

INTERNATIONAL CONTEXT OF BUSINESS ENVIRONMENT

Selected Evidence
from CEE and SEE Countries

edited by
Adam Marszk

Gdańsk University of Technology Publishing House

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Gdańsk 2014

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INTRODUCTION

This book is the result of the international scientific conference “International Entrepreneurship and Internationalization of Firms in Visegrad Countries V4” which was held in Kraków on April 3, 2014, and turned out to be a successful meeting of 122 participants from 15 different countries (Algeria, Austria, Croatia, Czech Republic, Denmark, France, Hungary, Latvia, Norway, Poland, Slovakia, Romania, Spain, Serbia, Ukraine). The conference was organized by five universities from Visegrad countries, namely Cracow University of Economics – Faculty of Economics and International Relations (Kraków, Poland), Gdańsk University of Technology – Faculty of Management and Economics (Gdańsk, Poland), University of Economics in Prague – Faculty of International Relations (Prague, Czech Republic), University of Miskolc – Faculty of Economics (Miskolc, Hungary) and Slovak University of Agriculture in Nitra – Faculty of Economics and Management (Nitra, Slovakia).

The chapters included in the book are based on the papers presented during the conference yet their final versions were prepared by the authors after the conference according to the reviewers comments.

The book includes 11 chapters and is divided into three thematic parts. The first five chapters (chapters 1–5) deal with the topic of economies as macro-level actors in the business environment.

In chapter 1, Use of DEA model for calculating Better Life Index and its impact on economic policy in Slovakia (Andrea Vondrová, Matej Valach), authors present the use of data envelopment analysis (DEA) for calculating Better Life Index and cross-check the results obtained by non-parametric approach.

Chapter 2, Polish case of global changes – the Walesa Method (Jan D. Antoszkiewicz), is a methodological approach to change (excluding the political and historical aspects), a case which took place in Poland at the end of the 20th century.

In chapter 3, Accrual accounting in the public sector of Adria countries: comparative study (Miloš Milosavljević, Nemanja Milanović, Nela Milošević), the authors focus on the transformation process in public sector accounting of Adria countries.

Author of chapter 4, Job creation and poverty alleviation in the V-4 countries by microcrediting (Antal Szabó), describes the problems of the European economic crises – youth unemployment and poverty, and presents microcrediting as a potential solution.

In chapter 5, Russian companies on foreign stock markets: alternative to domestic market? (Adam Marszk), author presents selected aspects of the Russian stock market and Russian companies listed on foreign markets.

The next two chapters (chapter 6 and 7) discuss different problems concerning regions and industries as meso-level actors of business environment.

In chapter 6, Impact of the European energy policy on the competitiveness of Slovak economy in post-crisis period (Peter Baláž, Lukáš Harvánek), authors focus on identifying relationships between the convergence of energy security and improving international position on the global marketplace.

In chapter 7, Potentials of the electric power industry financing in Serbia through public-private partnership (Sladjana Benković, Sladjana Barjaktarović-Rakočević, Nevenka Žarkić-Joksimović), authors depict the possibilities available to the private investors in Serbia interested in investing into strategic projects of the energy sector.

The last four chapters (8, 9, 10 and 11) end the book with microeconomic perspective – businesses as micro-level actors of business environment.

In chapter 8, Self-employment as an alternative form of employment in the period of economic slowdown in Poland (Bogusława Puzio-Waławik), author focuses on the topic of self-employment as a part of the Polish labour market policy during recent economic slowdown.

In chapter 9, Trends and tendencies in flexible benefits in five Central and Eastern European countries (József Poór, Zoltán Šeben, Agneš Slavić, Katalin Óhegyi), authors present the main trends in flexible benefits in five European countries, including the cafeteria system which is examined using the results of the Cranet survey.

In chapter 10, Improving the competitiveness of enterprises in Poland by increasing financial support for early stage of development (Honorata Howaniec), author presents a support system for entrepreneurs and would-be entrepreneurs in Poland, in the form of seed capital and start-up capital, as well as the knowledge about and the degree of utilization of these funds.

In chapter 11, The system of instruments stimulating the development strategies adopted by the Central European enterprises (Waldemar Gajda), author makes an attempt of identification and utilization of a system of instruments stimulating the development strategies for the Central European enterprises.

All eleven chapters reveal the Central European specifics and features of the business external environment and its internationalization.

Adam Marszk
(scientific editor of the book)

Part 1

**ECONOMIES AS MACRO-LEVEL ACTORS
OF BUSINESS ENVIRONMENT**

USE OF DEA MODEL FOR CALCULATING BETTER LIFE INDEX AND ITS IMPACT ON ECONOMIC POLICY IN SLOVAKIA¹

Andrea Vondrová, Matej Valach
University of Economics in Bratislava, Slovakia

Abstract

The objective of the paper is to give a picture of the sources of economic development in the Slovakia through an alternative measurement of growth and cross-check the results obtained by non-parametric approach. Sources of the economic development are identified by better life index. Non-parametrical part employs CCR model of data envelopment analysis as an application which allows evaluate the effectiveness of individual producers within the group. Main findings include determining a better way to measure growth and identify key aspects essential for prosperity and quality of live. These aspects need to be known for policy decision-making and to conclude not only the quantity but also the quality of economic growth and quality of life. The main concern for economic policy in the Slovakia as well as the entire OECD is to identify the qualitative dimensions that are the source of economic development of each and every country and their possible impact on economic policy. The paper makes use of non-parametric approach with a view to cross-checking the results obtained on the alternative measurement of economic growth within the OECD countries and in Slovakia in particular.

Key words: economic growth, data envelopment analysis, better life index.

JEL codes: O11, O19, O27

1.1. Introduction

Since World War II, gross domestic product is the most dominant indicator of economic growth. GDP represents a sum of the value of all final goods and services produced in the economy. Quantitative dimension of economic growth measured by GDP is necessary but not sufficient for measuring the qualitative development of the society. There is a need to provide policy makers and civil society with reliable, timely and credible

¹ The article came into being as the contribution originated within the grant project VEGA no. 1/0795/12: Extended Leontief model with structural decomposing with the application on the Slovak as well as the grant project VEGA no. 1/0368/14: Orthodox and unorthodox approaches to economic theory and how to use them to solve economic problems today (with an emphasis on the global economic crisis).

indicator that can quantitatively and qualitatively assess the current situation and which would also allow comparison between countries within the monitored time and would indicate further perspectives for future growth.

The necessity to think about the future is more and more important while the world economy is still mired in the aftermath of the devastating economic crisis. Hesitant recovery, high unemployment, unprecedented volatility in financial markets and public debt at the highest level are forcing policy makers to define the necessary policy responses in the long run. Qualitative change in perception and measurement of economic growth does not mean that the GDP indicator should disappear. It still provides answers to many important questions, but there should be work on the development of the statistical system which will focus also on the dimensions which affects a quality of people's lives.

In the current situation it is time to create a measurement that better reflects the changes that are characteristic of growth in modern economies. Growing share of manufacturing and services makes the measurement of output and economic performance much more difficult than in the past. Currently, there are many products whose quality is a complex, multidimensional and subject of rapid changes. In some sectors increase in output is a matter of improvement of good's quality rather than in consumption of large quantities. Capturing quality change is a huge challenge, but it is very important for measuring real income, real consumption and especially for some of the key determinants of measuring human well-being.

For calculating qualitative development of country in this paper we use better life index developed by OECD. The main concern is to identify the qualitative dimensions that are the source of economic development of each and every country and their possible impact on economic policy of Slovakia.

1.2. Literature review

Evaluation of the economic performance of countries in the globalization process requires to take into account more and more new alternative indicators. Vintrová (2006) in her work „Convergence of the Czech Republic and the Slovak Republic – current status and selected problems,, stated that the prosperity of the country is not only the result of the amount of goods and services produced in the economy, but it depends mainly on the structure of production and its quality. Brânză (2013) contended that appropriate structure and quality has benefits for exchange of production and services with foreign countries. In this work is analyzed the development of the indicator terms of trade, which are calculated on the basis of real GDP. Based on this analysis, it was confirmed that if we measure the performance of a country using the GDP figures, the country may grow faster, while taking into account other measures of growth to achievement is much worse.

Awareness of the importance of the concept of sustainability and well-being in terms of environment impact on human well-being can also be seen in the recently created reports SSF and OECD initiatives.

The first comprehensive alternative regulation of the values of GDP is considered MEW indicator, which was introduced back in 1972 by Nordhaus and Tobin. Although the authors take into account GDP as a starting point, they adjust the subjective calculation of the monetary value of leisure time. A second experiment that involved leisure time in the measurement was developed in 1995. GPI measures economic well-being, which contains measures with lots of new categories, among them the loss of free time due to work.

The best-known composite indicator is the human development index, but the concept of human development is much broader, and should therefore be used primarily for comparison of levels between different demographic groups of the population within a country.

In 2011, OECD creates the new measurement for the purpose of promoting economic prosperity, improving the prospects for development and welfare of the citizens.

OECD addressed the possibility for better measurement of economic growth and identifies three areas that are essential for the well-being of the individual in terms of material living conditions (housing, income, and jobs), quality of life (background, education, environment, governance, health, life satisfaction, safety and work-life balance) and subjective well-being. Each of these areas is based on specific indicators and together creates a new interactive tool called Better Life Index (BLI).

Another instrument used to analyze the multidimensional nature of life quality was developed by specialized institutions of the European Union. This is the European Quality of Life Survey (EQLS), which took place in the 27 member states from September 2011 to February 2012. Like OECD, European Commission stressed the need to analyze and monitor, besides GDP, the indicators created to characterize social and environmental progress.

Defining welfare is challenging and requires insight into many aspects of people's lives, as well as an understanding of the relative importance. Nežinský and Fifeková (2013) stated that productivity analysis that employs non-parametric approach is traceable back to Farrell's work (1957) which presented the first empirical application of the entirely conceptual approaches to efficiency by Pareto and Koopmans. The modern version of data envelopment analysis (DEA) originated in Charnes et al. (1978), where the first model, lately named CCR, was introduced. The later developments were closely related to Tone's works introducing slack-based measure of efficiency (Tone, 2001). Intertemporal analysis that utilizes distance functions and Malmquist index in a multi-output setting was done in Fare et al. (1996).

1.3. Material and methods

1.3.1. Better Life Index

Measurement of well-being requires the selection of indicators that adequately capture the qualitative dimensions of economy development. The OECD has made great efforts. Better life indicator is divided into two parts, main indicators that can be used to monitor the well-being over time and can be compared between countries, and secondary indicators that provide additional evidence.

Better life index is constructed of 11 sub indexes. Indicators of individual sub index are selected on the basis of several statistical criteria of relevance (e.g. political relevance) and data quality (option prediction, coverage, timeliness, comparability between countries, etc.), and after consultation with the OECD countries to provide the better way of understanding the qualitative dimensions of economic growth and development.

Before calculating the better life index, the data for each dimension of this indicator need to be normalized, as this index collects many indicators expressed in very different units. If we compare the aggregate values expressed in different units, their values must be standardized. Standardization is made under standard formula that converts the original value of the number of indicators that vary between 0 (the worst possible outcome) and 1 (for the best possible result).

1.3.2. DEA Model

DEA is used to create a better assessment of the weights for each dimension of better life index. DEA method allows evaluating the effectiveness of individual producers within the group. DEA method is a relatively new non-parametric method, which allows evaluating the effectiveness, efficiency and productivity of homogeneous production units. DEA model allows an individual assessment of the effectiveness of individual production units considering the whole set of units, which is its greatest benefit. In addition, DEA distributes units into efficient and inefficient and for the inefficient units are identified the sources of inefficiency and also it identifies the way in which the entity may reach efficient scale.

For purpose of calculating the optimal weights it is sufficient to use a modification of the basic model outlined by Charnesom, Cooper and Rhodes (1978), which bears the names of the authors – CCR model. The idea is based on the evaluation of the efficiency as the ratio of aggregate output and aggregate virtual inputs. The method allows us to work with inputs and outputs measured in different units. Aggregation of inputs and outputs is performed by using weights that are shadow prices of input from and output. Original fractional problem is an output oriented model in a manner which is described below. In accordance with the established terminology we judge the effectiveness of independent decision-making units (DMU Decision Making Unit) transition inputs on outputs.

Each DMU (marked with index 0) solves optimization problems with a focus on outcomes:

$$\min z_0(\mathbf{u}, \mathbf{v}) = \frac{\sum_{i=1}^m x_{i0} v_i}{\sum_{r=1}^s y_{r0} u_r} \quad \text{with restrictions} \quad (1.1)$$

$$\frac{\sum_{i=1}^m x_{i0} v_i}{\sum_{r=1}^s y_{r0} u_r} \geq 1 \quad j = 1, 2, \dots, n$$

$$u_r \geq \varepsilon \quad r = 1, 2, \dots, s$$

$$v_i \geq \varepsilon \quad i = 1, 2, \dots, m$$

While z_0 is the objective function which expresses the efficiency under an inverted ratio of inputs and outputs, the i input use j DMU and the element is the I output produced by the j DMU. ε is a small positive number added to the constraints to identify poor efficiency (weak efficiency). The problem is transferred from fractional to linear through Charnes-Cooper transformation using substitution variables:

$$\mu_r \geq t u_r \quad r = 1, 2, \dots, s \quad (1.2)$$

$$v_i \geq t v_i \quad i = 1, 2, \dots, m$$

$$t = \frac{1}{\sum_{r=1}^s y_{r0} u_r} \quad r = 1, 2, \dots, s$$

The resulting linear problem has form:

$$\min f_0(\mathbf{v}) = \sum_{i=1}^m x_{i0} v_i \quad \text{with restriction} \quad (1.3)$$

$$\sum_{i=1}^m x_{ij} v_i - \sum_{r=1}^s x_{rj} \mu_r \geq 0 \quad (i = 1, 2, \dots, m; \quad j = 1, 2, \dots, n; \quad r = 1, 2, \dots, s)$$

$$\sum_{r=1}^s x_{rj} \mu_r = 1$$

$$\mu_r \geq \varepsilon$$

$$v_i \geq \varepsilon$$

Normalization of outputs $\sum_{r=1}^s y_{r0} \mu_r = 1$ is determined by the outputs orientation of the model. The interpretation is based on the construction of the indicator. Efficient unit will have $f_0 = 1$. Given the constraints it is the smallest possible value of efficiency, in effective thus defines units of $f_0 > 1$.

For the purposes of the construction of optimal weights for BLI we understand the individual states as independent decision-making unit (DMU), whose output for the model, the individual sub-indices. Inputs are given as equal to 1 for simplicity. Where BLI is indicated between 0 and 1 and it can be seen as an efficiency index with fixed weights $\mu_r = 1/11$. Comparable index of efficiency can be obtained as the inverse of the objective function: $1/f_0$, which is also within the range from 0 to 1. The condition $\sum_{r=1}^s y_{rj} \mu_r = 1$ makes possible interpretation of the results, which tells about the contribution of each input (sub-indices) for overall efficiency. Sub-indices are weighted with optimal weights $y_{rj} \mu_r$ in the output of software referred to as Weighted Data. Ratios $y_{rj} \mu_r / \sum_{r=1}^s (y_{rj} \mu_r) = y_{rj} \mu_r$ can be interpreted as the relative contributions of individual sub-indices for overall efficiency (composite index). It is evident that countries assess for themselves “good” indicators with higher weights.

1.4. Results and discussion

The better life index is calculated from OECD database. The calculations illustrate that the value of better life index varies between countries from the level of 0,24 in Russia to 0,71 in Denmark. OECD average stands at 0,58. The value of better life of Slovak republic reaches a value of 0,47. We can conclude the ranking for Slovakia within these observed countries, but without evaluating single sub-indices separately, we are not able to settle proper starting points for policy decision.

The calculations show that Slovakia is behind values of OECD average in almost all areas of better life sub-indices. Only in two dimensions, out of 11, Slovak Republic has a higher value compared to the OECD average, in the dimension of personal safety and social relations.

DEA model will be used to create a better assessment of the weights for each dimension of better life index, which were set by OECD equal to 1. DEA method allows us to evaluate the effectiveness of individual country. It also allows to distribute the countries into efficient and inefficient units and to identify the sources of inefficiency or efficiency;

from these results we would be able to determine the goals of economic policy in order to achieve the efficiency or convergence with developed countries.

Table 1.1

BLI in 2012 calculated according to the DEA

No.	Country	BLI	UY -I	UY -J	UY -H	UY -WL	UY -H	UY -E	UY -SN	UY -CE	UY -E	UY -S	UY -LS
1	Australia	1,0000	0,13	0,7	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2	Austria	1,0000	0,23	0,00	0,00	0,00	0,00	0,00	0,47	0,00	0,30	0,00	0,00
3	Belgium	1,0000	0,45	0,00	0,41	0,14	0,00	0,00	0,00	0,00	0,00	0,00	0,00
4	Brazil	0,7910	0,00	0,00	0,00	0,00	0,00	0,00	0,76	0,00	0,10	0,00	0,14
5	Canada	1,0000	0,03	0,00	0,00	0,00	0,42	0,48	0,00	0,03	0,00	0,04	0,00
6	Chile	0,9271	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1,00	0,00	0,00
7	Czech Republic	0,9670	0,00	0,00	0,11	0,00	0,00	0,08	0,00	0,00	0,00	0,80	0,00
8	Denmark	1,0000	0,00	0,50	0,50	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
9	Estonia	0,8623	0,00	0,00	0,00	0,00	0,00	0,39	0,61	0,00	0,00	0,00	0,00
10	Finland	1,0000	0,00	0,00	0,61	0,00	0,13	0,25	0,00	0,00	0,00	0,00	0,00
11	France	0,9615	0,18	0,00	0,09	0,27	0,16	0,00	0,00	0,00	0,00	0,31	0,00
12	Germany	1,0000	0,10	0,00	0,01	0,03	0,00	0,27	0,57	0,00	0,02	0,00	0,00
13	Greece	0,9257	0,00	0,00	0,14	0,00	0,26	0,00	0,00	0,00	0,00	0,60	0,00
14	Hungary	0,8902	0,00	0,00	0,00	0,00	0,00	0,25	0,00	0,00	0,00	0,75	0,00
15	Iceland	1,0000	0,00	0,00	0,03	0,00	0,00	0,25	0,72	0,00	0,00	0,00	0,00
16	Ireland	1,0000	0,00	0,00	0,36	0,00	0,00	0,00	0,64	0,00	0,00	0,00	0,00
17	Israel	0,9589	0,00	0,00	0,00	0,04	0,65	0,00	0,00	0,00	0,00	0,00	0,30
18	Italy	0,9014	0,07	0,00	0,04	0,07	0,43	0,00	0,00	0,00	0,00	0,38	0,00
19	Japan	1,0000	0,12	0,00	0,00	0,00	0,00	0,00	0,19	0,00	0,07	0,62	0,00
20	Korea	0,9722	0,00	0,07	0,00	0,00	0,00	0,20	0,00	0,00	0,09	0,64	0,00
21	Luxemburg	1,0000	0,64	0,00	0,36	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
22	Mexico	0,7255	0,00	0,00	0,00	0,23	0,37	0,00	0,00	0,13	0,22	0,00	0,06
23	Netherlands	1,0000	0,14	0,00	0,53	0,00	0,00	0,19	0,00	0,09	0,05	0,00	0,00
24	New Zealand	1,0000	0,00	0,00	0,00	0,19	0,81	0,00	0,00	0,00	0,00	0,00	0,00
25	Norway	1,0000	0,00	0,00	0,36	0,10	0,50	0,05	0,00	0,00	0,00	0,00	0,00
26	Poland	1,0000	0,00	0,00	0,00	0,00	0,00	0,20	0,00	0,00	0,09	0,71	0,00
27	Portugal	0,8000	0,00	0,23	0,11	0,00	0,00	0,00	0,00	0,00	0,06	0,60	0,00
28	Russian F.	0,7348	0,00	0,00	0,00	0,00	0,00	0,18	0,16	0,00	0,00	0,66	0,00
29	Slovakia	0,9302	0,00	0,00	0,10	0,00	0,00	0,08	0,00	0,00	0,00	0,82	0,00
30	Slovenia	0,9419	0,00	0,00	0,00	0,00	0,00	0,15	0,13	0,00	0,07	0,64	0,00
31	Spain	1,0000	0,00	0,73	0,22	0,05	0,00	0,00	0,00	0,00	0,00	0,00	0,00
32	Sweden	1,0000	0,00	0,00	0,23	0,06	0,47	0,24	0,00	0,00	0,00	0,00	0,00
33	Switzerland	1,0000	0,17	0,71	0,11	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
35	UK	1,0000	0,08	0,00	0,00	0,05	0,00	0,00	0,86	0,00	0,00	0,00	0,00
36	USA	1,0000	1,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
37	OECD average	0,8967	0,00	0,13	0,09	0,03	0,12	0,09	0,00	0,00	0,06	0,48	0,00

Source: better life index is calculated based on the data from OECD databases

The results of DEA model can be seen in Table 1.1. According to the figures we can observe that most countries are efficient in the measurement.

Within 36 observed countries only 16 are inefficient. Among inefficient countries we can also find the Slovak republic. In order of the resulting index SR is ranked as 27. Comparing the results with the results of Czech Republic or Slovenia we can conclude that these two mentioned countries are much higher especially the Czech Republic which is ranked as 22 and is near the frontier of efficiency. Through the interpretation of results for the SR with Weighted Data we can conclude that BLI is 0,93 which is achieved primarily through the personal security dimension. The value of BLI for Slovakia is achieved by 82% with dimension of personal security, 8% with dimension of education and skills and the rest by dimension of health status. While 11 dimensions are taken into account this is not a desirable state to be reached.

Based on a comparison we could evaluate that DEA model provides better weights for individual sub-indices of better life index. But we need to note that this model leaves important dimension in the background or completely ignores them. Based on this result we can conclude that DEA model is indeed appropriate way of determining the weights but if the index consists of such a large number of entries we need to expand the sample of countries.

Based on the results of weighted data for Slovakia and efficient country we can conclude that economic policy should focus on these following qualitative dimensions.

Based on the results it can be demonstrated that representatives of economic policies should ensure continuous and sustainable economic growth trough achieving a competitive real economy in the global space which is not based on cheap labor and uncertainty in labor relations. Global competitiveness should be derived by employees who control the world's most advanced technologies methods and techniques and can use them flexibly as well as improved cooperation with effective public administration which forms the basic framework for the stability of the business environment.

Government should be based on the belief that economic prosperity of Slovakia and its sustainable economic growth is possible by means of general economic convergence with the developed EU countries while maintaining a sufficient level of socio-economic cohesion.

