Social, innovative and financial dimensions of enterprising organizations

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INTRODUCTION

Over the last three decades there has been a growing research interest into the issues of how small and medium sized enterprises acquire resources, financial resources in particular, to become more innovative and to gain legitimacy in their environments. A variety of sources of finance have been analyzed and different factors influencing resource access have been identified. This challenge has become even stronger in case of third sector and public sector organizations. In Poland, with the transition into the market economy, the third sector and public sector organizations have faced the need to reposition and adapt to new environments. They have become hybrid structures, operating on the nexus of social and commercial aims. Because of their double or triple bottom line, they need to balance social mission with economic sustainability. Therefore, they come across diverse challenges as they need to take more stakeholder oriented approach.

In this book, the social, financial as well as innovative dimensions of enterprising are analysed. The contribution of this compilation of papers is that it covers different types of organizational enterprising: from the third sector, public sector as well as private sector in different national settings such as Germany, Poland and Romania. Also, the added value of this compilation is that it encompasses social and financial dimensions of enterprising in the realms of market economy.

The book consists of two main parts. The first part covers financial and innovative aspects of small and medium sized enterprises. The first chapter investigates the relationship between the use different tools of intellectual property protection among Polish enterprises and their financial outcomes. In the second chapter, the author aims to identify the main determinants of financing constraints faced by Romanian non-financial enterprises, putting emphasis on the role of their size. In chapter number three, an attempt is made to answer questions concerning non-financial enterprises, especially in the SME sector, and the possibility of raising capital on the stock exchange in Poland. In the last chapter of part one of the book, the author shows the impact of organizational changes taking place among SMEs on their innovativeness. The second part of the book overviews different enterprises – SMEs, nonprofit organizations, public sector organizations. While different social responsibility strategies and approaches are presented from business perspective, also how these challenges are met among charities or public sector organizations. In chapter 5, the author offers an approach in closing the gap
between the theory and practice of CSR among SMEs, while introducing Heilbronn Declaration’ from one of German regions. In the next chapter 6, the author analyzes the factors that influence the development of relationship between enterprises and nonprofit organizations from the social responsibility perspective and looks into the outcomes of these relationships. Chapter seven identifies the main challenges that recently transformed public hospitals are currently facing in Poland. The last chapter, in this part of the book, portrays the phenomenon of the Ice Bucket Challenge as one of the most innovative marketing campaigns in 2014.

The editor would like to express thanks to the reviewer of this publication, dr hab. Aleksandra Gawel, associate professor from Poznan University of Economics for the constructive feedback to the authors of individual chapters. Without doubt, special thanks are addressed to the authors for their contribution to this book.

Marzena Starnawska
PART 1

Innovative and financial dimensions of SMEs
Chapter 1

PROTECTION OF INTELLECTUAL PROPERTY AND FINANCIAL SITUATION OF SMALL AND MEDIUM - SIZED MANUFACTURING ENTERPRISES IN POLAND

1.1. Introduction

In modern economy particular emphasis is put on development of innovative enterprises, which can stimulate economic growth of countries. A symptom of enterprise innovativeness can be the launch of new products or services, but it is often difficult to evaluate whether a product or service is really new on domestic or international market. However, in terms of evaluating a company's innovativeness, if the company has a patent granted the situation activities is relatively clear.

Patents are a source of information about company’s technological potential. They can also strengthen the position of the company in various negotiations, such as mergers and acquisitions or can ease access to financial markets. Patents may also be perceived by stakeholders as a promise of higher rates of return and a potential increase in company’s value the future. They are an important tool used in business in order to achieve a competitive advantage and improve the company’s reputation.

Patents can play a signaling role for investors and indicate a potential company’s dynamic development, as well as they reduce the asymmetry of information between potential investors and a company. This is important when the company is seeking capital, especially in the case of small and medium-sized enterprises, which have access to a smaller range of capital sources than large entities.

Beside patents which protect the rights to the commercial exploitation of inventions, there are other forms of intellectual property protection as utility models, industrial designs and trademarks.

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1 The project was funded by the National Science Centre allocated on the basis of the decision number DEC-2013/11/D/HS4/03941.
Trademarks are also the manifestation of innovativeness and creativeness of companies. They are an important element of promotion and brand strategy, both for manufactured goods or services. Lack of protection of own trademarks may hinder a company’s development. In turn, their use has potential to give competitive advantage and may contribute to higher rates of return on employed assets and capital.

In previous studies (Prędkiewicz & Prędkiewicz, 2014a) the impact of patent on the companies’ financial results was analyzed in years from 2006 to 2012. The research sample consisted of entities operating in the manufacturing industry. Previous research did not include trademarks and combined effects of these two instruments of intellectual property protection on rates of return. Thus, the research presented in this paper is a continuation and complements previous studies in this area. The goal of this paper is to determine the effect of using patents and trademarks on the achieved rates of return, such as return on assets, sales or equity. The study was conducted for 2012 year and the sample consists of 4004 companies.

The article is also part of a broader study which analyzes the determinants of capital structure in the SME sector. This paper presents an analysis of the problem through the du Pont’s model. Return on equity is influenced by the rate of return on assets and capital structure. In turn the return on assets depends on the profit margin and asset turnover.

1.2. Literature review

The research on the advantage of innovations is not brand new, and over the recent years, scientists have connected the research and development expenditures with the measures of total productivity and labour efficiency factor, suggesting a positive relationship between the share of R&D expenditure in revenues and the number of patents granted with the rate of revenue growth, profitability, company survival and valuation (Audretsch, 1995; Ciftci & Cready, 2011; Del Monte & Papagni, 2003; Geroski et al., 1993; Koellinger, 2008; Neuhäusler et al., 2011; Nunes et al., 2012; Paunov, 2012; Scellato, 2007; Teece, 1986).


Cefis (2003) suggested that firms which are perceived as persistent innovators are highly likely to keep innovating and earn profits above the average. Neuhäusler, Frietsch, Schubert and Blind (2011) investigated how the results of R&D
and its protection influence companies’ profits and market value. They assumed that the large and highly-valuable patent portfolios of firms can have significant effects on their competitiveness in the long term. Levitas and McFayden (2009) noticed that patents raise the prospects of future cash flows and because patents protect firms against competition, they may be expected to have higher profit margins in the future. Also Czarnitzki and Kraft (2010) who were analysing a sample of German manufacturing firms found out that the patent stock of a company has a substantial influence on profitability. A Western German firm whose innovation activity is at an average level (i.e. means of the patent stock among innovating firms) will ceteris paribus realize a profit margin that is 0.67 pp higher compared to patent stock equal to zero.

Similar conclusions presented Diaz-Mayans and Sanchez-Perez (2013). Using the panel data set of Spanish manufacturing firms over the period from 2004 to 2009, they demonstrated that innovative firms are more efficient than the non-innovative ones, and that small and medium-sized companies tend to be more efficient than the large entities. The authors also assumed that the larger the company under study, the less significant would be the impact of innovation activities on its financial results, which may be caused by the significant diversity of production and the scale of economic activity characteristic of big entities.

Nawrocki (2011) verified the positive relationship between product innovation in polish IT companies and financial performance of companies. As a result, he calculated the Spearman rank correlation coefficient at 0.725, what he interpreted as a significant positive relationship between studied variables (financial performance and product innovation).

However, the survival of the company is more important than the profitability of the firm for potential lenders and capital donors. The expected high risk of bankruptcy is one of the reasons why smaller and young companies face difficulties in raising external financing for development. However, patents can reduce the asymmetry of information. It was proven that for start-up’s patents have a signalling role to investors, in particular to Venture Capitalists (2004). Also Czarnitzki, Bronwyn et. al. (2014) suggest that patents, especially the number of recent patent applications, indeed weaken financing constraints for small firms where information asymmetries may be particularly high and value of collateral low. Larger firms are not subject to financing constraints to lower degree, but also do not seem to benefit from a patent quality signal.

Cockburn and Wagner (2010) confirmed that possessing patents is positively correlated with the survival of the firm. Also Mann and Sager (2007) found a positive relationship between patenting activity and several measures like total investment, access to financing of late stage and longevity. They also found that the
relationship between patent metrics and firm performance depends less on the size of the patent portfolio than on the firm's receipt of at least one patent.

Paździor (2008) on the results of this empirical study claims that market value of the Polish public companies is determined in a high level by the intangible factors like a human capital and special structure of an organization (patents, licenses, know-how, trademarks, governance, culture, technology, etc.).

1.3. Hypotheses and research methods

The aim of the paper is to investigate if there is a relation between using different tools of intellectual property protections like patents and trademarks in manufacturing companies and their financial outcomes (rates of return).

Based on literature review it can be said that instruments used to protect the intellectual property of the company, especially patents, improve the company situation on the market and help to maintain a competitive advantage. Therefore the first research hypothesis is:

\( H1: \text{Companies which are using different tools of intellectual property protection achieve higher rates of return than firms which do not employ any of them.} \)

Thus for H1 four specific hypotheses can be formulated:

- \( H1a: \text{Companies which are using different tools of intellectual property protection achieve higher EBITDA than firms which do not employ any of them.} \)
- \( H1b: \text{Companies which are using different tools of intellectual property protection achieve higher ROS than firms which do not employ any of them.} \)
- \( H1c: \text{Companies which are using different tools of intellectual property protection achieve higher ROE than firms which do not employ any of them.} \)
- \( H1d: \text{Companies which are using different tools of intellectual property protection achieve higher ROA than firms which do not employ any of them.} \)

Verification of the hypotheses will be carried out in the first place for patents, the second place for trademarks, and then for both instruments of intellectual property protection. Probably using different instruments of intellectual property protection at the same time gives additional competitive advantage and companies which use this strategy achieve higher rates of return than those using only one or no instruments. Previous studies focus only on patents, but in this research additionally trademarks are also taken into account because they are somehow a symptom of innovation, especially for smaller companies. This assumption comes from the author’s personal experience connected with evaluating small and medium sized companies’ application in different programs granted by European Union and
connected with implementing new innovative products or process on market and also from interviews with owners of small enterprises.

The verification of the H1a, H1b, H1c and H1d hypothesis is based on following indicators: EBITDA margin (EBITDA to sales revenue), ROS – return on sales (profit/loss before taxation to sales revenue), ROA – return on assets (profit/loss before taxation to company assets), ROE – return on equity (profit/loss before taxation to equity). The reason why the profit/loss before taxation was used is connected with data available in the database and also with possibility of validating the effect connected with intellectual property protection in other countries (Prędkiewicz & Prędkiewicz, 2014b).

The ROS index describes in a synthetic way the sales profitability, and assesses company’s efficiency on basic sales activity. The EBITDA margin is a measure of a company’s operating profitability, and it is equal to earnings before interest, tax, depreciation and amortization (EBITDA) divided by sales revenue. EBITDA gives a clearer view of a company’s core profitability and ability to generate operational cash flow. ROA informs about assets management efficiency. The three mentioned above ratios differ a lot across sectors, so in the study companies from only one sector (manufacturing) are employed. Finally ROE is a ratio that informs investors how efficiently a company is managing the equity that shareholders have contributed to the company.

The verification of the H1 was made by establishing, whether any statistically significant differences occur in profit margins calculated for companies which use intellectual property tools like patents and trademarks and companies which do not use them using the t-Student test.

How the literature review shows also size of company is an important factor that influences the profitability (Ács & Audretsch, 1990; Hall & Bagchi-Sen, 2007; Lefebvre et al., 1998; Schumpeter, 1934) and possessing a patent can have especially significant impact on financial situation of small and medium-sized companies so we hypothesize that:

H2. **Protection of intellectual property is especially important in small and medium-sized companies.**

The verification of H2 will be carried out by analysing the statistical significance of the difference in the average rates of return (EBITDA) which use intellectual property tools like patent and trademarks and companies which do not employ them separately in very large, large, small and medium-sized enterprises.
1.4. Data

The data used in the study was obtained from the Amadeus database provided by Bureau van Dijk, which covers financial statements of private and public companies from European countries and also information about the number of patents owned by firms and number of registered trademarks. The verification of hypotheses was based on profit margins which were calculated in the database for year 2012. The pool of companies was selected based on the NACE rev. 2 code. C. Manufacturing. In the manufacturing sector patents are used quite frequently and manufacturing companies have a quite long tradition in using it.

There were 142 047 active enterprises in Poland in database when the data was obtained (August 2014) and 8 490 belonged to the C section, manufacturing, but finally the number of companies with complete data was 4004 (275 very large, 1489 large, and 2240 medium-sized ones).

The division of companies in research sample into three size subsamples (medium, large, very large) was based on the number of employees, the operating revenue and the total assets value. However, taking into account that the number of employees for many companies was missing, finally we adopted the database classification regarding company size in the research.

Companies listed in the Amadeus database are considered to be very large when they match at least one of the following conditions: their operating revenue is in excess of 100 million EUR (130 million USD), total assets are above 200 million EUR (260 million USD), or the number of employees exceeds 1,000. The company must be listed on the stock exchange. Large companies are defined as follows: their operating revenue is in excess of 10 million EUR (13 million USD), total assets are in excess of 20 million EUR (26 million USD), or the number of employees exceeds 150. The criteria for a medium-sized company are: the operating revenue higher than 1 million EUR (1.3 million USD), total assets higher than 2 million EUR (2.6 million USD), employees more than 15. Companies listed in the Amadeus database are considered to be small when they do not fit into any of the above categories.

The typology of companies used in the database (very large, large and medium) is not in accordance with the approach adopted by the European Union. The reason why the authors were forced to use database classification as the criterion for company size was the unavailability of employment figures for many entities. Detailed comparison between criterion of classification for used database and the European Union is presented in previous paper (Prędkiewcz & Prędkiewicz, 2014a).
In the research, we omitted micro-firms (in accordance with the EU definition), employing fewer than 10 people, and part of small firms employing between 10 and 15 people. The research involved companies operating within corporate groups as well as independent entities. A company was qualified as independent when 25% of direct ownership or more was in the hands of a single shareholder. The research sample consisted of 1704 independent companies and 2300 companies operating within the structures of corporate groups.

The structure of sample taking into account the number of patents and trademarks is shown in Table 1.1. Almost one third of very large companies have granted patents whereas in medium-sized and small companies it was calculated at 13%. Also very large and large companies register trademarks more often than medium-sized and small ones. The rate of entities using collaterally those two intellectual property instruments in whole sample was calculated at 4% and is the highest again in group of very large companies (12%), whereas in small and medium-sized firms it is only 2%.

<table>
<thead>
<tr>
<th>Company size</th>
<th>Very large</th>
<th>Large</th>
<th>Medium-sized and small</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>275</td>
<td>1489</td>
<td>2240</td>
<td>4004</td>
</tr>
<tr>
<td>Companies with patents</td>
<td>88</td>
<td>309</td>
<td>284</td>
<td>681</td>
</tr>
<tr>
<td>Share of companies with patents</td>
<td>32%</td>
<td>21%</td>
<td>13%</td>
<td>17%</td>
</tr>
<tr>
<td>Companies with trademarks</td>
<td>64</td>
<td>222</td>
<td>148</td>
<td>434</td>
</tr>
<tr>
<td>Share of companies with trademarks</td>
<td>23%</td>
<td>15%</td>
<td>7%</td>
<td>11%</td>
</tr>
<tr>
<td>Companies with trademarks and patents</td>
<td>34</td>
<td>95</td>
<td>46</td>
<td>175</td>
</tr>
<tr>
<td>Share of companies with trademarks and patents</td>
<td>12%</td>
<td>6%</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Author’s research.

For each indicator (profit margin), 10% of abnormal results were removed from the sample (5% of the highest and 5% of the lowest figures). The selected descriptive statistics are presented in Table 1.2. It is clear that the average profitability ratios are the highest in the very large companies and the lowest in the small and medium enterprises, which justifies the need of study the impact of intellectual property protection, taking into account the company size factor.
### Table 1.2. Descriptive statistics

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>Whole sample</td>
<td>7.76759</td>
<td>6.94250</td>
<td>-5.21500</td>
<td>23.1620</td>
<td>5.65817</td>
<td>2548</td>
</tr>
<tr>
<td></td>
<td>Very large</td>
<td>8.55493</td>
<td>7.73700</td>
<td>-1.40200</td>
<td>21.8120</td>
<td>5.62078</td>
<td>131</td>
</tr>
<tr>
<td></td>
<td>Large</td>
<td>8.20873</td>
<td>7.36900</td>
<td>-4.33300</td>
<td>23.1620</td>
<td>5.48185</td>
<td>967</td>
</tr>
<tr>
<td></td>
<td>Medium-sized and small</td>
<td>7.40227</td>
<td>6.46750</td>
<td>-5.21500</td>
<td>23.1040</td>
<td>5.75212</td>
<td>1450</td>
</tr>
<tr>
<td>ROS</td>
<td>Whole sample</td>
<td>3.16717</td>
<td>2.55155</td>
<td>-10.4649</td>
<td>15.9833</td>
<td>4.64120</td>
<td>3601</td>
</tr>
<tr>
<td></td>
<td>Very large</td>
<td>4.24869</td>
<td>3.67338</td>
<td>-7.69528</td>
<td>15.9504</td>
<td>4.442</td>
<td>259</td>
</tr>
<tr>
<td></td>
<td>Large</td>
<td>3.59765</td>
<td>2.95038</td>
<td>-10.4346</td>
<td>15.9833</td>
<td>4.44681</td>
<td>1386</td>
</tr>
<tr>
<td></td>
<td>Medium-sized and small</td>
<td>2.71893</td>
<td>2.12706</td>
<td>-10.4649</td>
<td>15.9574</td>
<td>4.75034</td>
<td>1956</td>
</tr>
<tr>
<td>ROE</td>
<td>Whole sample</td>
<td>12.5584</td>
<td>10.3540</td>
<td>-27.4990</td>
<td>56.0460</td>
<td>14.9710</td>
<td>3467</td>
</tr>
<tr>
<td></td>
<td>Medium-sized and small</td>
<td>11.1620</td>
<td>8.54100</td>
<td>-27.4990</td>
<td>56.0460</td>
<td>15.3792</td>
<td>1888</td>
</tr>
<tr>
<td>ROA</td>
<td>Whole sample</td>
<td>6.21292</td>
<td>4.92200</td>
<td>-13.0280</td>
<td>27.1130</td>
<td>7.98837</td>
<td>3588</td>
</tr>
<tr>
<td></td>
<td>Very large</td>
<td>7.59560</td>
<td>6.50900</td>
<td>-12.9670</td>
<td>27.1130</td>
<td>7.47012</td>
<td>259</td>
</tr>
<tr>
<td></td>
<td>Large</td>
<td>6.96095</td>
<td>5.78050</td>
<td>-12.5790</td>
<td>27.0180</td>
<td>7.43134</td>
<td>1380</td>
</tr>
</tbody>
</table>

Source: Author’s research.

### 1.5. Results

**Patents, trademarks and rates of return**

Verification of the H1a hypothesis was based on t-Student’s test for independent samples. We tested the average rate of return EBITDA in two groups of companies divided on the basis of information if they have any patents granted or trademarks. We set up the statistical null hypothesis (H1a0) that the population of the companies that has patents granted (first group) has the same or smaller EBITDA margin arithmetic mean as the population of firms which do not have any patents (second group). The alternative hypothesis asserts that the EBITDA margin arithmetic means is higher in the first population (with patents).

\[ H1a_0: \ m_{\text{with patents}} \leq m_{\text{without patents}} \]
\[ H1a_1: \ m_{\text{with patents}} > m_{\text{without patents}} \]

When we have reason to suspect that \( H_0 \) is false, the first research hypothesis will be confirmed. We declare significance level at \( \alpha = 0.05 \) and use the t-Student’s test (right-tailed test) for two independent samples – we examine two general
populations with normal distributions and unknown expected value and population standard deviations. Results which enable to take a decision if the \( H_0 \) is false are shown in the Table 1.3.

### Table 1.3. Test statistic for H1a in case of EBITDA

<table>
<thead>
<tr>
<th>EBITDA margin</th>
<th>Mean - 1</th>
<th>Mean - 2</th>
<th>t-value</th>
<th>df</th>
<th>p</th>
<th>Valid n - 1</th>
<th>Valid n - 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.006793</td>
<td>7.565677</td>
<td>4.479170</td>
<td>2546</td>
<td>0.000008</td>
<td>357</td>
<td>2191</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s research.

Critical level for the t-statistic for \( \alpha = 0.05 \) (one-sided critical area) and 2546 degrees of freedom is 1.96, so the test statistic \( t = 4.47917 \) falls in the rejection region, and are the basis to rejection the \( H_0 \) and adoption of the alternative hypothesis.

There were also similar null and alternative hypothesis set up for other rates of return (H1b, H1c, H1d). The results of the hypothesis verification i.e. test statistic, the number of degrees of freedom, the critical statistic and p-value were carried out analogously and summarized in Table 1.4.

A statistically significant difference in mean was observed in relation to EBITDA margin and ROS (Table 1.4). Companies using patents to protect inventions achieve 9.0% EBITDA margin while the remaining ones only 7.6%. The difference is substantial, reaching 1.4 pp in the case of ROS the difference between two analyzed groups is also statistically significant however, there is not so spectacular due to the fact that the average rate of return is quite low (3.6% in the first group, and 3.1% in the second group).

### Table 1.4. Average rates of return in companies with and without patent and test statistics

<table>
<thead>
<tr>
<th>Rates of return</th>
<th>EBITDA</th>
<th>ROS</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean – companies with patents</td>
<td>9.006793</td>
<td>3.55542</td>
<td>6.47945</td>
<td>12.2524</td>
</tr>
<tr>
<td>Mean – companies without patents</td>
<td>7.56568</td>
<td>3.08799</td>
<td>6.15735</td>
<td>12.6239</td>
</tr>
<tr>
<td>t-value</td>
<td>4.479170</td>
<td>2.268287</td>
<td>0.912516</td>
<td>-0.556583</td>
</tr>
<tr>
<td>df</td>
<td>2546</td>
<td>3599</td>
<td>3586</td>
<td>3465</td>
</tr>
<tr>
<td>Rejection region – critical statistic</td>
<td>1.64545</td>
<td>1.64528</td>
<td>1.64528</td>
<td>1.64529</td>
</tr>
<tr>
<td>p-Values</td>
<td>&lt;0.001</td>
<td>0.0234</td>
<td>0.3616</td>
<td>0.5778</td>
</tr>
</tbody>
</table>

Statistically significant difference? Yes*** Yes* No No

Note: *p-value < 0.1; ** p-value <0.01; *** p-value <0.001

Source: Author’s research.
In the group of enterprises using trademarks EBITDA margin, ROS and ROA mean is greater than in the group not using this form of intellectual property protection. In the case of ROE p-value is high (0.6394) what does not give reasons to reject the null hypothesis. With the greatest force the alternative hypothesis about the predominance of the rate of return in companies benefiting from the trademarks in relation to those who do not use them could be accepted in relation to EBITDA (tab. 1.5).

Finally, in the last step, the sample of companies using collaterally trademarks and patents was completed and the average rates of return were compared to the sample of companies that have not benefited from any instruments of intellectual property protection or from only one of them (patents or trademarks).

<table>
<thead>
<tr>
<th>Rates of return</th>
<th>EBITDA</th>
<th>ROS</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean – companies with trademarks</td>
<td>8.95762</td>
<td>3.78625</td>
<td>7.0676</td>
<td>12.8921</td>
</tr>
<tr>
<td>Mean – companies without trademarks</td>
<td>7.64669</td>
<td>3.09198</td>
<td>6.10598</td>
<td>12.5159</td>
</tr>
<tr>
<td>t-value</td>
<td>3.390945</td>
<td>2.792235</td>
<td>2.268199</td>
<td>0.468534</td>
</tr>
<tr>
<td>df</td>
<td>2546</td>
<td>3599</td>
<td>3586</td>
<td>3465</td>
</tr>
<tr>
<td>Rejection region – critical statistic</td>
<td>1.64545</td>
<td>1.64528</td>
<td>1.64528</td>
<td>1.64529</td>
</tr>
<tr>
<td>p-Values</td>
<td>0.0007</td>
<td>0.0053</td>
<td>0.0234</td>
<td>0.6394</td>
</tr>
<tr>
<td>Statistically significant difference?</td>
<td>Yes***</td>
<td>Yes**</td>
<td>Yes*</td>
<td>No</td>
</tr>
</tbody>
</table>

Note: *p-value < 0.1; ** p-value <0.01; *** p-value <0.001

Source: Author’s research.

Similarly, as above, the statistical null hypothesis of a higher average arithmetic mean in the second group (with patents and trademarks) in relation to the first group was formulated with $\alpha = 0.05$. There are reasons to reject the null hypothesis in the verification procedure in the case all rates of return besides ROE, because the test statistic falls in the rejection region, so we could argue that EBITDA margin, ROS and ROA are greater when companies use a set of tools connected with intellectual property protection.

To sum up this stage of research we have fully confirmed H1a and H1b hypotheses. It means that companies which are using different tools of intellectual property protection achieve higher EBITDA and ROS that those which do not use any instruments. H1d relating to ROA was confirmed partially. It is false in case of patents but when we were analysing the groups of companies divided based on possessing only trademarks or together trademarks and patents we have found that ROA is higher in group of companies which have this intangible assets. Finally
H1c hypothesis which refers to ROE has not been confirmed, so analysed intellectual property rights do not affect return on equity in companies.

