraduate Manager of culture, etc.).	25.6%
Completed courses/training in marketing.	11.5%

Professional experience in conducting marketing activities.	47.4%
Little experience in leading marketing activities.	11.5%
It's hard to say.	3.9%

Source: own work.

To learn how cultural institutions evaluate the effectiveness of their marketing activities in the last 2-3 years (Fig. 8) there was stated the last questions in the series. The most common rating was “average efficiency” (39.7% of respondents). The highest rates of marketing activities efficiency (“high” and “very high” efficiency) were stated by almost half of participants (48.7%). Only 11.6% of researched were evaluating the efficiency of their marketing activities as “low” or “very low”. A positive evaluation of effectiveness in marketing was acknowledge by major 88.4% of surveyed companies.

Figure 8. Evaluation of the effectiveness of marketing activities as conducted by institutions in the last 2-3 years. (% in columns)

	<b>% of respondents</b>
Very low efficiency	2.6%
Low efficiency	9.0%
Average efficiency	39.7%
High efficiency	42.3%
Very high efficiency	6.4%

Source: own work.

Figure 9 includes the listing of selected different marketing activities taken in the past two years in the cultural organizations, ordered according to their popularity. Companies researched indicated the extent to which each marketing activity listed was used in two previous years. The list of marketing activities types and the percentage of selected indications of the each marketing actions taken by surveyed institutions in two years time, preceding the research done in 2014. Marketing activities presented have been arranged in the Figure 9 in descending order by number of “yes, definitely” answers.

Figure 9. The use of marketing activities in cultural institutions in years 2012-2014 (% in rows)

<b>Marketing activity type</b>	<b>Yes, definitely</b>	<b>Yes, to some extent</b>	<b>Yes, moderately</b>	<b>No</b>	<b>It's difficult to say</b>
Use of Internet (e.g. corporate web-page) to present institutions offerings	94.9	5.1	0	0	0
Promotional activities off-Internet (advertising, leaflets, fliers etc.)	70.5	21.8	7.7	0	0
Internet communication with customers (e.g. mailing, discussion groups, social web media, etc.)	68	20.5	5.1	5.1	1.3

Offerings for free in certain circumstances (within the specified time or for specific clients – such as students)	57.9	30.6	5.1	3.8	2.6
Use of Internet for promotional purposes (e.g. advertising on the Internet)	53.9	23.1	10.3	11.4	1.3
New product as an extension of the offer	52.6	28.2	12.8	1.3	5.1
Active pricing Policy (e.g. price discrimination, discounts)	51.3	19.2	9	16.6	3.9
Strategy development for the upcoming year	48.7	32.1	10.2	6.4	2.6
Making the offers available on the internet (e.g. web sales of tickets, products; web bookings, etc.)	46.2	18	16.6	17.9	1.3
Use of sponsors' help for marketing purposes (such as media sponsors)	43.6	26.9	15.4	11.5	2.6
Participation in collective events (e.g. fairs, festivals)	41	26.9	23.1	6.4	2.6
“Open days” for consumers offered by the institution	39.8	19.2	10.3	25.6	5.1
The use of innovative forms of distribution of offerings to customers (e.g. web distribution)	39.7	23.1	16.7	14.1	6.4
Changes or adjustment of the time the offerings are available to meet the expectations of potential customers	35.9	34.6	16.7	5.1	7.7
Taking marketing actions to attract and maintain relationships with potential sponsors	34.6	32	20.4	10.2	2.6
Differentiation of offers for various audiences (use of market segmentation, positioning)	34.7	32	15.4	12.8	5.1
Membership in professional associations of cultural institutions	29.5	25.6	14.1	24.4	6.4
Joint marketing activities with other national cultural institutions (cooperation in the creation of the offer, providing or promoting it)	25.6	38.5	20.5	11.5	3,9
Targeting offers to foreign customers e.g. by creation of informational materials in foreign languages	24.4	19.2	28.2	26.9	1.3

Cooperation with other companies in provision of offerings (or information about it) to employees of these firms (e.g. admission tickets for employees, coupons, information materials, etc.)	23.1	26.9	21.8	25.6	2.6
Modifying (improvement of) customer service processes	20.8	37.7	24.7	15.5	1.3
Cooperation with institutions representing the tourism industry to reach potential customers (i.e. tourists) with their help	20.5	32	29.5	18	0
Personnel training to enhance their competence in customer service and their impact on customers	20.5	29.5	25.6	23.1	1.3
Making the offer available in electronic form on the Internet (as audiovisual files, databases, texts, etc.)	18	9	15.3	48.7	9
The use of tools aimed at increasing customer loyalty (CRM) (e.g. loyalty cards)	14.1	14.1	20	48.7	2.6
Joint marketing activities with foreign cultural institutions (cooperation in the creation of the offerings, its provision and promotion)	9	23.1	24.3	42.3	1.3

Source: own work.