The main tool to achieve balanced and sustainable development of the national economy is the financial and economic policy which addresses those aspects of finance and the real economy that determine the nature of the further development of Slovakia. These policies should therefore be designed to be further enhanced by the constitutional oriented value of Slovakia for the sustainable socio-environmental development and the market economy and strengthening certainties of life of inhabitants.

The government should consider the results of better life index in the process of sustainable development as national interest of the Slovak republic for achieving and maintaining a high quality environment protection and rational use of natural resources. The key instrument for sustainable development should be considered as the orientation of economic development for the consistent production which is consistent with both the social and the ecological requirements of the economy. Special care should be given to the use of available labor in regions with underdeveloped environmental infrastructure.

At the same time the national policy should focus on optimizing the spatial arrangement and functional use of land, protection of natural and cultural heritage, building environmental monitoring and information system, and raising environmental awareness. This means that it is necessary to achieve rational use and protection of natural resources – water, soil, air, rocks, wild fauna and flora.

The government should devote rational utilization of domestic mineral resources and promote the development of businesses that use them and the extraction and treatment technology which do not affect negatively the environment. The basic starting point in eliminating environmental risks should be the control of environmental safety, greening of buildings, equipment and products.

Conclusions of the study lead to the progressive implementation of the requirements of the alternative indicator in the formulation of economic policy. However, before such implementation it is necessary to develop a strategy because the objectives and tools necessary to increase the dimensions of quality of life and economic levels should be combined into a coherent and continuously updated concept which originated in close liaison and discussion between government and opposition forces, state and regional institutions, business and academic circles, trade unions and the third sector. Such report on integrating the use of alternative indicator is the first step in creating a knowledge base.

Based on observations of alternative indicator measurements we conclude that although we can identify exactly the dimensions which need to be improved or to focus on but without a longer research we cannot say with certainty exactly how these different dimensions will respond to used economic policy instruments.

For example, increasing the dimensions of health could be the result of increasing environmental quality or increasing expenses for health care. Improvement of the educational dimension can be positively influenced by increasing state budget expenditures in research, science or upgrading teaching in schools.

These aspects need to be known before implementing these indicators in order to properly focus the tools and set the objective of economic policy. We also consider this as an area that could then be further examined, and which would significantly affect future qualitative understanding of this issue.

1.5. Conclusions

OECD's better life index promotes policies designed to accomplish the highest sustainable economic growth and employment and a rising standard of living in countries while maintaining financial stability. As OECD stated in 2011, citizens care for their quality of life and well-being. Income, public services, health, leisure, wealth and a clean environment are means to achieve and sustain those ends.

In the study the objective was to give a picture of the sources of economic development in Slovakia through an alternative measurement of growth and cross-check the results obtained by non-parametric approach. The sources of the economic development were identified by better life index and through DEA efficient and inefficient dimensions, the sources of inefficiency was identified as the way in which the entity may reach efficient scale.

At large, the results can be viewed as a theoretical background for decision-making in Slovakia.

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POLISH CASE OF GLOBAL CHANGES – THE WALESA METHOD

Jan D. Antoszkiewicz

University of Social Sciences in Lodz, Poland

Abstract

Polish case of Global Change as the Walesa Method is a methodological approach to change (excluding the political and historical aspects), a case which took place in Poland at the end of the 20th century and changed the picture of the World. Walesa's Method fits in the existing global change methodologies, but concurrently expands their scope or introduces other deepened interpretations. In other words, it takes a compilation of essential conditions and requirements in order to effectively carry an innovation from the idea through its successful implementation. The Polish incidents described in this study may be meaningful as an inspiration to support the process of creation and implementation of innovations, whether global or minor, an evolutionary q in the various areas of human activity. The more so that the 21st century has all the makings of an instigator of excessive changes.

Key words: Walesa Method, innovation, change.

JEL codes: F60, 030

A new idea starts as heresy, ends as orthodoxy.

No civilization without social stability.

No social stability without individual stability.

Aldous Huxley

2.1. Introduction

Methods arrive as the need arises, they respond to the need to make the necessary changes, whether minor or global. They are formulated by individuals who are more or less qualified to do this, but it is their intuition and charisma that makes them capable of finding in a tangle of events the required solution that is adequate to the situation, and implementing the same. Typically, the person who applies or popularises the given method is named its originator. It needs to be clearly stated that to develop a method it takes dozens or hundreds of professionals who for this purpose make a countless number of more or less successful attempts. Formulating a method may be compared to filling a "magic goblet" into which successive innovators pour a drop of their experience each, and the last one, who actually makes the goblet fill up and overflow is named the inventor.

Walesa's Global Change Method is an analysis of the work of an innovator methodologically covering the behaviours and developments that took place in Poland during the system transformation period. It has two objectives:

- scientific (research) objective: describe and coordinate activities in the face of a global change.
- practical objective (application): indicate the areas which play an important role in making the search for the final result efficient, effective, and economical for its further exploitation.

To work out the interrelations defined in the objectives applied was the method of analogy in its heuristic interpretation. Applying analogy to Walesa's Method it is possible to interestingly show not only the innovator's "vertical" but "horizontal" activities as well, and to trace and understand the methodological meaning of the many steps one needs to take so that the result is correct, favourable, effective, and economical, and that the global innovation appears acceptable to the author and the final decision maker and, of course, to the people who will function in the reality shaped by these changes.

A significant role in the making of the global changes that took place in Poland at the end of the 20th century is credited to Lech Walesa, later President of the Republic of Poland, who was the change leader at the time. His scepticism and ability to come to practical conclusions that were adequate to the existing complex situations helped him to come down with propositions and measures that transformed into practical solutions. One effect of such measures was the emergence of a series of fragmentary methods and techniques, the sum of which produced a global picture of the makeover of Poland and the World. This "methodological bottom line" so produced is what I call Walesa's Global Change Method, since it consists of a number of efficient and effective techniques, and Mr Lech Walesa may be recognised not only as the originator of this method, but as an innovator of historic events as well. Because historic events happen, and history is written by politicians and scientists who adapt it to the current opinions and requirements. Walesa's Method is a Polish product. Many Poles worked for it to come to light, but the principal "ultimate impulse" came from Lech Walesa, and brought about a plethora of effects. By naming these effects Walesa's Global Change Method I highlight its Polish origins and strongly emphasise the role of the global change leader. We, Poles, are frequently, and completely unnecessarily, too timid to speak of our successes. We need to get rid of this erroneous syndrome and take pride in our successes, whether minor or cutting edge.

2.2. Limits to innovation

The 21st century is characterised by an explosion of innovation. The new constant is permanent change. The dynamic and turbulent market, in nearly all of its segments, requires continuous changes – innovations in all fields of corporate business operations. It does not spare public administration bodies, either. There are going to be more changes in the Public and Local Administration and political organisations brought about by better education levels, access to television, and in particular to the expanding Internet. New leaders are needed. The time for universal innovations is over and gone forever. The only winners are those who can discover which innovation is the most favourable at the given moment in the competitive game and can implement it quickly, efficiently, and effectively.

2.3. Introducing innovation

Every change, whether within a business corporation, public or local administration, or political parties, disturbs the existing system, the “current governance”. It looms large. Even though the “old” system has been declared unacceptable, the “new” one evokes conservative, defensive, negative reactions. All behaviours result in running from the balance between two types of forces:

- driving force (active, activating, industrious, creative, inspiring, stimulating),
- braking force (passive, conservative, routine, negative, inertial).

2.4. The role of change leader in global changes

In proposing a global change a very important role is played by the change leader, his capabilities and demeanour in interpersonal configurations, negotiation skills, and the competency to adequately respond to challenges. At the end of the 20th century in Poland the unquestionable global change leader was Lech Walesa. It is worth quoting the evaluations of Lech Walesa’s demeanour in the process of implementing change by different persons with diverse political affiliations or representing the opposing parties to the conflict. Janina Paradowska claimed (all citations from: Wałęsa, 2008) “...I was a witness to a skirmish between four trades union leadership candidates... Walesa played his role superbly. It was a role of a well-balanced politician, mitigating the moods, but radicalising when it felt right... he has a unique political gift given by God, since nobody had ever specially prepared him for this... he was the leader of the nation, at least its majority...” Andrzej Friszke adds “...as a trades union leader he was sufficiently radical in words and opinions, but at the same time moderate, not belligerent, able to defuse the atmosphere. This relatively strange language which, when the tape had been transcribed, at times made an impression of a nonsense, contrary to the appearances was an advantage. It was close to the colloquial language of an average Pole, so it was difficult to attack Walesa for what he had said. He had a political and situational intuition, which was a great gift, for nobody had ever trained him to play such roles. It was owing to this intuition that he was able to lead the union through the various shallows. Then he was able to listen to wise advice, trust other people’s assessments of the phenomena that were too complex for him to comprehend well...” Stanisław Ciosek – secretary, Central Committee of the Polish United Workers’ Party. “My first encounter with Walesa... What struck me was his casual, natural, humorous tone when talking on the matters that were gravely serious and extremely difficult. I found it offensive, but I easily adjusted to the imposed melody of the conversation. It was only later that I found, in numerous conflicts, negotiations and struggles, that this was the melody of the new times, new generation, new political formation...” Andrzej Kozakiewicz says “...a students’ club... a lot of students... some moustached shipyard worker... will we find a common language? ...this common language was found very quickly, and with it came a great **fascination** (my emphasis) and pure admiration... the conviction that he is our mate. ...One gigantic change was Walesa’s language – vivid, normal. It could hardly be labelled working class. It was novel.” Cardinal Stanisław Dziwisz says “...I was moved by his straightforward conduct. Clarity of speech and concreteness of his objectives, vision of the working class reality...” Richard von Weizsäcker (German President) “...from the very beginning I was strongly impressed by his modesty, straightforwardness and courage. He was always aware that freedom was the people’s primary value, and that freedom always meant responsibility...” An interesting opinion on the significance of the leader is provided

by Wiesław Chrzanowski *“Walesa raised my great admiration on several occasions... Walesa arrived to mitigate the moods. Started speaking very calmly and then I understood what a master he was. How he could sense the social moods. He started joking in a disarming manner. Slowly, step by step, he defused the tensions, the atmosphere was becoming more and more laidback. He was a real leader of the crowd ...”* Jan Rulewski says *“...At the height of the discussion Walesa stands up, looks around the Hall, feels its power and desire. And shouts «I am with You!» We have the chief, I thought and it seems to me that the hall sighed. The worker’s intuition had won...”* Henryk Wujec *“...to be a permanent radical is easy to do, but to find compromising solutions and persuade others to accept them is very difficult. And Lech Walesa somehow managed to do it”* Bronisław Gieremek *“Lech Walesa’s leadership was continually questioned and competitors appeared likewise. But not even once did there appear a serious competitor.... Time told that Lech Walesa was the leader equipped with all the talents at the right time...”* Zbigniew Bujak *“Lech’s leadership helped to see the August strike through to the victorious accord...”*

The role of the leader is key to all changes. This was the case in the early phase of Walesa’s activity, only later was he joined by the Expert Team which supported the leader by significantly channelling the changes under preparation. Walesa was capable of making use of the Expert Team’s propositions, even though he frequently disagreed with the Team, nevertheless, consequently his choices and final decisions turned out to be right.

2.5. Innovation setup – preparation for change

The preparation and implementation of change – whether minor or global – must be conducted methodically. This increases the chance of committing a lesser number of errors. The innovation setup and preparation for change should take place in the following order: vision, mission, objectives, tasks, organisation.

Defining the vision of the future.

Defining the mission of the organisation.

Diagnosis of the situation. While analysing the situation, great importance is attached to the attitude of the supreme management, the decision making headquarters which can formally voice the will to change, but in fact block any movements. In every organisation there is always a group of people who, under the pretence of willing and helping to change, launch destructive actions instead. They emulate the slogans and actions of the kind: “Change so that nothing is changed”. Walesa had to wrestle with the slogan propagated by the leadership of the People’s Republic which read “reforms – YES, perversions – NO” or “socialism – YES, perversions – NO). Walesa chose not to engage in any polemics with this treacherous slogan and acted on the principle “let’s stick to our job”, as interestingly advised by the poet Wojciech Młynarski. In doing so he was consistent, able to control the situation and withdraw when necessary. Walesa’s conduct is an indication for all innovators – you have to believe in the final success and consistently, step by step, implement the proposed change – innovation. Good is always born in pain, but it has good foundations.

Determining the objective(s) of change. People translate Walesa’s imaginations into their own set of objectives that are adequate to their situation, needs, potential, and suit their temperament, knowledge, and reasoning, and conscious or subconscious thinking of the future of Poland.

2.6. Implementing change

To implement change it takes to consistently realise the vision, mission, and objectives, as well as skilfully adjust the same to the existing situations, both exterior and interior. What is needed is consistent action, rather than inconsiderate persistence. However, too many adjustments are not welcome, either. Therefore, it takes wise and intelligent adjustments and modifications. Also requisite is to continue the searches and enlarge the team of people who are willing and able to support the proposed innovation. It is this team that is going to decide whether the proposition for change is a success or failure.

Playing with change objectives. This is an interesting methodological innovation, introduced by Lech Walesa, which consists in playing a specific game of changing the objectives of the proposed change to suit the changing, or current, situation. This method is reminiscent of hammering a nail into a wall, causing a specific swing or sinusoid of moods – from hitting to withdrawal. At a certain moment the leader formulates the objective quite explicitly and extremely radically, but when resistance increases, which begins to question the option to change, the leader withdraws, changes the meaning of the objective, introduces more “moderate” formulations that are palatable and acceptable at the given stage of the change. When resistance weakens, he re-formulates the right objective in a more explicit and “sharper” form. He repeats this several times, being consistent in action, as he has the vision, mission, and objectives. The play with the objectives is a very difficult issue, it is like a “cliff or tightrope walk”, it is highly sensitive to the leader’s personality. It is easy to cross the borderline and become exposed to accusations of dishonesty or unreliability, and consequently rejected beyond the margin of the ongoing change. The leader must be guided by his great political and social intuition adequately to the current situation. He must keep the faith in the final success of the change. His each and every breakdown, indecision, false step will be given extensive media coverage exposing him to negative explanations of his motivation, which may even put at risk the change itself.

Defining the areas for change. The vision, mission, and objectives help to define and prioritise the areas for change. It is inadvisable, or even prohibited, to change everything at the same time. A global change is a sum of partial changes. Excessive partial changes impede change, but it is better to have more minor changes than to stumble on the block of a single massive change. The areas for change should be indicated as per their significance and priority for change. Defining the areas for change may be compared to building a house: the roof cannot be built before the foundations and walls are ready, nevertheless the materials for the roof’s structure may be gathered long ahead.

The Goliath–David method. This is a method of persuading the hardliners within the organisation. It’s origin is biblical. It refers to the fight of the fully armed and armoured Goliath (concrete, corporations, socialist system) defeated by a single shot in the eye by David, who was not armed and only had a sling (workers leader). Goliath represents corporations which are often “colossuses with feet of clay” and often find it difficult to innovate and change. David stands for small companies, entrepreneurs or creative professionals. This method is broadly applied to changes in politics or large corporations with fossilised structures and products which are “shot at” by little Davids. This is the way in which innovations are created in corporations, or cooperation is established between corporations and small entrepreneurs.

In the method applied by Walesa, Goliath was the embodiment of the totalitarian system which had “many faces and thousands of eyes”. The opposition took on the role of David. They shot on target at different intervals. They withdrew after shooting off-target to

analyse the situation, only to apply a different approach and shoot on target a moment later, which shots destroyed the other eye. The most important shots include the demand for an Independent Self-governing Trades Union, strikes, strike alerts, demands to release political prisoners, and a series of similar measures.

Innovation crack. The Goliath–David method was further developed to create an innovation crack. Global political and social systems, and business corporations and multinational heavyweights that need changing form such structures which in fact become mountains too high to climb. This is always the case with the existing solutions known to date. As long as they exist, change is impossible. New solutions need space, or else they will die. *“The old forest chokes up new trees”*. It becomes necessary to apply the heuristic motto *“destroy, create, and improve”*, even though the extent of the damage is always relative. This happens in corporations, holdings, and companies, resistance to change is meaningful and intense, which prevents them from overcoming the existing difficulties, threats, blackmails, and taking another road to look for creative pro-change solutions. In other words, these mountains of impossibility must be cracked. This way leads to the valley of happiness and new ideas, innovations, and changes. This is how we arrive at situations and states of emotional excitement that help us to boot out the old, fossilised, or hardline solutions and find some space for new, better, necessary ideas how to streamline or change the system, organisation, or operational mechanics. This may and must be done in respect of corporations, holdings, small and medium entrepreneurs by restructuring and changing them into more innovative and better functioning organisations out on the ever changing market. Making such “innovation cracks” is particularly efficient, necessary and creative, and generates a lot of good and meaningful results. It leads to establishing unique alliances between individuals, institutions, organisations, and in the case of businesses between corporations, holdings, and entrepreneurs. The personal or corporate bonds (alliances) that are established at the time may be very broad, dissimilar, and diversified. Consequently, it is possible to establish Alliance Networks which are conducive to new situations and opportunities of developing fast-track change processes, and above all the emotional states that stimulate and encourage new propositions, therefore good ideas are conceived which increase the change preparation and implementation dynamics. This may facilitate such innovations that will transform into a favourable political system or profitable business. This interesting and efficient innovation crack technique, with different intensity of application for the purpose of achieving political change, is credited to Lech Walesa. Communism in Poland, even though it was an inefficient “multi-eyed horse with feet of clay” still controlled the power and violence apparatus forming high rocky mountains that were hard to climb and so discouraged many. In order to change that Walesa, guided by intuition, created numerous cracks, rifts, and ravines in the various areas of the communist system. His conduct was comparable to hammering a chisel into a concrete wall.

Swarm box method (beekeeping). This is an efficient and effective method which facilitates the change of reasoning and operations in very large political, social, and business organisations and requires a very consistent and permanent action over a long period of time, deep faith in the final success and resilience to momentary failures. The best known negative variant of swarm box is called financial pyramid, but this is constrained by the funds which are not generated spontaneously but have to be earned. Such ideas, however, have a specific ability to reproduce themselves through connections and are practically unlimited.

The underlying idea of this method is based on the functioning of insects, in this case bees, which by swarming and creating new nests-bee houses relocate quickly, and ideas

follow in their footsteps¹. One advantage of this method is that it helps develop spontaneous actions under direct or indirect influence of the central body, and transfer bulky and meaningful ideas, propositions and programmes encouraging and stimulating people to take creative actions. Various reciprocal working contacts are established spontaneously: meetings, working groups, or task forces which attract people of various professions, trades, organisations, institutions, ages, outlooks, educational background. Such a diversified network of people is organised into a single organisation which actually does not exist (it is virtual). Concurrently, this unconventional network generates a strong favourable ambience, the mood, a fluid for new ideas and new prospects that help to resolve the old problems and situations, or adjust and improve the solutions to the existing needs. In other words, “They generate, at different locations, an area and climate similar to that of a beehive and frame, which makes space for honey – new ideas, solutions and, on the other hand, through “swarming the beehive” they transfer the bee swarm to more favourable places, thus spontaneously creating new beehives which tend to swarm further and quickly copy the idea at any unpredictable locations.

The practical functioning of the swarm box method is well reflected in how fan clubs of contemporary musicians are organised. The fans modify the boss’s guidelines and adapt them to the specific conditions and requirements on their operational level. For many musicians to have the first 10–20 fans is relatively easy, however, when their number increases, further contacts become more and more difficult. If and when the number of fans grows, they become more and more difficult to control both physically and territorially. Musicians need communication systems dedicated to their fans, which systems have different scales, areas, and specific characteristics. The swarm box method may come in handy to better organise the controls over fans.

How the swarm box works. Musicians directly contact their “Alpha-Fans”, as they form the principal dedicated group of fans. This is limited to 20 persons. Next, the “Alpha-Fans” create their own swarm of “Beta-Fans”. Each of them creates their own group: recruit new fans, manage them by delegating various responsibilities and creating solutions for their own group, introducing many of their own propositions, nevertheless still sticking to the line imposed by the leader. Beta-Fans, in turn, create Gamma-Fans, and so on. When the number of people gathered in one swarm increases in line with this system of interrelations, it entails higher quality and speed of information flow and its efficiency and effectiveness, as well as the ease of creating new solutions. The swarm box’s success is defi-

¹ Poland is particularly associated with bees. In the 16th and 17th century it was Europe’s honey basin. The famous meads. Poland developed the best beekeeping laws. Many Polish regions boast specialist literature on bees. The first EU standard which originated from Poland applied to honey standards. Traditional legend has it that people will die out if the bees become extinct.

Of particular importance are the organised or concerted actions taken by the bees, which behave differently in different countries. For example, European bees, as compared with their Asian counterparts. Asian bees are much less productive than the European species. Knowing this, Asians imported the European bees. But then they were taken by surprise. The pest of bees and the gourmet of their brood (eggs) are hornets. Asian bees have developed good defences against hornets. They work as an interestingly organised team. They swarm around a hornet and produce a much higher temperature which causes the assailant to die. European bees act otherwise: as individualists, they attack the hornet one after another, falling dead because the hornet beheads them. Within hours hornets kill tens of thousands of bees and can easily get to the brood. Speaking metaphorically, it can be seen that, thanks to Walesa, “Polish bees”, individualist as they are, were able to engage in collaborative actions to change the system in Poland.

nately dependent of the leader – the musician and his/her personality and skill of working with and creating the right ambience for the Alpha-Fans, primarily by evoking their emotional states, involvement, fascination, and the base fans, who can sell the leader's music, recruit new fans, promote concerts, recordings, records, etc.

Walesa discovered and subconsciously applied the swarm box method to win supporters for his idea. The Polish swarm box case, as rendered by Walesa, served to change the totalitarian communist system that had formed mountains too high to climb. This method, consistently applied over a long period of time, helped to break up the system and lead Poland into the valley of development and pursuit of its own identity. Walesa's actions focused on the Trades Union. The Polish People's Republic propagated the slogans of equality, workers and peasants' alliance, and representation of the working class' interests by the Central Trades Union. In theory, this was similar to the systems operating around the world, in fact, however, the Central Trades Union was extremely centralised and definitely subdued to the Ruling Party. The leader of the Central Trades Union was at the same time a prominent figure in the Political Bureau of the Ruling Party.

Walesa's choice of the Trades Union as the key organisation was a very accurate and cunning move, as it guaranteed for him the direct support of the working class, as it was referred to at the time, and at the same time prevented the rulers from attacking the union members as anarchists, drunkards, rogues, or terrorists. That Walesa was headquartered at the Gdansk Shipyard, which was a large enterprise (approx. 30 000 employees), was another important factor, as it made everyone believe that it was a very important enterprise, an organisation whose propositions may be quickly transmitted throughout the rest of the country. Another important step was to establish a group which in fact swarmed very quickly across other companies in Poland. Initially, Walesa's associates were workers and employees who were in a similar situation and reasoned in a similar fashion. Later, when this group had become well established, it was joined by experts representing the major intellectual circles of the country.