Table 1.6. Average rates of return in companies with and without patents and trademarks and test statistics

<table>
<thead>
<tr>
<th>Rates of return</th>
<th>EBITDA</th>
<th>ROS</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean in companies with patents and trademarks (1 group)</td>
<td>9.84517</td>
<td>4.07542</td>
<td>7.38491</td>
<td>13.2512</td>
</tr>
<tr>
<td>Mean in other companies (2 group)</td>
<td>7.69938</td>
<td>3.12549</td>
<td>6.15822</td>
<td>12.5251</td>
</tr>
<tr>
<td>t-value</td>
<td>3.365256</td>
<td>2.517498</td>
<td>1.899276</td>
<td>0.597317</td>
</tr>
<tr>
<td>df</td>
<td>2546</td>
<td>3599</td>
<td>3586</td>
<td>3586</td>
</tr>
<tr>
<td>Rejection region – critical statistic</td>
<td>1.64545</td>
<td>1.64528</td>
<td>1.64528</td>
<td>1.64529</td>
</tr>
<tr>
<td>p-Values</td>
<td>0.0008</td>
<td>0.0119</td>
<td>0.0576</td>
<td>0.5503</td>
</tr>
<tr>
<td>Statistically significant difference?</td>
<td>Yes***</td>
<td>Yes*</td>
<td>Yes*</td>
<td>No</td>
</tr>
</tbody>
</table>

Note: *p-value < 0.1; ** p-value <0.01; *** p-value <0.001
Source: Author’s research.

Companies which simultaneously use both patents and trademarks achieve higher rates of return on average 2.15 percentage points in relation to the others (Table 1.7). When we are analyzing the impact of patents on the profitability the difference is 1.44 percentage points and in the case of trademarks 1.31 pp. Thus, on the base on the studies conducted we can claim: a wider range of intellectual property tools fosters higher rates of return.

Table 1.7. Difference in rates of return (pp)

<table>
<thead>
<tr>
<th>Rates of return</th>
<th>EBITDA</th>
<th>ROS</th>
<th>ROA</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents</td>
<td>1.44***</td>
<td>0.47*</td>
<td>0.32</td>
<td>-0.37</td>
</tr>
<tr>
<td>Trademarks</td>
<td>1.31***</td>
<td>0.69**</td>
<td>0.96*</td>
<td>0.38</td>
</tr>
<tr>
<td>Patents and trademarks</td>
<td>2.15***</td>
<td>0.95*</td>
<td>1.23*</td>
<td>0.73</td>
</tr>
</tbody>
</table>

Note: *p-value < 0.1; ** p-value <0.01; *** p-value <0.001
Source: Author’s research.

Patents, trademarks, company’s size and the rates of return

According to the literature review the impact of innovative activity on financial results can have different force when the company’s size is taken into account which justifies the second hypothesis: “Protection of intellectual property is especially important in medium-sized companies.”
Verification of H2 was conducted in the same way as the first hypothesis and once again the impact of patents, trademarks, separately and jointly on average rates of return was examining in three subsamples groups which were selected based on firms’ size: very large, large, medium and small enterprises. It was checked whether the previously observed regularity also occurs when we take into account the size criterion.

The aim of the study was also to determine the difference in the EBITDA margin arithmetic mean (if the difference is statistically significant) in three subsamples and collate them which can give some idea how various intellectual section property instruments impact rates of return when we take into consideration the revenue and assets value.

This time the verification procedure was performed solely for the EBITDA margin because the statistical tests for this index were the strongest. For each group of companies the statistical null and the alternative hypotheses were set up.

\[ H_{20}: \bar{m}_{\text{with patents/trademarks}} \leq \bar{m}_{\text{without patents/trademarks}} \]

\[ H_{21}: \bar{m}_{\text{with patents/trademarks}} > \bar{m}_{\text{without patents/trademarks}} \]

Outcomes of the verification procedure are summarized in Tables 1.8, 1.9, 1.10. Result show if there was no statistical evidence to reject the null hypothesis in terms of patents and trademarks as well both instruments impact on EBITDA margin in the group of very large enterprises. Thus, there is no significant difference in the case of EBITDA between companies that protect its intellectual property and others when we are considering very large companies, which are listed on the stock exchange.

It should be noted that outcomes of the verification process could also be affected by the fact that the research was carried out in the relation to 131 companies, although very large subsample of companies firstly consists of 275, but for many of them there was a lack of information about the EBITDA margin.

Whereas in the case of large companies the difference in average EBITDA margin is statistically significant, and also higher in companies that use patents, trademarks, and together these instruments (Table 1.8, 1.9, 1.10).

In the case of the last analyzed group, small and medium-sized enterprises, the difference in the EBITDA margin is significantly higher in companies that use patents and trademarks, but this regularity was not confirmed in the situation if companies are simultaneously using both instruments, which may also result from small cases of smaller companies using both, patents and trademarks. Only 27 entities have them at the same time whereas the subsample consists of 1423 companies.
Table 1.8: Average EBITDA margin in 2012 in companies with and without patents in size groups and test statistics

<table>
<thead>
<tr>
<th>Companies’ size</th>
<th>Very Large</th>
<th>Large</th>
<th>Medium-sized and small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean – companies with patents</td>
<td>8.91675</td>
<td>9.36598</td>
<td>8.65</td>
</tr>
<tr>
<td>Mean – companies without patents</td>
<td>8.45657</td>
<td>7.9654</td>
<td>7.25</td>
</tr>
<tr>
<td>t-value</td>
<td>0.382878</td>
<td>3.02286</td>
<td>2.9212577</td>
</tr>
<tr>
<td>df</td>
<td>129</td>
<td>965</td>
<td>1448</td>
</tr>
<tr>
<td>Rejection region – critical statistic</td>
<td>1.656752</td>
<td>1.646434</td>
<td>1.645907</td>
</tr>
<tr>
<td>p-values</td>
<td>0.7024</td>
<td>0.0026</td>
<td>0.004</td>
</tr>
<tr>
<td>Statistically significant difference?</td>
<td>No</td>
<td>Yes**</td>
<td>Yes**</td>
</tr>
</tbody>
</table>

Note: *p-value < 0.1; ** p-value <0.01; *** p-value <0.0010
Source: Author’s research.

Table 1.9: Average EBITDA margin in 2012 in companies with and without trademarks in size groups and test statistics

<table>
<thead>
<tr>
<th>Companies’ size</th>
<th>Very Large</th>
<th>Large</th>
<th>Medium-sized and small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean – companies with trademarks</td>
<td>7.68205</td>
<td>9.24192</td>
<td>8.3723</td>
</tr>
<tr>
<td>Mean – companies without trademarks</td>
<td>8.71221</td>
<td>8.05252</td>
<td>7.30955</td>
</tr>
<tr>
<td>t-value</td>
<td>-0.753223</td>
<td>2.283891</td>
<td>2.4186555</td>
</tr>
<tr>
<td>df</td>
<td>129</td>
<td>965</td>
<td>1448</td>
</tr>
<tr>
<td>Rejection region – critical statistic</td>
<td>1.656752</td>
<td>1.646434</td>
<td>1.645907</td>
</tr>
<tr>
<td>p-values</td>
<td>0.4527</td>
<td>0.0226</td>
<td>0.0157</td>
</tr>
<tr>
<td>Statistically significant difference?</td>
<td>No</td>
<td>Yes*</td>
<td>Yes*</td>
</tr>
</tbody>
</table>

Note: *p-value < 0.1; ** p-value <0.01; *** p-value <0.0010
Source: Author’s research.

Table 1.10: Average EBITDA margin in 2012 in companies with and without patents and trademarks in size groups and test statistics

<table>
<thead>
<tr>
<th>Companies’ size</th>
<th>Very Large</th>
<th>Large</th>
<th>Medium-sized and small</th>
</tr>
</thead>
<tbody>
<tr>
<td>With patents + trademarks</td>
<td>8.562</td>
<td>10.4788</td>
<td>9.00389</td>
</tr>
<tr>
<td>Other</td>
<td>8.55459</td>
<td>8.09016</td>
<td>7.37188</td>
</tr>
<tr>
<td>t-value</td>
<td>0.003141</td>
<td>2.95473</td>
<td>1.4610503</td>
</tr>
<tr>
<td>df</td>
<td>129</td>
<td>965</td>
<td>1448</td>
</tr>
<tr>
<td>Rejection region – critical statistic</td>
<td>1.656752</td>
<td>1.646434</td>
<td>1.645907</td>
</tr>
<tr>
<td>p-values</td>
<td>0.9975</td>
<td>0.0032</td>
<td>0.1442</td>
</tr>
<tr>
<td>Statistically significant difference?</td>
<td>No</td>
<td>Yes**</td>
<td>No</td>
</tr>
</tbody>
</table>

Note: *p-value < 0.1; ** p-value <0.01; *** p-value <0.0010
Source: Author’s research.
Finally, differences between rates of returns in each companies’ group were calculated, taking into account all the intellectual property protection instruments (fig. 1.1). The analysis of differences in arithmetic mean do not fully confirm the second research hypothesis. Certainly in very large companies influence of both instruments, patents and trademarks, on the rate of return is small and insignificant. In the case of patents, a similar difference, 1.4 pp., was observed in the average rates of return in large, small and medium enterprises. However, it clearly outlines the impact of using trademarks on the EBITDA margin in small and medium enterprises. The average EBITDA margin was higher by 1.53 pp in this group of enterprises if they have registered trademarks in relation to the others. The analogous difference in the group of large companies was 1.2 pp whereas in very large companies was negative and statistically insignificant.

![Figure 1.1. Difference in EBITDA margin between companies which use different tools of intellectual property protection and others taking into account the companies size](image)

Source: Author’s research.

1.6. Conclusions

The article deals with two different tools of intellectual property protection, which have a slightly different aim. Patents protect an invention from an imitation and give entrepreneurs the opportunity to obtain extraordinary revenues. Certainly,
Protection of intellectual property and financial situation of small and medium-size enterprises (SMEs)…

they are a symptom of the company’s innovativeness when it is launching new products or is implementing processes that are new on the market. Trademarks are important for companies that have developed the most original product, or service, and they also want to protect it against competition.

The finding that companies which are using different tools to protect their intellectual property have a higher rate of return than the other firms is true in relation to the EBITDA, which does not reflect the remaining operational and financial activities, and disregards the company asset structure. Even after the inclusion of activities other than the operational activity, the relation between profit and sales revenue (ROS) is still higher for companies holding patent rights or trademarks. Also for ROA which is shaped by fixed and current asset policies it was found that it is higher in companies using patents and trademarks.

Above observations are not confirmed in the research in the case of return on equity. This indicator is influenced by a companies’ capital structure policies. Consequently, despite significantly more pronounced difference of EBITDA margins, the difference between rates of return on equity was found statistically insignificant in year 2012.

As the influence of patents on rates of return was analyzed, companies without patents have even achieved a higher return on equity than companies which were holding patents. The reason may derive from innovative activity which is connected with higher operational risk and this force innovative companies to rely more on equity because of possible problems with access to debt. Also the reason for lower ROE in companies which are protecting invention may be attributed to the higher cost of borrowed capital acquisition, with its reducing effect on the level of net and gross profit.

In relation to second hypothesis it was not fully confirmed that using different tools of intellectual property protection is especially important for smaller companies. Only in case of trademarks the difference between firms using this tool and others is the highest in the class of small and medium-sized enterprises than in large and very large companies. In very large firms, the effect of patents and trademarks on EBITDA margin was insignificant, which may be due to their greater operational diversification.

How it was mentioned at the introduction the article is also part of a broader study which analyzes the determinants of capital structure in the SME sector. This paper presents the analysis of the problem through the prism of du Pont’s model. Return on equity is influenced by a rate of return on assets and capital structure. In turn the return on assets depends on the profit margin and asset turnover.

Theoretically innovative companies should have better access to external sources of capital and higher ROE because they achieve better ROS, ROA and
EBITDA margin than companies which do not have patents and trademarks. However, innovative activity is associated with greater risk connected with uncertainty if company really can realize extraordinary profits thanks to owned patents and trademarks. Ultimately, studies have shown that although the difference in rates of return on sales and assets is in favor of innovative companies, they have not appeared in case of rates of return on equity, which requires further in-depth analysis in subject of the capital structure determinants, especially in the SME sector.
Chapter 2

SMES' CONTRIBUTION TO THE ECONOMY AND THEIR ACCESS TO BANK FINANCING IN ROMANIA AND OTHER EUROPEAN COUNTRIES

2.1. Introduction

Small and medium sized enterprises (SMEs) are seen as the engine of economic growth (Beck and Demirguc-Kunt, 2005; Aghion et al., 2007), due to their role in employment and macroeconomic evolutions. Nevertheless, the recent world financial turmoil created a very tough climate for SMEs, on the grounds of a decline in demand for goods and services and a contraction in loans granted by banks and other financial institutions.

After the 2008 crisis, policy makers and academics shift interest to the access to finance of these companies, as the capacity of getting funding is one of the driving factors of economic development. European authorities adopted a wide range of policy measures mainly related to entrepreneurship, human resources and innovation development etc. targeting mainly SMEs segment. Small Business Act for Europe has as principal scope recognizing the central role of SMEs in the EU economy and establishes a harmonized SME policy framework within the EU. In 2013, the European Commission and the European Investment Bank elaborated a joint report on SMEs' access to finance. Its main purpose was increasing lending to SMEs, a better integration of venture capital markets and improving long-term financing for SMEs.

However, in the present, bank lending is still subdued especially for smallest firms, the negative effect of this development being amplified by the lack of alternative sources of funding of SMEs compared to large companies. In the last years, SMEs loan markets knew adjustments related to both supply and demand. During the recent financial crisis, euro area banks have significantly tightened credit standards applied to SMEs between mid-2007 and end-2009 (ECB, Bank Lending Survey). At the same time, the demand for loans entered negative territories.
Financial constraints have benefited by an abundant stream of literature, related to financing constraints’ definition (Fazzari et al., 1988; Kuntchev et al., 2013 etc.) or determinants (Beck et al., 2004; Ferrando & Griesshaber, 2011). Asymmetric information is underlined as being one of the main reasons for the difficulties in accessing funds faced by SMEs (Berger & Udell, 2006, Petersen & Rajan, 1994 etc.).

In the case of Romania, regardless the economic cycle phase, only a limited number of companies had access to bank loans (less than 15 percent of SMEs). This situation is generalized in EU10\(^2\), International Finance Corporation showing that only a small number of SMEs benefits of access to bank credit (around 20 percent in 2011, average across countries), Figure 2.1. At the same time, the SMAF index\(^3\) computed by the European Commission confirms that in most of the above-mentioned countries the SMEs’ access to finance continues to be problematic: Romania has the lowest value of SMAF index and it has deteriorated compared to 2007. At the same time, not only that a low number of Romanian SMEs can access loans from banks, but the funding is highly concentrated among the ones that can access credit. The Gini index computed for bank lending is high (0.91), the first 10 percent of debtors according to the amount granted accounting for more than 80 percent of total loans.

\(^2\) Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovak Republic.

\(^3\) The SMAF index provides an indication of the changing conditions of SMEs’ access to finance over time for the EU and its Member States. The index is calculated using a baseline of EU 2007=100, and so allows comparison between countries and across time. The base reference of 2007 deliberately provides a baseline before the onset of the financial downturn.
The scope of this paper is identifying the main determinants of financing obstacles faced by Romanian nonfinancial companies, with a special interest in assessing the role of size. Using both surveys data and financial statements information, the results indicate that smaller firms have significantly higher probabilities of being financial constrained, even after controlling for birth year, business sector and other firm characteristics.

This paper is structured as follows. Section 2 details the present situation of SMEs role in the economy and in banks’ portfolio in case of Romania, as well as in other European countries. Section 3 presents the data used, while in Section 4 the methodology of constructing measures of financial constraints is presented. In Section 5, we investigate the results from firm-level and banks’ surveys, as well as the impact of size in explaining the probability of facing obstacles when trying to obtain loans from banks. Section 6 concludes and highlights potential policy options for supporting SMEs access to financing sources.

### 2.2. Role of SMEs in the economy and in banks’ balance sheets

SMEs have an important role in the global economy with a substantial contribution to income, output and employment. At European Union level, SMEs represent around 99 percent of companies, generate around 58 percent of value added and account for almost 67 percent of employment as of 2013 (fig. 2.2). In the case of Romania, SMEs role in the economy maintained predominant, being on an increasing trend since 2008: SMEs share in total assets increased to 58 percent in 2013 (from 53 percent in 2008), while the share in employment varied around 66 percent.

![Figure 2.2. SMEs role in EU economies (2013)](image)

Source: Eurostat, DIWecon, DIW, London Economics
Romanian SMEs have a lower economic efficiency than corporations. In 2012, the median of labor productivity (the ratio between value added and number of employees) and revenue based productivity (the ratio between turnover and number of employees) for SMEs was 6 times lower than the similar indicators for corporations, Table 2.1.

**Table 2.1. Efficiency indicators (lei, 2012)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>SMEs</th>
<th>Large companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover/no. of employees</td>
<td>27,581</td>
<td>155,197</td>
</tr>
<tr>
<td>Value added/no. of employees</td>
<td>10,186</td>
<td>68,391</td>
</tr>
<tr>
<td>Total assets/no. of employees</td>
<td>54,083</td>
<td>154,385</td>
</tr>
</tbody>
</table>

Note: median values  
Source: Ministry of Public Finance, own calculations.

Among SMEs, there are pronounced asymmetries regarding both indebtedness and profitability indicators. Over 100,000 of Romanian SMEs have leverage levels above the critical threshold of 2, while other 180,000 SMEs have a very low debt to equity. At the same time, small enterprises display a high return on equity (ROE), i.e. 12.6 percent in 2013, while microenterprises record negative values of the indicator (-4.2 percent). These findings are in line with recent literature highlighting high firm level heterogeneity among firms (Bernard et al., 2011) and underline the necessity of focusing on the entire distribution of microeconomic indicators, rather than simple averaging.

Romanian banks are exposed to SMEs activating in sectors with low resilience during the crisis, especially depending on real estate markets’ dynamics. Construction sector displays the highest non-performing loans ratio (over 40 percent as of August 2014). Non-tradable sectors are actually dominant in credit institutions’ portfolio. However, in recent years, an increasing orientation to tradable financing was manifested among banks (year on year growth of this type of financing outpaced the growth rate of non-tradable sectors since 2011).

SMEs represent the main source of credit risk for Romanian banking sector, the NPL ratio reaching 27.6 percent in August 2014. Microenterprises and small enterprises are the riskiest segments in banks’ balance sheets (the NPL ratio standing at 45 percent and 23 percent, respectively). At the same time, migration matrix by overdue classes confirms the unfavorable situation of microenterprises: below 3 percent of firms recording overdue loans of more than 90 days do not exit the default state in one year period (for comparison, 20 percent of large companies recovered from non-performing status during August 2013 – August 2014). For-
eign loans are riskier than those in national currency (NPL ratio of 29.6 percent compared to 25 percent in August 2014). Moreover, loans in foreign currency to microenterprises display a NPL ratio of 46 percent.

Considering the difficulties faced by Romanian SMEs, as well as their significant role in the real economy and for the domestic banking system, there have been adopted a series of national programs, as well as external financing projects for helping Romanian SMEs. These programs aimed at stimulating the setting and development of SMEs, easing the access to finance schemes of small enterprises, increasing the level of qualification of entrepreneurs as well as the competitive capacities of SMEs on local and external markets.

2.3. Data description

After getting a flavor of the recent SMEs’ activity and lending developments, we proceed to a more in depth analysis of both supply and demand in SMEs loans market. The main data sources are provided by National Bank of Romania: Bank lending survey information (BLS) and firms’ replies to the Survey on the access to finance of the non-financial companies in Romania (FCNEF).

The questionnaire for loans officers (BLS) was addressed to the first ten banks in Romania chosen by market share for loans to enterprises and households since 2007, with quarterly frequency. Its questions mainly refers to i) credit standards (internal credit regulations or criteria that guide the credit policy of the banks), ii) credit terms (loan covenants set up by lenders and borrowers in the credit agreement, such as: interest rate, collateral, maturity, etc.), iii) loan demand and iv) risks implied by the lending process. It captures banks’ opinions about the evolutions recorded in the previous quarter, as well as their anticipation for the coming three months.

FCNEF is conducted semiannually by National Bank of Romania, being based on a questionnaire sent to a representative sample of nearly 10,000 non-financial companies. Out of these companies, around 80 percent are SMEs, while large firms are included exhaustively. The reference period used in the study is April 2014-September 2014. The questionnaire refers to Romanian firms’ access to finance and their capacity to cope with adverse financial developments in the interest rate and the exchange rate.

Moreover, we supplement the data from the abovementioned questionnaires with balance sheet and profit and loss account information at firm level, provided by Ministry of Public Finance for 2012, as well as data regarding firm’s age and sector of activity (based on NACE rev. 2, 2-digits level), supplied by National Trade Register Office.
2.4. Methodology

The answers to BLS are analyzed based on the net percentage. In case of the questions related to the evolution of credit standards, it is computed as the difference between the share of banks reporting that lending standards have been tightened and the share of banks reporting that these have been eased. In case of the question regarding loan demand, the net percentage represents the difference between the share of banks reporting that demand from enterprises has expanded in the last three months and the share of credit institution reporting a decrease of loan demand.

As banks play a vital role for SMEs, due to the so-called bank lending channel (Bernanke and Blinder, 1988), we construct several measures of financial constraints in accessing bank credit, based on companies’ replies to FCNEF. We identify a firm as financially constrained whenever:

- it chooses “access to finance” as a pressing problem;
- based on the experience in applying for a loan in the last 6 months, it replies that: i) it sought bank loans, but only a partial financing has been granted and the firm rejected the loan, ii) it sought bank loans, the total amount was granted, but the firm rejected the loan due to high costs or other unacceptable conditions, iii) it applied for financing but its application was rejected and iv) it did not seek bank financing because it feared its application would be rejected.

In the present analysis, the indicator of constrained access to finance will take value 1 if a firm is into any of the two categories above and 0 whenever the firm did not experience any of the mentioned problems in applying for bank loans or did not seek financing in the previous 6 months. According to the first definition, about 18 percent of firms in the sample (which comprises 10,000 companies) can be considered financially constrained, while according to the second, about 16 percent of companies had experienced one form of constraints in accessing finance.

The empirical use of these financial constraints indicators aims at identifying potential differences among companies according to their size and at depicting whether SMEs are confronting higher difficulties in getting credit from banks compared to large companies.

As the financial constrained variable is constructed as a binary indicator, one can use probit models, explaining firms’ difficulties in obtaining finance (similar approaches were employed by Fraser 2009; Mina et al. 2013 etc.). We assume that the credit constrained variable is latent and can be written as:

$$ Fin\ constrained_{it} = h(X_{it-1}) + e_{it} $$  \hspace{1cm} (1)
where $Fin_{constrained}^*_t$ is the latent variable, $h(X_{it-1})$ is a function of firm characteristics and $\epsilon_{it}$ is the error term, assumed to be normally distributed and homoscedastic. If $Fin_{constrained}^*_t$ exceeds a certain threshold, then the company faces financing obstacles, i.e.:

$$Fin_{constrained}^*_t = 1 \text{ if } Fin_{constrained}^*_t > 0 \text{ and } 0 \text{ otherwise} \quad (2)$$

Thus, using a standard normal distribution, the probability of being financially constrained can be given by:

$$P(Fin_{constrained}^*_t = 1 | X_{it-1}) = P(Fin_{constrained}^*_t > 0 | X_{it-1}) = P(\epsilon_{it} > -h(X_{it-1})) = 1 - \Phi(-h(X_{it-1})) = \Phi(h(X_{it-1})) \quad (3)$$

The set of firm characteristics controls for birth year, sector, total assets and most importantly, firm size. We employ two measures of size: logarithm of the number of employees and the log level of turnover. These variables might influence the occurrence of credit applications for finance and the success of the applications: i) one might assume that older firms have steady track record and reputation (and will be considered less risky by the banks) and ii) sector can be a significant determinant of access to finance, as firms activating in different sectors have different specificities and thus might seek finance for various reasons. At the same time, in line with Atanasova and Wilson (2004), we also test the importance of firm’s total assets for the probability of being a financially constrained firm, as it can be considered a proxy for available collateral. Independent variables are lagged and refer to the last available information (December 2012).

2.5. Results

According to the answers of senior loan officers in Romania, in the last years (especially during the economic crisis) SMEs lending was affected more prominent than for corporations, credit institutions tightening credit standards and terms to a higher extent in their case. By end-2008 (the time the economic crisis broke out in Romania), 90 percent of banks (net percentage\(^4\)) applied more restrictive credit standards to SMEs, regardless the maturity, compared to 60 percent in case of large companies.

Since 2007, SMEs (particularly microenterprises), were considered by banks as being the riskiest categories of firms. Since end-2013 however, the credit

\(^4\) The net percentage represents the difference between the share of banks reporting that credit standards have been tightened and the share of banks reporting that they have been eased. A positive net percentage indicates that a larger proportion of banks have tightened credit standards (net tightening), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards (net easing).
standards applied both to SMEs and large corporate segment maintained constant, signaling a cease of the restrictive trend (fig. 2.3).