From Figure 9 data one may see the scope and level of popularity of marketing activities used by surveyed cultural organizations. There is an increase in use of Internet among cultural companies for marketing purposes, namely for:

- presenting company, brands, offerings, history, past achievements and plans for the future – with own websites and/or corporate pages on social networking sites like Facebook;
- promotion of company and its offerings on thematic web portals devoted to the cultural events and culture in general.

A lesser group of cultural institutions from the researched group is using such marketing tools and activities like:

1. CRM strategies and actions to increase customer loyalty.
2. Joint activities with foreign cultural institutions in practical applications of marketing on the cultural markets.
3. Cooperation with tourism industry companies to spread information on cultural offers to tourists.
4. Making the offer available in digitalized/electronic form on the Internet (as audiovisual files, databases, texts, etc.).
5. Participation in training and actions for improvement of personel's marketing awareness, skills and competences.

The last set of the questions asked were prepared to received information necessary to select and classify the most important factors that influence the marketing activities undertaken in cultural organizations. It was made to explore what features support and what is seen as an obstacle to the development of companies' marketing activities (Fig. 10). The respondents declared what impact each individual factors/features have on their choice of marketing activities. The individual factors presented in Figure 10 are ranked in order of their validity for the respondents.

Figure 10. Influence of selected factors on marketing activities undertaken by cultural institutions

<b>Factor</b>	<b>Very large impact</b>	<b>Large impact</b>	<b>Average impact</b>	<b>Little effect</b>	<b>No effect</b>	<b>Hard to say</b>
Financial condition of the institution	65.4	24.4	5.1	3.8	1.3	0
Technical capabilities. available infrastructure	42.3	43.6	10.3	0	3.8	0
Creativity of manager	51.3	33.3	9	1.3	0	5.1
The expectations of the potential customers	26.9	53.9	11.5	5.1	0	2.6
Location of the institution	41	38.4	12.8	2.6	2.6	2.6
The local reputation of the institution	38.4	37.2	12.8	6.4	3.9	1.3
Demographic characteristics of customers	24.4	47.4	19.2	7.7	1.3	0
Marketing competences of the personnel	35.9	34.6	19.2	7.7	0	2.6
The favor of local authorities	39.8	28.2	14.1	11.5	5.1	1.3
Creativity of artists. whose works the institution could offer	24.4	37.1	21.8	9	2.6	5.1
Availability of sponsors ready to support the activities of the institution	39.7	21.8	18	16.6	2.6	1.3
The financial prosperity of the customers	20.5	41	18	6.4	11.5	2.6
The level of cultural competence of potential customers	20.5	37.2	25.6	9.1	3.8	3.8
The law governing the institution activities	25.6	28.2	15.4	16.7	6.4	7.7
Changes in lifestyle of potential customers (that determine how they use cultural offerings)	18	34.6	20.5	7.7	5.1	14.1
Trends. fashions – linked with the consumption of cultural offerings	15.4	35.9	28.2	7.7	9	3.8
The reputation of the institution and its offerings in the country	23.1	19.2	33.3	14.1	2.6	7.7
The possibility of cooperation with other national cultural institutions	7.7	29.5	51.2	6.4	1.3	3.9
Climatic conditions (e.g. weather)	17.9	16.7	26.9	20.5	16.7	1.3
The possibility of cooperation with foreign cultural institutions	6.4	25.6	29.5	21.8	14.1	2.6
Actions undertaken by competitors	6.4	21.8	42.3	20.5	5.1	3.9

The international reputation of the institution and its offerings	14.1	11.5	25.7	20.5	19.2	9
Potential interest of foreign customers in cultural offerings	7.7	15.4	26.9	32	15.4	2.6

Source: own work.

The majority of the respondents acknowledged very large or large impact on their marketing decisions have financial condition of the company (89.8%), technical capabilities & available infrastructure (85.9%), managers' creativity (84.6%), customers' expectations (80.8%) and the place where the company is located (79.4%).