The transmitted idea – the overarching demand of that group, to which gradually added were further demands or postulates of apparently lesser gravity, was to achieve consent for the establishment of an Independent Self-governing Trades Union. This group propagated its ideas, for which it fought by organising strikes and numerous strike alerts in connection with the given requirements, demands, or postulates, and at the same time displayed the information thereof on the shipyard's fence. In this way continuously generated was the information which was then consistently transmitted all over the country. Poland is a country that can operate underground, which helped Walesa's actions by spreading the news and encouraging others to support them. We, Poles, have the experience of underground operations that go back 150 years to the time when Poland was partitioned (occupied) by Russia, Germany, and Austria, and very special experiences from World War II when, during the German Nazi occupation (1939–45), we managed to maintain underground an efficient 450 000 – strong Home Army. Also, in the 44 years of the Polish People's Republic there did exist a specific underground movement which is well portrayed by the statement that Poles are like radishes, red on the outside, but completely white inside. Oddly enough, Walesa's Gdansk Shipyard-based group was also promoted by the Polish Government Spokesman who, at least once a week, had an hour-long TV programme dedicated to negating the opposition group's activities, in particular Walesa's. For the Polish people, who are keen contrarians and underground operatives, this meant that Walesa and his group were still active, did not give up, could not be liquidated, and had to be supported. Slowly but persistently the Polish people were increasingly convinced that it was

right to somehow sympathise with and reinforce the actions of that group, in particular Walesa. The support developed slowly but methodically. At a certain moment the number of members (members and associated persons) of the Independent Self-governing Trades Union “Solidarity” was estimated at more than 10 million.

2.7. Negotiations

Round Table. To talk and negotiate so as to achieve a consensus is man’s primary activity which ensures harmonious development (not only) of the negotiating parties. Particularly difficult are the negotiations at the top levels of the authorities, and even more difficult in politics when the change of the system is attempted. The Polish case of the transition, without bloodshed, from totalitarianism and the Soviet system to democracy can be recognised to be unique and worthy of being copied in the future. The way in which the negotiation phase was reached, and then how the negotiations were conducted, can be recommended as a model for any principal global or systemic changes. Walesa’s and his advisory staff’s consistent conduct forced the other party, i.e. the rulers of Poland, to propose, or rather to accept the proposition to negotiate at the round table. It needs to be emphasised, though, that the Supreme Authority of the Government Party was set to negotiate and considered confrontation as the last resort. The scale of the negotiations was extremely broad. It covered a number of issues that required mutual consent. For the various issues that required more detailed solutions sub-tables were established, the outcome of which contributed to the final result. The tactics of having consistent and relevant discussions and continuous negotiation consequently led to the announcement of new parliamentary elections which opened the road to democracy. The technique so applied, which is one of the most important ways of achieving a fast and effective innovative solution, is the division of the issue (Round Table) into sub-issues (sub-tables) for the purpose of seeking and working out a solution for each sub-issue, followed by their re-integration into a single global solution to the problem.

2.8. Team in global changes

Individual creative potential is limited, interdisciplinary innovative task forces show higher effectiveness. People differ from one another in terms of their objectives, needs, values, expectations, temperament, social and family origins, upbringing and education, and knowledge, skills, experiences, and expertise necessary to fulfil their assignments, and, above all, wisdom.

The name of the task force is very important. Much more than it is commonly believed. Frequently little attention is paid to the right name of such a team. This is a big mistake in terms of marketing and promotion. Words have different meanings and evoke most diverse connections. A set of words causes further implications for the meaning and connections. The name should be brief, clear, catchy, and easy to remember.

Subject of the team’s work. In other words, the problem to be resolved. A task force may deal with one or more innovative subjects. Each one must be named. The name of the subject must be brief, clear, and at the same time contain the essential key information on the solution being sought. It should contain and highlight the elements that help to integrate around the subject and identify with its content.

Work objective. This should be brief and clear. It should encourage team work and define what is to be done, within what lead time, to what extent and in what size.

Task force leader. An important figure. It is good when the person in charge of the team is not only a formal, but also an informal leader. His decision making as part of the team work determines the team's efficiency and effectiveness. Walesa was very fit for this role.

The team should be interdisciplinary, comprise the experts required to work out the desired change. Every team (organisation, company) is characterised by two opposing and rival forces within it:

- driving force, positive, creative, active,
- destructive force, negative, blocking, static, delaying, disturbing, resisting.

2.9. Conclusions

New methods arise spontaneously in response to the searches for a method of solving a problem. The significant role played by the leader causes that the method so invented is frequently named after its inventor. Methods are similar to inventions or innovations. The formulation of a method may be compared to filling a "magic goblet" into which successive innovators pour a drop of their experience each, and the last one, who actually makes the goblet fill up and overflow is named the inventor. Change, whatever the area of its application, is a very difficult issue in respect of both minor and global innovations. To a large extent the final success depends on the change leader, the person who takes on the charge of implementing an innovation. Change is a specific game with the past in the context of the upcoming future.

The methodological studies dedicated to benefitting from the approach to global change, as developed by Lech Walesa's team, may be applied to various areas of human activity, in particular to changes prepared, implemented, and completed within business organisations, central and local administration, social systems, and politics. The approach discussed in this study is a new epistemological approach. In this approach I attempted to "extract" the characteristic methodological elements: the methods, techniques, and approaches applied by the person of considerable standing in his political and social activities. I am positive that these experiences may be applied to the methodology of shaping, preparing, implementing and managing change within business, social, and political organisations. The methodology of innovation, from formulation through implementation, entails defining the vision of change (innovation), defining the mission, and analysing the situation to determine and play with the objectives within the areas of change. Much significance is attached to preparing the space for innovation and making innovation cracks. Accomplishments may be propagated through the Swarm Box method, Goliath–David method, or the Round Table method. Highlighted is the positive role to be played by interdisciplinary teams appointed by change managers (leaders) so as to implement the prospective changes within the organisation.

The global crisis requires changes to our outlooks on the World, in particular on corporate management, economics, and innovation. The era of virtual money is coming to an end. The new system will require knowledge and more knowledge. It will be based on the money earned, on labour, not on virtual money. The future relies on entrepreneurship, micro, small, and medium entrepreneurs. Innovation will become a daily routine, more and more often there will arise the need for global innovation which relies on:

- imagination and abstract thinking. We need to educate “artists” – virtuosos of change through arts (e.g. painting, drawing, music, etc);
- knowledge (methodology and expertise), concrete reasoning – education in technologies – Universities of Technology, Schools of Agriculture, Economics, etc. Today’s education system produces good (very good) artisans, but not creators of change;
- integration of the managing, expert, and executive staff on all levels of management. It is necessary to educate integrated management and innovation teams in corporations.

This said, it is clear that it is necessary to change the system of education, training, and improving qualifications – from primary to secondary schools through universities. The future relies on managerial and technological universities educating people who, understanding the economics and technologies, are capable of creating and indicating directions of business development. People who look ahead, rather than rummage in the past. Universities are teaching how to apply readymade formulas and procedures (often outdated), rather than teaching creative thinking aimed at preparing solutions to the challenges of the future. The current education system at best facilitates “rummaging” in the past, but not choosing the direction of business development. To meet the future challenges, it is advisable to seek inspiration in the approach applied by Lech Walesa, who converted the impossible into the real.

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ACCRUAL ACCOUNTING IN THE PUBLIC SECTOR OF ADRIA COUNTRIES: COMPARATIVE STUDY

Miloš Milosavljević, Nemanja Milanović, Nela Milošević

University of Belgrade, Faculty of Organizational Studies, Serbia

Abstract

The transformation process in public sector entities, in accordance to the principles of New Public Management, has triggered a need for the conversion of accounting concepts from cash based to accrual based accounting. A growing body of evidence suggests that this public sector accounting paradigm shift proved to be useful in fostering “managerialism” across various European countries. Nevertheless, much of the academic and practical scene is set outside the Adria region (Serbia, Bosnia and Herzegovina, Croatia, Slovenia and Montenegro). This paper examines the transformation process in public sector accounting of these countries. The main primary data for this research are interviews with experts in the field of public sector accounting. The results indicate that the adoption of accrual accounting is still at its infancy in the region, but the trend and efforts towards this business-centric concept is noticeable. The study is based on interviews with experts. Hence, the limitations are attributable to the overall limits of the interview as a research technique. This paper is valuable to academics, practitioners and consultants in the field of public accounting, as it provides comparative results of the governing principles of public sector accounting in Adria region. As the focal point of academics is outside the Adria region, there have been very few studies addressing this issue in the region. Moreover, to the best of authors knowledge, there has been no cross-country comparative study conducted so far.

Key words: accrual accounting, cash-based accounting, public sector, Adria region.

JEL codes: H83, M48, M41

3.1. Introduction

Reforms in the public sector have been an important issue in public sector management in recent decades. The major driver for these reforms was almost ubiquitous opinion among various stakeholders that public sector has not been efficient and effective enough which led to the idea that business-centric operations should be attributed to the public sector as well. Thereafter, a market-based orientation of public sector was advocated in an immense number of scholarly and practical publications (Heldena, Aardema & Bogt, 2010).

Accounting techniques and policies have been at the top of policy maker agendas with regards to aforementioned paradigm shifts and initiatives for changes (Lapsley & Wright,

2004). One of the most important public sector accounting techniques which has been an element of vivid debates was an applicability of accrual-based accounting in the public sector entities. The broad body of evidence suggests that this has been a hot topic worldwide (Marty, Trosa & Voisin, 2006; Gårseth-Nesbakk, 2010). A growing body of evidence suggests that this public sector accounting paradigm shift proved to be useful in fostering “managerialism” across various European countries. Nevertheless, much of the academic and practical scene is set outside the Adria region (Serbia, Bosnia and Herzegovina, Croatia, Slovenia and Montenegro). This paper examines the transformation process in public sector accounting of these countries.

The main objective of this study is to provide sufficient evidence on usefulness of accrual accounting methodology for the public sector accounting. Also, the study seeks to explore differences in adoption of accrual accounting in public sectors of Slovenia, Croatia and Serbia. To the best of authors’ knowledge, there have been no comparative studies on the topics of accrual accounting in the aforementioned region.

The paper is structured as follows. The first section of the paper deals with the context of accrual accounting. In particular, this section elaborates on the linkage between accrual accounting and New Public Management, the applicability of accrual accounting in the public sector, major upsides and downsides of the implementation of accrual accounting and the literature coverage of these issues within the Adria region. The second section provides an overview of the methodology used for interviewing experts in the field. The third section presents the major findings and discussion. The fourth and the last section provides conclusions and implications together with further recommendations for public sector policy makers.

3.2. Materials and methods

The main primary data for this research are interviews with experts in the field of public sector accounting. The experts have been selected with regards to the years of expertise in practice of public accounting. Regarding the countries selected in the survey, the selection has not been random. All of the countries have been a part of a former Yugoslavia, sharing the same public sector accounting system prior to the decomposition in early 1990s. Afterwards, the budgeting and public sector accounting systems of these countries has been self-contained.

The study is based on interviews with experts. Hence, the limitations are attributable to the overall limits of the interview as a research technique. The main findings from the interviews are presented in the following section.

3.3. Literature review

On one side, accrual accounting is a method which recognizes transactions when the underlying economic events occur. Therefore, revenues will not be recognized when the cash flows in, but when it is earned. Analogically, expenses will be recognized when resources are spent or consumed or when liabilities incurred. This recognition is regardless of the related cash inflows and outflows. Accordingly, a matching principle, as one of the key accounting principles, is directly implemented. On the other side, cash-based accounting is based on recognition of transactions with regards to receipts and payments.

3.3.1. New public management and accrual accounting

The term New Public Management (NPM) has developed as an approach for describing methods for reorganizing public sector bodies in order to establish a closer link between their management, reporting, and accounting procedures and business methods. Both emerging and developed markets are faced with the same problems of centralized bureaucracies, inefficiency in the use of resources and inadequate accountability mechanisms. The New Public Management is the approach which is used by managers who seek to transform their work methods from principles of public administration to those of public management. It is results that are the main focus of New Public Management control rather than inputs and procedures, with managers who are proactive and focused on specific, measurable and achievable goals.

New Public Management is a blend of two kinds of administrative reform doctrines one of which is based on ideas of contestability, user choice, transparency and close concentration on incentive structures, and the other on those of “professional management” expertise, requiring high discretionary power to achieve results and enforcing better organizational performance. The most significant role of New Public Management is improving transparency, efficiency and responsibility (accountability) of the public sector.

The shift from the cash-based towards the accrual-based accounting is an important element of public sector reforms and the New Public Management as whole. As suggested by Kahn and Myers (2009), accrual accounting assumes preparation of accrual-based financial statements for the central government by recording transaction in accordance to the matching principle.

3.3.2. Applicability of accrual accounting in the public sector

This paper discusses the theoretical and contextual backdrop for the reported empirical research and examines the impact of accrual accounting adoption in public sector. A movement from cash-based to an accrual-based accounting system through New Public Management approach provides more appropriate information for managers and leads to better decision making. According to the context of the public sector, Guthrie (1998) defined accrual accounting as an inadequate and second rate approach because: profit is not a goal and cannot consequently be a relevant measure of performance, financial structure and solvency are not performance indicators in the public sector, accruals accounting does not focus on measuring outcomes, but on cost of services and efficiency.

In order to define an organization as appropriate, rational and modern, Meyer and Rowan (1977) suggest that reforms and new procedures are sometimes only accepted ‘as the way things are done’ without any critical attention and questions from stakeholders and social environment.

This literature has generally shown that accounting reforms have disappointing outcomes, which cannot be solved just by technical design of accounting tools. In order to successfully implement accrual accounting, public-sector accounting reforms require looking at accounting, not as an objective and static device, but rather as a social practice.

The knowledge sharing is a new approach in the field of management accounting which refers to the mix of the consultants’ valuable experience, and academic researchers’ theories and case study methods. Basically, the way consultants and academic researchers create knowledge may also be influenced by the questions raised by practitioners.

Many developed countries have gone through gradual or radical change of public sector accounting where traditional cash flow public accounting has been changed with accrual based public accounting. There are also many developing and transitional countries that have accelerated public sector reform by introducing accrual or some kind of modified accrual or cash accounting.

Becker, Jagall and Skaeraek (2013) did a research on how the accrual accounting (AA) had been accepted by the public sector accountants, since just a small number of publications had dealt with this topic although the application of accrual accounting has taken sway over the past three decades. One group of public sector accountants sees the accrual accounting as a more efficient and proactive way of keeping track of business transactions and positive achievements, while the other group has been skeptical towards the accounting reform due to the increase in the amount of work and responsibility if the accrual accounting was introduced. Having conducted the research, the authors concluded that a certain number of accountants see the implementation of accrual accounting as an opportunity for their personal development. The introduction of accrual accounting depends significantly on the experience and age of the employees in the accounting sector, as well as on the environment and the established organizational culture.

Dutta and Reichelstein (2005) point out in their paper that accrual accounting is the basis for maximizing current values of financial, production and investment decisions. The authors also suggest that the rules of accrual accounting should be compatible with the methods which use current value, in order to achieve more accurate and time consistent way of operating.

Hyndman et al. (2013) wrote about the significant and progressive change in the traditional administrative system, which is supported by private sector, focusing on the situation in the United Kingdom, Australia and Italy. They stressed that the reforms are not isolated instances, but are, in the majority of cases, influenced by global development courses, institutional pressures and government's control mechanisms. Through a detailed analysis of administrative regimes in the countries mentioned, the authors explored to what extent reform implementation follows previous decisions. In contrast to United Kingdom and Italy, the changes in Australia were introduced gradually, whereas in all three countries the already existing regimes were kept and upgraded in accordance with the concept of New Public Management.

Falkman and Tagesson (2008) analyzed the fundamental changes which took place in Sweden related to public sector accounting. In accordance with the law, after 1998 when the reforms were implemented, standards were defined in order to develop and apply the accounting principles, as well as harmonization and comparability of the accounting decision making. However, time has shown that the reform has had a marginal influence on the accounting in practice, as well as that compatibility with the defined standards has been at a low level.

Numerous studies have been conducted on the topic of public sector transformation. This issue was addressed by Lapsley and Wright (2003), focusing on the application and extent of the new accounting practice. In addition, the authors investigated the limitations financial managers had faced during the reform process. One of the research conclusions states that the application of accounting innovations, primarily accrual accounting, has to be supported by the government institutions in order to ensure the adequate and timely reaction of all stakeholders.

Through a case study, Nesbakk (2011) presented alternative solutions related to accrual accounting, as well as the ways of connecting the theory and practice in order to un-

derstand financial innovations better. Accrual accounting is closely linked to a complex organizational structure within a company, as well as the internal control and capital management. Bearing in mind the previous statement, it is clear that the implementation of accounting reforms is important in order to achieve higher efficiency and profit in business.

3.3.3. Benefits of accrual accounting

One of the most important advantages of accrual-based accounting, which is emphasized in business studies, is clear effect on information, provisions, management performance results and financial health of the organization. Compared to cash based financial accounts, accrual based accounts have more information and a greater focus on outputs rather than just inputs. Accrual based accounts provide the essential information which are valuable for better quality of management and decision making process. Service provisions from private and voluntary sectors are comparable by the use of accrual accounting and one of its essential roles is the fact that accrual accounting includes information about fixed and current assets and liabilities and provides comparability of management performance results. Accrual accounting provides a more reliable and effective analysis of the organization's condition and government policy sustainability.

In 2003, the International Federation of Accountants summarized the benefits of an accrual based reporting in the public sector. Firstly, it illustrates the way a government finances its activities and meets its cash requirements. In addition, accrual accounting allows users to evaluate a government's current ability to finance its activities and to meet its liabilities and commitments. It also reveals any changes in government's financial position and performances in terms of its service costs, efficiency and accomplishments. However, an increasing body of literature has criticized the adoption of accrual accounting by public sector organizations, indentifying costs and the increased complexity of the financial statements as the major disadvantages.

International Federation of Accountants has summarized the costs of introducing accrual based accounting which are related to defining and valuing existing assets, developing accounting policies, establishing accounting systems, including the purchase of computer systems and pilot testing these systems, and improving the necessary skills and providing training for both the preparers and users of financial information.

Hydman and Connolly (2011) discuss the success of the implementation of accrual accounting in United Kingdom and Republic of Ireland and suggest the reasons for unsuccessful adoption of accrual accounting in Republic of Ireland. These include a rational choice based on pragmatism, a general tendency of Republic of Ireland to avoid New Public Management ideas, insufficient political support from the centre, cultural differences, and the disappointment with the results of implementation in the United Kingdom.

Considering the Adria region (Slovenia, Croatia, Bosnia and Herzegovina and Serbia), public accounting and reporting could be marked as a field with significant weaknesses. The situation is somewhat similar in all Central and Eastern European countries. The public sector accounting systems are not in compliance with the international standards and the usage of accrual accounting techniques have not been comprehensively introduced both in jurisdiction and accounting standards and in practice of public sector accounting.

3.4. Discussion

There are countries which initiated the accounting reforms back in the 1990s or even 1980s. During the 1980s, the Canadian government introduced some major changes in the accounting system switching from cash accounting to accrual accounting. However, the government did not put pressure on the public sector to implement the new accounting method, but introduced the changes gradually through prescribed standards and in accordance with the decisions of legislative bodies. In part, those changes were spurred by the work of the Public Sector Accounting and Auditing Board (PSASB) of the Canadian Institute of Chartered Accountants. Complete and timely information was provided which had a positive influence on the process of decision making. Although the Canadian government only advised that the accrual accounting should be introduced, the majority of public companies actually did so and applied accrual accounting at least to their financial reports. As was mentioned previously in this paper, Canada, New Zealand, United Kingdom, and Australia have implemented accrual accounting not only in their financial reports, but also in the process of budgeting. Each of these countries has had different experiences due to the complexity of the process and many external factors which affect the results of the switch to accrual accounting. In addition to the countries mentioned, accrual accounting has been introduced in Romania and France, and in accordance with strategic planning, the changes should also be implemented in Austria, Macedonia, and Slovenia.

In the majority of central and eastern European countries, accounting and audit are areas which are facing considerable limitations. In addition, the classification of budget systems in those countries has not yet been harmonized with international standards. Consequently, accounting standards are not consistent with international practice. In the majority of cases, external audits do not provide the governments with the option of switching to accrual accounting, which slows the implementation of international standards. As a result, delays and errors occur in their reports. Moreover, the adequate implementation plan and proactive actions are absent, which increases the risk of misunderstanding accrual accounting. In practice, there were instances when the government suffered major losses because the process of implementing accrual accounting was not performed completely. In these situations there can be no discussion about the benefits implementation of accrual accounting brings.

Slovenia: In Slovenia, the legal framework for accounting and financial reports in public sector is given in Public Finances Act and Accounting Act. The Public Finances Act is related to budget, financial planning and control, whereas the Accounting Act defines the rules of accounting itself. In Slovenia, direct budget beneficiaries are still using cash accounting, while the indirect ones use accrual accounting partially. Problems emerge because of the pressure of regulatory bodies to apply the Accounting Act, while doubled workload causes extra work, confusion for accounting information recipients, lower transparency and numerous errors in reports. Accounting system implemented in Slovenia can be defined as a modified version of cash flow principle. Slovenia has two options regarding the changes in accounting principles. The first is to immediately and completely switch to accrual accounting, and the second is to implement the transition period gradually. Gradual implementation implies that, in the first stage, all public finance funds continue using cash accounting, preparing their accounting reports as before, while all direct and indirect budget beneficiaries, on both national and local level, start the process of implementing accrual accounting.

In 1999, Slovenia, accounting changes and implementation of some elements of accrual accounting were started. It could be said that public sector uses a modified version of

cash accounting, while budget accounting is completely based on the cash flow principle. One of the main benefits brought about by the accounting change is related to the acquisition of fixed assets whose expenses are measured at the time of purchase. Slovenian government have not introduced changes into their system in the last 20 years, but, based on their own research, are now seriously thinking about implementing accrual accounting. No matter whether the gradual or immediate implementation of changes is planned, the goal is the same. There are also two possibilities as far as legal settlement is concerned. On one side, current accounting policies used by direct budget users or certain users of the unified chart of account in their bookkeeping and preparing of financial statements can simply be rolled-out to include budgets, public funds and direct budget users, utilizing national accounting policies or the entire International Public Sector Accounting Standards can be adopted (Janc, 2011).