Loan demand for loans from SMEs was perceived by banks as subdued during the period, especially for long term financing. In the last quarters of 2013 and 2014, the demand of loans from SMEs had no clear trends, recording small occasional changes, especially related to a revival of short term loans demand, Figure 2.4. Loan demand from SMEs is mainly channeled for treasury loans and equipment loans (around 40 percent and 24 percent, respectively, of total SMEs loans as of August 2014).

These evolutions contributed, most probably, to the higher negative impact of economic crisis on SMEs activity compared to large corporations: in 2009, SMEs’ contribution to the annual drop in the value added was -8.3 percent (1 percentage point higher than the similar figure for large companies). The recovery was slower for small companies, in 2010 the negative trend of value added generated by SMEs continued, corporations being able to re-enter positive ground.

According to FCNEF replies, there are important differences between SMEs and large corporations, underlining the favorable financial situation of firms in upper size classes: the share of SMEs in the sample that have an outstanding loan is below 20 percent, while over 60 percent of corporations have contracted a bank loan. Corporations also report to a large extent a high rate of success in getting bank loans, the SMEs replies indicating difficulties in accessing credit (fig. 2.5).
Figure 2.4. Banks’ opinions on SMEs’ loan demand

Note: positive values indicate an increase loan demand.
Source: Bank Lending Survey, National Bank of Romania.

Figure 2.5. Companies’ replies related to their experience with credit institutions during April 2014-September 2014

Source: Survey on the access to finance of the non-financial companies in Romania, own calculations.
Moreover, 14 percent of SMEs with loans from banks reported that their relationship with credit institutions deteriorated during April 2014-September 2014. For comparison, the similar figure for large companies is 3 percent. A large share of SMEs with loans from banks considers that the present level of financing costs affects firms’ activity and/or capacity of debt repayment (43 percent of replies, compared to less than a third for corporations). High cost of funding faced by SMEs is a problem often met in other European countries. Paries et al. (2014) show that interest rates for SMEs lending in the Euro Area are significantly higher than for corporations. At the same time, lending conditions for SMEs in countries affected by sovereign crisis deteriorated in the last years, compared to SMEs in other Member states and corporations in the same country.

The measures constructed for capturing financial constraints confirm the abovementioned preliminary findings, as highlighted by the probit regressions results, presented in Table 2.2. The results indicate that being a young firm which hadn’t built up a credit record and/or a reliable reputation increases the probability of facing financing obstacles. Sectoral differences are also significant in firms’ facing access to finance problems. After also controlling for birth year, firm’s size (regardless the unit of measurement) has a negative, statistically significant, effect on the probability of being financial constrained. The larger the company, the smaller the probability of facing obstacles in getting bank credit. For robustness check, we tested whether this relation holds when size is specified as a categorical variable (micro, small, medium, large companies); the results support the same conclusions.

Larger firms are considered less risky and preferred by lenders, as opposed to smaller firms, which are most probably regarded as more opaque and implying higher monitoring costs (see Devereux & Schiantarelli, 1989; Gilchrist & Himmelberg, 1991; Beck et al. 2005). At the same time, firms’ assets (which can be considered an approximation for collateral) contribute to mitigating borrowing constraints, although this effect is not statistically significant in some specifications.

Table 2.2 indicates that the relations are stronger in manufacturing industries (NACE rev. 2 between 10 and 33), which represent around 30 percent in the sample.

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5 The classification follows the European Union definition: The category of micro firms is made up of enterprises which employ fewer than 10 persons and which have an annual turnover/total assets not exceeding 2 million euro, the small firms have less than 50 employees and have an annual turnover/total assets below 10 million euro, while medium sized companies have between 50 and 250 employees and annual turnover not exceeding 50 million euro or total balance sheet not exceeding 43 million euro.
Table 2.2. The link between size/collateral and financial constraints

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Dependent variable: financial constrained 1</th>
<th>Dependent variable: financial constrained 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>number of employees</td>
<td>-0.0463***</td>
<td>-0.0589*</td>
</tr>
<tr>
<td></td>
<td>(0.0154)</td>
<td>(0.0317)</td>
</tr>
<tr>
<td>turnover</td>
<td>-0.0603***</td>
<td>-0.0906***</td>
</tr>
<tr>
<td></td>
<td>(0.0108)</td>
<td>(0.0251)</td>
</tr>
<tr>
<td>total assets</td>
<td>-0.0413***</td>
<td>-0.0572**</td>
</tr>
<tr>
<td></td>
<td>(0.0111)</td>
<td>(0.0250)</td>
</tr>
</tbody>
</table>

Note: Financial constrained 1=problems in accessing bank loans in the last 6 months; Financial constrained 2=access to finance is a pressing problem. Probit estimations, including dummies for birth year and sectors. Independent variables are lagged and expressed in logs. Standard errors in parentheses. Significance level:*significant at 10%; **significant at 5%; ***significant at 1%. Source: Survey on the access to finance of the non-financial companies in Romania, Ministry of Public Finance, National Trade Register Office, own calculations.

The Central Credit Register data indicates a strong correlation between firms’ size and access to bank funding: approximately 80 percent of SMEs never had a loan (this evolution being determined by microenterprises). Among SMEs with business connections to banks, the vast majority accessed funds from a single bank (median value), compared to large companies, who had contracted loans from two banks (median value) during December 2004–August 2014. An explanation for this situation can derive from information asymmetries, manifested mostly for SMEs, affecting lenders availability in financing this sector (UNCTAD, 2001). This problem can be addressed through SMEs’ financial data standardization by setting rating agencies, centralized at national or European level, which could be a support for banking sector (European Commission, 2014).

2.6. Conclusions. Policy options

Using a large variety of firm-level information, including survey data on access to finance of non-financial companies, we offer an insightful perspective on credit demand, focusing on Romanian SMEs segment. The information from this tool was combined with the results from the Bank Lending Survey which also captures the supply-side perspective.

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6 The Central Credit Register (CCR) refers to exposures higher than lei 20,000 (approximately euro 4,500).
We show that, according to both surveys, SMEs lending market was highly affected by the impact of the recent turmoil, a full recovery of banks’ appetite towards this segment being yet to be reached. At the same time, companies’ interest for bank loans is subdued, the cost of funding being restrictive especially in case of small firms.

A main challenge for credit institutions over the coming period is a better exploitation of firms with viable indebtedness potential, especially activating in sectors which can change the economic growth pattern (including trade loans).

For attracting SMEs interest for bank loans, flexible and tailored made products are needed, as well as a simplification of lending process. At the same time, increasing staff training and qualifications related to project financing and firms’ counseling could be a solution for boosting lending, as well as increasing the role of guarantee and counter-guarantee funds. Reducing information asymmetries in SMEs lending system could contribute to a better functioning of SMEs loan market.
Chapter 3

ECONOMIC CONDITION OF LEGAL PERSONS IN THE SME SECTOR – POTENTIAL PARTICIPANTS OF THE CAPITAL MARKET IN POLAND

3.1. Introduction

Polish small and medium-sized enterprises constitute the basis of the modern domestic economy. Their major role is reflected in, among others, producing nearly three fourths of the Polish GDP. There is also an unswerving thesis on the number of work posts created by SMEs, guaranteeing structural changes and progress, which at the same time constitute a significant contribution to the international economy (Bass, 2006, pp. 10-11).

The analysis of the GDP structure shows that the SME sector produces every second Polish zloty (48.5%), while micro-companies provide every third Polish zloty (29.7%). The input of medium-sized business entities is three times smaller and the input of small firms is four times smaller than in the case of the smallest enterprises (correspondingly: 11.0%; 7.8%). Despite the fact that since the year 2008 the structure of enterprises is beginning to have tendencies similar to European trends, still, in Poland, in comparison to the EU average, it is largely dominated by micro-enterprises, while the share of small companies is a half smaller. At the same time, Poland is the fourth country (after France, Italy and Germany) in the ranking of the number of newly formed business entities (PARP, 2014, pp. 14-17). Their number in the European Union results in the fact that the added value produced by these companies constitutes 58.7% of the GDP of EU countries (Eurostat, 2013).

Characteristics of SMEs often give them an advantage over large entities, however, in some circumstances they can be discriminated, emphasizing the existing barriers (Łuczka, 2007, pp. 29-49; Daszkiewicz, 2004, p. 61; see: Skowronek-Mielczarek, 2003). From the macroeconomic point of view they define the tendency
of economic development, which is reflected in observed changes that take place in local and regional markets (Bera, 2010, p. 338; Strużyński, 2004, p. 19).

The classification of enterprises can be made in accordance to different criteria. In general, we can present two divisions (Łuczka, 2013, pp. 125-144; Piasecki, 1999, p. 55; Martyniuk, 2009, p. 13):

1) quantitative – based on absolute values such as, number of workers, turnover, asset value, etc.
2) qualitative – based on features, like: financial independence, organizational structure, ownership, etc.

Literature on the subject considers the size of the company to be the most important feature in determining the structure of capital (Łuczka, 2013, p. 125; Cassar, Holmes, 2003, pp. 123-147; Gregory, Rutherford, Oswald, Gardiner, 2005, pp. 382-392). A similar approach is being observed in the European Union7.

In view of the requirements of the present paper, the classification applied in the Central Statistical Office in Poland is adjusted, taking under consideration the criterion of employment and omitting the values of incomes and assets. In addition, micro-enterprises are distinguished here and analyzed8.

According to the PARP report, the quantitative share of the smallest entities, which is still the biggest, is beginning to have new connotations. Society appreciates jobs, like: expert, consultant, adviser, which more and more often are called freelancers, even though the basis of their employment is self-employment. One could wonder, is it true that the “fashion for self-employment” is equal with “fashion for being an entrepreneur” (PARP, 2014, p. 5)? Here appears the question, how many of these entities will develop and hire other people or will start to cooperate with other business entities? Surely, actions of the government that would stimulate and support activities aiding development, would be appropriate. Work by the

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7 According to the EU definition, which is also applied in Polish economic law, these are the following criteria for dividing enterprises from their total number of entities functioning on the market [Art. 104-106, DZ.U. 2004 Nr 173 poz. 1807; Annex no. 1 Regulation of the Commission (WE) No. 364/2004, DZ.U. L 124 z 20.05.2003)]. For micro-enterprises, the average employment per year in the last financial year, counting full-time jobs, cannot exceed 10 employees and an annual net turnover from the sale of commodities, products and services and financial operations, cannot exceed the value of EUR 2 million, calculated in PLN, or the sum of assets of a company’s balance prepared at the end of one of these years cannot exceed the value of EUR 2 million, calculated in PLN; For small enterprises correspondingly: 50 employees, EUR 10 million, EUR 10 million; For medium companies correspondingly: 250 employees, EUR 50 million, EUR 43 million.

8 At present a noticeable dynamic is taking place in the development of the market of software directed mainly to small companies and people acting on the market as one-person entities, focused on innovation and modern sectors of industry and service – so-called start-ups. See also publications of Steve Blank, who created the definition of a start-up as a temporary organization created for searching for a repeatable and scaled business model.
government dedicated to this specific area of the economy, especially actions of the Ministry of Finance, consisting of forming an appropriate system that would support micro-entrepreneurs to develop and to employ staff in order to transform into small business, and stimulating small companies to take actions for developing into medium enterprises, are all very desired.

It is important to notice that currently PARP along with the Warsaw Stock Exchange (WSE) prepare projects based on EU funds for the support of micro, small and medium-sized enterprises in the years 2014-2020, which wish to be introduced to the stock exchange. They also want to help young people, who want to start their own, innovative business (wyborcza.biz, 2014, 09.12.2014). And so, it has been noticed, that the SME sector did not use this source of financing enough and has problems with preparing appropriate documentation. Support should come from the Operation Frame Program “Intelligent development”; yet, information obtained from PARP on January 19, 2015 shows that work on the principles and rules of the program are still being proceeded (ekonomia.rp.pl, 2014, 09.12.2014).

From the point of possibilities of development and amassing financing through the institution of the stock exchange, the SME sector is depreciated on the market. Despite obtaining macroeconomic indexes, only companies in the form of joint-stock or limited-joint-stock company in the SME sector can tend to become a listed company in Poland. In view of the fact that small and medium firms represent the most numerous and most dynamic sector of the global economy (see: Jaworski, 2011), the present paper shows an analysis of small and medium enterprises, but also micro-and large entities, which will be presented through the analysis of obtained results from 10 consecutive years (in the period from 2003 to 2012) and in comparison to current achievements of EU countries, with special focus on the sector of legal persons, which includes entities attempting to get access to funds from the stock exchange. The paper will illustrate Poland’s place against the background of Europe and it will try to determine the tendency of development in individual segments of entrepreneurship.

The analysis is aimed at establishing the range of companies that could raise capital with the use of the stock exchange, selecting those Polish enterprises from the whole, which are potential participants of the stock market. The examination includes data from the Central Statistical Office for the years 2003-2012, with special attention put on legal persons, which include joint-stock and limited-joint-stock companies that have the possibility to become listed companies in Poland.
3.2. Number and structure of SMEs according to types of business entities in Poland in comparison to countries of the European Union

Since 2003, the share of companies of the SME sector in the total number of business units registered in Poland can be determined as constant (99.80% share resulting from the number of 1,723,834 entities in 2003, while in the year 2012 indicators reached the level of 99.82% and number of 1,791,742 companies). However, from the point of view of possibilities for further development and of acquiring sources of financing, it is the structure of division in view of enterprises’ legal forms that is most important. Having the statute of a natural person means having significantly lower possibilities in this range than legal persons have, although they are in a much smaller number. Differences will appear not only on the level of the managerial board, they will be present in areas of credibility and the image of the business; and these factors are as important in the evaluation of the company, as indicators of profitability (see: Łuczka, 2001, 2013; Bielawska, 1992, 2010). The analyzed data includes legal persons, entities without any defined legal statute and natural persons running a business in Poland in the years 2003-2012. According to the Central Statistical Office in Poland, the set of natural persons is a set of natural persons and persons “which acted as part of companies formed under an agreement based on the Civil Code (partnerships)”. The Central Statistical Office in Poland accepts conventionally also, that “a group of entities with a legal statute (legal persons) is presented together with organizational entities without any defined legal identity” (tab. 3.1) (GUS, 2014, p.10).

Considering lists defined in this way, the number of natural persons grew from 1,615,163 in 2003, to 1,643,288 in 2012 (small increase of 1.7%), while registering three fluctuations over the 10 examined years (in 2004, 2005 and 2009). It is worth noting that in the years 2008-2009, the maximum value of the whole examined period was obtained (1,730,041) and corrected to 1,539,073 enterprises in 2009 (decline of 11.0%)\(^9\).

However, legal persons, despite two anomalies noted in this period (decrease from 135,856 entities in the year 2007 to 132,421 in 2008 and from 134,454 in 2009 to 132,331 in the year 2010), present a trend of growth; it obtained the result of an increase by 36.2% in comparison to the year 2003. Still, this is a result that reflects directly only the sector of microenterprises (correspondingly – a fall from 94,822 to 86,765; from 90,105 to 87,799), while both small and medium legal

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\(^9\) In 2011 there was an actualization of the REGON register, on basis of information on deceased people, obtained from the PESEL register and updated on the basis of information from the National Court Register on entities deleted from the NCR.
entities registered a growth for the same period (small – from 24,949 in the year 2007 to 28,732 in 2008 and from 27,883 in the year 2009 to 27,985 in 2010, on average appropriately: from 12,959 to 13,790 and from 13,455 to 13,494). At the same time the number of large enterprises grew.

Table 3.1. List of business entities according to the categorization of the Central Statistical Office in Poland (GUS)\(^{10}\)

<table>
<thead>
<tr>
<th>Natural persons conducting economic activity</th>
<th>Legal persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural persons</td>
<td>Commercial partnerships and capital companies with a legal personality:</td>
</tr>
<tr>
<td></td>
<td>– joint-stock companies</td>
</tr>
<tr>
<td></td>
<td>– companies with limited liability</td>
</tr>
<tr>
<td>Civil law partnerships</td>
<td>Personal commercial partnerships without legal personality but with the ability of legal acting:</td>
</tr>
<tr>
<td></td>
<td>– professional partnerships</td>
</tr>
<tr>
<td></td>
<td>– general partnerships (unlimited partnerships)</td>
</tr>
<tr>
<td></td>
<td>– limited partnerships</td>
</tr>
<tr>
<td></td>
<td>– limited joint-stock companies</td>
</tr>
</tbody>
</table>

Source: personal elaboration on the basis of information from GUS.

The analysis of large entities within the period 2003-2012 showed one decrease (from 3,134 in 2008 to 3,011 in 2009). The number of small and medium enterprises can be called unstable, although since the year 2009, small enterprises obtained a continuous growth (27,985 in 2010; 28,739 in 2011; 29,075 in 2012, i.e. correspondingly 2.7% and 1.2%). Microenterprises constitute 70.1% of the examined group of legal persons, small enterprises represent 19.2%, medium businesses 8.7%, large companies 2.0%. Of these, the most dynamic growth in relation to 2003, occurred in 2012 in the group of the smallest entities (49.1% increase). Next were large enterprises (19.5%), later small entities (15.7%) and medium ones (6.7%).

\(^{10}\) Data does not include entities running an activity categorized in sections A, K and O (according to the Polish Classification of Activity 2007), i.e. according to the categorization in Poland: companies of administrative law (water companies and for developing joint land properties); Pan-European companies (European companies and European groups of investors); Self-government organizations and foundations; Universities; Autonomic public health centers; Entities from section 94 of the Polish Classification 2007.

The principal division is made on the basis of the fundamental legal form (1,2,9). Entities in the form of natural persons with a business activity (code 9), in GUS are assigned to the group of natural persons. Entities in the form of legal persons (code 1) are assigned to the group of legal persons, entities without legal personality (code 2) are also assigned to the group of legal persons. Particular legal forms encompassed by GUS in the range of published divisions have codes: 15,16,17,18,19,20,21,23,24,40,79,99. In other words, according to the particular legal form, codes 19 and 99 are natural persons, the rest has the form of legal persons.
The examination of the growth rate of SMEs shows that legal persons have much better statistics (from 9.5% in 2004 to 36.6% in 2012). Natural persons obtained in 2012 a growth rate at the level of 1.7%.

A precisely achieved quantity regarding the number of enterprises and pace of the occurring changes among legal persons who are potential participants of the capital market in Poland in the studied period is shown in Table 3.2.

**Table 3.2. Number and rate of growth of enterprises in general and of SMEs according to types of business entities in Poland in 2003-2012**

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,726,536</td>
<td>1,714,983</td>
<td>1,676,775</td>
<td>1,714,915</td>
<td>1,777,076</td>
<td>1,862,462</td>
<td>1,673,527</td>
<td>1,726,663</td>
<td>1,784,603</td>
<td>1,794,943</td>
</tr>
<tr>
<td>Natural persons</td>
<td>1,615,163</td>
<td>1,593,255</td>
<td>1,550,317</td>
<td>1,587,268</td>
<td>1,641,220</td>
<td>1,730,041</td>
<td>1,539,073</td>
<td>1,594,332</td>
<td>1,641,635</td>
<td>1,643,288</td>
</tr>
<tr>
<td>Legal persons</td>
<td>111,373</td>
<td>121,728</td>
<td>126,457</td>
<td>127,647</td>
<td>135,856</td>
<td>132,421</td>
<td>134,454</td>
<td>132,331</td>
<td>142,968</td>
<td>151,655</td>
</tr>
</tbody>
</table>

**SME**

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,723,834</td>
<td>1,712,228</td>
<td>1,673,940</td>
<td>1,711,934</td>
<td>1,773,830</td>
<td>1,859,210</td>
<td>1,670,414</td>
<td>1,723,496</td>
<td>1,781,414</td>
<td>1,791,742</td>
</tr>
<tr>
<td>Natural persons</td>
<td>1,615,054</td>
<td>1,593,140</td>
<td>1,550,210</td>
<td>1,587,152</td>
<td>1,641,100</td>
<td>1,729,923</td>
<td>1,538,971</td>
<td>1,594,218</td>
<td>1,641,523</td>
<td>1,643,186</td>
</tr>
<tr>
<td>Legal persons</td>
<td>108,780</td>
<td>119,089</td>
<td>123,729</td>
<td>124,782</td>
<td>132,730</td>
<td>129,287</td>
<td>131,443</td>
<td>129,278</td>
<td>139,891</td>
<td>148,556</td>
</tr>
</tbody>
</table>

**TOTAL, GROWTH RATE. YEAR 2003=100.00**

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.00</td>
<td>99.33</td>
<td>97.12</td>
<td>99.33</td>
<td>102.93</td>
<td>107.87</td>
<td>96.93</td>
<td>100.01</td>
<td>103.36</td>
<td>103.96</td>
</tr>
<tr>
<td>Natural persons</td>
<td>100.00</td>
<td>98.64</td>
<td>95.99</td>
<td>98.27</td>
<td>101.61</td>
<td>107.11</td>
<td>95.29</td>
<td>98.71</td>
<td>101.64</td>
<td>101.74</td>
</tr>
<tr>
<td>Legal persons</td>
<td>100.00</td>
<td>109.30</td>
<td>113.54</td>
<td>114.61</td>
<td>121.98</td>
<td>118.90</td>
<td>120.72</td>
<td>118.82</td>
<td>128.37</td>
<td>136.17</td>
</tr>
</tbody>
</table>

**TOTAL, GROWTH RATE. YEAR 2003=100.00**

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.00</td>
<td>99.30</td>
<td>97.11</td>
<td>99.31</td>
<td>102.90</td>
<td>107.85</td>
<td>96.90</td>
<td>99.98</td>
<td>103.34</td>
<td>103.94</td>
</tr>
<tr>
<td>Natural persons</td>
<td>100.00</td>
<td>98.64</td>
<td>95.99</td>
<td>98.27</td>
<td>101.61</td>
<td>107.11</td>
<td>95.29</td>
<td>98.71</td>
<td>101.64</td>
<td>101.74</td>
</tr>
<tr>
<td>Legal persons</td>
<td>100.00</td>
<td>109.48</td>
<td>113.74</td>
<td>114.71</td>
<td>122.02</td>
<td>118.85</td>
<td>120.83</td>
<td>118.84</td>
<td>128.60</td>
<td>136.57</td>
</tr>
</tbody>
</table>

Source: personal elaboration on the basis of information from GUS.

In general, the observation of small and medium enterprises in the form of legal persons shows that since the year 2009 their number is constantly growing (Małecka, 2015, pp. 496-507). However, it is important to notice that although the number of small enterprises successively grows from the year 2009, the number of medium companies is decreasing (13 494 in 2010, 13 480 in 2011, 13 194 in 2012). Unfortunately, their participation in the total of all business entities functioning in Poland is also noticeably falling (from 33.7% (37 492) in 2003, to 32.1% (42 522) in 2008 and to 27.9% (42 269) in 2012) (tab. 3.3). At the same time, the number of micro and large enterprises for this legal form of business entities, grows (106 287 micro-companies and 3 099 large companies in 2012), which at the end gives 72.1% of all registered legal persons in the year 2012 (fig. 3.1).
Table 3.3. Number and rate of growth of small and medium-sized enterprises according to types of business entities in Poland in 2003-2012

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural persons</td>
<td>Total</td>
<td>19,646</td>
<td>21,088</td>
<td>21,745</td>
<td>21,689</td>
<td>22,728</td>
<td>28,779</td>
<td>24,659</td>
<td>26,953</td>
<td>28,597</td>
<td>30,286</td>
</tr>
<tr>
<td>Legal persons</td>
<td>Total</td>
<td>37,492</td>
<td>37,284</td>
<td>37,028</td>
<td>37,247</td>
<td>37,908</td>
<td>42,522</td>
<td>41,336</td>
<td>41,479</td>
<td>42,219</td>
<td>42,269</td>
</tr>
</tbody>
</table>
| Source: personal elaboration on the basis of information from GUS.

Figure 3.1. Number of enterprises divided according to their size and distinguishing legal persons in Poland in the years 2003-2012

Source: personal elaboration on the basis of information from GUS.
It is important to add that in the year 2009 GUS introduced a new system of division in view of the Polish classification of business activity. The number of divided sections grew. However, it should not affect general results of the number of enterprises in individual sectors considered in the study.

According to data from Eurostat for EU and Poland, in the year 2011 SMEs constituted the majority of all enterprises (both EU and Poland 99.8%) (PARP, 2014, p. 18). The total number of business entities functioning in EU-28 was circa 22 million. According to this classification, Poland was the sixth country, just after Italy, France, Germany, Spain and United Kingdom. It is also worth to notice the difference in statistics: in Italy, there is about twice more companies than in Poland (fig. 3.2).

![Figure 3.2. Number of enterprises in EU countries in the year 2011 [in million]](image)

Source: personal elaboration on the basis of information from PARP and Eurostat. p. 18.

Differences can also be observed inside the group. In 2011 micro-companies represented 92.5% of business entities, while in Poland the rate was exactly 95.9% (including the share of legal persons at the level of 68.3%). The average for medium enterprises in European Union is 6.2%; which is a half more from the same index in Poland, which in 2011 was 3.1% (including the share of legal persons at the level of 20.1%). Medium enterprises obtained the approximate value 1.0%

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11 Polish classification of business activity 2004 was in force in the years 2003-2008, Polish classification of business activity 2007 is in force since 2009, the detailed list is available on the website: http://stat.gov.pl/Klasyfikacje/.