The other important factor influencing cultural companies' marketing activities is the level of financial prosperity of the potential customers (61.5%). The cultural institutions employees are also aware that the interest in cultural offerings is dependent on the level of cultural competence of potential customers (57.7%).

It is interesting to note that actions undertaken by competitors are not very important for the majority of respondents (67.9%).

#### 4. Conclusion

Despite the fact that marketing strategy planning and its implementation in cultural institutions should be done by employees with necessary marketing skills and knowledge, there is a significant number of companies that are carrying out 'ad hoc marketing', without precisely defined marketing goals, formal marketing plans and target markets selected. The survey results indicate (similarly, as it was concluded in 2010 research results) a necessity to increase awareness and marketing competence among marketing managers (or marketing decision makers) in cultural institutions in Poland. The improvement of marketing qualifications of employees and better financial conditions of cultural organizations seem to be the crucial factors of being successful in cultural market in Poland.

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# Chapter 52

## **Web Sites of Big Cities in Poland as City Promotion Instruments<sup>1</sup>**

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*Sebastian Brańka*

### **1. Introduction**

The contemporary cities are in competition for scarce resources that depend i.a. on decisions of inhabitants, investors, tourists, students and other stakeholder groups. Intercity competition have occurred on various fields since many dozen years. The set of promotion instruments that cities may use to attract its stakeholders and satisfy their needs has evolved in that time due to occurrence of new management concepts, promotion tools and techniques. The proliferation of the Internet, social media and the mobile communication devices implies effective use of on-line promotion instruments by cities. Official city web pages are a fundamental instrument of cities' presence in the Internet. The purpose of this paper is to identify the use of official city web pages in the biggest Polish cities.

### **2. On-line instruments of city promotion**

There is a long record of past actions that, from the contemporary point of view, might be considered place marketing or place promotion (Brańka, 2014, pp. 139-144). Recently the Internet has offered a new environment and instruments for promotion. Adapted at first by companies it soon started to be a promotion medium for cities and other places as well. In Poland the proliferation of the Internet started later than in the USA or the 15 countries of the "old" EU. Still, during the last 15 years in Poland the access to the world wide web and digital competences of users (home users, companies, retailers, central and local government) have improved tremendously. Analysing the literature on place promotion and destination marketing from the past 20 years (Kotler, Haider, Rein, 1993, pp. 151-155; Balderjahn, 2000, p. 140; de Elizagarate, 2008, pp. 161-168; Florek, Augustyn, 2011, p. 21, 171; Szromnik, 2012, p. 85, 409; Morrison, 2013, p. 321) one may find

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that after the year 2000 the Internet and digital marketing have been highlighted as an important element of the internal structure of the place's promotion system. Florek and Augustyn (2011, p. 190) list top advantages of the Internet as a communication medium:

- interactivity,
- no time-related restrictions (the recipient determines the access time to the content),
- possibility of prompt reaction of the recipient of the message (e.g. purchase, posting comments),
- unlimited territorial range,
- possibility of current and continuous updating,
- low cost of reaching a significant number of recipients,
- possibility of using multimedia.

All of the mentioned advantages may be referred to official city web pages. In one of the major Polish books on company promotion Wiktor (2005, p. 241) shows that in 2005 the basic on-line marketing communication instruments (for companies) included:

1. Web pages.
2. Banners.
3. E-mail.

Social media has not yet been used at that time in Poland, while platforms such as Friendster have already been popular in South-Eastern Asia (e.g. Indonesia). The cited Author adds that web pages include the classical promotion-mix features such as: advertising, sales promotion and PR. Florek (2011, p. 84) lists five most popular online tools already used by cities to communicate their brands. These include:

1. City-controlled Websites.
2. Blogosphere.
3. Social networks.
4. Virtual realities.
5. Email.

Florek highlights that city-controlled websites are “primary, the most popular, and nowadays obligatory tool in branding places” and that “unlike traditional mass media, the website content can be tailored to target different audiences through customizable settings to create a favorable image of the place” (Florek, 2011, p. 84). It may also be simply called a tool for promoting a place. Websites allow to present a significant amount of information about the city in order to shape the identity of the city. The cited author highlights that there has been a growing trend to use social media platforms in place promotion e.g. by establishing official city profiles and including appropriate links on the official web pages. Furthermore links to platforms like TripAdvisor may be used to allow web users to find reviews of other users on our offer (Florek, 2011, p. 89). Florek reminds Rowley's words that online environments are only information-based environments and from the perspective of a place's brand, it is the experience of the user that matters. As a tourist or an investor must be present in a city to experience it, “the place brand promise communicated online can far exceed the reality of the place itself” (Florek, 2011, p. 82). With regard to this, the user-generated contents in social media seems particularly important in tourism. As Miguéns et al. state: the opinions and reviews posted online by other travelers (e.g. through social media) might be concerned a more reliable source of information than official communicates of city authorities, hotels or restaurants. Therefore “all tourism businesses are thus facing the need to implement strategies and tools (websites or portals) based on user generated contents or, at least,