Croatia: In 2002, Croatia, the Budget Act was put into effect. According to this law, all government companies are obliged to follow the accounting system based on the principles of accrual accounting. This system represents a modification of accrual method, and the implementation of IPSAS standards was not obligatory, so the government recommended the application of accounting solutions which are explained within this standard. Consequently, the majority of procedures and solutions applied in Croatia are consistent with IPSAS standards. There are some requests and incentives to continue with the process of implementing accrual accounting, and financial analytics point out that the development of Croatian accounting system will be in accordance with the changes in international frameworks. Although the accrual type of accounting is applied to the public sector, budget accounting is still based on cash flow principle. The benefits achieved by implementing the changes are related to the identification of expenses and obligations on accrual basis, although the revenues are still recorded using cash flow principle. In addition, as in Slovenia, the costs of asset acquisition are recorded when the purchase is actually done, which can be seen as a benefit of accrual accounting.

Serbia: The legislation in Serbia prescribes the application of the Budget System Act and the Regulation for Budget Accounting, which include accounting methodology and the steps for preparing, presenting, submitting and issuing financial reports. These acts apply to the state budget, the budgets of different territorial autonomies and local governments, as well as both direct and indirect budget beneficiaries. Accounting system in Serbia is based on cash accounting, which means that transactions and other events are recorded only when cash payments and discharges take place. Financial reports are prepared in accordance with IPSAS standards related to cash accounting, while budget beneficiaries have the right to use the principles of accrual accounting. However, final reports have to be prepared in accordance with the cash accounting method in order to have consolidated reporting on the state level.

Starting from 2010 the regulation application of international public sector accounting standards referring to Article 75 of the Budget System Law entered into force. It defined that the IPSAS shall apply to keeping books of account and preparation, presentation, submission and disclosure of financial statements of the direct and indirect beneficiaries of budget funds, beneficiaries of compulsory social insurance organizations' funds, the Republic of Serbia budget funds and the budget funds of autonomous regions and local self-government units.

3.4.1. Comparison

Despite the Regulation on application of international public sector accounting standards in Serbia IPSAS have not yet come to use. The professional organizations and consulting firms conduct periodic training of public sector accountants but that seems to be all for now. Based on the comparison of accounting methods used in the public sectors of Slovenia, Croatia and Serbia, it has been concluded that all three countries faced many problems implementing the changes, and that each country applied a different accounting principle. Slovenia is promoting an accounting system which is based on state accounting rules, Croatia has applied a modified principle of accrual accounting, and Serbia has introduced a cash flow principle based on IPSAS.

Accrual accounting is incomparably easier to implement in financial reporting than for the needs of budgeting. There are two main reasons for this belief. The first one refers to the fact that an accrual budget risks budgetary discipline, and the second that, in most cases, the legislation shows resistance in the process of implementing accrual accounting. This resistance is often caused by the complexity of implementing accrual principles and additional expenses it brings. It is important to note that the legislative bodies had a small role in the process of budgeting in the countries which completely adopted the principle of accrual accounting.

3.5. Conclusions

There is a tendency in the accounting in public sector to switch from cash flow principle to accrual accounting principle. Financial reports based on cash flow principle record the revenues and expenditures only on annual basis and can cause financial instability as the management does not have an access to timely and adequate information. Cash flow accounting is an acceptable method only if a minor part of public sector obligations is observed on the long-term. Recently, countries have been facing an increase in long-term obligations, which are related to the social security of population, allocating funds for the unemployed, and pension funds. The implementation of accrual accounting allows a transparent business control, although it is only a part of the changes promoted by New Public Management concept. Economic and financial crises stimulate contemporary tendencies in reporting, as the public sector has a need for quality financial information. In addition, financial reports should ensure long-term decision making, separate market from non-market activities in public sector, and provide information about future expenditures. The theory has explained and the practice confirmed that, through transparent reporting, accrual accounting increases the level of confidence in public sector. Moreover, this form of accounting enables the state to maintain the balance between economy and politics, and contribute to the development and promotion of its investment environment.

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JOB CREATION AND POVERTY ALLEVIATION IN THE V-4 COUNTRIES BY MICROCREDITING

Antal Szabó

Small Business Development Centre, Corvinus University of Budapest, Hungary

Abstract

The Paper highlights the problems of the European economic crises relating youth unemployment and poverty. It draws attention to the EU Greek Presidency related to the youth. It presents the financial means called microfinancing which partially could contribute to alleviation of poverty by creation of self-employment and development of microenterprises by providing microloans and microcredits. There is a lack of comprehensive study and exchange of practice in microfinancing in the V-4 countries. The paper summarizes the definition of the microcrediting and presents the current state in the EU. Following this, the Author summarizes the main microfinance institutions in the V-4 countries. The Author gives professional recommendations and a directive on good conduct of microfinancing based on the outcome of the Workshop held in 2013 in Budapest, as well as summarizes recommendations for V-4 countries to further steps.

Key words: youth unemployment, poverty alleviation, job creation, microfinance, microfinance institutions, good conduct of microfinance.

JEL codes: J60, G20

4.1. Introduction

The hope of stabilising the European economy, overcoming the economic crises, decreasing the level of unemployment – especially among the young – has yet to be realised. According to Eurostat's October 2013 estimate, 26,654 million men and women in the EU-28, of whom 19,298 million were in the euro area (EA-17) were unemployed. Compared with September 2013, the number of persons unemployed decreased by 75 000 in the EU-28 and by 61 000 in the EA17 euro area. Of serious concern however is that youth unemployment rates are much higher than the unemployment rate for all ages. This reflects the general difficulties faced by young people in finding jobs. As rule of thumb, one out of every five persons available for the labour force is unemployed and looking for work but the impact on youth is particularly serious in certain parts of the European Union.

4.1.1. Justification of the paper

No systematic research is available on this subject. V-4 countries are not cooperating in the field of microcrediting. Their Governments do not use the microcredit facilities as an alternative tool for job creation and poverty elimination.

4.1.2. Research method used

The Author used the holistic approach to youth entrepreneurship while serving at the UNECE as Regional Adviser on Entrepreneurship and SMEs. Contacts were made by national entrepreneurship development centres. The Author consulted with EUROSTAT as well as relevant offices of the European Commission. The Author, as participant of the first Microcredit Summit held in Washington D.C. and expert in microfinance, first summarizes the microcredit institutions in CEE.

4.2. Economies of V-4 in statistics

4.2.1. Youth unemployment

The youth unemployment rate reached a new historic high of 23,5% in February 2013, more than twice as high as the adult rate, with some 5,7 million young people affected. Young people that have only completed lower secondary education (early leavers from education and training) bear the highest risk of unemployment. In 2012, the EU average youth unemployment rate was 22,8%, but reached 30,3% for low-skilled youth (see Table 4.1).

Table 4.1

Youth Unemployment Rate for population aged 15–24, in V-4 countries – 2013

Criteria	Czech Republic	Hungary	Poland	Slovakia
Population (in million)	10,5	9,97	38,5	5,4
Unemployment rate (in %)	6,7	10,9	9,7	13,6
Youth unemployment rate (in %)	18,0 (19,5)	26,1 (28,1)	25,8 (26,5)	33,2 (34,0)

Source: UNECE, 2013

Youth unemployment has not only a personal effect on each individual and their families. Since time immemorial migration has been the means to a better life. The principle of the free movement of peoples across the region is well established in the EU but there are serious economic inequalities among the constituent parts. Those countries – such as the UK – who have been able to develop welfare systems are wary of migrants coming from less generous countries in Central and Eastern Europe (CEE). The question being asked centres on incentives for population movement. Is it unemployment and housing benefits normally available to citizens and so originally paid for out of British taxation? Politicians – in particular those Eurosceptics who dislike inclusion in the EU – have been using this to mobilise public opinion in their interest. Inevitably, the UK prime

minister has sought to counter the propaganda and limit benefits for those newly arriving in the United Kingdom. On the other hand, the UK prime minister forgets to mention those benefits that the British companies earn and gain from the free movement of goods and services to CEE while killing hundred of SMEs in the new EU countries. It is a situation that raises many questions on the future direction of the European Union and the values on which it is based.

The current social and labour dimension in the European Union requires the enhancement of the social dimension in order to strengthen employment, social inclusion and protection

4.2.2. Poverty

The first and most important target of the Millennium Development Goals established following the UN Millennium Summit in 2000 is to eradicate extreme poverty and hunger. The main target is to reduce by half the rate of people living on less than 1 USD per day and also reduce by half the proportion of people who suffer from hunger.

24% of the European population (more than 120 million) are living at risk of poverty and social exclusion (European Commission, 2014). Table 4.2 includes 27% of all children, 20,5% of citizens over 65 years and 9% of those with a job.

Table 4.2

At-risk-of Poverty or Social Exclusion Rate by age group in 2012

Countries	Total	Children (0–17)	Adults (18–64)	Elderly (65 years and over)
EU-28	24,8	28,1	25,4	19,3
Czech Republic	15,4	18,8	15,5	10,8
Hungary	32,4	40,9	32,9	20,6
Poland	26,7	29,3	26,7	23,4
Slovakia	20,5	26,6	19,9	16,3

Source: Eurostat, 2014

If we look at the V-4 countries with a total population of 64 million people, it is horrible that 16,2 million people are living at risk-of-poverty or social inclusion. Every fourth citizenship is facing uncertainty for the today and tomorrow. 26,8 million people aged 15–64 years are employed, 41,7% of the total population. It is worrying that 5,1 million people are self-employed, that means 19,2% of the total employment.

While the officials and civil servants in Brussels are dealing with the shape of banana and colour of the tomato in fact nothing is happening in the field of job creation and poverty alleviation. The European Economic and Social Committee, the European Parliament and the Council in 2008 acknowledged, that more than 80 million people across the Union lived below the poverty line, that is, more than the population of the largest Member State, or 16,5% of population. Women account for well over half of them and 20 million are children. With the economic crisis, the situation has of course worsened. The most vulnerable people in our societies have borne much of the impact of the economic crisis. The situation of those earning the lowest amount has continued to deteriorate and

they now face a greater risk of indebtedness and insolvency. This is totally unacceptable in the 21st century Europe. It would only be proper to ask this is the “gift and benefit” to join the EU? We can really speak of the lost generation.

The European Commission has placed the fight against poverty at the heart of its economic, employment and social agenda – **the Europe 2020 strategy** (European Commission, 2013). According to the European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion (European Commission, 2010) the European Union should **lift at least 20 million people out of poverty and social exclusion in the next decade**. Complementary national targets for all 27 Member States should be elaborated. So far the author of the paper does not see concrete action in the field.

The Greek Presidency puts emphasis on the promotion of the programme for employment and social innovation and the PROGRESS microfinance facility, aiming at the retention and creation of jobs through the development of SMEs and social entrepreneurship.

These are fine aims and in the second half of 2014 we shall see the results of these sounding targets. The primary task of the policy makers and Governments should be job creation. The main findings of the **2013 Employment and Social Developments in Europe Review** shows how taking up a job can help people to get out of poverty, but only in half of the cases: much depends on the type of job found, but also on the household composition and labour market situation of the partner.

Getting a job is the safest route out of poverty for those people who can and are ready to work. This is a difficult task at the time of economic crisis, however there is no other way. If the EU could achieve by 2020 75% employment rate, it would be the biggest contribution to lifting many million people out of poverty.

During the Poland's Presidency of V-4 among other programs a cooperation took place in the sector of Education, Volunteering, and Youth. The work within this priority included a working meeting “V-4 Youth Roundtable” representatives in April 2013. Krzaklewska (2013) at the request of the Polish host country prepared a report aimed at providing a comparative analytical review of the situation of young people in these countries for the prospective development of youth policy in the region of the Central Europe. In spite of the fact that this is a valuable report concerning the situation of the youth, not much is suggested in the final chapter of conclusion and recommendation. The report rightly points out that “the employment of young people..., remains the first sphere of needed actions from the countries concerned. While a lot of initiatives are being carried out by the V-4 countries there is still a need for more support for employment of young people.” It is very important to emphasise that encouraging entrepreneurial spirit and supporting start-up initiatives should be considered. However, the question is how, by whom and by which means? And this is **the aim of the current paper to draw attention of the policy-makers and entrepreneurial support institution to the significance of the microcrediting and microcredit schemes** in the V-4-countries.

4.3. Microcredit and microfinance

Availability of financial instruments is of paramount importance for SMEs. Financial instruments are defined as any tools that are used by either firms or financial intermediaries to acquire or intermediate funds. There is one important thumb-finger rule: different SME target groups need various financial schemes and lines. These vary from microcredit

through public credit guarantee fund and from mutual credit guarantee association to venture capital and others. There is not a unique tool of financing SMEs. The need depends basically on the stage of maturity and size of an enterprises.

Microcredit addresses the need for access to credit to self-employed, business start-ups and small enterprises. It has a particular focus on but is not restricted to groups with limited access to the conventional credit market. Examples include female entrepreneurs, young entrepreneurs, entrepreneurs belonging to a minority group, entrepreneurs with a disability, sole traders, etc. Business starters and self-employed, especially from vulnerable groups request for modest amounts. The most popular microloans are less than € 5000 only. In 2003 the European Commission adopted a new definition of microenterprises that came into use as of 1st January 2005. Enterprises will be considered as microenterprises if their headcount amounts to less than ten and their turnover (or balance sheet total) does not exceed € 2 million. The EU Institutions defined microcredit as a loan below € 25 000.

In 2010 the European Commission by its Decision No. 283/2010EU launched the **European Progress Microfinance Facility (EPMF)** for setting up and/or developing microenterprises and small businesses by the availability of microcredit – loans **below € 5000**. Progress Microfinance does not directly finance entrepreneurs, but enables **selected** microcredit providers in the EU to increase lending, by:

- issuing guarantees, thereby sharing the providers' potential risk of loss
- providing funding to increase microcredit lending.

The European Commission Communication of 13 November 2007 entitled “A European initiative for the development of microcredit in support of growth and employment” identified four priority areas for action:

- improving the legal and institutional environment in the Member States,
- changing the climate in favour of employment and entrepreneurship,
- promoting best practices and
- providing additional financial capital for microfinance.

In 2010 the European Commission by its Decision No. 283/2010EU as a first step in implementing this agenda, the Commission and the European Investment Bank (EIB) created **JASMINE** (Joint Action to Support Microfinance Institutions in Europe) which provides mentoring for non-bank microcredit finance institutions and a financing window for a global amount of € 20 million offered by the EIB. The EU allocated € 25 million from the overall budget while the European Investment Bank provided additional € 75 million, so totally € 100 million was allocated for this purpose (European Parliament and Council, 2010).

Generally, the V-4 countries felt assumed of recognizing poverty and extreme unemployment and neglected to use this financial mean. Only Poland used this instrument in proper manner by nominating Inicyativa Micro (with support of € 3,771 million) as a non-bank institution and the FM Bank (with support of € 1,88 million) as financial intermediaries out of the 26 participating institutions from 15 Member States.

The Decision No. 283/2010/EU emphasised that the actions financed by the EPMF should be coherent and compatible with other Union policies in particular the Competitiveness and Innovation Framework Programme (CIP) financial instruments Jasmine, European Agricultural Fund for Rural Development (EAFRD), European Regional Development Fund (ERDF), Jeremie (Joint European Resources for Micro to Medium Enterprises Initiative) and the European Social Fund (ESF).

The **JASMINE – Joint Action to Support Microfinance Institutions in Europe** – a joint initiative of the European Commission, the European Investment Bank (EIB) and European Investment Fund (EIF). JASMINE aims to enhance the capacity of non-bank micro-credit providers and micro-finance institutions (MFIs) in a number of fields, in order help them become sustainable and viable operators in the micro-credit market. The European Progress Microfinance Facility also aims to increase the availability of micro-credit loans of below € 25000 by issuing guarantees to share in any potential risk of loss.

Originally the JASMINE TA Facility provided various financial and non-financial services to MFIs, but the concept has evolved over the years. As it stands now, the JASMINE TA Facility concentrates on delivering TA to microcredit providers, while financing is made available to microcredit-providers through the European Progress Microfinance Facility (EPMF) managed by the EIF.

The JASMINE HELPDESK allows to lodge detailed information requests about JASMINE Technical Assistance, the Code of Good Conduct for Microfinance institutions / Microcredit providers, the CGAP's Client Protection Principles, Market Updates, European Microfinance characteristics and funding possibilities through the European Progress Microfinance Facility (EPMF) (European Commission, 2014).

In order to support the emerging microfinance industry the Microfinance Centre (MFC) was established in 1998 in Poland. With the support of CGAP, CS Mott Foundation and USAID, MFC has created a resource centre to build capacity for microcredit among microfinance practitioners in the C&EE and the NIS Region. The Microfinance Centre is a regional microfinance resource centre and network. It brings together 103 organizations including 78 microfinance institutions in 27 countries of central Europe, Eastern Asia and the Caucasus Region. MFC serves over 800 thousand low-income clients. The MFC headquarters is located in Warsaw. It has also a regional office in Bishkek (Kyrgyztan).

The Mission of the MFC is to contribute to poverty reduction and the development of human potential by promoting a socially-oriented and sustainable microfinance sector that provides adequate financial and non-financial services to a large numbers of poor families and micro-entrepreneurs (Microfinance Centre, 2011).

4.4. Microfinance program in the V-4 countries

Microcrediting has 20 year history in the V-4 countries. After the political changes in 1989, thousands of micro- and small-scale enterprises have been created in Central-Europe mainly due to the fact, that many people became redundant or simply lost their jobs due to closing up factories and privatizing state-own enterprises. These unemployed people became forced entrepreneurs and unintentionally became a cradle and backbone of the private national economy. This situation was the same in all V-4 Countries.

In spite of the passed two decades neither unified microcredit sector nor general legal framework exists regarding this industry. So far no joint project was carried out in comparison and exchange of experiences in microcrediting between the V-4 countries.

The main microfinance institutions in the V-4 countries see in Table 4.3.

Table 4.3

Major Microfinance Institutions in the V-4 Countries

Name of the MFIs	Main feature of the microfinance
Czech Republic	
NFMF – Nadacni Fond Microfinance	This support is based on the knowledge transfer and preparation of a web-based Portal for development co-operation which all NGOs can access to present their development projects on web-page.
Electronic Loan Exchange Net- work – myelen.com	In its philosophy „microfinance“ is a type of investment suitable for stabilization and supplement of investment portfolios as it is an alternative asset with safe and attractive interest and at the same time with demonstrable advantage for healthy development of world economy.
Hungary	
Hungarian Foundation for Enterprise Development – MVA	The oldest microcredit Foundation that since 1990. It is a public NGO that is governed by the board of trustees while day-to-day operations are managed by the Foundation’s staff of labour structure. It does no deal with microcrediting with borrower requesting microcredit directly.
Hungarian Microcredit Network	The Hungarian Microfinance Network is comprised of 20 Local Enterprise Agencies (LEAs) throughout Hungary. The LEAs operate in form of non-profit foundations or public foundations initiated by local governments, banks, and finance associations for the promotion directly the SMEs in the 1990s. While the MVA does not deal with the entities applying for the credit directly this is done by the members of the <i>Hungarian Microfinance Network</i> made up of the enterprise agencies operating in the counties and the capital being in a contractual relationship with it.
MiFiN Microfinance Financial Service ZRT	Established in 2007 it coordinate the outplacement of the micro loan from the JEREMI program.
START Garancia ZRT	Established in May 2006 by the Hungarian Foundation for Enterprise Development (51% of shares) and MNB Invest Zrt (49% of shares) with the aim of assisting the Hungarian SMEs in acquiring equity financing for development purposes and non-refundable EU subsidies.
Poland	
Polish Agency for Enterprise Development (PARP)	In 2005 there were 75 loan funds with a total capital of PLN 558m (about € 140m) operating, which granted 16.000 loans (12.000 alone by Fundusz Mikro). The average loan given was PLN 14400 (€ 3680). These loans helped to create 5400 jobs.
Fundusz Mikro	Money on hand can be used to finance the needs of business, loan amount to PLN 70 000 determined individually based on the current and projected financial and economic condition. Security: a blank promissory note, guarantee spouse/third person plus at least one of the following: transfer of ownership of collateral, mortgage, assignment of life insurance package borrower, others proposed by the Client.
FM PBP Bank SA	The mission of the FM is to become a major specialist in the field of micro-enterprises operating in the Polish banking sector. It is envisaged to be the main partner of micro-entrepreneurs, focused on solving their financial problems in a professional manner.

Name of the MFIs	Main feature of the microfinance
Slovakia	
National Agency for Development of Small and Medium Enterprises – NADSME	The Micro-loan Programme launched in 1997 operated by a network of co-operating regional advisory and information centres (RAIC) and business innovation centres (BIC). Micro-loans provided to enterprises with up to 20 employees may be used to acquire movable and immovable fixed assets reconstruct operating space purchase stocks raw materials or merchandise. After 2000 the minimum amount of a loan is SKK 50000 (approximately € 1400), maximal up to 1,5 million SKK (approximately € 42 000) with the maturity period from 6 months to 4 years.
INTEGRA Foundation	The Micro-fund of the INTEGRA Foundation – the support of new or already running business activities operated by women. Credits up to € 2800, maturity up to 2 years, the annual interest rate is 9,5%, 3 possible means of security: group pledge, third party pledge or pledging with assets.
VOKA NGO	VOKA provides small group microloan to microentrepreneurs, unemployed, businesswomen, socially handicapped, rural entrepreneurs; € 550 – € 14.000, maturity up to 15 months, liability required.

Source: own study and compilation of the Author

4.4.1. Czech Republic

The concept of microcrediting is relatively new in the Czech Republic. Czech Republic currently does not implement direct microfinance funds but supports raising awareness about microfinance as a means of development cooperation and economic development of the Czech nonprofit organizations and the public.

Microcrediting can be provided according to main legislative act as Banking Act No. 21/1992 Coll. and Law 47/2002 Coll. In May 2010 the Czech Government established the **Concept of the Czech Foreign Development Cooperation** for the period 2010–2017 which defines microfinance as one of the possible modalities of international development co-operation. Based on this concept, in 2011, the Czech Ministry for Foreign Affairs and Czech Development agency have been supporting Microfinance Foundation and the initiation of the web-based development portal to promote microfinance among Czech NGOs with two grants. International Development Cooperation is a full-fledged part of the foreign policy of the Czech Republic and contributes to the achievement of its objectives.

Svitakova and Vyborna (2012) present the two existing concept in microcredit development as following:

The first concept presents **microfinance as an alternative investment** for foreign capital. It is represented by the join-stock company Microfinance. In its philosophy „micro-finance“ is a type of investment suitable for stabilization and supplement of investment portfolios as it is an alternative asset with safe and attractive interest and at the same time with demonstrable advantage for healthy development of world economy. The Czech portal **www.myELEN.com** (my Electronic Loan Exchange Network) focuses on financing micro-finance, cooperative and development projects in developing countries. Via myELEN.com everyone can financially support chosen entrepreneur, a whole group of them or a micro-financial institution and get back the principal together with firmly determined interest.