12 From the group of all legal persons registered in 2011.

13 From the group of all legal persons registered in 2011.
for EU countries and 0.9% for Poland, including legal persons: 9.4% (PARP, 2014, p. 18).

3.3. Gross value added and the industry structure in Poland and the European Union

Due to the possible valuation of issues and the amount of capital that may be acquired for the development of entrepreneurship, the industry which the future issuer represents plays an important role, as well as the results achieved by the sector to which the issuer belongs. In this aspect, studied was the gross value added achieved in various sectors and industries, for which the exchange calculates corresponding sector sub-indices.

Comparing Poland to the European Union, it is worth noting that the analysis of data concerning the year 2011 showed significantly weaker values of the sector of micro and small enterprises in the country, which was measured as the share of the determined sector in the produced gross value added (PARP, 2014, p. 14).

According to this data, the difference for micro-enterprises is 4.9% (because they produce 16.5% of the gross value added of enterprises in Poland, while in EU-27 it is 21.4%). The average for the EU group of small companies is 4.6% less (Polish small business 13.5%, EU-27 18%). However, the opposite situation takes place in the group of medium enterprises (Poland 20.9%, EU-27 18.5%), where the gross value added is 2.4% higher, as well as for large enterprises (Poland 49.1%, EU-27 42.1%), i.e. the value is 7.0% higher (PARP, 2014, p. 15). It is becoming noticeable that micro-enterprises reduce their share in the formation of the gross value added (from 31.0% in 2004 to 29.7% in 2012) and that large enterprises increase their participation in the total of the added value (from 21.9% in 2004 to 24.5% in 2012). The trend for small and medium companies is less clear and it is difficult to establish. The average for small businesses in the years 2004-2012 circles around the value of 7.6%, for medium enterprises: 9.9%.

It is important to notice that in the SME sector medium enterprises since the year 2005 manifest a significant trend of growth (apart from the year 2011) (tab. 3.4). It is a result for the entire sector, including both natural and legal persons.

Analyses and comparisons of individual sectors of enterprises in Poland and in the EU show strongly the difference between basic areas of activity and the obtained values. The difference for the sector of services is 11.5%. This sector in Poland makes 29.7%, while in Europe even 41.2%. It is also worth to note the

\[14\] From the group of all legal persons registered in 2011.
industry, of which the gross value added in Poland is 5.1% higher than in EU (suitably 29.6% and 24.5%), as well as the construction sector and trade – with the difference of 3.4% and 2.9%. European Commission data show that Poland is slowly identifying with the structure of Western countries and the share of services will definitely increase over the course of the following years, which was noticeable during the years 2009-2011 in the trade sector (fall in share from 27.1% to 25.8%), with simultaneous growth in the services sector (from 28.0% to 29.7%) [SBA Fact Sheet 2014, quoting from: PARP, 2104]. In case of the industry, although the trend is to decrease, changes are slight (from 29.7% to 29.6%) (fig. 3.3).

**Table 3.4. The gross value added produced by enterprises in the years 2004-2012 [%]**

<table>
<thead>
<tr>
<th>Year</th>
<th>Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SME</td>
</tr>
<tr>
<td>2004</td>
<td>48,6</td>
</tr>
<tr>
<td>2005</td>
<td>47,8</td>
</tr>
<tr>
<td>2006</td>
<td>47,7</td>
</tr>
<tr>
<td>2007</td>
<td>47,4</td>
</tr>
<tr>
<td>2008</td>
<td>47,2</td>
</tr>
<tr>
<td>2009</td>
<td>48,4</td>
</tr>
<tr>
<td>2010</td>
<td>47,7</td>
</tr>
<tr>
<td>2011</td>
<td>47,3</td>
</tr>
<tr>
<td>2012</td>
<td>48,5</td>
</tr>
</tbody>
</table>

Source: personal elaboration on the basis of information from GUS and PARP.

**Figure 3.3. Comparison of the gross value added in chosen sectors of SME in Poland and EU-28 in the year 2011**

Source: personal elaboration on the basis of information from PARP.
Considering the average for one enterprise from a determined sector and the gross value added resulting from its share, it should be noticed that small enterprises produce more than a half of the value of an average company in Poland. This result is very similar to data from the EU (UE-28 55.6%, 450.3 thousand EUR) (PARP, 2014, p. 17).

According to data from Eurostat for the year 2010, many more companies in Poland remain in the trade sector (35.5%, in EU 28.6%) and significantly fewer companies represent services (36.3%, in EU 45.9%). Results for the industry vary within the interval of 2.1% (Poland 12.5%, EU 10.4%). The construction sector has a similar result (Poland 15.8%, EU 15.2%).

3.4. Investments and their tendencies in the group of legal persons in Poland

The structure of investments\(^{15}\) in Poland is very diversified. In the period 2003-2008 one observed a continuous growth of involvement of entrepreneurs in their own business. In 2009 there was a significant decrease in the participation of capital in investments (10.5%). The next year gave another 1.3%. Only the year 2011 brought growth and obtained the maximum value of investment for the examined period, which was PLN 161.2 billion. Unfortunately, the year 2012 presented another decline of 4.0% (to the value of PLN 154.6 billion).

The SME sector noted three falls in the same time: in 2005 it was 1.9% (from PLN 44.9 billion to PLN 44.1 billion), in 2009 it was 7.1% (from PLN 74.3 billion to PLN 69.1 billion) and in 2012: 7.8% (from PLN 80.8 billion to PLN 74.4 billion). It is important to notice that since 2009 large companies also register declines, although their amounts spent on investment still exceed the expenditures of the SME sector (decline in: 2009 =13.4%, 2010 = 5.4%, 2012 = 0.1%)\(^{16}\).

\(^{15}\) Analyzed investments published by GUS represent values of investment for both new and used fixed assets and for modernization. „Inputs for fixed assets are costs for the purchase (including the purchase of fixed assets not-requiring assembly or installation) or making new fixed assets for own needs, costs of the construction of fixed assets (i.e. costs of future fixed assets), of improvements of own fixed assets or improvements of other fixed assets and other expenditure related to the construction of a fixed asset – along with costs paid in the purchase of these assets. The division of costs of fixed assets (including costs of initiated constructions that were not finished yet) into groups and types was made in accordance to the Classification of Fixed Assets.” GUS shows investments for fixed assets in the division to „principal groups of types of fixed assets, including buildings and objects of the land construction (groups 1-2), machines, technical devices and tools (groups 3-6 and 8), means of transport (group 7).”

\(^{16}\) Enterprises noted the biggest value of investment for the examined period, in the year 2008 (PLN 86.2 billion).
The analysis of tendencies clearly highlights two years: 2010 and 2011, during which investments in SMEs were higher than in large enterprises at the corresponding values PLN 707 million and PLN 408 million. The year 2012 ended with a difference of PLN 5.9 billion, with the advantage of large enterprises. Both sectors noted a decline, which in 2012 obtained values of PLN 74.5 billion for SMEs and PLN 80.4 billion for large enterprises (fig. 3.4).

![Figure 3.4. Values of investments in Poland in the years 2003-2012](image)

Source: personal elaboration on the basis of information from GUS.

The calculation of an average value of investment per company for the determined sector gave a value of an increase almost two times bigger in SME (average value from PLN 21.5 thousand in 2003 grew to PLN 41.6 thousand in 2012, while the maximum value in the examined period occurred in the year 2011 – with the result of PLN 45.4 thousand). The sector of large enterprises obtained in 2008 the average value of PLN 26.5 million per company, in 2012 it was PLN 25.1 million for investments for an individual enterprise of the examined sector. Investments of active enterprises of the SME sector per enterprise in the year 2012 are presented in Figure 3.5.

Interesting results come from the analysis of the average value of investments counted for each enterprise of SME sector registered for a determined legal form. Statistics show that natural persons increased their involvement over 10 years by about 2.5 times, while legal persons – almost 1.4 times. Of course, nominal values significantly differ (from PLN 5,547 in 2003 for natural persons to 12,442

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17 Large enterprises reduced investments in periods of changeable economic situations.
In 2012 and from PLN 258,025 in 2003 for legal persons to PLN 363,782 in 2012. In the same period, large companies obtained for natural persons the corresponding values of PLN 4.2 million in 2003 and PLN 5.3 million in 2012, and for legal persons PLN 15.4 million and PLN 25.8 million. Investments of legal persons from the SME sector and large enterprises in Poland in the questioned period are presented in Figure 3.6.

Figure 3.5. Investments of active enterprises of the SME sector per enterprise in the year 2012 – regional divisions
Source: PARP, Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2012-2013, 2014, p. 4.

Figure 3.6. Investments of legal persons from the SME sector and large enterprises in Poland in the years 2003-2012
Source: personal elaboration on the basis of information from GUS.
The analysis of the SME sector also gives interesting data. It shows that the share of involvement into investments of micro-enterprises is at least as big as in the group of small businesses (noticeable similarity in the participation is present in the results for the year 2012: 8.1%; 9.7%).

All enterprises revealed a clear increase in amounts invested for development: in micro-enterprises from 61 712 in 2003 to 101 696 in 2012, small companies: from 349 465 in 2003 to 446 604 in 2013, medium enterprises: from 1 203 963 in 2003 to 2 292 557 in 2012. This means that each sector increased its investments by more than one time, and medium enterprises – even two times (correspondingly: micro 164.8%; small 127.8%; medium 190.4%; large 167.3%).

Table 3.5. Investments of legal persons and their share in the sector in Poland in the years 2003-2012

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MICRO</th>
<th>SMALL</th>
<th>MEDIUM</th>
<th>MICRO</th>
<th>SMALL</th>
<th>MEDIUM</th>
<th>LARGE</th>
<th>LARGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>61 721</td>
<td>349 465</td>
<td>1 203 963</td>
<td>6,47</td>
<td>12,92</td>
<td>21,90</td>
<td>15,39</td>
<td>0,59</td>
</tr>
<tr>
<td>2004</td>
<td>68 994</td>
<td>368 649</td>
<td>1 692 563</td>
<td>7,06</td>
<td>11,70</td>
<td>25,27</td>
<td>16,95</td>
<td>0,56</td>
</tr>
<tr>
<td>2005</td>
<td>71 303</td>
<td>331 474</td>
<td>1 654 794</td>
<td>6,89</td>
<td>9,21</td>
<td>22,27</td>
<td>20,28</td>
<td>0,62</td>
</tr>
<tr>
<td>2006</td>
<td>83 544</td>
<td>414 563</td>
<td>2 084 612</td>
<td>7,15</td>
<td>10,05</td>
<td>25,37</td>
<td>20,50</td>
<td>0,57</td>
</tr>
<tr>
<td>2007</td>
<td>91 891</td>
<td>512 289</td>
<td>2 459 910</td>
<td>6,80</td>
<td>9,98</td>
<td>24,90</td>
<td>23,89</td>
<td>0,58</td>
</tr>
<tr>
<td>2008</td>
<td>101 423</td>
<td>525 720</td>
<td>2 333 430</td>
<td>6,21</td>
<td>10,66</td>
<td>22,70</td>
<td>27,34</td>
<td>0,60</td>
</tr>
<tr>
<td>2009</td>
<td>114 289</td>
<td>460 675</td>
<td>2 111 111</td>
<td>8,19</td>
<td>10,21</td>
<td>22,58</td>
<td>24,65</td>
<td>0,59</td>
</tr>
<tr>
<td>2010</td>
<td>150 617</td>
<td>467 179</td>
<td>1 988 884</td>
<td>10,74</td>
<td>10,62</td>
<td>21,79</td>
<td>22,94</td>
<td>0,57</td>
</tr>
<tr>
<td>2011</td>
<td>150 616</td>
<td>496 364</td>
<td>2 293 694</td>
<td>10,52</td>
<td>10,20</td>
<td>22,12</td>
<td>25,97</td>
<td>0,57</td>
</tr>
<tr>
<td>2012</td>
<td>101 696</td>
<td>446 604</td>
<td>2 292 557</td>
<td>8,07</td>
<td>9,70</td>
<td>22,60</td>
<td>25,76</td>
<td>0,60</td>
</tr>
</tbody>
</table>

Source: personal elaboration on the basis of information from GUS.

When analyzing the values of investments for the entire SME sector, one should notice that the obtained results are much lower than amounts obtained in EU countries. In 2011 Austria and Denmark were leading in the group (with results of EUR 107.2 thousand and EUR 101.1 thousand). Next were: Belgium, Luxembourg, United Kingdom and Germany (correspondingly: EUR 94.6 thousand, EUR 86.7 thousand, EUR 83.3 thousand, EUR 83.0 thousand). Poland (EUR 24.9 thousand) was ahead of only Bulgaria, the Czech Republic, Slovakia, Hungary and Portugal (correspondingly: EUR 23.1 thousand; EUR 21.6 thousand; EUR 21.0 thousand; EUR 20.3 thousand; EUR 18.3 thousand). Poland was also in the group of countries that observed an increase in investment in the year 2011; however, one

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18 Year 2010 (micro = 13 224, small = 13 074) and 2011 (micro=14 711, small = 14 265)
should not neglect declines observed in Ireland, Cyprus, Italy and Portugal (correspondingly: EUR 14.5 thousand; EUR 10.5 thousand; EUR 9.0 thousand; EUR 3.1 thousand)\textsuperscript{19} (fig. 3.7).

![Figure 3.7. Investments for fixed assets per company in EU countries in the years 2008-2011](image)

Source: personal elaboration on the basis of information from PARP (PARP, 2014)\textsuperscript{20}.

### 3.5. Conclusions

Deliberations presented in the present paper concerned selecting from the total of Polish enterprises, companies of the SME sector that potentially can participate in the stock market. The examination included their number, the gross value added produced by these companies and investments for the years 2003-2012, with special attention paid to the parameters of legal persons, which include, according to the GUS classification, joint-stock and limited-stock companies, which have the possibility to enter the stock market in Poland.

In general the Warsaw Stock Exchange is a tool for realizing a company’s objectives, such as new investments, take-overs of the competitors, development of distribution, advertisement or modernization of management systems. It is supposed

\textsuperscript{19} In the same period investments for fixed assets per company in Switzerland were EUR 275.3 thousand, and in Norway EUR 118.5 thousand.

\textsuperscript{20} Lack of data for Malta and Greece.
to develop actions increasing the financial result, which should reach the level expected by investors. Entry into the stock exchange, which is one of available and possible sources of financing, definitively relates to restructurings inside each micro, small and medium enterprise. Maybe the knowledge of owners, shareholders or partners of legal persons in the current SME sector is insufficient to initiate any steps in this direction. Actions of PARP and the stock exchange to popularize the idea of the stock exchange confirm it. Maybe today the source of financing is understood as a loan, a leasing and is identified more with a cost than with an investment. However, it is a fact that among all entities functioning in Poland in 2012, legal persons in the SME sector noted a 36.6% increase in relation to the year 2003, they constitute 98.0% of all legal persons, and still their number is growing and becoming similar to the number of legal persons in the EU. In 2012 SMEs spent PLN 74 489 million on investment, of which PLN 54 042 million was spent by entities with a legal personality; this is 72.6% of all investment inputs in the group of legal persons of the sector. The value of financial involvement doubled over the period from 2003 to 2012, while in the group of legal persons it reached 192.5%, therefore it is important to notice the rapid tempo, continuous development and increasing number of legal persons and their participation in macroeconomic indexes, showing how they build and reinforce their position.

In view of the growing force of analyzed entities, the attitude of the stock exchange and the actions it initiates for supporting the cooperation with micro, small and medium-sized enterprises, is appropriate. In order to make the examination complete, an in depth analysis of the following indexes should also be made: incomes, costs or profitability rates and next, making another attempt at a complex evaluation of the range of enterprises in Poland that could aspire to the status of listed companies.
Chapter 4

THE IMPACT OF ORGANIZATIONAL CHANGES ON THE INNOVATION OF COMPANIES FROM THE SECTOR OF SMALL AND MEDIUM SIZED ENTERPRISES

4.1. Introduction

The economic structures which exist in present enterprises appeared at the end of the 18th century. However, it should be kept in mind that business activity had also been conducted earlier, but it was organized in a different way. Development of structures as late as in the 18th century resulted from earlier technological, demographic, legal and human capital quality limitations, i.e. factors classified into external and internal factors of the corporate environment (Pawełko, 2012). Advanced changes in the structures of economic activity appeared first in big enterprises (Cassis, 2008).

The organizational solutions seen in big organizations after some time also became popular in small entities, especially if these entities had been cooperating with each other. That is why the aim of this study is to show the impact of organizational changes taking place in enterprises of the SME sector on the innovation of these entities. For the purpose of this article one assumed that some changes in the corporate organization might affect the development of innovation of entities, whereas other changes might slow it down. The author chose the hypothetico-deductive method for the scientific method and applied the analysis of reference books and of the statistical data from the Central Statistical Office as the research techniques.

4.2. The importance of organization in the modern world

The term “organization” derives from the Greek word “organize”, which means the creation of an ordered, harmonized entirety People create and develop
organization by cooperating with one another and by implementing specific goals (Antoszkiweicz, 2008). However, one person is not able to satisfy all needs on their own, that is why they create organizations. In nature one can observe a general scarcity of resources and hostility of nature, which gives rise to the development of economic, social and political needs of people. Owing to the impact of the organisation, the initial needs of people may be satisfied and new ones may appear (Wren, 2005).

While defining the term “organization”, the researchers stress its social character. Organization may be defined as “a sociological unity” with a defined system of goals based on the division of functions, on the allocation to the members of a defined role to be fulfilled in the changing external environment, creating a hierarchically built social structure containing elements of leadership and subordination (Lipiński, 1974). The organization may also be treated as “sets of people working together in a coordinated and structured way in order to achieve one or more common goals”.

Each organization has a specific structure which can be described as “the total of all ways into which the work is divided into single tasks, and the way of their coordination” (Mintzberg, 1983). Organization is also defined as a “construction of workplaces, a relation between workplaces and the systems and processes which are applied in the organization” (Barney & Griffin, 1993). Thus it is a set of interrelated elements arranged according to a specific logic, which is one of “the most useful tools for maintaining the coordination between correlated entities” (Griffin, 1999). The structure is essential, because within each organization one performs a lot of different tasks which affect one another and have to harmonize with one another, it is one of the management tools.

Intuitive understanding of the term “organization” (Koźmiński & Latusek-Jurczak, 2011) allows one to distinguish its certain features of:

- goal-related nature – organization is to reach goals and missions (which can change in time and be understood in different ways by different entities, members of the organization as well as its observers);
- social nature – organizations are made of people who cooperate with one another and establish different relationships, organizations are also connected with the social surroundings;
- formalized (to some extent) nature – organizations often rely on an informal social agreement, on habits as well as on law;
- economic nature – organizations have to obtain from their surroundings material resources enabling them to operate and manage limited resources.

Organization is a social – technological form made of people, the aim of which is to achieve specific goals, which requires a joint effort. Achievement of
this result (surplus over the total of individual efforts) is called synergy and it requires coordination and integration of the efforts. One has to create a defined structure of actions (processes) and a structure of the team itself so that such activities can take place. Even in the smallest and simplest teams, there is always an element managing the whole (subsystem of management) (Bielski, 1992).

Organizations are specific kinds of systems. According to R.L. Ackoff „organization is a system acting towards a goal, containing at least two elements acting in a given way and having the same intentions, because of which a functional division of work takes place in the system; as functionally divisible elements these elements can respond to their mutual behavior in the form of observation or contact and at least one subset plays the control-management function. The system which “behaves towards a goal” means a system which not only chooses resources to reach the goals, but also defines the goals to be implemented. The control-management function consists in the fact that behaviour of the control-management element is either necessary or sufficient to the subsequent behaviour of another element (the managed one), where this behaviour constitutes a necessary or sufficient condition to reach the goal or goals implemented by the control-management element (Górska & Lewandowski, 2010).

4.3. Barriers preventing the implementation of organizational changes affecting corporate innovation

Companies from the SME sector are organizations which have to undergo continuous transformation processes and adjust to changes in the dynamic environment (Przybytniowski, 2013) in order to be competitive and innovative (Przybytniowski, 2012). However, very often, this situation does not occur because – according to the author – SMEs are characterized by a lack of resources and often insufficiently educated management staff, owing to which organizational changes in such companies are not implemented or are implemented ineffectively.

Bureaucracy of the corporate structure may prevent innovation in enterprises from the SME sector, as it limits adaptation possibilities and capability to adjust to the changes in the surroundings. The degree of formalization can be measured by a number of regulations limiting freedom of action, the degree of their categorical character and the repertoire of sanctions. It is obvious that a certain degree of formalization in the company is essential, as there have to be statutes, organizational rules, instructions, framework procedures as well as written rules, all of which describe more or less precisely the structure of the organization. Each legal system requires a specific minimal bureaucratic structure, but excessive bureaucracy
suppresses the corporate organization system. In enterprises from the SME sector, there exist bureaucratic organizational structures which prevent the implementation of innovative solutions. The following structures can be classified into bureaucratic structures (Romanowska et al., 2001):

1. Linear (centralized authority, unity of linear subordination) – linear structure is mainly present in small or conservative organizations. If the organization aspires to be a modern one, it should not apply such a structure.

2. Linear-team – (like linear one, but some managerial functions are supported by special team unit).

3. Functional (according to the concept by F.W. Taylor: central management, functional specialization at lower managerial levels, degree of subordination of clerical workers). In this structure one may experience difficulties in the coordination of managerial activities, which may lead to competence disputes. It is also not easy to define responsibility and assess effectiveness. One can also see difficulties when it comes to undertaking unanimous activities, the aim of which is to reach goals of the entire organization. Functional structures (like the linear ones) are classified as mechanistic stable structures, which however do not undergo external changes under the influence of signals coming from the surroundings (Kraśniak, 2008).

4. Vertical (functional specialization at the second level and linear system or linear-team system at lower levels).

5. Horizontal (consisting of two parts: for operational tasks and for planning and controlling).

6. In enterprises from the SME sector, traditional structures, which do not affect positively the flow of knowledge in the organization, pose a problem when it comes to effective knowledge (Przybytniowski, 2013) management and introduction of changes in the organization. Structures should be dynamic, adaptable and indistinct, because then knowledge resources spread faster among the employees. In organizations characterised by a high stable hierarchy, the flow of knowledge is very difficult. Development of cooperation networks of related self-managing units and unstable authority systems are effective ways of elimination of this problem. A transfer of knowledge in organizations is also disturbed by the vertical channels of reports, decisions and orders. Introduction of network information and decision structures would be more effective. Knowledge management is more effective when one concentrates on processes and applies informal mechanisms of exerting pressure (organizational culture, communication, participation), instead of concentrating on functions and putting a strong emphasis on control. In
The impact of organizational changes on the innovation of companies

enterprises with a high degree of centralization of decisions and high formalization, as well as with only formal communication within the hierarchical relations, a flow of knowledge will be difficult and in extreme cases even impossible (Machnik-Słomka, 2010).

Centralization of power is also classified as organizational barriers affecting the innovation of enterprises from the SME sector. Centralization means concentration of powers in one unit of power, which is the most important and ranks the highest in the hierarchy. A centralized organization is an organization in which the decisions – even concerning operational or tactical management at low levels of management – are made at the highest levels. Supporters of such an approach are of the opinion that centralization leads to easier coordination of actions, bigger experience and bigger responsibility of top managers.

Decentralization of power means delegation of powers to lower levels of management and giving liberty to take decisions. A proper decentralization positively motivates managers at lower levels, while the top managers do not have to focus on issues unnecessarily absorbing time necessary to prepare strategic decisions and exercise leadership in the organization (Korzeniowski, 2011).

Barriers in the communication in the organization are yet another problem which results in the lack of innovations. Such barriers include, among others (Górska & Lewandowski, 2010):

- physical barriers (lack of time to communicate, noises of external character);
- language barriers (use of specialist expressions or jargon, use of symbols);
- discrepancy between the verbal and non-verbal communicators (body movements, facial expressions, gestures, postures, intonation, clothes);
- perceptive and interpretation barriers (differences in perception);
- emotional barriers (emotional reactions – supervisor/subordinate expresses anger, dislike);
- inability to listen to the partner;
- barriers related to information manipulation;
- barriers of lack of trust and credibility;
- barrier of informational overload;
- cultural barriers.

Ineffective implementation of organizational changes in enterprises from the MSE sector results very often from the mentality of the persons employed in such organizations. According to the author, a vast majority of employees value security and peace of work, and they do not want to be told by the managers to express their opinions. A Polish employee wants in the first place to be sure of their work, of their employment and wants to have a properly organized workplace and good
relationships with their colleagues and supervisor. Individual achievements, which are considered by other employees as a threat to the hierarchy, prestige and present opinions, are underestimated. This attitude displayed by the employees and supervisors results in: formalism of relationships, hierarchical distance, low trust and above all a lack of open communication essential when it comes to looking for innovative solutions and exploiting the employee's full potential (Puszcz et. al., 2008). Disturbance of the habits of the employees and above all the fear for and sense of loss of security belong to the most important factors making organizational changes difficult, and they are accompanied by resistance against such changes.