to incorporate these new technologies to enrich their multimedia contents” (Miguéns, Baggio, Costa, 2008, p. 2). This must be referred as well to city authorities that should use the most popular social media to inform on major coming events as well as allow potential tourists to imagine the real city-experience due to photo galleries, films and audio recordings and to post their own impressions, photos, opinions, comments.

### **3. Recipients of city’s online promotion instruments – findings from empirical research**

In the year 2013 a research project has been executed by Sebastian Brańka to identify the marketing activity of Polish cities<sup>2</sup>. For research purposes all 59 Polish major cities were chosen as the sample. This sample included: all the present regional capital cities (18), all the biggest cities (i.e. 39 cities with population of at least 100,000 inhabitants) and all the capitals of regions in the former administrative system in Poland (20 of them smaller than 100,000 inhabitants). Within this sample 51 cities participated in the research (including 36 cities with population of at least 100,000 inhabitants).

Among a very large number of themes analysed during the project, there was an attempt to identify the recipients of selected on-line promotion instruments (see Fig. 1). For this research nine groups were identified as potential recipients of various city communication tools. Figure 1 presents four of the online communications tools used for city promotion in Poland. The Figure allows to differentiate the target audience of each of the four online promotion instruments. Within the four instruments, two types of web sites have been analysed:

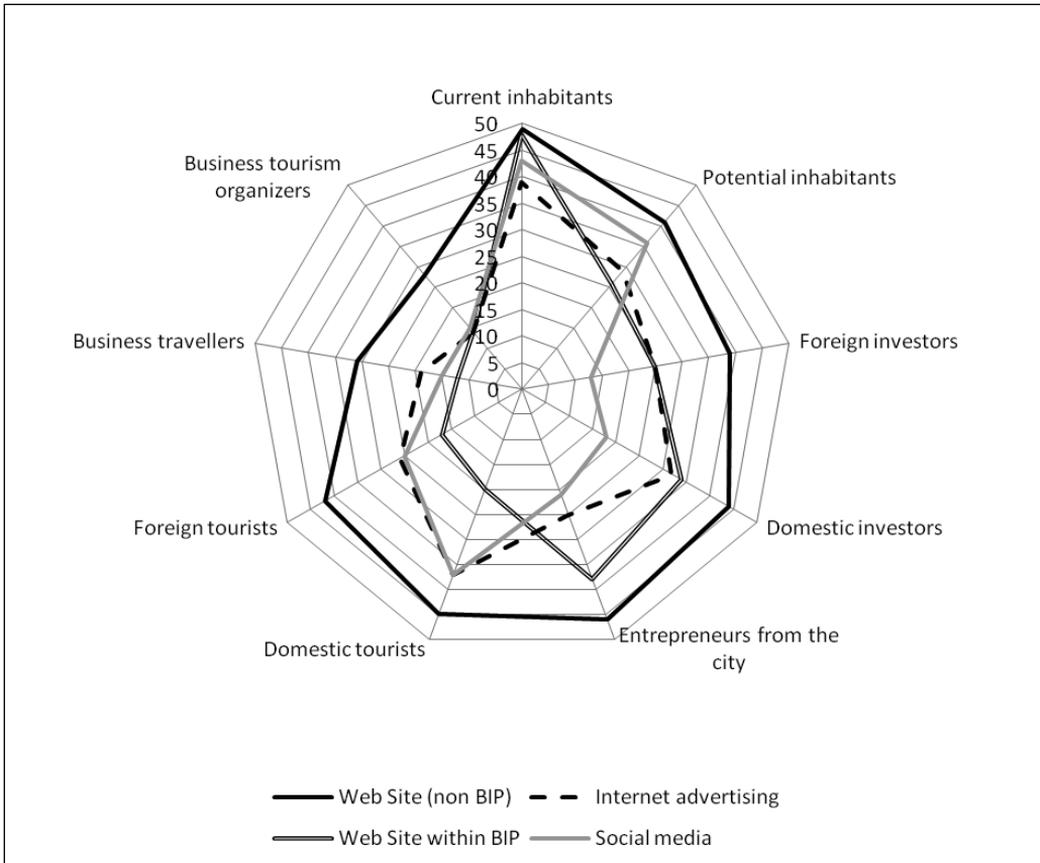
1. The obligatory BIP websites – including information that must be available to the public (so called BIP – in Polish: Public Information Bulletin).
2. Non obligatory websites (non BIP) – including information for various stakeholder groups (e.g. inhabitants, tourists, investors).