The second microcredit concept is a tool for development corporation. The **Endowment Fund Microfinance (Nadacni Fond Microfinance – NFMF)** was founded in 2007 with the aim to raise awareness of microfinance in the Czech Republic and to help the poorest people in developing regions in their quest for independence through microfinance. NFMF main activities are training in microfinance expert assistance in the integration of microfinance into project portfolios NGOs advisory and consulting services and supporting initiatives and activities contributing to the creation, protection and development of small businesses in developing countries. NFMF offers training seminars for professionals and the general public, such as *microfinance and development assistance in times of financial crisis* carried out on the premises of the Czech University of Agriculture and *Microfinance: a new trend in the fight against poverty*. In 2011 educational activities NFMF spread of projects aimed at educating secondary school students.

4.4.2. Hungary

In 1991 the National Microcredit Scheme (MCS) was launched by the European Union Commission and the Hungarian Government in the framework of the small and medium-sized enterprise promotion program of PHARE – Poland-Hungary Assistance for the Reconstruction of the Economy Program. The main aim of the PHARE SME program was to promote employment and economic restructuring through the SME sector. On the verge of the political change in 1990 both the Hungarian Government and the European Union found it outstandingly important to increase the number and the influence of small and medium-sized enterprises as well as to establish the institution of enterprise promotion (Kovács (2007) and Szekfü (2007)).

In order to achieve the above mentioned goals beginning from 1991 the European Union – using PHARE resources – provided significant financial and professional help for the establishment of enterprise development foundations in the counties and the capital city and their operational organizations called Local Enterprise Agencies (later to be referred to as LEAs) as well as for the training of their staff and for the launch and operation of enterprise support programs run by the foundations.

The national network of enterprise promotion foundations in the counties and the capital city had covered the whole country by 1996 (in the initial experimental program LEAs were formed in 6 counties then as a result of successful operation LEAs were established in all the 19 counties and the capital city).

The basic activities of the LEAs financed by PHARE are counselling, training, properties (business incubators, industrial parks) providing microcredit as well as generating development programs.

When the programme was launched in 1992 no general legal framework existed regarding the microcredit activities. In 1998 the Hungarian Parliament amended Act No. CXII of 1996 on Credit Institutions and Financial Enterprises in such a manner that it removed the crediting activity performed from the National Microcredit Scheme of the Hungarian Foundation for Enterprise Promotion from under the effect of the Act.

Later the Hungarian Parliament amended Act No. CXII of 1996 on Credit Institutions and Financial Enterprises with Section 2 of Act No. XXXIX of 2003 on the basis of Section 2 (1) (h) of Act No. CXII of 1996. Following the enactment of the amendment of the Act, the crediting activity of the Hungarian Foundation for Enterprise Promotion and the microcredit activities of the foundations operating in the counties and the capital do not fall under the effect of the Act (European Microfinance Network, 2012).

Summarising the microcredit practice in Hungary it can be stated that since 1992 the financing mechanism suffered several changes. These changes reflect the confused and sometimes unadvised attitude of 5 outgoing Governments plus the current one. During 15 years 25 400 microentrepreneurs received microcredit in amount of HUF 42,6 billion (€ 185 million). This amount is very modest as compared to the 850000 SMEs. This amount is even smaller if we consider that 80% of the Hungarian SMEs are operating without any credit compared with 20% the SMEs in advanced economies (Szabó, 2008).

4.4.3. Poland

In Poland a unique micro finance schemes called **Fundusz Mikro** (in English Micro Fund) was established in 1994 with a USD 20 million loan capital investment by the Polish–American Enterprise Fund. Fundusz Mikro was registered as a limited liability company, the only non-bank institutional form in Poland that can make interest-bearing loans. A USAID grant covered initial operating costs. FM began its lending operations in February 1995 with a one-year pilot program in which it systematically tested different lending methodologies, locations, types of clients, types of employees and co-operation arrangements with partner organisations. Based on the results of the pilots, it has, since February 1996 built a nationwide network of 11 branches and 1 main office (headquarters).

Micro Fund has developed a unique form of financial cooperation with customers based on the principle of partnership and mutual trust by offering permanent access to capital in simple terms without unnecessarily complex formalities. In more than 18 years of activity Micro Fund has become the leading microfinance institution in Poland and one of the largest in Central and Eastern Europe. Since its inception the Fund has granted more than 130 000 micro loans to over PLN 1 billion to 57 000 owners of micro and small businesses. **60% of Micro Fund clients are repeated customers** (European Microfinance Network, 2012).

In May 2012 the Fund acquired technical assistance financed by the European Union under the project JASMINE and passed with a very good result rigorous assessment carried out by a reputable company – Planet Rating. Since January 2012 the owner of Micro Fund is Mrs. Magdalena Dulcowska President of Micro Fund in 2004–2009 and the first CEO of FM Bank SA in 2009–2011. **A new method, not applied by other financial institutions in Poland, is for co-FM interested entrepreneurs who have limited access to finance their activities due to the stringent requirements of the banking law. Those customers can apply for funding in Micro Fund if they meet the conditions of the institution.**

A fresh approach is also being taken in Poland (European Banking Federation, 2010). A new bank: *FM Bank SA* was founded in 2010 and is based in Warsaw. It offers banking services for micro and small Polish entrepreneurs. FM Bank's target customer group consists of microenterprises employing up to 10 people and reporting the annual turnover of under PLN 1 million as well as small enterprises employing over 10 people and reporting the annual turnover of PLN 1–3 million. In June 2013 the Financial Supervision Commission cleared the merger FM Bank SA with Polish Enterprise Bank SA. Name of the merged entity is FM PBP Bank SA.

The FM Bank's shareholders are as follows: FM Holdings S.à.r.l. – holding company with its registered office in Luxemburg, a part of the private equity investment fund Abris Capital Partners with an 89% stake in the share capital of FM Bank, the International Finance Corporation (IFC) aiming to support development of the private sector in Central and

Eastern Europe with a 10% stake in the share capital of FM Bank and Piotr Stepniak a private investor with a 1% stake in the share capital of FM Bank (Microfinance Information Exchange, 2012).

4.4.4. Slovakia

There is neither a special law on micro-credits nor current initiative to take such kind of law in Slovakia. When comparing activities of different players in the micro finance segment, it has to be taken into account that all apply different definitions with regards to micro financing.

A loan guarantee programme is operated in Slovakia by the National Agency for Development of SMEs (NADSME) through the Slovak Guarantee and Development Bank (SGDB), following the pattern of the CMGDB in the Czech Republic. The guarantee scheme for SME of the SGDB was founded in 1992 with a contribution of € 2 million from PHARE programme funds. An equal amount was contributed by the Slovak government.

In 1993 the guarantee programme for SME was reorganised. Subsequently in November 1994 both the above mentioned programmes were merged into one guarantee scheme for SME. Under this programme until the end of 1996 108 credit guarantees had been given for a total financial volume of SKK 210,933 million (USD 6 million).

The Micro-loan Program was launched in 1997 by the National Agency for Development of Small and Medium Enterprises – NADSME.

Micro-credits may be used to acquire movable and immovable fixed assets, reconstruct operating space, and purchase stocks raw materials or merchandise. At present a micro-loan is min. € 1400 – max € 42000, period of maturity from 6 months up to 4 years, interest rate around 6,5%. The borrower should provide 100% of guarantee or register a mortgage. The entrepreneurs considered this practice as not userfriendly. Provisions through the network of regional co-operating centres (RAICs/BICs) are also called MFIs. In February 2010 the Slovak Government suspended the operation of the microcredit operation. Since 17 February 2010 no applications are accepted and approved. The NADSME prepared the implementation of procedure changes in compliance with an updated version of the Micro-loan Programme that was approved by the Government of the Slovak Republic on 27 January 2010 and published in the bulletin *Obchodný vestník* No. 32A on 17 February 2010. However, nothing happened during the last four years.

The Micro-fund of the INTEGRA Foundation – the support of new or already running business activities operated by women. Interga Foundation is a non-profit organization established in 1995 whose mission is to bring well-being to communities by creating opportunities for the vulnerable supporting personal, economic, spiritual and social development, thus contributing to the alleviation of poverty and justice for the poor (INTEGRA Foundation, 2013). The INTEGRA Foundation is registered in the Register of Foundations at the Ministry of Interior of the Slovak Republic registration number 203/Na-96/346. Credits up to € 2800 can be provided with maturity up to 2 years, the annual interest rate is 9,5%, 3 possible means of security: group pledge third party pledge or pledging with assets.

In summer 2003 the Slovak Ministry of Labour and Social Policy launched a microcredit management program for local government SME consultants to alleviate the high unemployment rate in Eastern-Slovakia. This program was implemented by the Bulgarian HIRON Management Consulting Company.

To sum up, the Slovak economic policy is not at the favour of the microcredit business. Unfortunately, the Government suspends social support for those entities who are starting business activities.

4.5. Professional recommendations, directives, code of good conduct of microcredit facilities and practices

On 26 September 2013 the Hungarian Microcredit Network organized a workshop on “The experience of the Hungarian legal framework for MF provision and its lessons in an international context, and the possible effects of the implementation of the European Code of Good Conduct for the sector”. This Workshop was held in Budapest and was attended by the representatives of Microfinance Institutions (MFIs) involved in the regulation Hungarian members of the Parliament representatives of the Ministry of Economic Affairs and the Central Bank, as well as EU experts involved in the elaboration and the implementation of the European Code of Good Conduct.

In 2011 the European Commission decided to elaborate a uniform code of conduct for microcredit provision in the EU (European Union Regional Policy Enterprise and Industry, 2011). No organizations from the V-4 countries participate in the elaboration of this document. Reading at first glance the procedure is very bureaucratic, similar to the majority of the EU procedures. Elaboration of an individual code of conduct requires lot of time and it is a questionmark whether the microcredit practice will be better in a given country.

The participants of the Budapest Workshop have studied the current practice of the Hungarian microcrediting and unanimously suggested to define the international professional recommendations and directives using a simplified methodology. The suggestion might be requested from the Author of this paper.

4.6. Conclusion

Micro and small enterprises could play a significant role because they produce products and provide services on spot, and by doing so they create jobs, pay taxes; generate growth. The microcrediting in accordance with the EU policy line might be a good tool to solve particularly the poverty and to bring back the entrepreneurial unemployment to the labour market. However, for the time being the majority of the micro and small enterprises could not be applicable by financial institutions in spite of using every effort. Government policy-makers and the financial elite does not understand the importance of fighting poverty and social inclusion by creating jobs and self-employment with properly uses microcredit facilities.

The European microcredit finance is very young. This growing sector has significant potential. The microcredit practice is varying from one country to another and depends on the microfinance intermediaries providing micro loans. The legal framework is also varying and the practice and operation procedures differs from each other. So far the V-4 countries did not organized any workshop where the country practices and their main characteristics were presented and discussed. This is why the Author of this paper suggests to launch such kind of project based on the existing Visegrad Fund, organize workshop, share experiences and elaborate a joint standpoints and recommendations for good conduct.

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RUSSIAN COMPANIES ON FOREIGN STOCK MARKETS: ALTERNATIVE TO DOMESTIC MARKET?

Adam Marszk

Gdańsk University of Technology, Poland

Abstract

First aim of this study is to present the main aspects of the Russian stock market, including obstacles for local companies and investors. Second aim is presentation of the Russian companies listed on foreign stock exchanges. In order to perform such analysis, descriptive statistics and information about qualitative features were used. Assessment of the Russian stock market's development level covered 2003–2012 time period. According to the performed analysis, Russian stock market, despite relatively high development level in some aspects, copes with many problems such as high concentration level or high percentage of listed companies from only a few sectors, mostly industries linked with commodities. Another important barrier is undeveloped and ineffective financial supervision system. As a result, Russian companies choose foreign markets to raise capital through stock offerings, as evidenced by considerable capitalization and liquidity of Russian stocks listed abroad (mostly in London) but also, above all, by increasing relative value of foreign IPOs. This paper is valuable due to the fact Russian stock market is mostly neglected in research. Moreover, Russian companies listed abroad are almost absent as a separate research subject because they are usually treated as a part of the stock market in the country of their listing.

Key words: Russia, stock market, stock offering.

JEL codes: G10, G15, G32

5.1. Introduction

Despite notable differences between economic systems in most countries equity market¹ is one of the key parts of the national financial sector. Public² equity market, with stock exchanges in its centre, is used by companies to gather funds through stock offerings and by investors to place their funds in order to gain profits higher than in e.g. bank accounts. However, there are more roles fulfilled by the equity market in the economy. Its impact on the economic growth is still a subject of intensive scientific debate, with no final conclusions.

¹ In the rest of the text, terms 'equity market' and 'stock market' will be used interchangeably.

² Public equity market i.e. stocks listed and traded on the publicly available stock exchanges.

Russian public equity market, despite the changes introduced in the recent years, remains underdeveloped in many aspects. Companies in Russia, trying to finance their investment projects through external sources of capital cope with many problems, with the lack of advanced capital markets among the central ones. Therefore, they decide to seek financing on foreign markets. One of available solutions is admission to listing and trading on foreign stock exchanges and gaining thus access to foreign equity markets. Exchanges chosen most often are the ones located in London and, to a lower extent, in New York as well as in other countries (e.g. in Hong Kong).

The main objective of this paper is to present the key characteristics of the Russian domestic equity market as well as Russian companies listed on foreign stock exchanges. Main statistics regarding such companies are presented in order to evaluate the significance of this form of equity financing in Russia in comparison with the domestic market.

First section is introduction. Second section is theoretical and is devoted to the linkages between the stock market and economic growth and role of equity financing for growth perspectives of companies. Third section is an overview of the research methodology, after which, in the fourth section, Russian public equity market and Russian companies listed abroad will be presented. Fifth section provides conclusions.

5.2. Literature review/theory development

The direction as well as strength of links between development of stock (equity) markets (usually treated as a part of a more general financial development process) and economic growth has not yet been definitively established. Main theories can be divided into five groups.

Supply-leading: stock market development is one of the factors of economic growth. According to this group of theories financial institutions (such as stock exchanges) are built and ready to provide services even before demand for them is created (King & Levine, 1993). Potential availability of funds influences positively the expectations and decisions of entrepreneurs, offering new growth perspectives.

Demand-leading: economic development causes stock market development. Shape of the financial system depends on the rate of real production growth and changes occurring in other sectors of the economy. In this approach role of the financial sector is passive and is shaped by other processes (Robinson, 1952; Bangake, 2011).

Bi-directional: causality is bi-directional which means that both processes occur at the same time and shape each other. Economic growth makes the activity of financial intermediaries profitable while establishment of the effective financial system spurs the economic growth (Demetriades & Hussein, 1996; Greenwood & Smith, 1997).

Lack of impact: there are no economically significant links between stock market development and economic growth; observed interrelations are a result of historical coincidence of the two processes (Lucas, 1988).

Negative impact: financial development (including stock market development) can have potential disruptive long-term effects slowing down the rate of economic growth (Keynes, 1936) through e.g. higher long-term output variations (Beck, Lundberg & Majnoni, 2006) or excessive investment rate (Machlup, 2007).

It should be remembered that most of the macroeconomic linkages described above stem from microeconomic factors, here: corporate financing structures. Role of the stock markets can also be regarded with reference to the companies making financing decisions and basic choice faced by companies, i.e. between financing using debt or equity. Even

though, in theory, financing through debt is linked with considerable benefits resulting from the tax treatment of interest paid – tax shield (Miller & Modigliani, 1958), other factors must be taken into account, such as information asymmetries or costs of financial distress (Aggarwal, Drake, Kobor & Noronha, 2011). As a result, optimal capital structure should consist of various financing sources, including funds raised through stock offerings. Therefore, access to the equity market is necessary for the development of companies and, consequently, as outlined in some groups of theories listed in the preceding paragraphs, for the growth of the whole economy. However, when companies have limited access to domestic equity market, they will seek financing on foreign ones.

5.3. Material and methods

In the first empirical part the development level of the Russian stock market will be assessed using both descriptive statistics (market capitalization, number of listed companies, turnover) and information about qualitative features (such as regulatory and institutional environment). Period considered in order to present selected changes is 2003–2012 (10 years). Data used was gathered from reports published by international organizations, Russian stock exchanges and other reports or publications. Any research of this kind focused on the Russian capital market (or other parts of the financial system) is hindered by lack of reliable data from official sources in many fields. Second empirical part will be devoted to activity of the Russian companies on foreign stock markets. Research tools used will be similar the ones used in the first part. Data used came mostly from the foreign stock exchanges.

5.4. Results and discussion

5.4.1. Domestic equity market in Russia

Russian stock market is in absolute terms one of the largest in world – at the end of 2012 it was 14th (behind Spain and before Netherlands), with market capitalization (market value of shares of all listed domestic companies) amounting to 875 billion USD (The World Bank, 2014). In its current form it operates from 1990s when it was reactivated after the collapse of the Soviet Union. In the initial years trading occurred on two main exchanges – RTS (Russian Trading System) and MICEX (Moscow Interbank Currency Exchange). In 2011 both exchanges merged in order to create one common trading system, Moscow Exchange MICEX-RTS (MICEX-RTS, 2012).

To evaluate the size of the stock market two indicators are used most often – relative market capitalization (capitalization divided by the GDP) and number of the listed domestic companies. In the recent years relative size of the Russian stock market was highest in 2007 (see Fig. 5.1) when it reached ca. 116% GDP – this result was caused mainly by increases in stock prices since 2005 linked with rising prices of oil and other fossil fuels or commodities exported by Russia (companies operating in this sector were the largest category listed on the Russian exchanges (Marszk, 2013)). The sharp decline in 2008 was caused by outflow of the foreign portfolio investments due to the global financial crisis and political factors (war in Georgia). Since 2009 relative capitalization increased once again but remained at a lower level than pre-crisis. In 2012 it amounted to ca. 43% GDP which meant that the relative size of the Russian of stock market was lower than in leading global

economies (United States, China or Japan). Moreover, it was smaller than the domestic banking system.

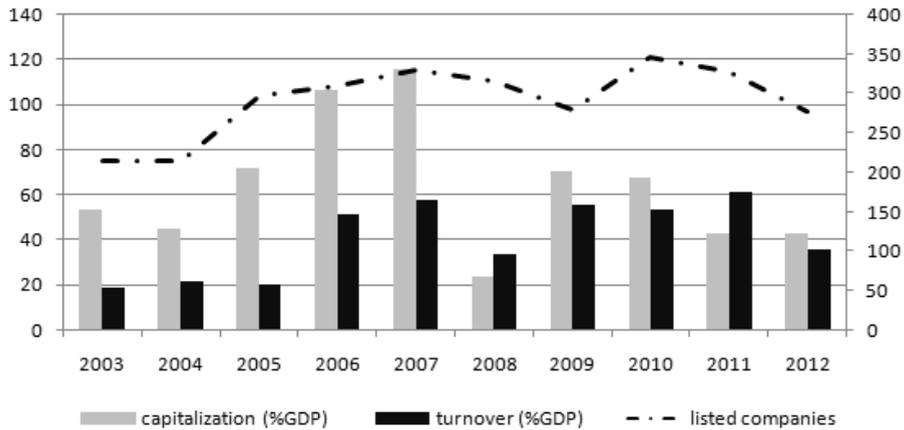


Fig. 5.1. Selected indicators of the Russian stock market (2003–2012)

Source: own elaboration based on World Development Indicators (The World Bank, 2014)

Number of listed domestic companies reached its highest level, 345, in 2010 (see Fig. 5.1) i.e. two years after the maximum value of relative capitalization. Over the next two years it started to decline – at the end of 2012 only 276 domestic companies were traded on the Russian exchanges. This change resulted mainly from stricter admission rules enacted by the Russian financial authorities, and, to lesser extent, from delisting of companies coping with financial difficulties.

Stock market turnover (here: value of stocks of domestic companies traded on the Russian stock exchanges divided by GDP) is used as indicator of the liquidity. Liquidity of the Russian market increased mostly between 2005 and 2007 which was caused, apart from the good economic situation, by newly introduced regulation, limiting the stock offerings abroad and facilitating raising capital on the local market (Rudaz, 2010). In 2009–2011 liquidity was relatively high meaning that both domestic and foreign investors were still active on the market despite many global and local problems (such as the euro-zone crisis since 2010). However, in 2012 turnover declined together with capitalization showing that Russian market was finally affected by these factors.

One of the key barriers in the further development of the Russian domestic stock market is high level of market concentration in many aspects e.g. capitalization and turnover. As far as capitalization is concerned, in the analyzed period 10 largest companies accounted for over 60% of this indicator; three largest companies (Gazprom, Lukoil and Sberbank) had over 50% share (MICEX-RTS, 2012). Most of the listed companies were operating in following sectors: gas and oil extraction, financial services, and metals and coal extraction. Level of turnover's concentration (share of 10 largest companies) was even higher – during the time span considered it amounted to on average ca. 95% (once again, three companies mentioned above accounted for the largest share). Described values of concentration indicators mean that Russian domestic stock market was used by a limited number of companies which had significant advantage over others. As a consequence, investors were reluctant to enter the stock market due to limited diversification possibilities, high dependence of stock

indices on prices of commodities (leading to increased fluctuations) and large transaction costs for investments in less liquid stocks (i.e. majority of those listed).

Apart from the issues that can be analyzed using quantitative data presented above other problems of the Russian stock market require an in-depth analysis of the available documents. Despite new regulation on the public companies introduced in 2002, strengthening the position of the minority shareholders and increasing the accountability of management before stockholders (i.e. owners of the company) as well as new law on mutual funds and securities markets (Durka, 2010), Russian stock markets still copes with many significant problems. Notable examples were Yukos and TNK-BP scandals that involved breaking the rights of shareholders due to political or politically-linked reasons. Even the creation of the unified financial supervision authorities in 2011 had so far no considerable effects. Main issues/risks faced by investors on the Russian stock market are: low share of companies adapting and operating according to corporate governance rules, breaking the rights of minority shareholders (especially in companies controlled by oligarchs or state), unclear financial reporting standards, significant share of stock transactions conducted outside the control of financial authorities (often using foreign entities, located in tax havens), and limited ability of the supervision authorities to impose fines and lengthy trials, decreasing their effectiveness (Rudaz, 2010; Marszk, 2013). Very low position of Russia (one of the last in the world) in the report published by the World Economic Forum, in which selected aspects such as regulatory environment or protection of minority shareholders are evaluated, confirms these conclusions (World Economic Forum, 2012).