To sum up, organizational barriers in enterprises from the SME sector may considerably disturb the process of implementation of innovation in such enterprises. However, small and mid-sized enterprises may follow the example of large organisations (which are usually characterized by a higher level of organizational development) when it comes to the application of the management systems. Cooperation with big enterprises allows the enterprises from the SME sector to copy the already applied solutions and to adopt the organizational systems of large companies.

4.4. Driving forces affecting innovation in the system of corporate organizational changes

Organizational systems of large companies are more effective and efficient than those implemented in the enterprises from the SME sector. This results from the fact that big entities have more physical, financial and informational resources and can also gain more qualified employees. When cooperating with big entities, small and mid-sized enterprises can copy some organizational elements from big enterprises and implement them after some amendments in their own organizations. Thanks to such measures, enterprises from the SME sector may become more innovative.

The ability to cooperate and share knowledge is typical of an organization with intensive interactions (Lorenzoni & Lipparini, 1999). People with highly developed social skills (constituting the basis of the social capabilities of a given organization) achieve much better results than persons with poorly developed social skills. Personal relations of the managerial staff and of the employees may turn out necessary for different stages of the enterprise functioning (Starnawska, 2008). These relations acquire particular importance in the case of long-term cooperation, where a significant part of contractual conditions is arranged in an informal way (Fonfar, 2009). As a result, enterprises characterised by high social capabilities can acquire access to precious information and are able to use this knowledge
in a better way. A well-developed ability enables one to acquire knowledge from external organizations and to diffuse it (Przybyniowski, 2013), which is especially important for the enrichment of the hidden knowledge (Collins & Hitt, 2006). Consequently, this may allow one to get the competitive edge.

As early as in the 18th century, A. Smith noticed and described the advantages resulting from specialization. If there are different activities to be performed in the enterprise, it is impossible for a team consisting of a small number of employees to perform all these activities well. That is why, enterprises from the SME sector should, following the examples of big companies, allocate tasks and responsibility for a given range of tasks to given employees (Pawełko, 2012).

Access to new technological solutions results in the occurrence of new versions of organizational structures, especially in the intensification of network relations between organizations. These activities are conducted for the purpose of increasing the organizational flexibility. They reduce anxiety and allow one to gain new capabilities and skills from other members of the network, they ensure access to scarce resources and information, and limit the information asymmetry. Thanks to network relations, internal control of the organization can become less extensive, because the infrastructure solutions ensure a full and continuous information flow. A classic example of a positive impact of network relations is the Japanese company Toyota which has developed long-term relations with smaller subcontractors based on trust and cooperation as well on the mutual share of knowledge.

Introduction of the matrix structures to the SME companies contributed to the diversification of their business activity. On the one hand, central coordination is achieved in a given range and on the other one, the enterprise can afford to make decisions connected with the specificity of the local market or product.

The following structures can be classified into structures consistent with the organic model affecting the innovation of enterprises from the SME sector (Romanowska et al., 2001):

- matrix (division into a fixed and variable part, double subordination, e.g. functional and industry, variable number of task teams) – the matrix structure expresses respect for the rules of activities based on common knowledge of all members of organization;
- tensor (like the matrix one, but with a triple subordination, e.g. functional, industry and regional);
- project (solutions limited to the defined project within the bureaucratic structure).

The role and significance of the master, i.e. the leader of the changes, a project manager, team leader, is very important in the organization. Even good and
competent employees of specialist organizational structures may not achieve the expected innovative result if they are managed by poorly motivated leaders. Organization leaders and managers know their goals and what needs to be done to achieve these goals. They are visionaries, conscious of their goals, missions, values, and possessed abilities and personality assets. The skills of communicating within the team, of sharing knowledge with the project team members, responsibility towards managerial staff and customers for the risk taken in unique activities as well determination and impact on the team while trying to achieve the intended goal, are only some of the most important assets of leaders in innovative changes (Czarnecka-Wójcik & Wójcik, 2008). According to P.F. Drucker, implementation of any change should be entrusted to people who are characterized by well-developed abilities and skills (Drucker, 2000). According to E. Muzio and D.J. Fisher, project managers and team leaders should possess, apart from leadership competences, many abilities and personal traits, enabling them to manage the project team (Muzio & Fisher, 2007) in an effective and efficient way. These personal traits include: responsibility for others, thinking competences, conflict management, lifelong learning (Przybytniowski, 2013), insight into the customer, development of other persons, diplomacy and tact, empathy, flexibility, ability to influence others, interpersonal abilities, ability to lead others, listening to others, personal responsibility, self-control and organization, ability to solve problems, calmness, result-orientation, self-management, ability to restart activities and good teamwork skills (Muzio & Fisher, 2007).

4.5. Conclusions

On the basis of the data published in the report of the Polish Central Statistical Office one can state that in the years 2006-2008 organizational innovations were implemented by 9% of small and 20% of mid-sized companies, however in 2007-2009 only by 5% and 15.4% respectively. There are many reasons for such a low percentage of enterprises implementing organizational innovations. According to the author, the above-mentioned barriers have a significant impact on such a situation.

Relevant activities in organizations guarantee their smooth functioning. These activities include (Sadowski, 2011): a well-organized information system enabling one to obtain data on world trends in politics, science, technology, economy, demography and ecology, strategic intentions of central institutions, achievements in scientific research as well as technological progress, situation on the markets and at the competitors, the company’s own strategic intentions,
activities, as well as strong and weak points. The company should also precisely define its future goals and internal factors conditioning the implementation of its strategy (possessed resources and production capacities, production-financial and innovative possibilities), as well as a possible use of strategic resources, such as restructuring, intensification of activities (diversification, strategic alliances) or involvement in new business areas. The managerial authorities have to win the support of the staff and ensure an ongoing supervision and control.

If such activities are implemented in the organization, it will be characterized by a modern management style responding to the changing surroundings and adjusting to them. Companies meeting these conditions may become innovative enterprises and get a permanent competitive advantage.
PART 2

Social dimensions of enterprising organizations
Chapter 5

HEILBRONNER DECLARATION OF SELF COMMITTED SMALL AND MEDIUM COMPANIES WITH REGARD TO CSR AND IMPLEMENTATION

5.1. Introduction

At the 20th anniversary of the UN-Rio Declaration the ideas of sustainability and Corporate Social Responsibility (CSR) are still relevant. Beside different understandings of CSR it has grown popular among discussions in economics and society. To a growing extent customers make their buying decisions under CSR aspects. Enterprises try to follow up with CSR strategies. But often a gap has to be detected between the theoretical approach of CSR and practical implementations within the entrepreneurial reality. This article introduces a possible approach of closing the gap within CSR implementation.

The ‘Heilbronn Declaration’ is a voluntary agreement of enterprises and institutions in Germany especially of the Heilbronn-Franconia region. The approach of the ‘Heilbronn Declaration’ targets the decisive factors of success or failure, the achievements of the implementation and best practices regarding CSR. A form of responsible entrepreneurship shall be initiated to meet the requirements of stakeholders’ trust in economy. Therefore it has been elaborated by academics together with enterprises and their shareholders.

The innovative approach is the integration of the prospective signatories into discussion on the idea and purpose of business from the very first beginning. The signing of the ‘Heilbronn Declaration’ in public is a first step of CSR implementation within the signatories and partners. In continuous follow-up meetings starting in September 2013 the signatories to the ‘Heilbronn Declaration’ are going to discuss key success factors, failure and achievements.

The ‘Heilbronn Declaration’ is an approach to make voluntary commitment more binding. Its scientific base may allow development of indicators for CSR implementation in business ventures and institutions to finalize in a CSR audit.
5.2. Structure

This article tries to clarify the challenges of the so called voluntary commitments especially in the area of CSR of small and medium sized enterprises located especially in Germany. Figure 5.1 explains the structure of this article. In the introduction the problem and the research interest are described. In the second chapter the chosen scientific methods and different instruments will be examined. These led to the elaborated ‘Heilbronn Declaration’ and will be used for future research. Section three shows the historical dimension concerning sustainability and the development of voluntary commitments.

On basis of the definition of CSR and parts of the ‘Heilbronn Declaration’ the findings as there are practical CSR implementation of small and medium sized enterprises (Institut für Mittelstandsforschung 2012; European Commission 2003) are described.

The objectives of the ‘Heilbronn Declaration’ are pointed out in the fourth part. In chapter five and six the research limitations and implications of the ‘Heilbronn Declaration’ will be illustrated as well as the practical and social implications. The conclusion summarizes the innovation and the benefits of a ‘Heilbronn Declaration’.
5.3. Methodology

The process elaborating the ‘Heilbronn Declaration’ and the further research can be divided in four parts (see figure 5.2). The methodology includes four different scientific methods: A state of the art descriptive analysis (A), several expert workshops (B) and expert interviews (C) and finally an empirical study (D).

First, in the descriptive analysis which is here the chapter historical dimension, the histories of sustainability and of voluntary commitments provide a theoretical basis for the text of the ‘Heilbronn Declaration’. The process of discussion (in figure 5.2, see (B) Expert workshops) started in November 2011. First a peer group of five members containing politicians and entrepreneurs was invited to discuss in so-called experts workshops (Fantapié, Altobelli, 2007) the first draft of the ‘Heilbronn Declaration’. In a follow up the group will be extended up to 40 enterprises (Gruber, 2006).

![Figure 5.2. Methodology – different research methods and instruments](image)

Source: own figure.

In these workshops different approaches of CSR implementation within enterprises will be elaborated (Marrewijk, 2003; Garriga et al., 2004; Seitanidi & Crane, 2009). With the joint signature of the ‘Heilbronn Declaration’ and the presentation to the public as part of the annual conference of the German Business...
Ethics Network (DNWE) in September 2012 this stage (B) will be completed. The DNWE is a non-governmental Organization (NGO). It works as a platform for discussions about challenges and perspectives of business and corporate ethics (DNWE 2012).

The participating enterprises and institutions commit to attend follow-up meetings in 2013. There will be the opportunity to conduct expert interviews (C) and in addition a larger survey (D). The aim is to figure out indicators for CSR implementation in business structures. With these indicators then a CSR balance can be developed (D). As part of a doctoral thesis for example this extensive and comprehensive research can be derived.

5.4. Historical dimension

In his book ‘Sylvicultura oeconomica’ Hannss Carl von Carlowitz saw ahead a resource crisis concerning wood. He suggested not to deforest more wood than could be renewed with afforestation (Carlowitz, 1732). The value of the forest should be preserved for the future generations. This idea of a sustainable treatment of the forest has had an important impact to the ancient and actual forestry (Grober, 2009).

Another idea of sustainability reflects about the maximum of population for our environment and the natural resources of the Earth. This so called ‘carrying capacity’ approach is related to the idea of an ecological footprint (see chapter below; Rees, 1992 and 1996; Sayre, 2008).

Based on these thoughts the ‘United Nations Conference on the Human Environment’ took place in Stockholm in 1972 (UN 1972). Here the members proclaimed that:

‘The protection and improvement of the human environment is a major issue which affects the well-being of peoples and economic development throughout the world; […] In our time, man’s capability to transform his surroundings, if used wisely, can bring to all peoples the benefits of development and the opportunity to enhance the quality of life.’ (UN 1972, p. 1).

The publication of the book ‘The Limits to Growth’ (Meadows et al., 1972) and ‘The Global 2000 Report to the President’ (Barney, 1980) significantly influenced these ideas of sustainable governance. Both books had also an impact on the entrepreneurial sustainability and public and scientific discourses. These opuses came to the final conclusion that future industrial and economic activities should consider the limits to growth and implement ecological aspects to prevent overusing the resources of the Earth (Meadows et al., 1972; Barney, 1980). On the basis
of that discussion the ‘World Commission on Environment and Development’ (WCED) defined in the so called ‘Brundtland Report’ in 1987 sustainability as follows:

*Sustainable development […] implies meeting the needs of the present without compromising the ability of future generations to meet their own needs, should become a central guiding principle of the United Nations, Governments and private institutions, organizations and enterprises’ (UN 1987, p. 1).

Immanuel Kant formulated already in 1876 with the idea of the categorical imperative:

‘It is therefore an a priori presupposition of practical reason to regard and treat any object of my choice as something which could objectively be mine or yours.’ (Kant 1996, p. 41).

And Hans Küng et al. phrase in the ‘Declaration Towards a Global Ethic’:

‘We must treat others as we wish others to treat us. We make a commitment to respect life and dignity, individuality and diversity, so that every person is treated humanely, without exception. We must have patience and acceptance.’ (Parliament of the World’s Religions 1993, p. 3).

In Germany Ernst Ulrich von Weizsäcker and Friedrich Schmidt-Bleek improved these ideas of sustainability. Together they led the Wuppertal Institute for Climate, Environment and Energy from its beginnings (Wuppertal Institute 2012). Their most important idea was to increase the resource productivity on focus of the dematerialization, the concepts of the books ‘Factor Four – Doubling Wealth, Halving Resource Use’ (Weizsäcker, 1995) and ‘The Fossil Makers’ (Schmidt-Bleek, 1993). In this book Schmidt-Bleek ‘proposed his MIPS concept for gauging material input per service unit’ (Wuppertal Institute 2012). The idea of a sustainability perpetuated to the awareness of sustainable product development and production was born.

At that time also the concept of an ‘ecological footprint’ was developed by William E. Rees and Mathis Wackernagel (Rees. 1992; Wackernagel. 1994). An ‘ecological footprint’ measures the biocapacity that is necessary to provide the resources for a nation, enterprise or an individual person (Wackernagel & Rees 1996, p. 9). A footprint at the end of the survey then informs about the sustainability of what you have proved. There are now different approaches to use this methodology (Ferng, 2001; Monfreda et al., 2004). But the concept has also been criticized for failing the objective of sustainability as it doesn’t consider land use and land degradation aspects, for example (van den Bergh & Verbruggen, 1999; Fiala, 2008).

The ‘Rio Declaration on Environment and Development’ (UN 1992) was the first global relevant attempt of the ‘United Nations Conference on Environment...
and Development’ (UNCED) to ensure the protection of the environment and sustainable development after the so called ‘cold war’ (UN 1992, preamble). It consists of 27 principles that might help the countries to implement sustainable development and environmental protection in their policies due to legislation and their future economic development. Another result of this UNCED, which is also known as ‘Earth Summit’ was the ‘Agenda 21’ action plan (UNESCO 2012). The so called ‘three-pillar’ concept was introduced: Sustainability consists of three interlinked dimension – the economic, the ecological and the social dimension. The field of social development is labeled as CSR today.

On the ecological level there was the summit of the ‘United Nations Framework Convention on Climate Change’ (UNFCCC) in Japan in 1997 (UN 1998). This agreement, called the ‘Kyoto Protocol’ responds to the global warming which is a global challenge and thus nations meet it in collaboration (UNFCCC 2012). Concrete emission target should help the countries to improve their sustainable development.

With the ‘United Nations Global Compact’ in 1999 (Janssen, 2012) the aspect of social and ecological action in business ventures was emphasized. Articles like the ones of Thomas Donaldson and Thomas W. Dunfee to the issue of e.g. ‘A unified conception of business ethics’ or ‘Contractarian business ethics’ (Donaldson and Dunfee, 1994/1995) gave qualitative impetus.

The 2nd ‘World Summit on Sustainable Development’ took place in Johannesburg in 2002. This follow-up meeting of the ‘Rio-Conference’ ‘reaffirmed sustainable development as a central element of the international agenda and gave new impetus to global action to fight poverty and protect the environment’ (Earth Summit 2002). One of the key outcomes was a ‘Plan of Implementation’ (Earth Summit 2002). The results of the ‘Rio Summit’ were emphasized and backed up with this plan. As another goal the ‘United Nations General Assembly’ in Johannesburg proclaimed the ‘UN Decade of Education for Sustainable Development, 2005-2014’ (DESD) which follows the ‘Plan of Implementation’ (UN DESD 2012).

At the ‘Copenhagen Climate Change Conference’ (UN 2012) the United Nations tried to find consensus for a follow-up contract for the ‘Kyoto Protocol’. This summit showed the difficulties to create goals that are binding for everybody under international law for example to half the global greenhouse gas emissions until 2050. The ‘Copenhagen Accord’ emphasized the ‘long-term goal to limit global temperature rise below 2 degrees Celsius’ (UN 2009).

Businesses and institutions try to achieve sustainability. Based on the definition of the ‘Brundtland Commission’ for sustainability (see above) enterprises try
to manage their economic activities with regard to social and ecological impacts. The approach of ‘corporate sustainability’ is to not only have these three dimensions of sustainability in mind but to integrate in the methods of production and the corporate’s structure (Dyllick & Hockerts 2002, p. 132). Studies on this issue (see below) verify the assumption that enterprises improve and become more successful that act on ecological and social aspects.

‘Creating an organization that functions as a whole instead of separate departments or with managing issues in the supply chain, management needs a shift of approach: the employees and their suppliers have become more important. For instance, to be successful, management has to develop a climate of trust, respect and dedication and allow others to have their fair share of mutual activities (together win).’ (Marrewijk, 2003, p. 99).


The harmonization of social and environmental goals with the stakeholder orientated issue management brought up issues for sustainability and CSR (see the following section) that overlap with indicators of happiness research. Questions as ‘Are you happy in your job?’, ‘How satisfied are you with your physical/mental health?’, ‘Are you satisfied with your life?’ (Stiglitz et al., 2009) fit in any category mentioned. That there are possibly differing ideas of measuring the quality of life in countries shows the Buddhist kingdom of Bhutan. Here the most important economic aim is the ideal of a ‘Gross National Happiness’ instead of the ‘Gross National Product’ in western countries (Sittner, 2010) which is in a sense limited (Report by the CMEPSP).

On behalf of the French President Sarkozy the ‘Commission on the Measurement of Economic Performance and Social Progress’ (CMEPSP) analyzed possible future indicators for our prosperity and social progress without using the measurement unit of a gross national product, for instance (Report by the CMEPSP). The final report of this ‘Stiglitz-Sen-Fitoussi-Commission’ was made public in September 2009 (Stiglitz et al., 2009). It ‘distinguishes between an assessment of current well-being and an assessment of sustainability, whether this can last over time’ (Report by the CMEPSP, p. 11; Moss Kanter, 2012).
5.5. Corporate Social Responsibility – Definition

Within the discussion of CSR several different definitions are used. It is essential to first specify the idea and describe precisely the term used. The ‘Organization for Economic Co-Operation and Development’ (OECD) defines CSR based on the agreements of the ‘Global Compact’ (Janssen, 2012) as a:

‘Business’s contribution to sustainable development. Consequently, corporate behavior must not only ensure returns to shareholders, wages to employees, and products and services to consumers, but they must respond to the societal and environmental concerns and values’ (OECD 2001, p. 13).

The European Commission adds the economical component:

‘A number of companies with good social and environmental records indicate that these activities can result in better performance and can generate more profits and growth.’ (COM 2001, p. 7).

Thus CSR can be understood and described in the following way: ‘Open and transparent business practices based on ethical values and respect for employees, communities and the environment, which will contribute to sustainable business success’ (Dahlsrud, 2006, p. 7).

Already in the 1950s research on business ethics started. The stakeholder approach of R. Edward Freemann (see section ‘Declaration Text’ and ‘Preamble of Treaty’) in 1984 brought an enlargement of the concepts of business ethics, that are for example the concept of ‘Corporate Citizenship’.

In 1991 Archie B. Carroll developed a model of corporate social responsibility. He divides four levels: The economic, the legal, the ethical and the philanthropic one. The first duty of business organizations is to generate profits (Carroll, 1991, p. 4). ‘[A]t the same time business is expected to comply with the laws and regulations’ (Carroll 1991, p. 4) as they have a legal responsibility. Some ethical responsibilities are already embodied in the economic and legal components (Carroll, 1991). The issue Carroll mentions with the ethical responsibility aspect regards a handling that is ‘fair, just, or in keeping with the respect or the protection of stakeholders’ moral rights.’ (Carroll, 1991, p. 6).

The philanthropic responsibility ‘encompasses those corporate actions that are in response to society’s expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill.’ (Carroll 1991, p. 6).

Carroll states that ‘these kinds of responsibilities have always existed to some extent. […] In recent years […] ethical and philanthropic functions have taken a significant place.’ (Carroll 1991, p. 4) Figure 5.3 shows the augmentation
from first only economic responsibilities to legal responsibilities and in addition now the ethical and philanthropic responsibilities.

With the ‘Lisbon Strategy’ for 2000 to 2010 the European Union ‘set itself a new strategic goal […] to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion. […] To achieve this goal a modernization of the] European social model, investing in people and combating social exclusion’ has to be aimed (Presidency Conclusions 2000).

Several papers on CSR of the European Union followed, for example the ‘Green Paper: Promoting a European Framework for CSR’ (COM 2001) and ‘A renewed EU-Strategy 2011-14 for CSR’ (COM 2011). In 2010 the ‘ISO 26000 – Social Responsibility’ (ISO 2011) was established on a global level.

![Figure 5.3. Development of CSR (Carroll, 1991)](http://www.csrquest.net)

While CSR as a topic has grown popular among scholars, politicians, and journalists (Lotter & Braun, 2010; COM 2011; Baldia, 2010) there is a gap between the CSR idea and the CSR reality. Enterprises looking to customer needs and the buying decision making processes feel pressurized to stay ‘trendy’ (PricewaterhouseCoopers LLP 2010). Some enterprises try to face these challenges while implementing a CSR strategy (Orbie & Babarinde, 2008). Other promotes their CSR activities within their marketing strategies (Herrera, 2011). Critical customers doubt about the objective quality of these attempts concerning their definition of CSR.
asking if that is ‘authentically’ CSR. Some enterprises were convicted of greenwashing (Jackisch, 2009), socialwashing or even ethicalwashing (Laufer, 2003).

Along with the topic’s popularity in politics and research as well as in the media, stakeholders have grown sensitive to CSR efforts that lack authenticity. What stakeholders want is intrinsically motivated ‘real’ or ‘authentically’ CSR (Lay, 2006). The question now is how enterprises can deal with this call for transparency and trustability.

Where does transparency and trust come from? Claus Hipp thinks that a strong indicator of an imbalance in our society is the tendency to report higher interests of individuals than common good (Hipp, 2008). Klaus M. Leisinger, president and executive director of the Novartis Foundation for Sustainable Development states that businesses don’t per se act ethically or unethically. Morality – or the lack of it – is implemented in social systems by people, their common values, their moral integrity and their consistent and coherent behavior (Leisinger, 2009, www.dnwe.de).

According to that business can only be responsible and transparent if each stakeholder does have the chance to take responsibility. In their function as members of the management managers do have an important influence on values and business ethics (Leisinger, 2009, www.dnwe.de).

The ‘Model of an Honorable Merchant’ (Institut für Management 2010) says that the three characteristics of a good businessman are a humanitarian basic education, economical know-how and a strong character with commercial virtues. Opaschowski sees a structural change in the world of work which accelerates the shifting of paradigm from workers to employees to persons that are self-employed (Opaschowski, 2006). Increasingly vital for enterprises is trust which has to be understood as a social legitimization for business. ‘Economists state: it doesn’t matter because it is efficiency economy is about. But this is a perversion as trust is the most precious social and cultural good we know. It is trust that keeps our society together in the innermost part – it is not efficiency. (Felber, 2012) The more we talk about trust, the worse the situation gets. The appearance of trust [as subject of discussion, note by the author ] is the best indicator of a crisis (Sprenger, 2007, translated by the author). But what is ‘trust”? What are its effects?

‘Within organizational settings, the virtues of trust as a social resource have been discussed primarily on three levels.’ (Kramer & Cook, 2004, p. 2) First there is a constructive effect on organizational structures. ‘Second, the role trust plays in spontaneous sociability among organizational members has been explored. Third, there has been appreciation of how trust facilitates appropriate […] forms of deference to organizational authorities.’ (Kramer & Cook, 2004, p. 2) Sprenger puts
‘trust’ on a level with ‘commitment’. He further sees it as basis for communication especially if employees are seen as associates rather than ordinary worker without responsibility (Sprenger, 2007).

For Fredmund Malik it is trust that counts exclusively in a relationship between employers and employees. Then there is no need to motivation, specific leadership and other forms of entrepreneurial culture (Malik 2006). Hielscher, too, concludes in his article ‘morality as a factor of production’ ‘that CSR can be conceptualized as a corporate strategy of moral commitments engaged for the purpose of managing the relationship-based risks that arise out of social dilemma situations between the company and its interaction partners.’ (Pies & Koslowski (ed.), 2011, p. 130).

Enterprises try to build up or regain trust of individuals as well as of society. Therefore there is a need to a respectful and responsible acquaintance with the different interests of the stakeholders. ‘Responsible economic activities conduce to economic success and are needed more than ever – particularly in the mittelstand which is the cornerstone of our economic system.’ (Beschorner, 2012) Enterprises should feel responsible and push innovation besides generating economical, ecological and social value. This is the approach of the ‘Heilbronn Declaration’.