It is important to underline that all of the cities (51) offered both obligatory and non-obligatory web sites. There is no surprise that the official city websites (non BIP type) occurred to be the most universal online marketing communication instruments. They have been designed, above all, to provide information for current inhabitants (in all but two cities) as well as entrepreneurs operating in the city (in 46 cities). Domestic tourists and domestic investors have also been declared significant recipients of these web pages (45 and 44 cities respectively). It is worth underlining that official (non BIP) web pages have been the most commonly used on-line promotion tools in case of all analysed types of stakeholder groups. On the other hand the BIP websites (created in order to provide the obligatory public information) were targeted mainly on current inhabitants (48 cities), local entrepreneurs from the city (38 cities) and domestic investors (from outside of the city) – 34 cities. Social media was used mainly to communicate with current inhabitants (43 cities), domestic tourists (37 cities) and potential inhabitants (36 cities). Foreign tourists appeared to be less important for social media use than the domestic ones.

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<sup>2</sup> This project has been financed by the National Science Centre, based on the decision No. DEC-2011/03/N/HS4/01581.

Figure 1. Recipients of city's online promotion instruments – the number of cities directing particular instruments at particular audiences



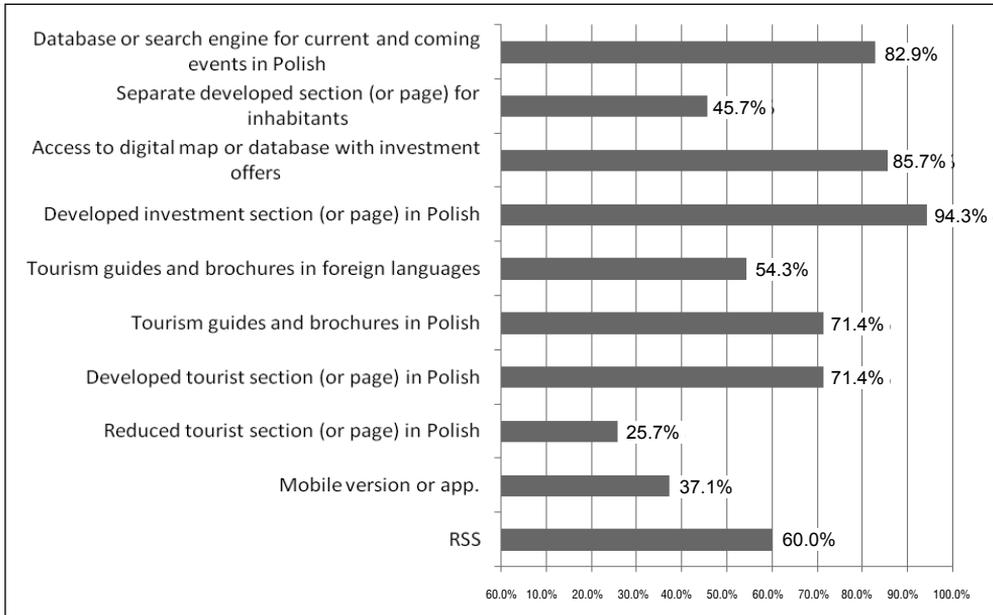
Source: own research project, n = 51 cities.