5.4.2. Russian companies on foreign equity markets

Because of the issues presented in the preceding paragraphs some Russian companies decide not to sell issued stocks through the domestic exchanges but to use foreign ones instead. London Stock Exchange (LSE) is used most often, other exchanges (e.g. in New York) on a much smaller scale. It should be underlined that stocks of Russian companies on foreign markets are available in different forms (most significant difference is between offering shares or depositary receipts (Marszk, 2012)). However, this issue will be omitted, as irrelevant to further analysis. One of the key issues is establishing the number of Russian companies listed on a foreign exchange which is difficult due to the fact that many companies operate mostly or only in Russia but are registered in another country – therefore, the presented lists may differ from lists outlined in another publications.

First Russian company listed in London was Gazprom in 1996 (Aleksandrova & Edwards, n.d.). According to the LSE's statistics in September 2013 (newest data available) there were 30 companies incorporated in Russia on the Main Market (market for larger companies, able to fulfill more extensive requirements) (London Stock Exchange [LSE], 2014). However, due to legal forms of some companies (linked with tax minimization or political reasons) their actual number is higher – 52 companies listed on the Main Market were operating mostly in Russia (this category will be used in further analysis). Top Russian companies (in terms of total market capitalization) listed on the LSE are the largest companies whose shares are traded also on the domestic market: Gazprom, Rosneft, Sberbank and Lukoil. They are also most actively traded (yet another stock with very high value of stocks traded is Uralcali from the chemical industry).

Table 5.1

Russian companies listed on LSE's Main Market by sectors (September 2013)

Sector	Number of companies	Market capitalization (million USD)
oil and gas	10	276 281,3
metals and mining	10	37 625,8
real estate and development	6	1 020,4
food producers and retail	5	7 388,3
chemicals and pharmaceuticals	5	4 290,5
other	16	193 327,7
total	52	519 934,0

Source: own elaboration based on (LSE, 2014)

Structure of the Russian companies listed on the LSE is similar to the structure of the domestic stock market (see Table 5.1). Main group are companies from following sectors: oil and gas (10 companies accounting for over 50% of the whole capitalization of Russian stock on the Main Market), and metals and mining. Apart from these two categories, some large companies can also be found in other sectors e.g. Sberbank, Magnit (food industry, capitalization of ca. 28 billion USD) or Megafon (telecommunications, capitalization of ca. 20 billion USD). However, it can be stated that the LSE is used as an alternative to the domestic exchange mostly by companies that operate in major sectors of the Russian economy and thus stock offerings on this market contribute to petrification of its current structure.

Apart from market capitalization (which, in this case, is a market value of all company's stocks listed on all exchanges and held private), another indicator that can be used to assess the significance of the LSE for the Russian companies is the liquidity of their shares on this exchange, measured by average daily value of shares traded (statistics available are for March–August 2013 (LSE, 2014)). Total average daily value traded of all Russia-operating companies amounted to ca. 1,13 billion USD (as far as only Russia-incorporated companies are concerned, value of the indicator amounted to ca. 1,03 billion USD). As mentioned in the preceding paragraphs, most liquid stocks are the ones of the largest companies (Gazprom, Sberbank, Lukoil). With reference to the industries, once again turnover is concentrated in oil and gas industry, yet another important sectors are banks and chemicals. However, despite large number of metal and mining's companies (2. place), liquidity of their stocks was rather low (which is linked with average small capitalization).

Smaller Russian companies are listed on other segment of the LSE, labeled AIM (formerly Alternative Investment Market) with less strict rules regarding admission and trading (LSE, 2010). At the end of September 2012, there were 14 such companies (LSE, 2012) but none of them was incorporated in Russia. Their market capitalization amounted to 1,13 billion GBP (there is no data on the value of stocks traded). 10 out of 14 companies were operating in exploration or mining industry. However, some of the largest companies were investment companies or real estate holdings – list of the biggest companies is following: Highland and Gold Mining (capitalization of ca. 375,63 million GBP), Prosperity Voskhod Fund (181,22 million GBP) and RGI INTL (real estate holding, 146,29 million GBP). The fact that all AIM-listed companies are incorporated outside of Russia (mostly for financial reasons e.g. reduction of tax liabilities) indicates that some part of their operations may not

be conducted in Russia which, together with their small size, signals that their impact on the Russian economy is very limited.

Stocks of Russian companies are traded also on some foreign exchanges other than the LSE but on a much smaller scale. Two of such exchanges have their headquarters in New York – the New York Stock Exchange (NYSE) and NASDAQ. There are (as of end of July 2014) 4 Russian companies listed on those two exchanges: VimpelCom (listed in 1996), EPAM Systems, Mechel and Mobile TeleSystems (NYSE, 2014). Total market capitalization of these companies amounted to ca. 35 billion USD – much less than on the LSE. Two largest companies and, at the same time, with the most liquid stocks were mobile phone operators VimpelCom and Mobile TeleSystems. Mechel is a steel and coal company, whereas EPAM Systems is an IT services provider (operating in the Central and Eastern Europe region). Main reason for a small number of Russian companies listed on the American exchanges is lack of demand for their stocks (and linked problems with raising funds) caused by past scandals with emerging markets' companies and risks associated with investing in this country.

Another stock exchange used by the Russian companies to conduct stock offerings is German Deutsche Börse where two companies listed their stocks, one in 2006 and second in 2007 (PWC, 2013). However, both of them are incorporated outside Russia (their operations are concentrated, though, in Russia). These 2 companies are C.A.T. oil (oil and gas industry, capitalization of ca. 776 million EUR) and IBS Group (software development and IT services provider, capitalization of ca. 197 million EUR; all data as of end of July 2014 (Bloomberg, 2014)).

An interesting development observed in 2010 was the first ever listing of the Russian company on a stock exchange in an emerging country i.e. on the exchange in Hong Kong (HKEx), People's Republic of China Special Administrative Region (PWC, 2013). It is a new situation in the global financial system – before that companies from less developed economies seeking financing on foreign exchanges preferred the ones located in the most developed countries (e.g. in the United Kingdom or the USA). This change was caused partially by economic problems of the euro-zone and decreasing inflows of the capital on the stock markets. Two companies listed on HKEx are Rusal (aluminium company – metals and mining industry) and IRC (the same sector). Capitalization of the first company at the end of July 2014 was equal to ca. 60,77 billion HKD (ca. 7,84 billion USD) and of the second – ca. 3,45 billion HKD (0,45 billion USD) (Bloomberg, 2014).

5.4.3. Discussion

As outlined in the preceding section the number of Russian companies listed on the foreign stock markets was much lower than on the domestic exchanges. However, it should be noted that most of the companies listed on the Russian exchanges are small entities (in terms of market capitalization). Taking into account the total capitalization of the companies listed abroad, compared with the same indicator of the domestic market, the difference is much lower (it must be remembered that the largest companies are dual-listed i.e. listed both on the domestic and one or more foreign exchange(s)) – “foreign” capitalization is equal to ca. 75% of the “domestic”. In terms of stocks traded the difference is bigger (transactions in Russian stocks on foreign markets amount to ca. 50% of the ones conducted on the domestic market). These indicators show that foreign markets play an important role for investors investing their funds in Russian stocks – especially the Main Market of the LSE

may be considered as yet another segment of the Russian capital market due to its high popularity among companies and investors.

One of the key functions of the stock market, of significant impact on its role in the process of economic growth, is offering companies a possibility to raise funds through stock offerings sold to investors through the primary market (Marszk, 2013). Level of this function's fulfillment can be measured by the value of raised capital, including new shares sold by companies during initial public offerings (IPOs) and secondary offerings. Unfortunately, data on secondary offerings is unavailable for Russian companies listed abroad, and for the domestic market it is rather problematic due to missing observations. Therefore, statistics on the value of IPOs, during which both new and already issued shares were sold, must be used. According to these figures, until 2008 most IPOs (in terms of value) were conducted on the domestic exchanges (LSE, 2011). However, since 2009, foreign listings were becoming relatively more important (despite new regulations) – this trend was particularly visible in 2010 (year of first HKEx listings) when value of foreign IPOs was ca. 40% higher. Such data indicate that the macroeconomic role of the domestic market has decreased in the recent years compared with the foreign ones (above all in London).

5.5. Conclusions

As presented in the text, role of the foreign equity markets for Russian companies is rather important, as evidenced by e.g. value of stock offerings or stocks listed on foreign stock exchanges. Their role increases, despite the attempts by the Russian authorities to limit the activity of local companies on financial markets outside the country and focus on the domestic market. Such plans are accompanied by unsuccessful actions aimed at development of the domestic market. Role of the Russian domestic stock market in the economy is negligible which is linked with a number of factors, among them the government's policy regarding this part of the financial system. Another important factor is the structure of the market, highly concentrated both in capitalization and turnover. Moreover, lack of foreign capital is also a key problem – over the last years, due to e.g. political reasons, outflow of such funds on a large scale was observed.

Main limitation of the presented study is lack of sufficient data on selected indicators such as value of new shares sold during stock offerings. Another issue is problematic choice of companies listed on foreign exchanges that can be regarded as 'Russian' – as mentioned in the text, many such entities are incorporated outside Russia. It should also be taken into account that financing through stock offerings is only one of the sources of funds for companies – future research may include its comparison to bank loans or issuance of bonds on both domestic and international markets.

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Part 2

**INDUSTRIES AS MESO-LEVEL ACTORS
OF BUSINESS ENVIRONMENT**

IMPACT OF THE EUROPEAN ENERGY POLICY ON THE COMPETITIVENESS OF SLOVAK ECONOMY IN POST-CRISIS PERIOD

Peter Baláž, Lukáš Harvánek

University of Economics in Bratislava, Slovakia

Abstract

The aim of this paper is to highlight the economic development of European Union and its dependence on securing its own energy security as a precondition to maintain competitiveness. Based on economic analyzes the article focuses on identifying relationships between the convergence of energy security and improving international position on the global marketplace. In the report we will use comparisons of selected economic indicators (not) allowing confirmation of predetermined assumptions. By using analytical approach we will try to outline main points of the research and using statistical methods we will try to underpin our results. The result of the report should demonstrate the existing links between competitiveness and performance energy strategy in relation to developments in other global territories. Subsequently it is expected to feature certain adjustments on the new situation that arose along these intentions during the international financial crisis. Added value of the paper lies in identification of links between EU energy policy and 28-member block competitiveness on international markets, and pointing out the position changes of these links in the global financial crisis period and weakening ability to withstand global competitiveness fight in sense of lacking of convergence of this policy and differentiate approach of individual members.

Key words: competitiveness, energy security of EU, Slovak economy, international business.

JEL codes: B30, E620, F100

EU crude oil and natural gas import dependence will be 90% and 80% respectively in 2030. As demand for these commodities is growing rapidly, it is nearly impossible to predict its prices, but what is sure, the price will be high. Therefore, key role in supporting overall competitiveness will have energy efficiency and block's ability to decrease its energy dependency. Energy policy by this means would be important contribution to creating coherent and balanced policy aimed at security of EU energy supplies.

EU Green Book – European Commission, 2005

6.1. Introduction

Global economy has undergone fundamental changes during last decade. It was driven mainly by globalisation, although, its effect has been felt for a longer time period. Its effects are more dominant in case of Europe, as the block has underestimated this development. In spite of crises, all globalisation processes are accelerated, creating a fiercer competition on international markets and a manoeuvrable space where time for a successful adaptation of national economies and companies is still shrinking. High degree of international financial relations “infectivity” and credit “toxicity” carries enormous uncertainty and has brought volatility to all global markets. Consequently, it has caused deep disturbances in national economy sectors, financial market collapses and considerably paralyzes international trade and services markets and not least commodity markets development. Most applied, and up until now many times tested, recovery steps to restore economic growth have proven to be ineffective in this case. Although states inflated their economies with billions of dollars, they were not dislocated directly to their own competitiveness revitalization but to efforts to prop up international financial system, global agility and the demand for material goods. Although it was clear that unprecedentedly long period of economic growth and international trade expansion must inevitable come to its end, it was not expected by even the renowned experts that subsequent recession period would be so sudden, vast and last so long. This toxicity crisis however, did not lie only in fact, that hit many states gradually, but affected literally everything negatively: industries, overall social and economic situation, companies, businesses and ultimately all consumers.

6.2. Theory development

All national economies and companies were searching for solutions to their sales problems, mainly in a form of export (inflation export) and searching tools to support their own competitiveness. Most countries adopted steps mainly in form of cost cutting efforts (cost competition) and delivery terms, what even widen the space for East Asia goods to enter the global market place. Nobel Prize winner J. Stiglitz confirms, that this solution cannot succeed. He said: *“problem with globalisation lies in fact, that economy globalisation surpassed policy and thinking globalisation. We became more dependent on each other, what increase the needs of acting together, but for effectively and democratically actions we lack institutional frameworks”* (Stiglitz, 2006). Economist N. Roubini assumes that for example the US will have to dramatically change its industrial base. One of the reasons of industry revival is robotics. In future it may seem like that for one thousand machines will be just one employee needed (Roubini, 2012).

One of the main activities of European Commission is convergence of European energy security. IEA participate as well. Its background and following the international competitiveness is also addressed by J. Hamilton, P. Krugman, M. Porter, and J. Stiglitz. Respected experts are also O. Machek, J. Mejstřík, S. M. Obadi, M. Vošta and M. T. Workie, Slovak scientists dealing with issues of the EU and Slovak energy security in particular since 2002, and beyond 2008, especially, in the context of the preparedness for accession to the EU and with the preparation of the project of a common energy policy. Research activities up until now include five research tasks of the Ministry of Education, so called VEGA, participation in international research with a FMV of Economics in Prague, 4 scientific monographs and several important papers in prestigious journals.

6.3. Material and methods

As the main methodology in this paper, the authors use basic, partially advanced methods of scientific work based on the evaluation of secondary data through mainly qualitative methods of scientific work. Authors used primarily method of analysis and comparison. As a supplementary methods the method of synthesis and logical historical were applied.

6.4. Results and discussion

European Community uses its strong historical international positions in efforts to secure its energy security, i.e. secure and flexible supply system in all sort of fuels, which is to some extent, flexible by itself in a way of interconnections among member states and therefore capable absorb various irregularities of operatively.

6.4.1. Role and importance of the energy in EU economic positions

EU is aware of its growing crude oil and natural gas import dependency on former Soviet Union countries and potential risk, which brings with itself high share of fossil fuels and nuclear power in energy mix. EU priority in a strategic course from current and past perspective is: *“adoption of the first package of climate and energy measures. The EU is now well on track to meet the 2020 targets for greenhouse gas emissions reduction and renewable energy and significant improvements have been made in the intensity of energy use thanks to more efficient buildings, products, industrial processes and vehicles. These achievements are all the more significant given that the European economy has grown by around 45% in real terms since 1990. The Europe 20/20/20 targets for greenhouse gas emissions, renewable energy and energy savings have played a key role in driving this progress and sustaining the employment of more than 4.2 million people in various eco-industries, with continuous growth during the crisis.”* (European Commission [EC], 2014).

EU in order to enhance climate protection process and parallel to decrease its own fuel consumption and import dependence (especially from Russia) spends enormous financial resources in energy security and enforcement of the project EU 20/20/20. However, crisis escalation and global economy development showed that energy dependency is still increasing¹. By using this assumption we can conclude that common efforts in outlining coordinated energy policies will be straightforward, mutually beneficial and rapidly deepening. Crisis, however, demonstrated that this is not true. The main reason of this development is the fact that EU was not ready for international financial crisis and therefore it's economic was affected fiercely in comparison to other continents. Specifically, also in the case of the energy sector, EU, and in this case Russia as well, do not pay sufficient political and social and economical attention to this strategic sector of common cooperation. This mainly result in inability of the EU to converge national energy policies in a planned time horizon, what was the first precondition to finish fundamental and decisive changes in this important area of the whole EU economics progress. On the other hand, Brussels failed to

¹ For example in November 2011 the first part of under-Baltic sea pipeline from Russian Primorsk to German Greifswald was put into operation. At the end of October Turkish government and Russian Gazprom signed deal to construct South Stream pipeline, which virtually eliminates all chances to build Nabucco pipeline. Last mentioned goal was by transporting natural gas from Caspian area to decrease EU import dependency on Russian gas.

emphasize the priorities of EU-Russian relationship from what is uncertainty derived over how will be this relations shaped in energy sector and to what extent can be long-term growth of both partners supported.

Inability to liberalize domestic energy markets and present real expectations regarding own energy carriers consumption and consequently inability to draw coordinated decisions in alternative resources utilization or construction and decommissioning of nuclear power plants, meant that individual countries would not be able to enforce and realize bigger investment projects, which would allow risk diversification resulting for them from their own high energy intensity.

It was probably ultimately one of the main reasons which overshadowed the EU ultimate goal: “promote a common energy doctrine, although to some extent reflecting the economic interest of its individual member, but mainly taking into account supporting of international competitiveness growth of all 28-member bloc and its position in global competition“. In a very difficult, complex and hardly identifiable process of liberalization of energy market and by its means obtaining a decisive advantage in promoting their own competitiveness thus the expected targets had not been achieved. Promotion of bilateral national interest of economically strongest EU member countries remains dominant. From this perspective therefore arises serious question: what will be the meaning of this for strategic development plans of other EU countries and Slovakia?

Original consideration about formation of a common EU economic strategy that will create robust development space for application of its own dynamic comparative advantages and a new, promising economic strategy, disappeared in a search for operational solutions and visually positive political decision concerning the elimination of crisis tendencies and negative phenomena in the growth of social tension and the increase in debt. It turns out that successful countries in which political representation was able to bridge their political ambitions and pursue strategic projects and long-term vision, which will be completed beyond the timeline of their own political viability (Obadi, 2012).

6.4.2.. EU energy consumption structure and import intensity in a global context

Energy sector development analysis in European Economic Area prepared by European Commission, IEA, OECD and national governments confirm that in spite of current crisis consumption of all energy sources in Europe will grow. The reason is gradual population growth and associated personal consumption growth, but mainly expected costs growth related to economic recovery. Although it is currently still dampened by economic crisis, from the long term perspective it is invoked by the total increase of population final incomes.² Moreover, it is shown that globalisation advanced to extent that it is not possible to stop economical and social convergence of mostly poorer countries towards richer and therefore energy consumption of this poorer countries will catch up richer ones as well. This development will decrease energy sources availability and hence the geopolitical tension will grow as well. In sectors, where sources substitution is already easily achievable (heating, electricity) the global energy market will start to be balanced. Changes in the energy market will be made depending on whether and when the given market undertakes strategic decisions, but also from the time when such decisions are taken and well imple-

² Although total fuel consumption decreases (cumulative it halved in period of 1985–2005) this rate is still lower than the average growth rate of GDP.

mented. In any case, risk associated with obtaining raw materials continues to be biggest in case of crude oil, followed by natural gas and eventually coal.

International Energy Agency forecasts the energy source consumption by 2025 envisages with three global GDP development scenarios. According to reference scenario energy consumption will grow annually by 2% with fastest expansion record by natural gas (with more than 2% annually), coal (to 2%), crude oil (to 2%), other energy sources (wind, water, sun under 1,9% annually), and nuclear energy around 1%. Based on this scenario, shares of total energy, consumption and its components in the growth of global GDP in individual periods have been calculated. It is expected in all scenarios that coal will have the highest contribution to the GDP growth in the period from 2003 to 2014. Then, since about 2015, it will be replaced by natural gas. Such IEA development trajectory from 2010 does not take into account decisions by the national governments responding to the nuclear disaster in Fukushima to limit or abandon nuclear energy production³. These strategic decisions are reflected in changes in energy policy, especially in Germany where changes are related mainly to damping building programs of nuclear power stations and the promotion of renewable energy sources.

Despite the fact that the structure of global GDP will change of course towards higher productivity and value added services in the future and production of less energy-intensive goods (less and less energy per unit of GDP generated will be needed), IEA forecasts that share of natural gas in global energy consumption will increase⁴. The strategic objectives of the EU envisage this medium as optimal in terms of ensuring their own energy security. Although its share in covering the energy needs of the individual member states are rather differentiated, even in terms of territorial structure, there are still stronger challenges in securing its reliable supplies in future. These challenges were highlighted by complete stoppage of natural gas through Ukraine at the beginning of 2009. Even countries that are doing in terms of the structure of gas resources relatively well, that either have their own production or import gas from politically less sensitive areas, realized that Russia's efforts to create a gas cartel, which were given at the end of 2008, quite a real form, made the whole situation changed completely. EU dependence on this cartel may dramatically increase, resulting in losing its previous import alternatives.

According to data from the Energy Charter in Brussels imported natural gas covered consumption from two-fifths in 2008, but in 2020, this proportion will increase to 90%. Almost three fifths of the EU gas consumption in 2008 came from home, especially Norwegian and Dutch sources. Russia should increase its share in 2020 to at least half (250 billion m³) becoming the main supplier responsible for covering nearly all energy needs of the Union. Despite the current debate on expanding the use of shale gas, which is the practical application mainly in the US economy, it can be assumed that US export will be directed mainly to Asia.

The cost of new regasification terminals are huge and therefore ongoing effectiveness of such supplies is rapidly decreasing. Much greater risk, however, lies in the fact that the U.S. obtained through cheap energy inputs a key competitive advantage and reduces its

³ German, Swiss, British or even Italian Government decision to dampen activity in this area automatically turned attention to the revitalization of traditional energy concepts, which plays an important role especially in the most accessible domestic coal and even natural gas. But it would be bold to say how this event will affect the use of both energy commodities, as both are available

⁴ This forecast partly quenched and across the EU natural gas fire plants were about to stop their productions caused by decline in economic growth across Europe and the consequent fall in electricity prices and increasing imports of cheap coal from the USA.

strategic dependence on imported fuels⁵. European energy producers are aware that natural gas remains the only viable option that is available, capable a rapid, long-term and without additional costs to supply electricity and heat, but also absorb the increasingly tighter rules relating to reducing emissions in the EU by 2020. Available scenarios and anticipated strategic decisions confirm that at least until about 2020 Europe should not have a problem with sufficient natural gas supplies. The main contractor, Russia, in its strategic goals understood role of energy sources as the key export commodities and Moscow had implemented a huge investment in upgrading its energy base. By increased production of electricity it intends to dampen its private consumption of natural gas which is sold to households at subsidized prices (in 2007 about 30–50 USD / 1000 m³) to produce electricity.

Respecting the above, it can be assumed that the European energy market and sale of natural gas under basic assumptions will be determined mainly by three factors. It will be consumption development (and achieved sales prices), location and the position of new suppliers. The state of all above factors will largely depend on how well EU will ensure its energy security, but also to what extent it will be able to support its competitiveness as the main instrument to pursue their economic, but even the political interests. (Vošta, 2008, p. 57–58).