5.6. The Origins of the ‘Heilbronn Declaration’

The idea of a ‘Heilbronn Declaration on Corporate Social Responsibility’ arose in preparation for the 12th annual conference of the German Business Ethics Network (DNWE) which takes place at the German Graduate School of Management and Law (GGS) in Heilbronn in September 2012. In a so called ‘Task Force Responsible Leadership’ at the GGS, the business school of economics and the DNWE have already collaborated. During the planning of the annual conference the concept of the ‘Heilbronn Declaration’ was developed. The partners wanted to make sure that the congress on business ethics gives impetus to ethical and CSR-actions. The concept is mostly aimed at German Mittelstand (Randow & Kirchfeld 2010) and family firms and family owned firms which stand for sustainable and value orientated management as there is a large number of these enterprises in the Heilbronn-Franken area. Furthermore in that region exists the largest number of enterprises which are world market leader besides being value orientated managed.
5.7. The ‘Heilbronn Declaration’: Preamble of the Treaty

The preamble of the declaration first describes the current global economic situation and analyses a lack of trust in businesses. The text then explains the challenges for enterprises to act in a globalized world and emphasizes the need for action. At last the signatories of the declaration proclaim their firm intensions and commit themselves to implementing CSR and business ethics.

In its ‘EU strategy’ (COM 2011, p. 7) the European Commission established the approach of the ‘Heilbronn Declaration’ as they say: ‘Enterprises must be given the flexibility to innovate and to develop an approach to CSR that is appropriate to their circumstances.’ The enterprises, mostly German Mittelstand (Randow & Kirchfeld, 2010) enterprises that sign the ‘Heilbronn Declaration’ use exactly this flexibility to show their responsibility for the society. In the preamble of the ‘Heilbronn Declaration’ they say:

‘We – mittelstand enterprises from Baden-Wuerttemberg, Bavaria and in particular from the economic region Heilbronn-Franconia – believe that confidence is a core prerequisite for a successful entrepreneurial creation of value. At present, however, we often refer to an “economical confidence crisis”. By means of this declaration, we want to set an example to counter this crisis. Initiatively and voluntarily, we obligate ourselves to assume the social responsibility that we bear as successful enterprises, partly even as world market leaders, on both local and global levels.

In doing so, we want to go far beyond what is considered a matter of course. It is our goal not only to be world-class in the fields of management, technology and service, but also to set new standards for a corporate sense of responsibility and social commitment, and thus to give proof of our outstanding innovative capacity.’

In comparison to other voluntary obligations for CSR like e.g. the Rio Declaration (UN 1992), the ‘Stuttgart Declaration’ (Gasperi & Scheunemann, 2011) which is made once a year at the ‘German CSR-Forum’ or the ‘Resolution Nürnberg Declaration’ of the ‘Netzwerk21-Kongress 2010’ (Richter & Elsässer, 2012) to mention just a few, it is not just another one. The ‘Heilbronn Declaration’ is a voluntary commitment based on the idea of integration and participation. The ‘Heilbronn Declaration’ integrates the business ventures and institutions right from the start of the elaboration and formulation of the declaration.

In the run-up to the presentation of the ‘Heilbronn Declaration’ in September 2012 there have been and are going to take place workshops which discuss the ‘Heilbronn Declaration’ on basis of the Author’s draft (see fig. 5.4 below). Parties
involved and other institutions have the possibility not only to present themselves in public doing CSR but even to form the discussion itself and set new standards. Together with academics entrepreneurs elaborate the facts of the declaration and discuss on the spirit and purpose of business.

The leading thought is to create an area of confidence and transparency to succeed. The aims are a greater extent of sustainability which means transparency, trustability, ethical conduct, respect for stakeholder interests, cultural and biological diversity, the rule of law and for human rights.

Due to cooperation and to address ethical issues on a scientific level and at the same time maintain a strong reference to practical possibilities this is possible. The enterprises and the other institutions involved can show that the implementation of ethical and CSR-principles creates sustainability and in addition economic success as studies of Verschoor (1998), Statman (2006) or Filbeck, Gorman and Zhao (2009) attest.

Figure 5.4. Authentic CSR the derivation of the ‘Heilbronn Declaration’
Source: own figure.
The analysis of figure 4 (Source: own illustration) shows that the core factor to authenticity, to authentic motivation of CSR within an enterprise can’t be created only by rules (COM 2011). Therefore a right way to achieve it is to be proactive. There are a lot of different approaches to implement sustainability and its social component, CSR, in countries, regions, companies or institutions. The idea first developed in 1732 by chief officer of the mining administration Carlowitz. Several path breaking books and reports followed.

In response to these publications summits have been held to device practical objectives. Still there are for example annually organized and declared the ‘Stuttgart Declaration’ in Stuttgart, Germany, or the ‘Responsible Business Summit USA’ in New York, United States of America.

With the ‘Rio Declaration’ the conception of sustainability being three-divided in an ecological, economic and social aspect became accepted. With the social aspect the idea of CSR arose. Different approaches, e.g. the shareholder and stakeholder approach or the idea of business ethics supported this CSR component. Thinkers as Thomas W. Dunfee or Thomas Donaldson (see section ‘Historical dimension’) supported the discussions and the further developments. But with the so-called green-, social- and ethical washing a gap between the CSR idea and reality occurred. The ‘Heilbronn Declaration’ meets this divergence with the intention of a transparent and reliable long-term discourse that follows the signing of the declaration. With the cooperation of academics and enterprises it is possible to reach the target. The goal is to collect data to develop indicators for CSR in enterprises and then to configure a CSR audit.

5.8. The ‘Heilbronn Declaration’: Declaration Text

With his book ‘Creating shareholder value: The new standard for business performance’ Alfred Rappaport published a controversial discussed management idea. His approach says that the success of a company can only be measured by the distributions to the shareholders. Taking into account this controversial discussion the ‘Heilbronn Declaration’ announces:

“In many enterprises an implicit expectation vis-à-vis managers and employees has formed, demanding nothing but the unreflected implementation of a ‘shareholder’-oriented strategy. “Shareholders” are all those who hold a share in profit and loss of a corporation. In this way, responsible action is restricted in a lopsided way. “Responsible action”, broadly conceived, means for the economic sector: to consider and to balance criteria of both private and national or global economies, as well as ecological and social criteria, to find
solutions which, if possible, satisfy all interest groups in the same way – including the yet unborn.’ (‘Heilbronn Declaration’)

In the ‘Heilbronn Declaration’ responsibility means the inclusion of the interests of any stakeholders. This idea should control a corporate’s structure and was developed by R. Edward Freeman in 1984. His book ‘Strategic management: A stakeholder approach’ supposes that there might be other stakeholder groups besides shareholders, managers, or employees. From this ethical assumption he then derives his economic theory of strategic management. Stakeholders are employees, managers, shareholders, suppliers, customers, unions, regional and national authorities, citizens’ initiatives as well as the society as a whole.

The signatories of the ‘Heilbronn Declaration’ want to meet the challenges of globalization, of different ideas of management and especially the social component of sustainability as they say:

‘In the course of globalization an economic climate has arisen in which economic functionality as a decision-factor not only ranks first, but at the same time repeals other criteria as irrelevant and uneconomic – in the context of entrepreneurial internationalisation this also applies to ethical considerations.’

The partners want to set an example and implement the needs of the employees, the society or the environment and feel in charge to act.

5.9. Small and Medium Enterprises and CSR within the ‘Heilbronn Declaration’

The companies and institutions that take part have the chance to set an example and as they are mostly located in the Heilbronn-Franconia region to create a pioneering region (Stehr, 2011). To this end, the authors have designed the project of a ‘Heilbronn Declaration’: a voluntary agreement of entrepreneurs of the Heilbronn-Franconia region to develop a form of responsible entrepreneurship and thus to contribute to the recovery of stakeholders’ faith in economy.

In the ‘Heilbronn Declaration’ it says:

‘In recent years we have proved that we are not solely interested in remaining competitive on an international and global scale, but also give consideration to “stakeholder” needs. “Stakeholders” are all those who are involved or interested in a corporation’s actions in any way. Therefore we are in the foremost position when it comes to finding a way out of the “economical confidence crisis” because we have realised: Without confidence – be it between an enterprise and its customers, its suppliers or its cooperation partners, or between economy, politics and society – no sustainably successful business is possible.
For example, it has been scientifically proven that in enterprise networks and so-called clusters, especially the building of long-term business relationships depends essentially on the development of a trustful cooperation. Establishing a constellation of trust is the foundation for a beneficial partnership that encourages exchange and enables the achievement of common goals. We know that this foundation of confidence can only be preserved if we earn it every day anew, and if every single member of our corporations credibly stands up for it.

We also know that, as internationally successful enterprises, we are looked upon as a role model. Mittelstand companies, as “the backbone of the German economy”, on the one hand are in an outstanding position, especially where successful management and innovation are concerned. On the other hand, small and medium sized enterprises, not least because of their usually flat corporate structures, their proximity to society and the strong ties that connect them with their home regions symbolize reflected, sustainable, value-oriented action. Thus, despite the increasing global pressure, we never derogated from ensuring fairness, sustainability and environmental compatibility in each and every step of our value creation processes.’

But the engagement does not end with the signing of the declaration. The enterprises have committed themselves for improving their sustainability approaches and each of the CSR strategy. Therefore they meet again within one year to exchange their experiences and to analyze the improvements and failures. For this the ‘Heilbronn Declaration’ says:

‘We oblige ourselves to […] meet with all participants of this declaration after a period of one year, i.e. in September 2013, to exchange experiences, to compare real achievements, to publicly communicate by which means we have contributed to the above-mentioned goals and, ideally, to develop a follow-up programme for the collective assumption of social responsibility.’

The idea then is to create a relevant CSR balance for enterprises and institutions based on of these data and experiences.

5.10. Findings – the ‘Heilbronn Declaration’

With the integrative and participatory approach the ‘Heilbronn Declaration’ is not another declaration. Enterprises appreciate its stakeholder-approach and long-term view with the scientific monitoring. Moreover there are not just enterprises taking part. The Regional association Heilbronn-Franken and chambers of commerce are about to sign the declaration, too. Thus the ‘Heilbronn Declaration’ can influence the regional policy thinking as well as the local economic promotion.
5.11. Research limitations

What reduces the meaning of the ‘Heilbronn Declaration’ for research at the moment is that the number of participants or rather signatories is too low to do a quantitative research that is fully valid.

Another criterion is the fact that the signatories have been integrated in the development of the declaration. Thus they might have been able to adjust the declaration to their levels and ideas. But this could also point out a better identification of the enterprises with the declaration which means a higher authenticity. Moreover the participation facilitates the implementation of the ‘Heilbronn Declaration’.

In contradiction to that there might be at the same time for the enterprise who signs the declaration a kind of social commitment to realize their goals consistently. With the involvement of academics the partners might have the chance to benefit from a scientifically-based discussion.

5.12. Practical and social implications

The figure below shows that four kinds of impacts can be inferred from the ‘Heilbronn Declaration’. There might be interaction within enterprises, between the science community, society and even individuals.

![Figure 5.5. Possible practical and social implications](source: own illustration)

With their signature the entrepreneurs declare in public: ‘It is our aim to encourage others to reflect on the ethical dimension of their actions and to take on social responsibility as well. Therefore, we enter into this mutual commitment and at the same time invite everyone to follow our example.’ (‘Heilbronn Declaration’).
They commit themselves to:
- ‘assess, continue and expand our existing CSR projects,
- to pursue the long-range-goal of establishing CSR as a value creation factor in our corporate strategy,
- to no longer wait for a signal from politics or society, but to assume our social responsibility immediately, voluntarily and starting with ourselves’ (‘Heilbronn Declaration’).

Entrepreneurs want to change their corporate structures and business ethics. They feel responsible beyond legal regulations. This is why they go to the public: to tell everybody, especially customers and suppliers that they do corporate social responsibility. They declare their firm intention to:
- ‘induce banks and large enterprises to do sustainable business,
- to create a people-friendlier atmosphere in the global economy,
- to promote the creation of sustainable corporate structures and to spread the principles of ethically reflected business leadership’ (‘Heilbronn Declaration’).

The entrepreneurs and the representatives of institutions implement not only CSR in their own structures. They also want to spread the idea in their marketplace. The aspect of transparency and trustability that customers ask meets the ‘Heilbronn Declaration’ with the obligation that enterprises have to:
- ‘initiatively obtain information about possible consequences and risks of entrepreneurial decisions and to consider the interests of all affected groups (i.e. not just economic criteria)’ (‘Heilbronn Declaration’).

In addition they declare their firm intention to:
- ‘secure fair payment and treatment for people in Germany and abroad,
- to inform and sensitize our employees, business partners and clients about the value-oriented stakeholder approach’ (‘Heilbronn Declaration’).

This approach helps the enterprises to recover the individuals’ respect. Especially as they declare to:
- ‘not just understand so-called “CSR strategies” as an opportune means of marketing, but as an acknowledgement of human dignity and a social duty’ (‘Heilbronn Declaration’).

With the intension to ‘stop the destruction of our natural environment:
- to reduce poverty, hunger and disease worldwide,
- to do everything in our power to make a future worth living in for our children and grandchildren all over the world’ (‘Heilbronn Declaration’).

The signatories make a contribution to a more sustainable world. As on page 4 already mentioned document the studies of Verschoor (1998), Statman (2006) or
Filbeck, Gorman and Zhao (2009) that the implementation of CSR, if it is done in an authentically way, in most cases lead to economic success. Thus means regional growth, a low rate of unemployment or even lower health care costs when employees are comfortable with their workplace. Employees perform sustainable when they are happy, productive and able to develop their personal future and the one of the enterprise (Ibid). The physician and social scientist Nicholas A. Christakis found out that happiness is contagious (Rauner, 2009).

In the ‘Heilbronn Declaration’ the entrepreneurs also engage to:

- ‘promote the theoretical discourse on sustainability and justice and to connect theoretical approaches with practical experience’ (‘Heilbronn Declaration’).

This expresses the appreciation of the scientific supervision. Then enterprises might enter in cooperation with scientific institutes, for example.

Entrepreneurs do have different values of signing the declaration. They benefit from a reduction of cost in production and optimize their processes. They further are able to reduce the level of corruption. The positive image in public helps to attract talented employees (Spreitzer & Porath, 2012). On basis of the implemented ethical structures it is easier for entrepreneurs to optimize the factors for a sustainable performance of the individual employee and the business as a whole (Spreitzer & Porath, 2012).

This could be a enough reasons for enterprises to implement CSR.

5.13. Results and conclusion

After almost 3 years of research, a total of 8 companies (Intersport, Bera, CSI Entwicklungstechnik, GGS, Hirschmann, Martin Priebe, Heilbronner Stimme and Marbach) which had agreed upon signing up the declaration showed their initiatives around CSR activities (Heilbronner Stimme, 2015).

Intersport decided to support a developing programme in Tansania, including the delivery of balls and football t-shirts for children. Service provider Bera started programmes along with its trainees in which they helped to build a youth center in Heilbronn, as well as offering canoe tours. CSI Entwicklungstechnik focused on rescuing animals and starting a scheme to adopt dogs. Regarding the German Graduate School of Management and Law, this university decided to introduce CSR lectures in their MBA modules. As for Hirschmann, this laboratory wanted to contribute to CSR practices by building a kindergarden for the children of those working there. Martin Priebe, a consulting agency, decided to initiate seminars in a special place with sculptures where he wished to change the perspective of
values from its employees. The regional newspaper Heilbronner Stimme has organized a section called ‘Menschen in Not’ (People in need) in order to collect money from donors. Finally, the tools manufacturer Marbach decided to make its energy consumption greener and more responsible, as well as efficient.

The originality of the ‘Heilbronn Declaration’ is the innovative approach of integration and participation of the prospective signatories right from the beginning. Another originality is the commitment for the participating entrepreneurs to attend follow-up meetings in 2013 where the partners involved will analyze the factors of success, compare achievements and failures and decide further steps. The ‘Heilbronn Declaration’ then might be a first step of an ongoing progress which will open the opportunity to develop applied CSR indicators for enterprises. With these indicators it might be able to compare different enterprises regarding their different CSR strategies and measures.
Chapter 6
THE EVOLUTION OF RELATIONS BETWEEN BUSINESS AND NON-PROFIT ORGANIZATIONS. CAUSES AND SYMPTOMS

6.1. Introduction

The changes in the socio-economic environment and internal conditions of the organizations lead to the shift in cross-sectoral cooperation. There is a clear trend in developed countries towards tightening of relations between business and nonprofit organizations (NPOs). Long-term relationships are promoted instead of one-off transactions. The single charitable acts are more often replaced with joint social programs that sometimes lead to the formation of joint venture entities that pursue common objectives of their founders (Bennett et al., 2008). The purpose of this study is to analyze the factors that influence the deepening of relations between enterprises and nonprofit organizations and to describe the consequences of the phenomenon observed.

6.2. The evolution of CSR concept

In most of the cases companies undertake cooperation with nonprofit organizations in order to carry out certain social objectives. These activities are part of a wider field of operation, which is Corporate Social Responsibility (CSR). The concept of CSR has its roots in XIXth century but it has gained the greatest popularity in recent decades and went through a significant transformation (Wachowiak, 2013, pp. 81, 100.). The increase of business involvement in social issues is reflected by the evolution of the CSR definition itself, proposed by the European

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21 Nonprofit organization was defined by Salamon and Anheier (1992) as a private and independently administered entity with its own status and structure. It is supported by voluntary work and doesn’t distribute the surplus revenues among owners and members.
Commission in 2001 and 2011. The former (year 2001) definition presented CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (Hartman et al., 2007). The updated definition views CSR as “the responsibility of enterprises for their impacts on society” (European Commission, 2011). Under the new guidelines, companies should integrate social, environmental, ethical and human rights into their business operations and strategy. The goal of effective CSR activities is to maximize the creation of shared value of the company and all the stakeholders, and to identify, prevent and mitigate potential adverse impacts (European Commission). The comparison of definitions presented above allows to identify three main aspects of the shift. The first one is the transition from voluntary basis to accountability for social and environmental consequences of business activities. Secondly CSR activities are to be part not only of tactics but also of the strategy which implies the need for careful integration of social and business goals. The third area of evolution is the shift from unilateral acts of philanthropy to the activities that create shared value.

Changes in companies’ approach to build relations with the third sector as a part of CSR activities can be analyzed from perspective of theories that are considered useful in understanding CSR phenomenon. Among numerous economic, political and social concepts, there are three theories that scientists perceive as particularly insightful (Susith & Stewart, 2014):

- the legitimacy concept that explains the outside-in forces;
- the stakeholder theory that focuses on processes that undergo inside both types of organizations;
- institutional isomorphism that shows horizontal dynamics between them.

The following paragraphs discuss the drivers for cross-sectoral relations analyzed through all three above concepts, from the perspective of both firms and nonprofits.

6.3. Legitimacy theory

The legitimacy concept implies that the „social contract” exists between the company and the society. In order to be accepted by the society enterprises must operate within certain standards and social bonds. The increasing interest of companies in establishing close relations with NPOs in the context of CSR activities is undoubtedly connected with the expectations of the public (Perez-Batres et al., 2012). The pressure is high and is reflected in the previously cited definition of CSR, where a voluntary act was replaced by an obligation towards society. Under
these conditions enterprises are looking for deeper relationships with NPOs as facilitators that will help companies to fulfill increasing social needs of their stakeholders.

According to the legitimacy concept, the nonprofit organizations’ point of view is to the large extent different. NPOs must be seen as independent from business to be regarded as trustworthy. This is particularly important in the case of organizations that provide complex, socially sensitive services, such as medical and psychological care or humanitarian aid. For some nonprofits entering into relationships with companies means acting against the principle of legitimacy. This especially applies to “polarizing” NPOs as opposed to “integrating” NPOs (Trapp, 2012). An example here are radical environmental organizations that build their identity as opponents of mostly large industrial companies. The primary source of power for this type of nonprofits is an expressive ideology, norms and values that are shared by all members and that are perceived as different from the norms and values represented by business. In such case the image of the organization as business antagonist becomes a crucial resource. Any kind of cooperation with the first sector undermines its reputation and may result in the loss of support from members and ostracism from other nonprofits (Wymer et al., 2006). This philosophy, as stated above, is characteristic for radical organizations and is balanced by the increasingly popular trend of cooperation with the business sector (Yazji & Doh, 2009). It should be noted however that the perspective of legitimacy shows the risks that are accompanied by strengthening ties with the business by non-profit organizations. This risk is taken much more frequently nowadays for reasons that are described in the following paragraphs.

6.4. Stakeholder theory

Stakeholders are defined as individuals, groups or organizations that affect the performance of the company and that are affected by its activities. The term was first used in 1947 by Johnson, but Freeman has developed and popularized the concept in the 80s (Roberts, 1992). Stakeholders theory brought a change in companies’ perception of the nature of their relations with other actors. A large number of different stakeholders were identified, both as internal and external, who have different goals and expectations towards the organization (Kasiewicz et al, 2006, pp. 72-73.). The company has to demonstrate organizational accountability that goes beyond simple economic performance and has to undertake activities perceived as important for the stakeholders (Harrison & Wicks, 2013). Such an understanding of business role drives the growth of internal sense of responsibility for
social and environmental issues. This, together with the growing pressure of the society as a stakeholder and the increasing interest in social affairs shown by customers and other key stakeholders, motivates business to enter into cooperation with the third sector in order to address social issues effectively.

In the 90s, Ben-Ner extensively analyzed the stakeholder concept and demonstrated its usefulness in analyzing nonprofit organizations (Anheier, 2005, pp. 250-251.). Companies were defined as a part of external stakeholders of NPOs, that primarily serve as a source of financing and non-financial support for them, in fulfilling their mission. Researchers agree that nonprofits establish relations with companies primarily, although not exclusively, in order to diversify sources of funding (Simpson et al., 2011). The need to recruit new institutional supporters is even more urgent in recent years as in many countries affected by the financial crisis cuts of public funding for the third sector were reported. The stakeholder theory implies that firms should be seen and treated by NPOs as partners whose needs and expectations should be examined and met. The popularization of this approach can serve as the first step to mutual understanding and to strengthening of relations that would be beneficial for both sides.

The mutual benefit is the core element of the Shared Value concept that uses the idea of stakeholders and makes the fundamental assumption that the long term objectives of business and society overlap. In order to operate successfully companies need a healthy society where their customers and employees originate from. Similarly, it is in the interests of the public that companies that pay taxes and provide jobs, products and services, are in good shape. The Shared Value concept was developed by Porter and Kramer (2002) as a counter-proposal for seeming and ineffective philanthropic activities carried out by the companies apart from their own business objectives. The activities undertaken can be not only profitable for both the third sector and business, but they can also provide synergies that would create additional value if chosen carefully and in line with both sides’ objectives. The win-win opportunities should be first identified and then followed by strategic plan that include long-term goals. The tactical plan should involve small number of meaningful activities that would precisely cover the field of mutual interest (Porter, 2006). All the recommendations included in the Shared Value concept – a strategic approach to social activities, long-term perspective and the value creation for both parties - support the idea of strengthening cooperation between the private sector and nonprofit organizations. It is worth noting that both the strategic approach and value sharing principle have been included in the new CSR definition of the UE Commission.
6.5. Institutional isomorphism theory

The third factor in the analysis of growing relationships between business and nonprofits is the phenomenon of institutional isomorphism, which belongs to the group of organizational concepts first described at the end of the XXth century. Isomorphism is defined as the process of homogenization of organizations through three sets of mechanisms: coercive, mimetic and normative (DiMaggio and Powell, 1983). Business and nonprofit organizations undergo a constant process of isomorphism of all three types.

Coercive isomorphism occurs as the result of pressure from one organization that demonstrates power over the other. The weaker actor follows the rules and standards imposed by the dominating organization. Companies having big stake in financing NPOs’ activities can influence reporting standards, goals and principles of their partners (Mannell, 2010). On the other hand, companies undergoing pressure to meet social goals may shift their scope and adopt some values typical for nonprofits. Mimetic isomorphism takes place in high uncertainty conditions, when threatened actors imitate the solutions used by successful organizations. NPOs that suffer from financial instability are increasingly using management tools developed by business to plan, gain and keep different types of funding sources. As the business sector is perceived as powerful and successful, nonprofits tend to mimic companies in many areas and aspects including project management, marketing and human resources management. Normative isomorphism is related to the process of alignment of norms and standards among organizations operating in the same field. It consists of defining and promoting common methods of work, standards of knowledge and skills in a particular area. The good example are healthcare services that are performed similarly regardless of whether the provider is part of the business, public or nonprofit sector. It’s worth mentioning that altogether the phenomenon described above, also called “blurring and blending” effect, leads to non-symmetric outcomes for companies and nonprofits. The trend of professionalization of NPOs is much stronger than the level of acquiring social principles by business units (Hwang & Powell, 2009).

Isomorphism phenomenon may be perceived as the cause and as the effect of tightening of the cross-sectoral relations. On the one hand it is easier for nonprofits and companies that share similar standards and management tools to enter into deeper collaboration. On the other hand advanced forms of cooperation strengthen the isomorphism process in all tree aspects described above.
6.6. Forms of inter-sectoral cooperation

The forces and processes described above are the drivers for intensification of relationships between business and nonprofit organizations. They are reflected in the increase of number of forms of cooperation and the gradual shift from lower to higher levels of their sophistication. Austin (2003) introduced the concept of Cross-sectoral Cooperation Continuum, where the cooperation forms evolve from philanthropic through transactional to the most advanced – integrative stage.