#### 4. The availability of sections and elements dedicated for particular user groups – findings from direct analysis of the webpages

Referring to the previously described research project, 36 cities with population of at least 100 000 inhabitants that took part in the previous research were chosen for further analysis. The research was executed on 13 and 14 June 2015 and as one of the portals was unavailable, therefore 35 official city web pages have been analyzed with regard to their contents. Some basic features of web pages were analyzed to identify the suitability of the web page content and its layout for respective user types. As, based on the cited 2013 research, the inhabitants seem to be the most important user of the web pages (in Polish language) it was checked if there is a developed section (or subsection) of the page or a separate page dedicated to current inhabitants

only (see Fig. 2). What seems surprising is that only 46% of the cities (namely 16 of them) included a developed separate inhabitant-dedicated section. In pages of the remaining 54% of the cities the contents for this user group was present into various other sections. Another option that seems necessary for inhabitants is a search engine or database including current and coming events. In case of Poland’s biggest cities one may find such an option (in Polish language version) in case of 83% of the official web pages. Apart from the needs of inhabitants such an event database or search engine may be used by domestic tourists as well. Another useful tool that may be easily used on a web page are the so called RSS channels that allow subscription to selected information obtained from the web page. Such an option might be very useful for the inhabitants of the city. It is not that much popular though, as 60% of the examined big cities allowed such an option on their web page. The recent proliferation of smart phones and the use of mobile Internet in Poland causes a necessity to allow easy access to data for mobile users. Traditional web pages are not an optimum way of presenting information for the users of mobile devices. Therefore one may offer the so called mobile versions of web pages or special applications that must be installed on a smart phone that allow easier access to the web page contents. Such solutions have been used in less than 40% of the researched top cities. The cities that offered mobile versions or applications targeted them mainly on inhabitants and tourists sometimes using only one option (either mobile version or application) or both.

Figure 2. The availability of selected web page sections and elements dedicated for user groups



Source: own research, n = 35.

The data presented in Figure 2 reflect that almost all big cities in Poland (94.3%) include a developed investor-oriented section or separate page on their official web page. Close to 86% of the cities include direct access to a set of investment offers or interactive maps that include

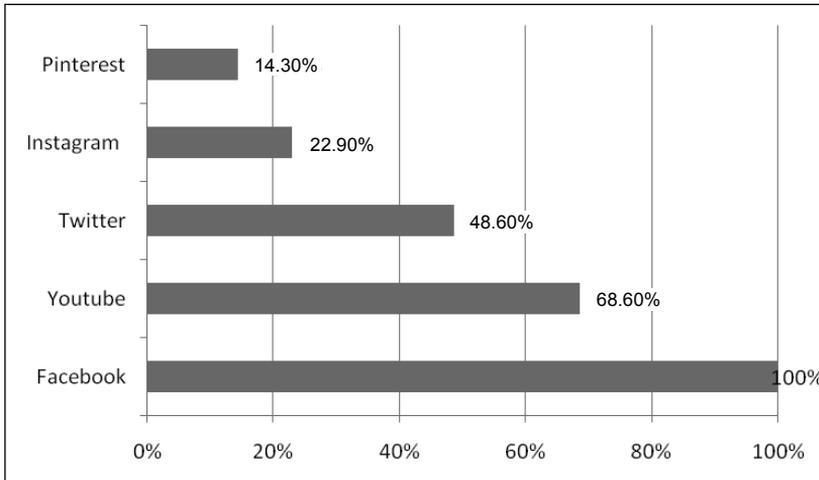
them. Therefore almost all web pages of big cities in Poland seem to include a tailored investment-oriented content. Furthermore analysis of the structure and contents of the web pages suggests that a significant number of web pages includes solutions and contents targeted at tourists. More than 70% of the cities includes a developed tourist-targeted section (or page) and guides or brochures in Polish. Close to 26% of the cities includes only a basic (with a reduced contents) section dedicated to tourists. It is significant that only one city does not include neither basic tourist-oriented section nor a developed one. In addition to that, some cities have also included sections dedicated to other stakeholder groups, such as: potential inhabitants, tax-payers, or students.

In conclusion to this part, although the web pages are targeted to a large extent at inhabitants, the use of special features targeted at investors (sections, databases, search engines) and tourists (developed sections, guides and brochures) seems more popular than the use of inhabitant friendly options (a developed dedicated section, RSS channels, mobile versions and mobile applications).