It is proven by analysis of energy and energy sources in global economy development that it gained such a big importance and is in a deep interaction with every segment of the economy and therefore, without its direct integration, it is impossible to imagine any major economic progress. The fear that energy will become crucial factor in countries' situation and prosperity is still more real and it is only a matter of time when the prosperity of states and all economic blocks will be determined by readiness to situation when the world lacks of energy. Current situation on energy market is mainly challenging for those countries and communities which are totally energy import dependent or countries with insufficient energy supplies. EU, of which Slovak economy is a continuous part, is the world biggest energy consumer and importer after US. Therefore it is dependent to a large extent on political and economical stability of foreign markets and on ability to cover increasingly bigger and bigger prices of its supply.

From a long-term perspective European Community was relatively independent when it came to ensuring the fundamental needs of different types of energy. Robust economic expansion in all member states during last decades increases consumption of all domestic energy sources dramatically and contributes to import substitutions. At the end, this resulted in a deteriorating the EU energy independence position and deepening its economical and political dependency. Although it appears that a relatively high proportion of the supply comes from politically stable regions, historical development confirms that just crude oil or natural gas reserves are enough to destabilize given country or region.

Certain possibility to reduce the growing consumption of EU may lie in their hands by reducing the specific fuel consumption. It is estimated that the energy consumption in the EU is by about one fifth higher than is economically justified. According to the Commission this is equivalent for about 200 million tons of oil per annum. Therefore there is a great potential in savings achievable by energy rationalization measures. It is assumed that the EU can save

⁵ It is expected that the USA will be since 2016 the world's largest gas exporter and become an exporter of oil and coal and energy released by changing the energy mix in favor of natural gas. USA currently rebuilds its gas plants, which will reduce emissions significantly and also decrease the prices of electricity. In the end all these factors will positively affect the competitiveness of American production and change intensity of export-import programs not only with EU, but also with Asian competition.

from 5 to 10 billion EUR annually and additionally these savings are connected with the projects that require a strong involvement of labour and thus create new jobs.

6.4.3. Analysis of EU competitiveness on the example of Germany

If we look at the EU competitiveness issue, it is inevitable to analyze German position in 28-member block energy policy as German economy is the biggest in terms of GDP and logically it is the biggest energy consumer on continent.⁶ This selection is not random and one of the reasons is that the most Slovak exports (reexport) comes from German foreign direct investments or ends on this market. Competitiveness retention is one of the top priorities of Germany as strongly export orientated country because its export oriented economy still more and more faces cheaper Asian competition and rapidly increasing US competition pressure caused by cheaper energy inputs. Therefore in Berlin as well as in Brussels arose the question of how to secure acceptable prices of energy inputs for industries with current ecological policy. While Germany historically benefits from technological development in comparison to its Asia counterparts, according to authors it is just matter of time when developing countries use their capital to enter Western companies and thus catch up with their technological leadership.

Currently, relatively higher competitive advantage of Germany compared to other EU member states gained by reforms from the end of the century and focused mainly on efforts to decrease labour cost, started to be challenged by new issues, from which the most recent are bigger energy input costs for German energy-intensive companies.

Price of electricity for German industry grew from 20 to 40% in comparison to the year 2007, bringing it to one of the highest in the EU. This increase was caused by Berlin efforts to shift towards production with low emissions reachable by generous subsidies of renewable energy. It is true that German energy mix with higher renewable energy share (23% in year 2012, with a goal to increase it to 80% until 2050) can secure competitiveness from a long term perspective. However, in a short-term view when German companies have to pay two or three times more for energy than their US counterparts, energy intensive companies will consider whether to continue production in Germany or shift their business abroad. The fact that this worries German authorities reflects announcement of the Ministry of Economy in Germany on January 8th 2014, who said that Germany risks losing the big firms in case they will not be protected from cost related to the renewable energy. „*We have to secure for Germany, that energy intensive productions will not be affected by renewable energy law. All other developments would result in German deindustrialisation,*“ said ministry (Reuters, 2014).

This development is to very significant extent connected with companies operating in Slovakia and other parts the EU, which would in case of German companies' transfer to countries with cheaper inputs, in possibly cancellation of the contracts with Slovak entities which may result in an increase in unemployment and a decline in the technological level of production. International Energy Agency (IEA) forecasts, for example, that Europe's share of the market for energy-intensive products will fall by ten percentage points until 2030 (International Energy Agency [IEA], 2013).

The German energy policy has focused since the 1990s mainly on increasing renewables in the energy mix and more generally on the environmental goals in a triangle of

⁶ Share of total EU energy consumption (2011): Germany 19.1%, France 15.3%, Great Britain 12.1%, Italy 10%, Spain 7.4%, Slovakia 1% (Eurostat, 2013).

objectives: energy security, environmental sustainability and affordable prices for customers. Based on the above we can conclude that in a country arises a new conflict between funding expensive transition to renewable energy and sustaining competitiveness. Since oil prices were relatively low before 2000 and kept with itself at low levels gas price as well, issue of energy inputs was not such priority concern as now, when prices only to some extent follow fluctuations in developed economies and the consequent drop in demand for raw materials, and they are still near the levels prior to the financial crisis in 2008.

Intensifying competitive pressure caused by cheaper inputs in some parts of the world and the need to adapt to trends in the energy market, mainly to subsidized prices in China and extraction of unconventional oil and gas in the USA highlighted the need for the German government to adapt to new developmental trajectory. Prices in these two countries followed the upward trend by 2005, however, the curve of prices in these countries diverges after 2010 and USA experienced substantially lower price compared with Germany.

The important part of European Energy security project are risks associated with conventional centralized energy facilities that entail also the possibility of an accident occurring while in operation, during transportation of resources and in the context of waste storage. However, the risk of sabotage and conflicts, possible permanent dropouts of resource like electricity supplies need to be considered, too. Furthermore, conventional energy generation continues to be supported in most countries by means of various indirect subsidies or other benefits.

External costs have, thus, not been incorporated into energy prices so far. Fossil fuel imports represent a burden for individual economies – they require financial resources, which may then not be invested in other projects. Therefore, it is essential to respond to the need to replace the production facilities in operation or complement new ones in the EU in line with future trends in energy infrastructure development. Increasing energy efficiency in the field of electricity generation and final consumption (primarily in households, industry and the transport sector) as well as increasing supplies from domestic sources, i.e. the share of new and renewable energy sources (RES), remain an imperative. The figures indicates that one may not assume that real exploitation of RES would reach more than 10% even at the beginning of the 21st century (Baláž & Zábajník, 2010, p. 568).

Development of diverse technologies applied in respect with RES represents a different story. There has not been unity in the EU in views and approaches concerning exploitation of sources, the research and technology of which needs to be backed by financial means and legislation. German administration has just after 2008 begun with a great vehemence to change the energy mix, and, at the expense of nuclear energy support, subsidize the production of electricity from windmills and photovoltaic farms. Obviously in generally, if there is lack of support of the sector of RES, it will not become competitive vis-à-vis cheap (even though frequently heavily criticised) energy generated from fossil and nuclear fuels, and ultimately this form of support without fundamental structural changes of the national economy reduces the competitiveness of the entire national economy (IEA, 2012, p. 668). Looking at the EU and German energy security we can observe correlating elements, especially in the form of high dependence on imported energy resources. Net imports of fossil fuels to Germany in 2011 exceeded 70%, while in the case of the EU, this level is approximately at 60% (Eurostat, 2013). Looking at the different fossil fuels, the numbers are even more alarming. In the case of crude oil in 2011, the EU imported 85,2% of its needs, for natural gas import dependence represents 62,4% and for solid fuels 29,1%. (Eurostat, 2013). As for Germany, it imported 88% of its gas needs and the oil import dependence was 98% in 2011 (Federal Ministry of Economics and Technology, 2012).

These figures highlight the need for secure and stable supply, diversification of transport prices and also the suppliers' stability. Political instability of countries exporting energy carriers is often cited as one of the primary factors determining the price of oil, the amount of which is then reflected in the prices of other carriers and ultimately in inputs for industry and prices for households. Raw materials supply security in EU is still more come to the fore, whereas the oil, coal and fully supplies are fully dominated by one country – Russia. Concerning natural gas there are more important players such as Algeria and Norway, the U.S. and Colombia in coal and in oil Norway and Libya.

6.5. Conclusions

Successful long-term application of comparative advantages in pursuing own economic interests in the international markets is crucial attribute of EU's success. Authors, in presented article, tested the hypothesis according to which the whole block depends on ensuring energy security. It means to have enough of all types of fuels from long-term perspective, security of supply, an efficient transport network and to have comparable or better prices than competitors. The main objective of this paper is to examine the key facts, examine the strength of existing relationships and dependencies in this area and confirm the view that only by asserting the doctrine of EU common energy policy and cumulative effects it may increase or maintain sufficient competitiveness of the whole block. The authors focused on the energy position of Germany, which is not only the largest consumer of energy sources in the EU but also determines the overall EU economy development (Slovak republic to large extent).

Current development confirms that energy will be literally geostrategic condition by which a successful management decides on the future position of all countries and all economic blocks. Apparently this process will play only a minor role in building national economies and their industrial traditions. Ability to set developing criteria that will guarantee the construction of complex production systems that ensure optimization of all forms of tangible and intangible outcomes while minimizing energy consumption will be crucial. While the production mix in addition to factor efficiency and stability of its supply have not only to reduce import dependence, but also continuously decrease the consumption of energy carries. Such development trend could significantly increase the EU's capacity to adapt strategic plans of other territorial enclaves in the world economy, which under the pressure of globalization with the same economic reasons, implemented and will implement their own structural manoeuvres in support of their position in world markets.

European countries and especially the members of euro zone will have to realize the restructuring processes which should help them to achieve former economic positions in the world economy and particularly international business environment. Seemingly, they have to consider the real conditions determining the future economic prosperity and to identify which comparative advantage is key to achieve these positions on the international markets. Access to energy sector and especially energy security could have a key position. Without a doubt, the overall strategic position and perspectives of the European as well as the Slovak economy is absolutely dependent on fuel/energy imports.

Therefore, it needs to incorporate room for manoeuvring so as to acquire them into its strategic plans on one hand; on the other hand, it has to make use of every opportunity to ensure energy saving and minimisation of excessive consumption effects. At the same time, implementation of comparative advantages of the Slovak Republic (e.g. its transit location favourable for acquiring energy sources as efficiently as possible and essential ability to

foster own energy security as much as possible) to the maximum remains an important imperative. (Baláž & Zábajník, 2013 p. 581).

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POTENTIALS OF THE ELECTRIC POWER INDUSTRY FINANCING IN SERBIA THROUGH PUBLIC-PRIVATE PARTNERSHIP

Sladjana Benković, Sladjana Barjaktarović-Rakočević,
Nevenka Žarkić-Joksimović
University of Belgrade, Faculty of Organizational Science, Serbia

Abstract

The second half of the twentieth century was marked by strict government control over the energy sector. Public funds and lending capacities of countries are becoming insufficient in satisfying the growing needs for energy infrastructure. For that reason, many countries have started harmonizing and designing legal regulations that encourage participation of the private sector in development, financing, and operationalization of energy projects through public-private partnerships. This paper depicts the possibilities available to the private investors in Serbia interested in investing into strategic projects of the energy sector. The starting hypotheses for the research are: a) the motive to form a public-private partnership as a type of infrastructure where project financing is not solely financial in nature, b) the complexity of the concept enables multiple benefits for both public and private sectors, c) the financial techniques and procedures that follow public-private partnerships in developed countries can successfully be applied in Serbia as well. The contribution of this paper is reflected in the identification of both economic and non-economic benefits that a private investor and a representative of the public sector would face if they decided to invest in the electric power industry of Serbia.

Key words: public-private partnership in Serbia, private investor, financing of energy industry in Serbia.

JEL codes: P34

7.1. Introduction

The second half of the twentieth century was marked by strict government control over the energy sector. In accordance are all electrical facilities funded by the public sector such as power plants, distribution systems, and transmission and distribution networks. However, the need for financing energy projects in many countries around the world is growing quicker than the sources of the funds or the capital resources that can be used for financing such projects. In their study, Merna and Njiru (2002, p. 18) came to the conclusion that developing countries invest about 200 billion USD a year, which is 4% of their national

output, one-fifth of the total investment, and 40–60% of the public investment, in infrastructure.

The development of large corporations decreased the importance of the previously mentioned type of infrastructure financing. Some multinational corporations, investment funds and other financial institutions have bigger budgets and investment potentials than most countries in the world. The focus of the corporations, especially financial institutions, has been moved from short-term to long-term optimizations; tendencies related to social responsibility, which include a number of economic, social and ecological activities are also developing. Public funds and lending capacities of countries are becoming insufficient in satisfying the growing needs for infrastructure (Devkar, Mahalingam, Deep & Thillairajan, 2013, p. 65–81).

As investors, private companies do not make decisions lightly when it comes to investing in energy production plants due to the relatively high risk and long payback period. This fact is also indicated by many authors. Because of this fact, Gatty (2008) suggests the right role for investors is to join their capital thereby reducing their risk (Brealey, Cooper & Habib, 1996, p. 25–38). Likewise, Kann (2009, p. 3139–3148) suggests that only a handful of projects in the energy sector actually reach the stage of closing in the financial structure.

For that reason, many countries have started harmonizing and designing legal regulations that encourage participation of the private sector and private investors in development, financing, operationalization, i.e. the co-ownership of infrastructure projects, especially projects in the energy sector (Bazilian et al. 2011, p. 57–82). The idea to include private investors into the implementation of traditionally public (state) infrastructure projects conditioned the public-private partnerships (Wiser, 1997, p. 15–27; Milosavljevic & Benkovic, 2010, p. 35–42). Privatization particularly contributed to their growth and greater participation in the financing of public infrastructure (Devkar et al. 2013, p. 65–81).

The public-private partnership phenomenon represents one of the most important legislative instruments in the world, especially within the European Union. It also represents a big opportunity for Serbia since there is a great need for infrastructure investments. This is especially prominent in the sector of electric power generation (Makajić Nikolić, Jednak, Benković & Poznanić, 2011, p. 6168–6177). Serbia is significantly below the world average when it comes to liberalization of the electrical energy market and the amount of significant investments being put into the energy sector. Political instability in the last few decades has slowed down the reforms in all areas unnecessarily. The most recent power plant in Serbia was built 23 years ago, which is incomprehensible in normal economies. In order to provide new investments, it is necessary to understand that electrical energy is a commodity that, as any other, has its price. In the last ten years or so, there have been considerations for potential locations for new hydropower plants and strategic partners to cooperate with who are ready to invest.

The paper is divided into several sections. After the introduction, section two demonstrates the importance of private capital participation in financing energy projects. The next section discusses the specifics a company must have in order to produce electricity. The fourth section looks at the potential of public-private partnerships in financing energy projects, while the fifth section provides a description of the model for financing electricity in Serbia from private sources. The answers to the hypotheses can be found in the research findings section, while the last section is used for concluding remarks.

7.2. Theoretical background: the participation of private capital in financing energy projects

The financing of infrastructure projects can be implemented through foreign direct investments, commercial bank loans, export loans, international development bank loans, assets from bilateral and multilateral aid programs, as well as through different financial elements of the capital market (PPIAF, 2010). Because there are many options for including the private sector in the process of infrastructure project financing, there are numerous possibilities of combining public and private capital, which can go from one extreme to the other, i.e. the government can take on full responsibility and all project risks, or the private investor can do the same (Benkovic, Makojevic & Jednak 2013, p. 1053–1059; WorldBank, 2013).

The idea of mixed finance appeared as an economic necessity since many countries were not able to finance capital-intensive infrastructure projects from their own sources. Mixed finance includes a partnership of public and private capital. Since the 1990s public-private partnerships became the key instrument of public policy of many countries around the world (Osborne, 2000). A public-private partnership gives a possibility to the government to treat the whole project in a way which will take care of its share as well as interests of the users of the infrastructure project (Spiering & Dewulf, 2006).

Apart from being profitable, public-private partnerships are also an efficient mechanism for implementing public policy, as well as an important factor for social development. A partnership involves cooperation, i.e. ‘to work or act together’ and in a public policy can be defined as the cooperation between people or organizations in the public or private sector for a mutual benefit (Osborne, 2000). Guidelines for the Private Public Partnership for Infrastructure Development by the United Nations and the Economic Commission for Europe (2000, p. 4) define public-private partnerships as any legal and economic form that enables private means to be invested into public infrastructure and services.

Investment equipment providers, material and energy-generating product providers, as well as contractors can also, to a great extent, participate as investors and financiers in financing the project. Apart from the above mentioned, leasing companies can also participate as owners of the equipment necessary for construction or operation of the project (Klein & Roger, 1994). New conditions for every national economy functioning during the time of crisis exert great pressure on increasing productivity and creativity in attracting capital, improving organization, developing new technology and human resources, creating new products and so on (Greve & Ejersbo, 2002, p. 1–9). Having this in mind, it is clear that one of the most significant things in the next period for the economy of any country is to attract the private capital as a potential for investing in projects and objects that will have an influence on economic development.

The electric power industry of countries in South East Europe (SEE) took second place in the total revenues, fourth year in a row. The total revenues in 2012, for the power industry were 16,2 billion EUR (number one in total revenues was the oil and gas industry with 44,8 billion EUR). Whilst, on one hand revenues are rising, profitability is declining, and the power industry took 10th place with 0,83% of return on sale (ROS) in 2012 (first place were pharmaceuticals with 14,5% of ROS). Also, according to the amount of large companies in SEE, the electric power industry was in second place with 18 companies. But, on the other hand, the energy sector (together with petroleum and natural gas and the electrical power industry) took the 13th out of top 20 biggest corporate losses in 2013 in SEE (SeeNews, 2013).

This applies to power plant construction projects, for which it is almost impossible to find resources from entirely private sources. It can be said that the financing of projects in the energy sector somewhat follow the trends of capital movement (Bazilian, 2011, p. 57–82). The most frequent form of financing encountered in the majority of countries is based on a combination of personal and borrowed funds, particularly in the energy sector (Sovacool, 2013, p. 181–192). This ratio is usually 3:1 in favor of borrowed funds (Head, 2006).

Such projects include the formation of a new local company, whose purpose is to define a common goal for all capital owners. Thus far, based on the analysis of the project in the field of hydropower, it can be determined that the share capital from private sources is usually about 27% of the project (Head, 2006). The amount of personal funds involved in the project depends on the perception of risk that an investor might have for a specific project. The higher the risk is, the higher the amount of private investors should be in the total value of the project, resulting in a dispersion of risk. At the same time, about 30% of the funding for a project is usually provided by the public sector (Head, 2006).

Despite the fact that the major construction on the power plant is of local character, local funding sources are almost non-existent. This statement primarily refers to poorer countries and countries in transition, which is the case of Serbia. The highest percentage of investors comes from international sources, and is contracted in foreign currency (Sovacool, 2013, p. 181–192). The risk that exists for this kind of financing usually lies in the devaluation of the local currency, which left state enterprises in countries throughout the world incapable of funding commitments arising from foreign loans. To avoid this danger, in order to finance plant construction projects, it is better to find sources in local currency. This is not an easy task, especially in countries where the local currency is not stable and where there is not a well-developed capital market.

7.3. Material and methods

Electricity is the noblest form of energy because it is the only one that can be transformed into four usable forms of energy (mechanical, thermal, chemical and light energy). Therefore, the rational use of electricity is an essential precondition for the development of the power system. This especially applies to the determination of the peak load and the optimal dimensioning of capacity.

Electric power systems are very expensive systems; as a result the rationale for their development is reduced to the rationale of the investment policy. Raising the productivity of the system later on, when the large capacities are completed, is not significant. In order to plan further development of the power system it is necessary that the price contains a fraction of the cost of the expanded reproduction.

The electricity produced that is supplied into the system, and eventually to the final consumers, must meet certain requirements. It is necessary to provide consumers with adequate energy for normal production, operation and development. Insufficient amounts of energy lead to major problems in the economic and social functioning of a nation. It is imperative that superior electricity arrives to the consumer, in other words energy with the characteristic values of both frequency and voltage. In addition, the power system must be safe enough to operate. Safe operation means that the structures are working sufficiently at all times, that they will not stop during the process and that they will fulfil all their tasks (Djordjević, 2001, p. 41).

Electricity is obtained in facilities called power plants and they can be: thermal power, hydropower, wind power and solar power (Popović, 1989, p. 10). Thermal power plants are thermoelectric facilities in which the electrical energy of fuel is the fuel converted to electrical power, while hydro power plants are hydroelectric plants in which the potential energy of water is converted to electrical power.

The electrical energy produced by the hydropower plants could be referred to as “green” because its production does not cause environmental pollution. The only contaminates that bind themselves to hydro power plants are those that occur during the construction of the same. In comparison to thermal power plants and nuclear power plants, the production process of hydropower plants is relatively safe, simply because the production process does not involve any fuel. Nevertheless, the following things should be noted: the environmental impact of the construction process, the use of such plants, the high cost of the building process, the issues that arise from dry climatic periods and the limited availability of construction sites.

It is worth mentioning the increasing role of wind power as another form of “green” energy, which is done by converting wind energy into a usable form. This is a renewable source of energy and therefore its use has minimal influence on changing the environment, it is non-polluting and the only limiting factor that appears is the price of energy produced, which is often very high.

Solar energy is the most abundant form of energy. Using solar cells, sunlight is transformed into electrical, chemical, or mechanical energy whereby its thermal effect can also be used. The use of solar systems in the world is growing rapidly, not only in terms of solar power plants that produce electricity in order to sell it, but it is widely being used in houses, commercial houses, parking lots and the like. One of the particularly interesting benefits inherent in this renewable energy source is the fact that the cost for maintaining the solar panels is very reasonable, since the costs are low, especially when compared to existing energy sources.

7.3.1. The presence of public-private partnerships in financing projects within the energy sector

These kinds of partnerships have a long tradition and their main advantage is the ability to completely transfer the responsibility for building the facility to a private investor. In the case of “Greenfield” investments, the private partner is expected to build a whole new infrastructure, although there may be a joint venture of public and private investors.

The most common contracts (Benković & Barjaktarović Rakočević, 2011, p. 493) where there are joint activities of both private and public sectors are the following: build-operate-transfer (BOT), build-own-operate-transfer (BOOT), design-build-finance-operate (DBFO). In addition to the three above-mentioned contracts, which by the end of the agreed term switch to state-ownership control, there are contracts where the private investor retains ownership of the constructed object. One of the most common of this type of contract is the contract build-own operate (BOO).

The government of every state is responsible for attracting private investors to the energy sector, which is usually not an easy task and raises a number of questions relating to the conditions of private sector involvement (Devkar et al., 2013, p. 65–81). Thus, the first step is to define the phases of the project in which it is best to involve the private sector. The next step refers to the way in which they will engage the private capital, and the final

step is finding a way of how the private sector will get involved with the job (Sovacool, 2013, p. 181–192).

It should be noted that there are three phases of the project at which private investors can join the project. These three stages are (Benković & Barjaktarović Rakočević, 2011, p. 493): the problem definition phase, the construction and realization phase and the last one is the management phase.