The first phase includes philanthropic support of nonprofits by the companies by simple transactions that are not related to the strategy of any of the partners. Basic and generic resources such as funding or in-kind donations are transferred and the flow of values is usually not symmetrical. The partners communicate exclusively through formal channels and there is little opportunity for personal interaction. The involvement in this type of activities is minimal on both sides, mutual expectations are low and the reporting procedure in many cases nonexistent. Collaborators retain complete autonomy and have no control over the actions of the partner. An example of this kind of relationship is the financial donation by a company to a certain foundation. Slightly higher degree of advancement is represented by the forms of benefaction and patronage, where the institutional donor supports a specific purpose or piece of art and expects some level of feedback about the final effects of the philanthropic act (Seitanidi & Ryan, 2007).

Cooperation forms that belong to transactional phase rely on symmetric exchange of financial, substantive or non-tangible values between the two sides. The objectives of the partners partially overlap and the success of one actor in the area covered by the program depends on the performance of the other. The degree of involvement in the activities is higher than in the philanthropic phase and the reporting and control system is more extensive as well. Communication takes place at the level of the program leaders and can result in building close personal relations. Transactional forms have the potential to be run in the medium and long term as the switching barriers are higher than in the previous stage (McAlister et al., 2012). From the companies’ perspective transactional forms are directly related to business results, therefore the relationship with the nonprofit partner is seen as an opportunity to simultaneously meet business and social objectives. Transactional phase includes cooperation forms such as: sponsorship, licensing and Cause Related Marketing (CRM) (Seitanidi & Ryan, 2007). Sponsorship agreements regulate the conditions under which the company shall provide the funds, tangible goods or services and receive promotional activities carried out on their behalf by the NPOs. This is an explicit and formalized exchange of resources for image building. The
Polish foundation “Spelnione Marzenia” supports children suffering from cancer and their families in many different ways. To recognize its sponsors the foundation publishes logos and information about the companies that support their activities.\footnote{The names of the sponsoring companies can be found on the website: \url{http://www.spelnionemarzenia.org.pl/index.php?url=sponsorzy}.}

Licensing is a collaboration involving the use of the name or logo of the nonprofit organization by the company in exchange for a license (certification) fee. An example is products sold in a fair trade on-line store in Poland “sklep-fairtrade.pl” with FAIRTRADE logo on their packaging (FAIRTRADE International certificate). Cause Related Marketing refers to the mechanism in which the amount of a corporate charitable donation is determined by consumer purchases of a featured product (Galan-Ladero et al., 2013). A popular CRM program in Poland is run by Danone company and Food Banks organization (Banki Żywności) where a certain percentage of the Danone yogurt sales value is donated with the aim to address the problem of malnourished children in the country (“Podziel się Posiłkiem” program).

The last two techniques allow companies to increase sales and demonstrate their social responsibility values, they meet NPOs need for financial support and address consumer concerns about responsible consumption (Wymer & Samu, 2009).

In the last, integrative stage of cooperation, values, goals and organizational culture merge and “we” mentality replaces the “us versus them” approach (Austin, 2003). Expanded opportunities for direct employee involvement emerge across all organizational levels. This stage is represented by partnership programs where sharing resources and organizational integration in planning, execution and control can be observed. The effects are meaningful for strategic goals of both sides and go beyond simple value exchange. The form that reaches the highest level of integration is the joint venture entity created by the partners, that aims to implement common objectives of their founders (Wymer et al., 2006). The flagship example of JV project is the Marine Stewardship Council (MSC) founded by Unilever company and The World Wildlife Fund (WWF). The MSC was created in 1999 as a nonprofit organization that was engaged in the certification of fisheries and fish products in the supply chain.

6.7. Benefits and risks of close cooperation

Enhancing cooperation between businesses and nonprofits may be beneficial for both sides. Long-term relationships guarantee the financial stability of NPOs and help building positive reputation for companies, not only among external but
also internal stakeholders. Studies have shown that the involvement of companies in social causes have a positive effect on employees satisfaction. Motivation and commitment to the company are growing, also internal communication and working atmosphere improve. (Vlachos et al., 2013). Other studies show that NPOs may also strengthen their image as trustworthy collaborators that helps them find new partners in the future. (Aaker et al., 2010). Also, among the company’s customers the awareness of social issues grows, as well as the positive attitude and readiness to help (Heller, 2008). Moreover advanced forms of cooperation allow both partners to set strategic goals that go beyond revenues and image. The effectiveness of joint programs increase and the chances for real social impact are higher.

Tightening of cross-sectoral relations also involves risks. Implementing joint programs requires adapting to the partner’s expectations and losing some control over internal processes. Greater involvement means higher financial and organizational costs. The results of cooperation may be different than expected. Companies risk loss of reputation in case the nonprofit partner appears morally or legally ambiguous. Other negative consequences are the drop in sales and the dissatisfaction of stakeholders – employees or customers (Wymer & Samu, 2003).

Analysis of the three groups of factors that influence closer cooperation indicates certain imbalance in risk incurred by the companies and organizations. Nonprofits seem to be exposed to more negative effects than business. From the legitimacy perspective NPOs must skillfully balance the above-mentioned potential image-related benefits with the loss of public trust and the reputation of independent and socially oriented organization. While a company cooperating with the third sector acquires legitimacy, NPOs entering into relationships with companies need to be very careful so as not to lose it. From the stakeholder theory perspective nonprofits that decide to enter transactional or integrative stage will perceive business partners as key stakeholders. This may mean the shift of attention from beneficiaries – the group of stakeholders who are the natural scope for NPOs. The effort put into building relationships with business allows financial stability, development of organizational competencies and access to many resources, however, this may lead to the reduction of organization's commitment to the beneficiaries’ goals. Close cooperation may also result in internal conflicts, where NPOs departments dealing with business relations and the beneficiaries represent different points of view causing drifting apart (Van Til, 2000). The effects of organizational isomorphism clearly indicate that NPOs are more likely to be conformed to companies than vice versa, which is enhanced primarily by financial domination (coercive isomorphism) and the proven effectiveness of business operations in today's world (mimetic isomorphism). Financial dependence and the acquisition of effective
business practices in order to be successful brings the risk of dilution of the values and objectives and the loss of social sensitivity, which are fundamental for the third sector to fulfill its mission (Seitanidi & Ryan, 2007).

6.8. Final remarks

The above analysis indicates the need for both business and NGOs to better understand the mechanisms standing behind cross-sectoral relations building. A careful and conscious entering into cooperation can help maximizing benefits and lowering the risks associated with the mutual relationship. These considerations are even more essential in the context of an inherent and clear trend of intensification of cooperation between business and nonprofits. The third sector in Poland, compared to Western countries, is characterized by a lower level of development, measured by both the size and complexity of internal processes (Domański, 2012). The sophistication of business-NPOs relations is relatively low (Fundacja Duende, 2013) however the emergence of dilemmas and challenges related to new cooperation formats is only a matter of time.
Chapter 7
TRANSFORMED POLISH PUBLIC HOSPITALS: MAIN CHALLENGES

7.1. Introduction

National health care systems have been exposed to various changes over the last decades, and many of them could be labelled reforms. The driving forces behind these reforms indicated in the literature were: insufficient financing of health care systems (McKee et al., 2012), rising and high health care costs accompanied by rising health care spending (Mossialos & Le Grand, 1999; Hartwig, 2008), structural deficit of a public (governmental) health insurer, lack of transparency in health care financing, and negative demographic trends (ageing societies) (Voncina et al., 2007).

Despite the variety of health care systems in industrialized democracies, a universal paradigm for financing, organization, and management has been emerging through reforms over the past years. The policies within this paradigm attempt to promote equity, social efficiency, and consumer satisfaction by combining the advantages of public finance principles – universal access and control of spending – with the advantages of competitive market principles – consumer satisfaction and internal efficiency. Although one may identify some traits of the principles of New Public Management (NPM) behind the above mentioned policies, it should be acknowledged that there were no direct references to NPM as a theoretical foundation of the policies at hand. This in turn can be perceived as intriguing because public-private partnerships involvement in developing, financing and providing public health infrastructure and service delivery has been acknowledged in the literature (Roehrich et al., 2014).

As identified by Czernihovsky (1995) this paradigm is characterized by three systemic functions: (1) the financing of care, based on public finance principles, not necessarily carried out by government; (2) organization and management of publicly funded care consumption by either competing nongovernmental entities or
Transformed Polish public hospitals: main challenges

noncompeting public administrations; and (3) the provision of care based on competitive market principles.

Within this paradigm one may identify some similarities among the tools used in health care reforms undertaken in developed economies. These similarities were represented (but not limited to) by: various attempts aimed at cost reduction and increase in effectiveness (McPake et al., 2002; Asthana & Gibson, 2011), and implementation of new procedures and tools aimed at measuring and monitoring costs (examples being Diagnosis Related Groups, Health Technology Assessment, Clinical Practice Guidelines, etc.) (Perleth et al., 2001; Asthana & Gibson, 2011). However, the common feature of all health care reforms was the increasing share of the private sector in national health care systems accompanied by implementation of various market mechanisms into health care systems including out-of-pocket payments (Thompson & McKee, 2004; Baji et al., 2011; Voncina et al., 2007; Pavlova et al., 2002).

In Poland privatization processes occurring in the health care sector have covered all components of a health care system starting from primary care, ambulatory care, and inpatient care (hospitals) through dentistry and ending with the pharmaceutical sector (i.e. production and distribution of pharmaceuticals). But it was the transformation of public hospitals into limited liability partnerships (or joint stock companies) which attracted the most of public attention and has led to public debates often not free from emotion.

The aim of this article is to identify the main challenges that Polish public hospitals which have recently transformed into limited liability partnerships are facing. It will be argued here that the establishment of new private business entities – limited liability partnerships running hospitals – should not be treated as the end of the transformation process, but rather as the beginning of in-depth changes in these recently transformed hospitals. The article consists of three parts. First, the main directions of health care reforms undertaken after 1989 are presented to see whether Polish health care reforms match the patterns of health care reforms in other European countries. Then the scope and dynamic of privatization processes of public hospitals are analyzed, followed by the identification of four areas of changes newly established limited liability partnerships will have to undertake. A conclusion part completes the article.

7.2. Polish health care reforms: main directions

The main directions of the Polish health care reforms undertaken after 1989 can be grouped into the following six categories:
1. Introduction of an insurance model/scheme. According to the new model only insured individuals are entitled to health care services (enumerated in the law) free of charge. Insurance is obligatory with just a few exceptions.

2. Provider-purchaser split and establishment of sixteen regional sickness funds (further transferred into regional offices of the national health fund). This means that the financing of health care services was separated from their delivery. The national health fund is purchasing health care services from private and public health care providers. Here, however, one may identify a structural and systemic dysfunction. From the very beginning competition between various regional sickness funds was not welcomed, neither was it acknowledged in the law. Despite the fact that the first version of ustawa z dnia 6 lutego 1997 r. O powszechnym ubezpieczeniu zdrowotnym\(^{23}\) (act on universal sickness insurance) allowed for the introduction of competition between regional sickness funds in 2002, not only was such a competition possible, but a few years later regional sickness funds were replaced by centralized national health fund (NHF) structures. NHF possesses a monopoly position in the system. This in turn means that a structural (systemic) asymmetry between the purchaser (NHF) and health care providers (acting in a very competitive environment) can be observed.

3. Establishment of independent public health units. Public health care units were given a broader scope of decision making powers (i.e. More discretion in respect to operational and strategic decisions) but at the same time were obliged to cover possible debts. The legal status of an independent public health unit is unclear leading to various interpretations.

4. Introduction of competition between health care providers (in respect to both public and private ones) for public funding. The national health fund is purchasing health services on a competitive basis, i.e. Contracts are signed with these providers who offer the best prices and guarantee timely, good quality services.

5. Broadening the scope of the private sector in health care including provisions for the possibility to set up and run private establishments in the health care sector.

6. Abandonment of financing resources (i.e. Beds, wages, facilities) and paying for services only (goals financing) in the form of individual contracts with regional sickness funds/regional offices of the national health fund. The national health fund is paying exclusively for services delivered and stipulated in the contract. Services contracted must meet medical and organizational

standards defined in the law. Any excessive amount of services delivered are not paid by NHF. Needless to say that workforce, space, and facilities as well as are all necessary investments and must be financed by a health care unit itself.

Even such a concise presentation of the general directions of Polish health care reforms allows one to conclude that they match both with the trends observed in developed European countries as well as with Czernichovsky’s paradigm.

Since the article deals with privatization issues (transformation of public hospitals into limited liability partnerships is considered a form of privatization in Poland), a short paragraph presenting the development of the private sector in the Polish health care system is needed.

The private sector started growing in the first half of 1990s. One may maintain that primary care, dentistry (see Table 7.1) and specialized care together with the pharmaceutical market were the first subsectors of the Polish health sector dominated by private entities. It is worth noting that the growing number of private entities was accompanied by an even more dynamic process of their increasing dependence from the contracts with the payer (as indicated in Table 7.1).

**Table 7.1. Non-public medical and dental practices (in thousands)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical practices</td>
<td>28.0</td>
<td>28.9</td>
<td>36.0</td>
<td>44.6</td>
<td>50.2</td>
<td>44.3*</td>
<td>30.4*</td>
<td>31.0*</td>
<td>22.3*</td>
<td>1.3**</td>
<td>79.9</td>
</tr>
<tr>
<td>Dental practices</td>
<td>11.7</td>
<td>12.1</td>
<td>15.4</td>
<td>18.0</td>
<td>18.6</td>
<td>17.3*</td>
<td>10.6*</td>
<td>9.7*</td>
<td>7.0*</td>
<td>4.9**</td>
<td>19.9</td>
</tr>
</tbody>
</table>

*only practices operating exclusively on out-of-the pocket payments (i.e. without contracts with regional sickness funds)

**only practices operating exclusively on out-of-the pocket payments (i.e. without contracts with National Health Fund)


In 1990, about 43.9% of pharmacies were private and this share jumped to 79.8% in just one year (1991), to reach the level of 93.7% few years later (Dziubińska-Michalewicz, 2004, p. 4). This dominance of private pharmacies has been further strengthened. In February 2014, there were 14, 095 pharmacies – a vast majority of them private (Kuźmierkiewicz & Gawroński, 2014).

The private sector presence in inpatient care started relatively late, but after 1999 the process of development of non-public hospitals accelerated (Table 7.2). Here, however, one explanation is necessary. In Poland non-public hospitals can be created in two ways: either as green field investments (i.e. constructed from the scratch and financed exclusively by private investors) or through the transformation of independent public hospitals into limited liability partnerships or joint stock
companies. In the latter case their private nature can be questioned since there is no real change of ownership. Local governments (the owners of independent public health units) very often remain sole owners (i.e. possessing 100% of assets/shares) of the newly created limited liability partnerships/ joint stock companies. Unfortunately, the way appropriate data is collected and then presented to the public, makes it impossible to differentiate between private and still publicly controlled transformed hospitals acting as limited liability partnerships or join stock companies. However, there is enough evidence to maintain that a majority of non-public general hospitals are limited liability partnerships transformed from independent public hospitals (thus still controlled by local governments).

Table 7.2. Number of non-public general hospitals and their share (in %) in the total number of general hospitals in selected years

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>7</td>
<td>0.99</td>
</tr>
<tr>
<td>1995</td>
<td>9</td>
<td>1.0</td>
</tr>
<tr>
<td>1996</td>
<td>12</td>
<td>1.2</td>
</tr>
<tr>
<td>1997</td>
<td>14</td>
<td>1.9</td>
</tr>
<tr>
<td>1998</td>
<td>13</td>
<td>1.8</td>
</tr>
<tr>
<td>1999</td>
<td>16</td>
<td>2.2</td>
</tr>
<tr>
<td>2000</td>
<td>30</td>
<td>4.1</td>
</tr>
<tr>
<td>2008</td>
<td>186</td>
<td>25.4</td>
</tr>
<tr>
<td>2009</td>
<td>228</td>
<td>30.23</td>
</tr>
<tr>
<td>2011*</td>
<td>313</td>
<td>37.71</td>
</tr>
</tbody>
</table>

The distinction between public and non-public hospitals (as well as other health care providers) after 2011 was abandoned due to the changes introduced by Ustawa z dnia 15 kwietnia 2011 o działalności leczniczej (Act on therapeutic activities) Dz.U. 2011 nr 112 poz. 654 with further amendments.

Source: Biuletyn Ministerstwa Zdrowia. Centrum Systemów Informacyjnych Ochrony Zdrowia (various years); Rocznik statystyczny GUS (various years); Dziubińska-Michalewicz (2004, p. 7).

This growing number of non-public (private) hospitals will be further accelerated in the years to come. This is because of the provisions in the Act on therapeutic activity of 2011 which stipulate in article 59, item 2 that the founding body of a hospital (i.e. the owner of the hospital, usually local government) may within three months after the approval of the financial statement of a hospital, cover the negative financial result of a hospital’s operation (i.e. hospital’s debt). If for any reason such a negative financial result is not covered, the founding body is obliged either to close the hospital down or to start its transformation. The latter means either a merger with another independent public hospital (articles 66 and 67 of the Act) or transformation into a limited liability partnership (articles 70-82).

Due to the fact that independent public health units are indebted (Table 7.3) and over the last seven years the total matured payables exceeded each year PLN 2 billion,24 one may expect that this fact, combined with considerable indebtedness

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24 Needless to say that the total payables of independent public health units is higher (exceeding PLN 10 billion).
of local authorities themselves\textsuperscript{25}, may lead toward a growing number of independent public health units being transformed into limited liability partnerships or joint stock companies.

Table 7.3. Matured payables of independent public health units
(in PLN million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of matured payables (PLN million)</th>
</tr>
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<tbody>
<tr>
<td>2003</td>
<td>4 543,7</td>
</tr>
<tr>
<td>2004</td>
<td>5 872,3</td>
</tr>
<tr>
<td>2005</td>
<td>4 933,6</td>
</tr>
<tr>
<td>2006</td>
<td>3 723,8</td>
</tr>
<tr>
<td>2007</td>
<td>2 666,2</td>
</tr>
<tr>
<td>2008</td>
<td>2 357,9</td>
</tr>
<tr>
<td>2009</td>
<td>2 241,8</td>
</tr>
<tr>
<td>2010</td>
<td>2 138,8</td>
</tr>
<tr>
<td>2011</td>
<td>2 316,5</td>
</tr>
<tr>
<td>2012</td>
<td>2 474,0</td>
</tr>
<tr>
<td>2013</td>
<td>2 015,5</td>
</tr>
<tr>
<td>2014*</td>
<td>2 119,4</td>
</tr>
</tbody>
</table>

*as of the end of 3 quarter of 2014


Privatization processes in health care may take also indirect forms. An example of this can be changes in the formal status of medical professionals (doctors and nurses) working in general hospitals who act as entrepreneurs. They first set up their own businesses (registered as sole proprietorships) and then – as entrepreneurs – sign contracts with hospitals. This process was initiated after 1999 and over the years has been growing in importance.

Private sector development has also been observed not only among health care providers. Equally intense and extensive was privatization in the production of pharmaceuticals and medical equipment. All in all, the private sector is strongly represented in the Polish health care system and there are signs of its further development.

7.3. Restructurization of public hospitals

Although the first act opening the door for reforms in the Polish health care system\textsuperscript{26} came into force as early as on January 15, 1992, it took nearly nine years to start the process of restructuring of public hospitals\textsuperscript{27}. These entities were confronted mainly with consistent problem of regaining of financial liquidity and thus were pushed to proceed with restructurisation. This in turn required implementation of changes in the following areas (Nalepka, 1999, pp. 39-112):

- hospitals operations,
- finances,
- human resources,
- organizational structure.

Changes in a hospitals’ operations initiated in 2000 and 2001, were primarily aimed at a reduction in the number of beds (especially on acute wards) and/or transforming them into long-term beds. These actions did not lead to decreasing the total number of beds in the long run. Another widely used form of changing operations was expanding the growing number of activities outsourced (laundry, meals, maintenance and security, Information Technologies).

Financial restructurization activities were aimed primarily at cost cutting and debt reduction, but as shown in Table 7.3, these attempts led to moderate success. It can be added that the impressive reduction of matured payables of independent public health units between 2004 and 2006 was one of the effects of the implementation in 2005, a special government project aimed at the reduction of indebtedness of independent public health units which resulted in a public assistance amount at over PLN 4 billion. This, however, did not solve the problem.

Human resources certainly is the most precious asset of public hospitals not just because of their role in value added creation, but also because of their share in total costs since wages and related expenses constitute over 60% of the total costs of an average general hospital. Consequently, labor is first to cut when searching for cost reductions but such plans were strongly opposed by trade unions and also the public. Consequently, employment cuts were small. As the total number of doctors and nurses did not change significantly, there were substantial changes in the legal status of medical professionals working in hospitals. By the end of 2013, 54,385 of doctors in general hospitals were working as employees (down from 62.45% in 2010), while 46.61% were working as entrepreneurs and private health...
service providers (up from 37.54% in 2010)\textsuperscript{28}. The same trend can be noticed in respect to nurses.

Changes in the organizational structure of public hospitals were rather symbolic since changes in hospitals’ operations were limited.

One may conclude that changes in respect to hospitals’ operations, finances, human resources and organizational structure were only moderate\textsuperscript{29} and certainly did not match real needs.

### 7.4. Transformed polish public hospitals: main challenges

As indicated in Table 7.2 at the end of 2011, more than one-third of the Polish general hospitals were non-public hospitals and vast majority of them were transformed public hospitals.

The recently transformed public hospitals were confronted with several challenges originating from economic and legal regulations and – as private entities now – were more vulnerable to financial distortions and exposed to risks.

The first kind of risk is a much bigger vulnerability to bankruptcy originating from the legal status of a limited liability partnership. Unlike an independent public health unit which legal status is slightly ambiguous and was called “hybrid” by Izdebski (2003, p. 2) leading to problems with interpretation, limited liability partnerships’ status and operations are clearly regulated by Companies Code and civil code. This means that in respect to independent public health unit, it is difficult to terminate its operation due to its ambiguous legal status. In the case of a limited liability partnership it is comparatively easy to initiate and then proceed with an insolvency procedure in court. This in turn may increase the threat to initiate insolvency procedure by creditors (loan holders) and to lead to greater risk.

One may then maintain that the biggest challenge for a transformed public hospital now acting as a limited liability partnership is to stay in business, to survive\textsuperscript{30}. In order to do this several tasks must be performed and they may be classified according to the four areas of restructuring proposed by Nalepka (1999) and presented above.

First of all a newly transformed hospital should proceed with strategic analysis to reflect on its operations. It should be useful to implement some of the text-


\textsuperscript{29} More on the results of restructurization of public hospitals in (Klich, 2013).

\textsuperscript{30} An anecdotal kind of argument here can be the structure of a book on commercialized hospitals and their operation on the market by Horosz (2012), where five out of nineteen chapters are devoted to various aspects of limited liability partnerships’ liquidation.
book tools and procedures of strategic analysis (starting from SWOT, through SPACE and benchmarking\textsuperscript{31} to key success factors) but also to answer few further questions. For example:

1. To what extent our profile matches the health needs originating from an epidemiological profile of the region we operate?
2. What is our market share in respect to the medical specializations we represent (i.e. particular hospital wards)?
4. To what extent are we competitive in respect to costs and quality of health services?
5. How are we perceived by our employees? Regional office of the National Health Fund? stakeholders?
6. Are we in alliances with other health care providers?

Here one must point at some of the peculiarities of the Polish model of health care which may question some of the rules of management science in general and strategic management in particular. Management textbooks teach how to attract clients and the more clients the better rule is in operation (in principle). Unlike business entities in other sectors, hospitals should be very careful with attracting more patients. This is because any excessive number of patients hospitalized (and services performed) over the amount stated in a contract signed between a hospital and a regional office of the National Health Fund is refused by NHF and hospitals are not reimbursed. Consequently, not only are good hospitals attracting more patients but they are punished by not being compensated for costs they incurred by serving these patients\textsuperscript{32}. It should be noted that contracts with NHF have the largest share in hospitals’ revenues (it is above 85% at the average). Theoretically limited liability partnerships may sell their services to other payers without restrictions. But as indicated above, there are no other institutional payers in Poland since the legal regime does not allow for private health care insurance (and private health insurers) as a main type of insurance. They are only few insurers dealing with civil (general) insurance that decided to extend their offer by limited medical insurance but they have a marginal share in the market. The last possible source of income for transformed public hospitals is payment by individual patients, mainly on an out-of-pocket basis.

\textsuperscript{31} Benchmarking occurred to be useful even in such tough for comparison specialty as psychiatry\textsuperscript{31} (Steinert, 2011).

\textsuperscript{32} There are numerous cases in courts where hospitals suit NHF for not paying for excessive treatments.
Management textbooks also teach us that a business entity should create its service portfolio to optimize its profits. Such an attempt is hard to implement in transformed hospitals. Although it is possible to identify services and treatments which are well paid for by NHF\(^{33}\) (thus they generate profits) and those which are underpaid but a hospital is strongly limited with constructing its portfolio of services. Not only it is difficult to switch to profitable services, but it is impossible to abandon those causing financial losses.

Newly transformed public hospitals should consider making alliances with other hospitals even if they are competitors in terms of access to public money (i.e. contracts with regional office of the National Health Fund). As some examples show, it is possible to cooperate with public procurement procedures for purchasing pharmaceuticals and medical equipment for the benefit of all aliens (Ruman-Dzido & Tubek, 2001).