## **5. The use of social media on the web pages – findings from direct analysis of the webpages**

During the web page visits it was analyzed whether there are links to the most popular social media platforms. The condition for considering a city profile in social media was the presence of a direct link from the official city web page. Therefore only those profiles in social media that are officially included in the city web pages have been taken into the analysis. There is no surprise, due to the popularity in Europe, that Facebook occurred to be the social media platform that has been used by all cities but one. What is interesting, the city without a Facebook profile (Zielona Góra) did not link any other social media platforms on their website and a 2010 research revealed that this city did not offer a profile in any social media platforms (Gebarowski, 2011, p. 453). All of the mentioned Facebook profiles have been provided in Polish language. Some cities used more than one official profile, due to activity of different organizational units from the city hall. In such cases the most universal city profiles were considered. The profiles were used mainly to include information on the cities and events taking place. It is important to underline the difficulties in providing profiles for foreigners, as the contents and the language (preferably English) would have to be adequate to the foreign audience. Only the capital city, Warsaw, was able to create popular social media profiles (Facebook and Twitter), both in Polish and English versions. Such attempts in other cities were either not very popular or unused (abandoned) for a significant time.

Figure 3. Percentage of the 35 biggest cities offering an official profile within selected social media platforms



Source: own research, n = 35.

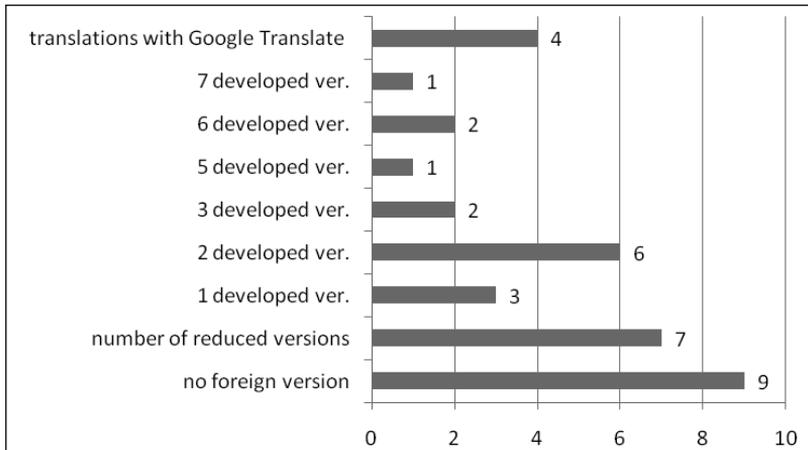
As one may see in Figure 3 the other most popular social media were: Youtube (24 cities used it), Twitter (17 cities), Instagram (8 cities) and Pinterest (5 cities). Instagram is currently a leading platform for publishing photos made with mobile phones. Some of the cities included links to the Polish platform “nasza klasa”, but it has not been included in this analysis as the popularity of this platform has recently declined and its interface and leading idea seem not to fit to the needs of a city, as it was designed to join together people who attended same classes in schools of different levels. Rarely cities have used platforms such as Dailymotion, Slideshare, G+, Four-square, or Spotify. In some cases only links were included on the city web page and the profiles seemed unused for a longer period. In case of Twitter, Warsaw offered popular profiles both for Polish and English speaking users, what is unique among Polish cities and reflects both the international potential of the capital of Poland and possibly the organizational and financial potential of the city hall as well. It is also worth to mention the web page of the city of Gdańsk, where a special subsection dedicated to the (intensive) use of social media was created. What should be underlined is that in some cases (Tarnów) there have been links to TripAdvisor that allowed viewing opinions of other users about a certain amenity or local business. This approach seems to reflect the very idea of the social media, where the potential user may encounter opinions of other users and not only of city authorities.

An interesting idea of presenting information from the Internet users is using blogs. There are some examples of blogs written by city mayors or other officials, but they have not been analysed in this research as it was assumed that they might promote not only the city but the person itself. Within the analysed web pages one direct link to a blog was easily found – written by a foreigner living in one of the big cities in Poland. It may be considered an interesting use of the user generated content to promote a city, given that other Internet users would consider such content independent from the city authorities even though it has been linked from the official web page.

## 6. Language versions of the city web pages – findings from direct analysis of the webpages

It is sometimes stated that contemporary world is a global village and the Internet abolishes communication frontiers. The availability of hardware, software and the Internet connection does not make this statement always true. The language barrier is still what may prevent the possible user from obtaining information through a web page. As Poland is a homogenous country in terms of ethnicity and language, the Polish version of the web site allows communication with almost all inhabitants. In case of investors and tourists there is a challenge of providing the information in a foreign language. In most of the analysed cities the contents of web pages differed to a large extent between various language version. The most extensive version is always the native (Polish language) version as it is targeted at both inhabitants, domestic tourists, domestic investors, local entrepreneurs, domestic students and possibly other Polish-speaking groups. Not all of the information from such a website is necessary for the foreign web page users, including mainly foreign investors and tourists. Therefore the foreign language versions are often limited only to tourism and investment related issues.