Strategic analysis for a general hospital is difficult also because of insufficient and unreliable data available for hospitals. This can be illustrated by the case of plans of health needs which should have been constructed starting from 2003, but such plans do not exist ten years later (Dziennik Gazeta Prawna, 2013).

One may conclude that a transformed hospital is limited in its decisions regarding operations starting from limits for services delivered and patients hospitalized, through legal restrictions in respect to constructing its portfolio of services and ending up with appropriate data for strategic analysis.

Financial restructuring certainly can be perceived as one of the most urgent needs of a transformed public hospital. The restructuring initiatives in respect to the financial sphere can be divided into three stages (Nalepka, 1999, p. 68):

- full liquidity recovery,
- generation of profits,
- raising the value of the limited liability partnership.

At the first stage transformed hospitals will have to start with cost cuts since opportunities for increasing revenues are strongly limited. Among the possible actions one may explore:

- rationalization of employment (especially among ancillary staff),
- further extension of contracts with medical professionals as entrepreneurs,
- temporary freezing of wages,
- disciplining the chiefs of wards to curb costs,
- implementation of performance budgets,
- possible renegotiation of contracts for outsourcing.

\(^{33}\) As for the moment of writing a good example can be cardiology treatments and services but there are some signs that oncology will be preferred in the nearest future.
Cost cuts activities should be supplemented by efforts to increase revenues (i.e. raising cash) such as:
- selling health services to uninsured,
- rental of premises and land,
- usage of EU funds, international programs and grants,
- sale of certain assets (land, real estate).

As limited liability partnerships, transformed public hospitals may use specific restructuring techniques used by commercial partnerships (Klimkiewicz, 2011) such as:
- financial restructuring by reducing and increasing of the limited liability partnership’s equity (used mainly in relation to public limited companies in the balance sheet when the company is a loss, but it does not exceed the equity);
- division of a limited liability partnership (division by acquisition, division by setting up new companies, mixed division or division by separation);
- establishment of a new partnership to continue activities of a liquidated one.

An important component of financial restructuring is debt restructuring. Here a transformed public hospital may undertake one of the following activities:
- postponement of the debt repayment,
- repayment of the debt by installments,
- reduction of a part of the debt,
- conversion of the debt (or part of it) into shares to creditors,
- securitization.

The regained profit generation stage can be further developed and transformed into raising the value of the limited liability partnership.

Necessary changes in respect to human resources can be seen not only as a logical consequence of decisions taken in respect to hospital’s operations and financial restructuring, but primarily one of the most neglected areas in public hospitals’ operations. The literature on human resource restructuring in public hospitals is rare and shows that hospitals do not have strategic plans regarding human resources (Klimek & Pietras, 2009).

Changes in organizational structure can be interpreted as logical consequences of changes in the first three areas and should be oriented towards flat and flexible structures.

In conclusion one may stress that the challenges newly transformed public hospitals are facing are numerous and demanding. They originate from an abandonment of real restructuring processes in public hospitals in the past and now are only augmented. The main challenges are rooted in the structural dysfunctions of the Polish health care system and cannot be overcome by transformed public hospitals themselves.
7.5. Conclusions

Polish health care reforms undertaken over the last fifteen years mirror the trends observed in health care reforms in other European countries, i.e. focus on efficiency and effectiveness of the systems as their primary goals, privatization and commercialization of health care delivery, etc. The tools implemented in Poland are also similar to those used in other European countries such as a purchaser-provider split, and the introduction of market mechanisms into the health care system.

Despite these similarities, there are also differences. The most striking example is the absence of competition between purchasers. We have a textbook example of monopoly exercised by the National Health Fund. This NHF monopoly combined with competition between providers, leads to a structural asymmetry of the whole system making it dysfunctional.

Newly created limited liability partnerships are squeezed from one side by the NHF monopoly and from the other side by sharp limitations in respect to shaping service portfolio, closing inefficient wards, and selling assets. All these influence limited liability partnerships which are more (than independent public health units) vulnerable to bankruptcy or/and liquidation.

Transformed public hospitals in the vast majority of cases have not undergone real restructurization, thus now they will have to make changes in their operations, finances, human resources as well as organizational structures.

These necessary changes cannot be carried out successfully without appropriate changes in legal regulations and organizational practices on all levels of governmental and local levels. This refers to but is not limited to health policies on a national and regional level. National government and local government agencies and institutions do not provide transformed public hospitals with necessary guidance in respect to priorities and even basic information regarding local and regional health needs is not available.

One should acknowledge the fact that public hospitals that are being transformed – which is welcome news - but also equally important is to stress that formal change of the legal status of the public hospitals does not assure that they will operate effectively and meet numerous challenges.
Chapter 8
THE ICE BUCKET CHALLENGE AS AN INNOVATIVE SOCIAL CAMPAIGN – ANALYSIS OF THE CONCEPT, ITS MECHANISMS AND EFFECTIVENESS

8.1. Introduction

Nowadays one of the biggest challenges in marketing is breaking the routine and getting the audience interested in a product, brand, service or some particular idea. A certain group of marketers started to focus on the innovative forms of campaigns with the hope of providing the desired effects. Recently such ideas as e.g. gamification, storytelling or prankvertising have gained ground as they help to build interest of the customers. However, such innovative methods are mainly appearing in the traditional marketing campaigns which objective is to build relationships with the customers and to promote particular, tangible product or service. There is a widespread belief that when social campaigns’ main goal is to promote a single, intangible idea, they are suffering from low innovativeness.

In the 21st century a large number of social campaigns based their ideas on similar concepts – the audience was exposed to contents presenting drastic scenes or provoking a feeling of discomfort and other negative emotions. There was an assumption that those campaigns could stimulate fear in the audience and, as a result, contribute to a change in one’s attitude and prevent the audience from disruptive behaviours. However, a large accumulation of campaigns based on negative emotions started to desensitise the audience to such form of content and recently, their effectiveness has been questioned. Consequently, it became the main reason for the latest scientific discussion about future forms of efficacious social campaigns. One of the ideas analysed at present as a role model in this field, is the ‘Ice Bucket Challenge’.
8.2. Concept and mechanism of the ice bucket challenge campaign

In the marketing reports summing up the year of 2014, the Ice Bucket Challenge campaign is classified in almost each top 10 ranking of the most breaking and vibrant campaigns of the year (Crampin, 2014). However, it is not covered by any current marketing literature in spite of the fact that it has introduced a fresh approach to social campaigns in times when marketers are facing a serious challenge to offer innovativeness and to involve the audience.

The Ice Bucket Challenge was helpful in fulfilling the objectives of charity organizations fighting against the ALS disease in two main fields. Firstly, the ALS Association collecting money for patients with ALS wanted to make the audience aware what Amyotrophic Lateral Sclerosis is. Before the campaign the majority of people simply did not know about its existence. The conditions, course of the disease and symptoms were unknown to the most of the society and for this reason the risk that the patient will not be diagnosed at the early stage was high (Watson, 2008). The objective of ALSA was to present who is exposed to ALS, how the symptoms can be recognized and how people can live with that disease. Their goal was also to collect money to help people who had already been diagnosed with ALS and to develop infrastructure to support the patients and research on this disease. In spite of the fact that ALS is incurable there are methods which can extend life of the affected patients or relieve the symptoms. However, the cost of the treatment is high and majority of people cannot afford to pay for it (Moeller, 2013).

Before the Ice Bucket Challenge charitable organizations collecting money for ALS patients had faced several issues. First of all, there was a lack of knowledge concerning this critical illness. It is known that Amyotrophic Lateral Sclerosis is a fatal disease which breaks down the nerve cells, but the current research gives no clear answer on who is particularly exposed to become ill, as each person can suffer from ALS regardless of gender, age and lifestyle (Armstrong, 2014). For this reason it was hard to talk about this problem. Second of all, the incidence rate of ALS is relatively low in comparison to cancer or AIDS (on average 1 person per 50 000 is affected by the disease) (Landau, 2009). Such statistics lead to a common assumption that ALS is so rare that it is quite unlikely to be diagnosed with it. Therefore, public opinion focused on more common diseases and ALS patients were invisible for the broader audience. This mainly resulted in lower public and private donations, medical attention and aforementioned unconsciousness of the symptoms. For this reason it was a serious challenge for ALSA to attire public attention and gain regular donators for their activity.
Since ALSA was established in 1985 (ALS About Us, 2014) it has tried several different methods to catch public attention in order to collect funds for patients with ALS. The aforesaid constraints have contributed to rather poor results in comparison to similar charitable organizations raising money against ‘more visible’ diseases. It was even more complicated to get public attention because ALSA was the only organization in the US dealing with this disease.

The Ice Bucket Challenge was not a social campaign intentionally launched by ALSA. The Association has taken a profit on the internet campaign rather by chance. In 2013 the idea of dumping a bucket of ice cold water on someone’s head, recording it and then sharing the video through social media was widely spreading on the American social media platforms. The origin of the action is disputable. Some of the public opinion assigned the action to Pete Frates who was suffering from ALS as the first one who recorded the challenge and made it viral (Goldberg, 2014). Initially, rules of this action were not specified. It was rather a free trend followed by the Internet users than an action governed by specific guidelines. This was, however, changed since NFFF (The National Fallen Firefigh ters Foundation) have recorded their own video in which they dumped the buckets of ice water, donated the money to ALSA and nominated others to perform a similar task (Bush, 2014). Their video was watched by a great number of people on YouTube and since then the Ice Bucket Challenge started to spread throughout social media in the form proposed by the foundation.

A milestone which made the action global was the interest of TV channels which widely commented on the idea on air. The Ice Bucket Challenge started to be even more closely associated with ALS thanks to a famous golfer – Chris Kennedy who dedicated his challenge to his relative suffering from the disease (Levine, 2014). As soon as other famous people began to follow Kennedy, ALS started to be the focal point of the campaign. Nonetheless, it appears that the Association started to take profit from the campaign’s triumph quite accidentally. After the success of the campaign other organizations have also tried to launch similar actions. However, their scope and results were incomparably smaller. This is one of the reasons why the Ice Bucket Challenge phenomena should be analysed and discussed in detail.

8.2.1. Mechanisms of the campaign

The Ice Bucket Challenge is combining a concept of viral marketing and broadly understood gaming. The base of the IBC’s action is an online environment where the interactions between users play a dominant role as they contribute to spreading the videos throughout the social media. However, the idea of taking up
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a challenge has roots in the traditional, non-Internet games as ‘Truth or Dare’ where player must decide if he/she wants to answer an uncomfortable question or to perform an embarrassing dare (Gettoknow, n.d.). Another example is ‘Spin the bottle’ where each player sitting in the circle must spin the bottle and the one who is pointed by it should perform some activity or kiss the other player (Heuristic, n.d).

There are several differences between traditional games and the Ice Bucket Challenge concept. First of all, in the IBC, the activity which should be performed is known in advance and the audience knows what they can expect from the subsequent videos. To avoid the routine, participants can change the details and add their own ideas into their challenge, e.g. the amount of water, environment etc. (Schwartz, 2014). In the non-Internet setting number of players is limited but Internet, however, offers a limitless access not only to close friends but also to a broader audience as far as the video and attached message is shared by means of social media. In the traditional games all involved are, in fact, players who actively take part in the game. In the Ice Bucket Challenge campaign people can be divided into players and active or passive observers. The role of the players is to perform the challenge and spread the campaign’s idea. Active observers are those participants who are not recording their own videos but who donate money to an organization, share friends’ videos through social media, take part in the discussion or comment on particular actions connected with the campaign. Passive observers, in turn, are those who neither record a video, donate, nor share the content but who watch the material on the Internet. This group is the campaign’s biggest constraint as it does not contribute to the financial profits or the idea’s dissemination.

The Ice Bucket Challenge mechanism consists of three dominant stages: donation, nominating others for the challenge and dumping a bucket of cold water on the video’s protagonist’s head. From the campaign’s objectives point of view, the focal point of the video should be the donation. However, the element that draws the biggest attention is the performers’ reaction of the cold water falling onto his/her head. Some participants are more focused on this part rather than on the donation itself and, as a result, they tend to forget the main goal of the action. Apart from the passive observers, this phenomenon is the greatest negative factor affecting the campaign’s success.

8.2.2. Types of participants involved

People who play different roles in the campaign in view of the level of their popularity are the foundations of the Ice Bucket Challenge. Apart from ordinary participants there were a lot of celebrities who took part in the campaign as well. When analysing their roles, various dimensions should be taken into consideration:
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a) material – financial effects of their involvement,
b) emotional – types of emotions they stimulate in the audience,
c) behavioural – their contribution towards involvement of other people into the campaign,
d) cognitive – If their performance increased the awareness of the campaign and its main goal.

The main role of the ordinary participants of the Ice Bucket Challenge was to spread information on the campaign among their relatives and friends and to generate the financial profit. Generally, they did not have much impact on the mass behaviours as their involvement was limited to their close friends who were nominated to take up the challenge. However, their role should not be ignored. Each person had material, emotional, behavioural and cognitive impact on the final success of the campaign. As far as each individual challenge is connected to donation, the amount of money donated is solely dependent on the performer. Higher donations can inspire others to spend comparable amount of money. From the emotional point of view, friends and relatives are these observers who take into account the performer’s feelings in the highest degree and his or her activity can be inspirational for the successors. Moreover, an average person can have a significant influence on the cognitive and behavioural dimension of the campaign. There is a higher probability that the social media users will watch the video shared by their friends and relatives rather than the ones uploaded by strangers, especially if they are nominated to take up a challenge. At this point, cognitive and behavioural dimensions are correlated in the strongest way. Firstly, a new participant is informed about the problem of ALS by dint of his friend’s video (cognition) and at the same time, he/she can be encouraged by the nomination to take the challenge (behaviour). Secondly, every new participant after recording his/her own video is becoming the source of cognition and a behavioural model for others.

Involvement of celebrities has contributed to a great attention of mass media. Politicians, actors, singers and entrepreneurs had a high impact on the cognitive dimension of the Ice Bucket Challenge. Apart from gaining mass media’s attention, their videos were also shared in social media by the Internet users. The video of the richest man in the world – Bill Gates was seen 21 040 226 times (Thegateshotes, 2014), actor Orlando Jones – 1 856 042 times (Jones, 2014) and US President George Bush – 4 094 775 times (ALS-AL, 2014). However, the behavioural effect of celebrities’ engagement is analogical to the one reached by an average person as they were also nominating only three people to take up the challenge. Unfortunately, there is no data about the number of people who were inspired by celebrities to take part in the Ice Bucket Challenge campaign.
Variations of the campaign

Apart from standard videos recorded by non-celebrities, the unexpected consequences of individual performances created a new category called ‘IBC fails’. These materials are noteworthy as they acquired respectively higher attention than the standard videos. They contained various incidents with buckets or performers falling over as well as reactions to these accidents. Those videos started to be shared even by people who did not know the performer personally. In terms of number of views the ‘IBC fails’ are quite close to the videos with celebrities. One of the most popular videos with a bucket falling on a startled performer was seen 1,274,155 times (Boredombash, 2014) while the compilation of ‘fails’ attracted attention of a higher number of people than the genuine video recorded by President George Bush (6,227,714 views in comparison to 4,094,775) (Funke, 2014).

The role of ‘IBC fails’ videos in the Ice Bucket Challenge campaign is vague. On one hand, they are viewed by a higher number of Internet users than the standard IBC videos, but there is no evidence that the spectators identify them with the campaign. There is a suspicion that people watch these because of their ludicrous context. Moreover, there is no evidence that after watching the ‘IBC fails’ the viewers got interested in the campaign or were inspired to record their own video. Apart from that, it was presumed that if a viewer noticed that a performer of the Ice Bucket Challenge became a mockery on the Internet, he or she eschewed recording his or her own video for the fear of public humiliation. There is no research which could present the material, emotional, cognitive or behavioural impact of ‘IBC fails’ on the final success of the campaign.

The ice bucket challenge as a social campaign

The uniqueness of the Ice Bucket Challenge can be examined by means of comparative analysis with other social campaigns. One of the differences is the type of emotions evoked. IBC is eliciting rather positive emotions unlike the great number of traditional social campaigns produced in recent years. The prosocial content built on negative emotions rises controversy regarding its effect on the audience. West (2013) suggests that the social campaign evoking negative emotions can be harmful and upsetting for the viewers. Previte, Russell-Bennett and Parkinson (2015) argue in their latest research that social campaigns referring to positive emotions are more efficient in changing the disruptive behaviour. Moreover, they meet with a greater interest and response. There is a hypothesis that campaigns employing negative emotions are more memorable (Gallope-Morvan,
2006) although the ones with positive emotions are more willingly watched as the
great number of audience avoid fear and unpleasantness (Previte, Russell-Bennett
and Parkinson, 2015). If such a statement is true then campaigns as the Ice Bucket
Challenge which objective is to be approved and spread by the audience through
the social media channels, should base on positive emotions for its successful
virality.

The prominent point of the Ice Bucket Challenge is that instead of actors,
there are volunteers who co-create the campaign and spread its ideas. Viewers
exposed to a large number of marketing content involving actors playing their roles
from scripts are becoming tired of indistinctive accumulation of such campaigns.
Karpińska-Krakowiak (2014) suggests that the mass involvement can be built e.g.
on the basis of a game. The Ice Bucket Challenge complies with all the necessary
criteria mentioned by Karpińska-Krakowiak (2014): it is a free, voluntary action
limited by time and space and it has its own rules. The Ice Bucket Challenge trans-
foms passive viewers into active participants of the campaign which is unique
from the point of view of the general standards in the majority of social campaigns.
However, such a change in the audience is temporary and there is no proof that the
participants of the Ice Bucket Challenge will be involved into similar campaigns in
the future. For this reason, there were a lot of questions raised around the effective-
ness of the Ice Bucket Challenge campaign as a one that should be changing its
audience’s behaviours permanently.

8.4. Effectiveness of the campaign

Effectiveness of social campaigns is commonly discussed in literature. Tha-
ler and Helming (2013) suggest that a universal indicator of effectiveness does not
exist as such notion can be analysed in different contexts. Kotler, Roberto and Lee
(2002) emphasize the prosocial change of behaviour of individuals or groups due to
a particular social campaign. Such definition suggests that the behavioural dimen-
sion should be regarded as a gist of the social campaign effectiveness. But, as
already mentioned, the goal of the Ice Bucket Challenge was to increase the soci-
ety’s awareness concerning the ALS disease which suggests that the cognitive di-
mension should not be ignored. This assumption is supported by the Social Cogni-
tive Theory elaborated by Badura (1976) which implicates, in turn, that cognition is
the focal point of a social campaign. Moreover, the areas in which the effectiveness
of social campaigns can be measured depend on the environment in which they are
set. For instance, there are different factors taken into account in case of an Internet
campaign and different in case of one that is lead in real life. Campaigns spreading
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across the Internet can be analysed in the context of their virality whereas real life campaigns can focus on the number of exposures, distributed leaflets or volunteers involved. Furthermore, both of them can be evaluated in terms of their financial outcomes. However, the process of measuring effectiveness of each social campaign is complicated and there is no scientific unanimity which dimensions should be applied respectively.

From the theoretical point of view, the effectiveness of the Ice Bucket Challenge campaign can be analysed in four perspectives: financial, cognitive, behavioural and viral. The financial effectiveness of the Ice Bucket Challenge can be reflected by the amount of money raised by ALSA through IBC donations. Firstly, the periods before and after the Ice Bucket Challenge campaign can be compared. Upon its financial declaration ALSA has raised 2 300 000 USD in two first weeks of August 2014 in comparison to 25 000 USD in the same period of 2013 (Goodkind, 2014). The total amount of funds raised by ALSA since the beginning of the Ice Bucket Challenge till August 2014 was 94 000 000 USD (Kotz, 2014) what surpassed all donations which ALSA has ever received since its establishment in 1985. Secondly, there were attempts to compare the financial contribution of ALSA with the finances of other organizations which did not take profits from this action. However, the second option is debatable seeing that it is difficult to identify the proper point of reference for ALSA as far as each NGOs has different field of objectives and activity.

Considering the money raised by ALSA before and after the Ice Bucket Challenge, it can be assumed that it was effective from the financial point of view. On the other hand, there are suggestions that the potential of the campaign was not fully exploited. The report of RJMetrics shows that 80% of participants did not mention any donations in their videos (Moore, 2014). Therefore, there are opinions that the Ice Bucket Challenge is an example of slacktivism – a phenomena described by Kristofferson, White and Peloza (2013) and defined as the propensity of the audience to engage into prosocial issues rather by passive action through social media, e.g. joining an action on Facebook, than by donating money or organizing an event in real life. Nonetheless, the funds raised by ALSA are substantial and, except from the doubts regarding the financial scope of the campaign, there is a common opinion that the Ice Bucket Challenge has contributed to the financial success of the ALS Association.

The cognitive and behavioural outcomes of the Ice Bucket Challenge are equivocal and difficult to assess from the point of view of its effectiveness. The cognitive idea which stood behind the campaign was to increase the awareness of ALS and its symptoms so after the dynamic spread of IBC on the Internet there
was a great number of enthusiastic articles reporting on the campaign’s success in this field. However, the data provided by RJMetrics suggest that 25% of participants did not refer to ALS in their videos and only 20% of the performers mentioned their donations (Moore, 2014). This report questions if the ludicrous character of the challenge covered the prosocial essence of the campaign. Karpińska-Krakowiak & Modliński (2014) point out that humour can distract the audience from the content and it is not considered a fully effective method in marketing communication. Therefore, there are presumptions that a substantial number of people who took up the challenge was not motivated by the prosocial reasons but they were rather fascinated with the action itself. A survey provided by the Independent reveals that 53% of Brits were not aware what cause they supported by participating in the Ice Bucket Challenge, 56% of them did not donate any money after the challenge and over 30% declared that they took up the challenge just to gain attention (Saul, 2014). The data suggest that the Ice Bucket Challenge was not as cognitively effective as suggested by the mass media. However, from the praxiological point of view even if only 47% of participants gained knowledge about ALS it could suggest that the Ice Bucket Challenge was effective, especially when considering the fact that the campaign was costless. The cognitive success of the Ice Bucket Challenge is hard to measure and therefore it still provokes the debate in the scientific community.

The methods of measuring the Ice Bucket Challenge effectiveness in the field of viral marketing are questionable. Since Knight introduced the idea of viral marketing in 1996 (Phelps et al., 2004) there were several ways of examining the effectiveness of this phenomena proposed. Cruz & Fill (2008) looked into approaches of viral marketing evaluation and provided a review of the ones: Porter and Golan (2006) who put emphasis on the behavioural and cognitive criteria, Welker (2002) who pays attention to speed, persistence and transmission convenience of a video and Godes & Mayzlin (2004) who stress the importance of its frequency, volume and informativeness. Except from the fact that all of these criteria are criticized as inadequate and risky, they also aim at examining a single video and this approach should not be applied in case of the Ice Bucket Challenge. They do not explain how to measure the effectiveness of a viral campaign as a whole when it comprises many independent videos of various performers, different number of views, shares and comments. Therefore, the widespread belief that the Ice Bucket Challenge was an effective viral campaign remains still scientifically unverifiable. There were several attempts to assess the viral effectiveness of the Ice Bucket Challenge, e.g. by selecting videos with the highest number of views and comparing them against other viral videos. However, these seem to be inconclusive
as the total number of videos recorded throughout the campaign was not taken into consideration. Discussions around the viral effectiveness of the Ice Bucket Challenge are still challenging and they can serve as an interesting starting point for marketing methodologists in the future.

8.5. Conclusions

As a viral campaign which became enormously popular in the social media in 2013/2014, the Ice Bucket Challenge presented in the article has gained attention of both marketing theoreticians and practitioners. It was an unintentional campaign which has contributed, by chance, to the fight against Amyotrophic Lateral Sclerosis – a little known, but fatal disease. The ALS Association raising money for a research in this field has collected almost 100 000 000 USD from donations triggered by the Ice Bucket Challenge and this amount exceeded the total amount of funds they received since the organisation was established. However, information on the total income generated by IBC is unclear as the money was also donated to local organisations in spite of the global ones. For instance, Dignitas Dolentium – a Polish ALS association, was donated 950 000 PLN (around 220 000 USD) (Antonatus, 2014).

The concept of the Ice Bucket Challenge can be classified as a prosocial campaign which objective was to increase awareness of the ALS among the society and to collect money for a research against this disease. The IBC was based on viral marketing where every social media user could become an active participant of the action by recording his/her own video. A number of various types of performances were involved. Ordinary people recording their videos and sharing them via social media channels were contributing to spreading a word about the campaign among their family and friends as one of the rules was to nominate three people to take up the challenge. Celebrities, politicians and famous activists who also participated in the IBC attracted the attention of mass media which, in turn, led to the popularisation of the campaign.

Ice Bucket Challenge is still discussed by both theoreticians and practitioners who try to explain this phenomena and analyse it from different perspectives. Although the concept and mechanisms of the IBC are rather clear, the attempts to measure the effectiveness remain controversial. Even if financial outcomes of the campaign can be analysed to a certain degree by means of financial statements provided by ALS organisations, the behavioural, cognitive and viral effectiveness remains unexplained and this can be a good starting points for further discussions in this field.
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