Figure 4. Number of reduced and developed foreign language versions included on the city web page (tourism section)



Source: own research, n = 35.

### 6.1. Foreign versions for tourists

The analysis of the available language versions in tourism dedicated sections revealed that in case of some cities the declared foreign language versions did not exist. For example in one city only the headlines were translated and the contents was not. In one of the city's 4 foreign language versions were declared and none of them actually existed. Summing up, four categories of foreign language versions may be identified (see Fig. 4):

1. No foreign language version.
2. Online translation via Google Translator.

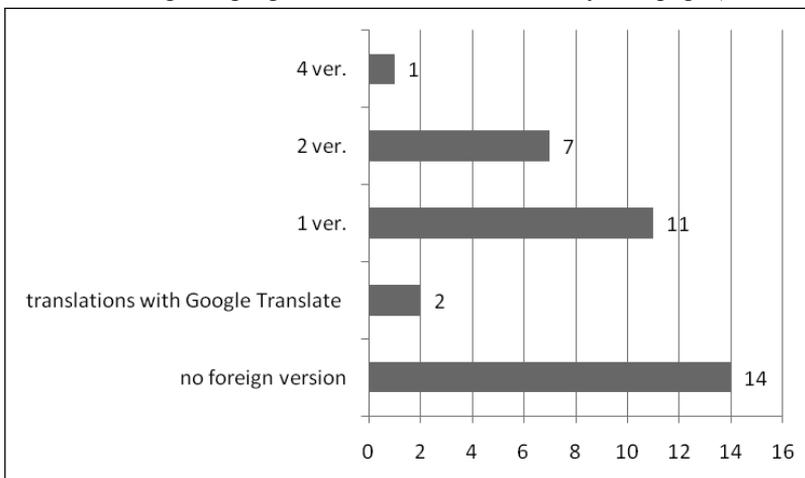
3. A small (reduced) foreign language section for tourists, and
4. A bigger (developed) foreign language section for tourists.

In 9 cities (25.7%) there were neither reduced nor developed foreign language sections for tourists. In 4 cities (11%) Google Translator service was providing the translation of the tourism section. An advantage of this is that a substantial part of the web page may be translated. The disadvantages are: omission of certain data while translating (e.g. downloadable documents) and lower quality of automated translation. Limited foreign language versions for tourists were available in 7 cities (20%). At least 1 significant (developed) foreign language version was offered on 15 web pages (almost 43%). It is worth to mention that in case of the on-line translations in one of the cities the tourism section of the web page was translated by the Google Translate service, while the guidebooks could be downloaded in one foreign language (German). As one may see in Figure 2, in 19 cities (54.3%) the city website offered tourism guides and brochures in foreign languages. The most popular foreign language versions for tourists were: English, German, French and in some cases Russian. In Cracow, foreign tourists could find information in: English, German, French, Czech, Russian, Italian and Spanish.

## 6.2. Foreign versions for investors

As one may see in Figure 5, the number of the foreign language version of the investment-dedicated section of big city web-pages is smaller than in case of tourism-oriented sections. 14 cities (40%) did not direct its investment offer to foreign entities. If the cities used a section targeted at a foreign investor it was provided either in one language (exclusively English) or in 2 languages (English and almost exclusively German, in some cases Russian). In one case the section for foreign investors (in a foreign language) could be accessed through the main web page in Polish language, therefore it would be a challenge for a non-Polish speaking user to click the correct Polish headlines leading to the foreign language version.

Figure 5. Number of foreign language versions included on the city web page (investment section)



Source: own research, n = 35.

## 7. Conclusion

The cities selected for both of the cited research projects are the biggest cities in Poland and the cities that played major roles in the Polish administrative system in the past years. It was assumed that their human capital, organizational and financial potential is relatively biggest in Poland, compared to other cities, what should enable them to actively implement new on-line promotion instruments. The research results reflect that only part of the biggest cities use various new opportunities of the on-line promotion on their web pages. Mobile versions are not very widespread. Substantial number of the biggest cities does not offer a content-rich foreign language version of their investment offer. Tourism guides and brochures offering text, photos and maps are still not an obligatory part of the web page, even though its creation is unexpensive. The use of social media seems proliferated, however it is mainly used as an instrument of presenting information and answering users' comments. It seems that more emphasis should be placed on allowing the users to find user-generated contents that might be considered more trustworthy to them.

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