The first stage allows private investors to join the implementation of the project by buying or renting already completed projects by the government of a certain country. In many countries the energy capacity produced by the government of that country becomes privatized upon completion of the project. The money that is obtained from the privatization of energy facilities may be used for privatization of the next projects following the same model when they are finished.

The second phase, which is perhaps the most common, necessitates that the initiative for the project as well as all the analyses and studies come from the public sector. Private capital comes into effect later on when the start and implementation of the project has already begun. Most new power plants are being built based on this model. However, a large number of studies and analyses do not actually reach the construction phase. The main reason is the imbalance between what is good for the system and what are private investors willing to invest their money into.

The third stage calls for private capital to be available in all phases of the project, from the initial idea to the completion and unveiling of the power plant. From the private investor's perspective this method is unattractive because the preparation work requires a lot of resources (pre-feasibility studies, feasibility studies, and other studies). In order to complete the studies 12 to 24 months are required and the cost of their production can range from 3% to 5% of the total investment (Head, 2000).

7.3.2. Models for financing electrical energy production in Serbia from private sources – definition of research problem

Up until the nineties of the twentieth century union called “Zajednica Elektroprivreda Jugoslavije” existed which included all the power companies of the Yugoslav republics. After the civil war ended the union disintegrated along with the state of Yugoslavia. The last production plant that was produced in Serbia was the hydropower plant “Piroć”, which was put into operation in 1990. The Electric Power Industry of Serbia (EPS) continued to operate independently while the country was under sanctions. The only goal during the isolation and lack of resources was to maintain the system. During the bombing of Serbia in 1999 the EPS suffered huge losses measured in hundreds of millions of euros. A situation like this would be difficult even for power distributors in developed countries.

After political changes were made in the year 2000, there was large but not quite noticeable work being put into the renewal of the entire power system. It was necessary to renew the plants, renovate and modernize the grid and substations and to connect to the European network. All these activities required significant financial resources, which were provided partly by donations and partly from their own sources. At the same time, a gradual deregulation of the electricity market had commenced. The plan is for the market to become fully liberalized by 2015, although taking into account the crisis in Serbia, it is unlikely that this will happen.

By adhering to the directive from the European Union, there has been an organizational transformation of the Electric Power Industry of Serbia. One vertically integrated

company is divided into two economic entities, respectively two public enterprises. Today, The Electric Power Industry of Serbia deals with the production of electric energy and its distribution, while the Serbian Transmission System and Market Operator (EMS) deals with the transmission of electricity. Both companies are monopolies in the work they are involved with.

EPS operates 12 subsidiary companies of which 7 of them produce electrical energy and coal while 5 are responsible for the distribution of electrical energy. As the demand for electrical energy grows from year to year, the existing capacities are inadequate. Because consumption exceeds the production, every winter EPS imports huge amounts of electrical energy at very high prices. There have been considerations of launching new production capacities.

So, the aim of the paper is to point to the possibilities available to the public sector in Serbia, regardless if it is the Government or local self-government, but also to the private investors interested in investing into strategic projects of the energy sector in Serbia.

— The starting hypotheses for the research are:

- the motive to form a public-private partnership as a type of infrastructure where project financing is not solely financial in nature (closing the financial gap of the public sector between needs and abilities to finance infrastructure),
- the complexity of the concept potentially enables multiple benefits for both the public and private sectors,
- the financial techniques and procedures that follow public-private partnerships in developed countries can successfully be applied in Serbia as well.

The contribution of this paper is reflected in the identification of both the economic and non-economic benefits that a private investor and a representative of the public sector would face if they decided to invest in the electric power industry, while considering the circumstances characteristic to source markets in Serbia. The data used in the paper are predominantly secondary and based on already carried out research as well as published in different government studies.

The methodology used in the text is based on the analysis of official data supported by national statistical and research institutes. The data collected refers to previous investments in the energy sector over the past twenty years. Collecting the data was not at all an easy task, since there is no continuity of investment activities in this sector. Also, when there actually are investments being made they often do not finish on time for a number of justified and unjustified reasons. Deviations are frequently seen between the planned and the completed investments for a specific time period.

At the same time, the data are indicating that the Serbian government is aware of the energy demands for the upcoming years, and the facts that these demands will significantly grow and could be quite challenging to deal with.

During November 2013, ten municipalities in Serbia signed a memorandum of cooperation with the German Institute for a Green Economy, which is one of the first steps in the project of building a “network of green economy” in Serbia that will establish joint regional utilities and better future use of renewable energy sources. The “Green Economy” is an absolute priority to the development of Serbia because it will open new job opportunities and introduce clean technologies.

The next step is joint collaboration in the preparation and implementation of the master plan and the project strategies for using renewable energy sources (Sovacool, 2013, p. 181–192). The ultimate goal is to actively participate in restructuring the energy sector in

Serbia and encouraging private capital to become involved in energy production from the currently available sources. Serbia's energy sector is currently largely dependent on imports of primary energy sources, which exceeds as much as 40% of the total demand.

Bylaws have been formed and all that the legislature required so that anyone in Serbia who truly is going to invest in renewable energy can do so after years of waiting for the adoption of the legal framework. In April 2013 a law was passed on the rational use of energy, or energy efficiency, which took five years to come into effect. An action plan was made for efficient energy use, which will increase energy efficiency by 9% by 2020.

The energy sector has announced that it has to make tough decisions and one of them is determining how to comply with the directive of large combustion plants. In Serbia a decision has been made that practical operation of inclined thermal capacities of 1 092 MW need to be removed by 2018. That's not so good for the country when Serbia, in the last 23 years, has not built a single infrastructure capacity in the energy sector. Serbia will need new capacities but that it is impossible to build within two to three years. The ministry has issued a call for the construction of small and medium-sized power plants and will soon announce another with the aim of fulfilling the plan that 27% of energy comes from renewable sources.

Three priority projects in the energy sector, whose implementation is most certain, are the reversible hydro power plant (RHPP) "Bistrica" and thermal power plant TPP "Kostolac" and "Štavalj", which will be completed without straining the state budget. The Ministry of Energy, Development and Environmental Protection announced this at a meeting regarding the importance of material conditions of the energy sector in Serbia's accession to the European Union.

In one of these projects a well-known investment foundation from the United States will be contributing. It is well known that the Republic of China is already investing in the modernization of the thermal power plant "Kostolac" and its quarries and that it plans to build a power plant in Kostolac in the second phase of modernization. It is also well known that the Government of the Czech Republic is interested in investing in "Štavalj". RHPP "Bistrica" will be one of the most rewarding projects because when it gets built the plant will export electricity at economical prices in the region during peak season.

Serbia will propose to the country of Romania to jointly build the seventh hydroelectric power generator at "Derdap" with a power capacity of 200 MW, which is estimated to cost around 70 million euros, because the infrastructure already exists there. It has been said that a Swiss company is interested in a strategic partnership for an energy project in Serbia. Also, there will soon be a discussion with the Italian Minister of Energy regarding the implementation of the hydropower projects at the river Ibar that have already been agreed upon to be implemented with "SeciEnergija" in the intergovernmental agreement between Serbia and Italy. In collaboration with the Italian company, the plan is to build 10 hydropower plants on the Ibar River with a total capacity of about 100 MW, that will cost over 285 million EUR and the produced "green energy" will be exported to Italy.

It is obviously necessary to involve international development banks in the implementation of this project. This includes "The European Bank for Reconstruction and Development" (EBRD), which is interested in funding projects that will use renewable energy. With the support of the Italian and Serbian government it will probably be easier to get the involvement of international development banks in the deal.

Generally, when it comes to financing the renewable sector, the major role players are development banks like European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC) and World Bank. Serbia received 144,2 million

EUR in the first half of 2013, most of which was allocated to the hydropower sector with a small part allocated to wind and solar projects. The IFC plans to finance 20% of its total funding to renewables. Besides renewables, the IFC in Serbia aims to attract private funds in infrastructure projects. Infrastructure is one of the industries, not just in Serbia but also in the whole SEE region, which is most underfunded at this point.

It can be concluded that applying a proactive public policy to the concept of public-private partnerships in Serbia can contribute to a better utilization of capacities, exchange of experiences and creation of quality solutions that best meet the objectives and constraints of the public sector in the implementation of projects in the energy sector.

7.4. Results and discussion

The biggest problem that exists in relation to power plants is their financing. A large number of power plants were built with state funds up until the 1990s, in the world as well as in our country. In those years there were serious changes in the electrical energy market and in the world's economy in general. Government reserves no longer held sufficient funding required for financing large energy projects. There was a need for private capital, which in turn needed to be supported by the government when it comes to implementing large projects in the sector of the electric power industry.

The role of the government or local self-government, in the promotion of the concept of public-private partnerships can result in a greater inflow of foreign investments into the country through the concept of public-private partnerships since these projects are a manifestation of their work. This paper argues the possibilities of private equity funding for the operation of power plants in Serbia. Additional contributions arise from the perceived benefits derived from the analysis of the implementation model of the public-private partnerships in the energy sector.

In our opinion, the development of this concept encourages participation and motivates the private investors, because it enables:

- Better sources needed for getting the funding necessary for the construction and modernization of power plants. Serbia is a country that currently imports more than 80% of liquid fuel and more than 85% of natural gas. The economic situation in the global and European market is by no means in favour of the already financially vulnerable Serbian economy which has been additionally weakened by the process of transition. In light of this, the potential that a public-private partnership as a model of financing carries (for both the public and private sector) is not negligible. The idea of investing in power plants that produce energy predominantly from natural resources, such as biomass, wind, water and the sun is becoming more appealing.
- Bearing in mind that in September 2008 the European Union adopted a set of regulations which require countries in the EU to increase the share of renewable energy on average from 8,5 to 20% by 2020, Serbia is expected to arrange for a strategically targeted percentage share of renewable energy in the total energy potential. As a result of that, there would be many positive effects such as: more efficient use of the resources used for the production of energy, less need for imported fossil fuels, reduced emissions from greenhouse gases, the development of local industries and creation of new job positions.
- Accordingly, increasing and improving the capacity of the sector for generating electrical energy would be far more effective by increasing the participation of private capital. Taking into account the driving force that carries this kind of industry, efficiently de-

veloping certain regions in Serbia will also increase visible benefits, and it will also allow for better utilization of the natural resources available in the country especially biomass, water and wind. Finally, increasing the number of projects, that have arisen as a consequence of the development of new and improvement of existing energy capacities, would significantly contribute to production development, both the ones directly related to energy facilities and those that use electricity as a resource to provide business continuity.

These statements have been verified and validated by the hypotheses set in the previous section of this paper.

7.5. Conclusions

Serbia significantly lags behind the rest of the world in terms of the liberalization of the electrical energy market and investments into the energy sector. In the last few decades, political instability has led reforms in all areas to flow slower than they should. In order to get new investments it is necessary to understand that electricity is a commodity that just like any other has its price. In the last ten years, potential sites for new power plants have been considered as well as strategic partners with whom there is a possibility for cooperation and who are also ready to invest their funds.

Conduction and implementation of reforms in the energy sector are important factors but, at the same time, they are also prerequisites for economic growth and development of Serbia. Based on the fact that the electric power industry has an important role in achieving economic development, it is evident that it is necessary to make a significant transformation in this sector. In this sense, the analysis of the current situation in the largest company for the production and distribution of electricity in Serbia is of utmost importance. With a better understanding of the current situation, it is easier to make decisions about future actions for resolving undesired situations like the one this company is at this moment.

Public-private partnerships should provide significant support to future investments in Serbia because they represent one of the best methods of involving private capital in important infrastructure projects. At the same time, possibilities are being opened up for further research related to the application of this type of financing in improving the energy sector. This funding model should not only provide support to all stakeholders but it should also provide reliable and clean sources for electrical energy production without which modern life is difficult to imagine, that will be the subject of further research activity.

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Part 3

**BUSINESSES AS MICRO-LEVEL ACTORS
OF BUSINESS ENVIRONMENT**

SELF-EMPLOYMENT AS AN ALTERNATIVE FORM OF EMPLOYMENT IN THE PERIOD OF ECONOMIC SLOWDOWN IN POLAND

Bogusława Puzio-Wacławik

Cracow University of Economics, Poland

Abstract

Self-employment is a form of provision of work which makes it possible to decrease negative consequences of economic slowdown on the job market. That is why the current job market policy should recognize and consider in its activities all elements of the job market. Making the job market more flexible is a necessity in the current dynamic world and it must be synchronized with other activities on the job market. Self-employment is treated in particular situations as a solution to the problem of unemployment for people who in this manner return to professional activity. On the other hand, a change of form of employment into self-employment allows avoiding redundancy and becoming unemployed. Thus, self-employment becomes a part of not typical forms of employment which constitute the essence of job market deregulation. Referring to the research hypothesis put forward in the introduction, taking into consideration statistical data describing the state and the dynamics of self-employment in Poland one may conclude that this form of employment constitutes a real alternative to people willing to remain active on the job market, especially during the period of economic slowdown and increasing unemployment.

Key words: self-employment, labour market, unemployment, flexibility.

JEL codes: J08, J22, J23

8.1. Introduction

The labour market, as an integral part of the national economic system reacts to the changes in the business cycle of the economy in a very evident manner although undoubtedly this reaction is little delayed in comparison to changes observed on other markets. The rise in unemployment is an unavoidable result of an economic slowdown and all remedies that might mitigate that downturn trend are much in demand. The tendency to increase the flexibility of the labour market is undoubtedly an answer to even more dynamic changes in the economy, as the deregulation activities are considerably diverse and they encompass different elements of the labour market. Self-employment is part of that tendency as its dissemination is treated in some situations as an attempt to solve the problem of unemployment for the people who in this way return to professional activity. Likewise, the change of the form of employment from employment contract to self-employment allows

a person to avoid becoming redundant and becoming unemployed. On the other hand, employers gain sizable benefits from such a change as they do not have to incur high costs of labour and they may still cooperate with the self-employed on the basis of separate contracts concerning the execution of a particular work.

8.2. Materials and methods

The aim of the article is to present the issues of self-employment as one of the elements of labour market policy, as well as to attempt to conduct a quantitative and qualitative analysis of this form of employment in Poland. The research hypothesis, assumed at the outset of the research is as follows: – self-employment may constitute an alternative form of employment for people who have become redundant in the period of economic slowdown.

In order to verify the hypothesis a descriptive method has been used, starting with an attempt at defining self-employment, as well as the analysis of the statistical data in order to estimate the size of this form of employment in Poland and observe the changes in the analysed scope.

8.3. Literature review/theory development

Self-employment, or generating one's own income directly from customers, clients or other organizations¹, means the kind of activity in which the person doing their own business bears all the consequences of patrimonial responsibility and runs economic risk connected with undertaking such an activity (Szanciło, 2005). The most common definition of this form of employment is the sole proprietorship of the economic activity, run at one's own risk, on the basis of enrolment register in the Central Register and Information on Economic Activity. The owner of the business and its creator is a natural person, further understood as an entrepreneur.

The economic activity which a self-employed person can undertake is defined in Article 2 of 2nd July 2004 Act reference. It is an income generating activity: in services, trade, manufacture, construction or prospecting, identifying and extracting minerals and gaining economic benefits from things or immaterial or legal value. Such an activity is conducted in an organized and continuous way in one's own name regardless of its effect (Nowakowski, 2014 April 12).

Natural persons generating their own income are obliged to conduct their financial settlements by means of a bank account, which is stipulated by article 22 of Freedom of Economic Activity Act (Dz.U. nr 173, 2007).

An entrepreneur is a natural person, a legal person or an organizational unit not being a legal person to which separate act grants a legal capacity (a capital association in an organization, a homeowners association). Such a person conducts economic activity in their own name. Moreover, entrepreneurs are also partners in partnership in the scope of their

¹ Such a name is used by the Central Office of Statistics and the data determining the number of the self-employed (including employers) are the part of the Research on Economic Activity of the Population.

economic activity². It is worthwhile to add here that in the economic reality one may encounter a specific case, which is a forced setting up of a one-man business. It sometimes happens that the employer coerces an employee to undertake such an activity in order to economize on Social Insurance Institution contribution and to bypass the regulation of the Labour Law. A contract is signed whereby an employee becomes a sub-contractor, only formally conducting their own economic activity. Although for the employer such a change means many economic benefits, for the employee it might mean: the loss of entitlements such as the right to a paid holiday leave, health and safety at work provisions, as well as the possibility to lose a job (dissolution of contract) overnight, without the termination period. A lot depends on the clauses of the signed contract – one might try to insist on additional provisions concerning, for example, a several-month period for the termination of the contract. In 2007 a new Act was passed on the National Labour Inspectorate which ameliorated the situation of natural persons being self-employed (Dz.U. nr 89, 2004). The Act considerably increased the scope of the protection of life and health of the self-employed; namely, the employer is obliged to provide safe and hygienic work conditions also to natural persons who conduct either at work or in a place assigned by the employer an economic activity of a self-employed nature³.

Moreover, the Act and the modified Labour Code imposed on the self-employed, in all situations of provision of work, similar obligations as on employees as to complying with regulations and the principles of safety and hygiene at work⁴.

Of course, self-employment does not only consist of disadvantages but also of benefits for an entrepreneur working in this way. Thanks to being self-employed they have a possibility to considerably lower the contribution to the compulsory social security. Regardless of the profit, they pay the contribution from the declared basis of assessment, which means 60% of the average pay. Besides, persons commencing an economic activity, in most cases, have the possibility to pay such an contribution to the amount of 30% of minimal wage. Currently, it amounts to 415,80 PLN monthly. In comparison with well-paid employees who pay several thousand PLN to the Social Security Institution, this does not amount to much (*Samoatrudnienie...*, 2014 February 2).

In case of a person conducting an non-agricultural economic activity there is a possibility of taxing the income in the form of a uniform tax of 19%. It allows to avoid paying 13,71% from the salary to the Social Insurance Institution and paying 40% tax from the remaining amount⁵. One should add here, however, that such a form of taxation need not be the most beneficial, as the entrepreneur usually has a small income. The income of the self-

² The Central Office of Statistics also includes as self-employed natural persons conducting an economic activity in the form of partnership of natural persons. According to the law a partnership cannot be treated as an independent entrepreneur. Entrepreneurs are partners in a partnership.

³ It means a situation when the services rendered by a self-employed person are conducted at the place of work belonging to the employer or another place, assigned by him. Most frequently, it concerns the situation when a self-employed person is a former employee of the employer.

⁴ A self-employed person must know the rules and regulations concerning the safety and hygiene at work, subject themselves to required examinations, take care of the right condition of the machine they use, apply the means of collective and individual safety and undergo medical examinations.

⁵ As it is commonly known in social insurance part of the contribution is obligatory and part is optional. One should underline here that the social insurance is not obligatory for all persons who are self-employed. Some entrepreneurs conducting an economic activity are entitled only to optional social insurance in the scope of pensions. It concerns those self-employed who at the same time remain in an employment relationship and their basis of assessment of the contribution calculated for a month is at least equal to the minimum wage.

employed is not high on a yearly scale, at least in the initial stage of running the business, so the taxes they pay usually do not exceed the first tax rate. It means that such tax-payers should not choose flat-rate tax from economic activity because they are bound to lose their money. This results from the fact that in case of a flat-rate tax there is no tax-free allowance and thus, only when the annual income exceeds 90 thousand PLN is the flat-rate tax of 19% viable. One should underline that the choice of a flat-rate tax is tantamount to rescinding the right to lower the taxable income by tax reliefs other than compulsory social insurance contribution and the possible loss. The tax itself decreases exclusively by the reduction of the compulsory social insurance contribution. So it cannot be lowered, for example, by the reduction on the Internet use.

The self-employment faces many barriers. In case of small companies the barrier might be the qualifications and competences of the entrepreneur. They often lack complex knowledge in the field of management, marketing, technology, law, etc. In case of big enterprises, the owner simply employs professionals from these fields. Another barrier might be the shortage of capital, which results in the situation when even small fluctuations in the demand for products or services of the company are acutely felt. Using bank loans in such a situation is limited and mostly available to big companies. Small firms rely on their own means, or borrow from relatives or friends. Another problem is the bureaucracy connected with undertaking some kinds of economic activity (permissions, licenses, certificates from various services, etc.), and it is the owner himself who must get all the necessary documents, which might constitute a problem in case of a small firm. All these obstacles result in the relatively large number of small firms going bankrupt, which is explained by a higher sensitivity of such firms to the above-mentioned factors (Bednarski, 2007).

There are many differences between self-employment and contract employment: The most important are the following:

- An employee employed on the basis of employment contract commits himself to undertake activities assigned to him by an employer in a specified time and place. A self-employed person is not obliged by this; they have a complete freedom to choose the time and place. One should bear in mind, however, that it could mean working longer hours daily or weekly than is specified by the Labour Code.
- The employer commits himself to employ a person limited by employment contract for a specified remuneration. Unlike a person who is self-employed where the Labour Law does not guarantee a minimal wage. That is why the mode in which payment is made and the time are individually established.
- The regulations of the Labour Law apply to employment contract. Self-employed persons, on the other hand, cooperate with their contractors on the basis of civil law contracts, so these regulations do not apply in case of the self-employed.
- All the risk concerning the employment contract rests with the employer, whereas in case of self-employment the risk rests with the self-employed entrepreneur.
- The contract between a self-employed with an employer, unlike the employment contract, is based on a larger freedom, as for example, concerning ban on competition and confidentiality.
- Self-employment guarantees lower contribution to the Social Insurance Institution than in the case of full employment, i.e. minimum 60% of the assessed average monthly salary assumed to calculate limit amount of the annual base amount of the contribution. Moreover, base amount of the contribution to pension insurance of the self-employed insured during the first 24 months since the beginning of the economic activity is a declared amount which cannot be lower than 30% of the minimum wage.

- Self-employment is characterized by a low stability of employment unlike full employment.
- Unlike a fully employed person, a self-employed person must be fully responsible for keeping the accounts, pay insurance contributions and taxes.
- Unlike a fully employed person, a self-employed person does not have the right to a leave. One should add here that the contract might contain the right to suspend rendering of the service for a specified period of time without the change in the established remuneration.
- The responsibility of an employee employed on the basis of employment contract is determined by Labour Code; in case of self-employment his responsibility may be limited to a particular amount, e.g. contract penalty without the possibility of obtaining full compensation.
- Unlike in the case of an employee employed on the basis of employment contract, an employer can terminate the contract with a self-employed person at any time. The contract, however, may determine an agreed period of termination and specify what reasons justify a termination of contract without a termination period.
- The self-employed- unlike employees employed on the basis of an employment contract – are not entitled to formal protective periods before the termination of the employment contract, i.e. the prohibition to terminate the employment contract in the period of four years before the retirement and the prohibition to terminate the employment contract in the period of justified absence from work.
- Employees employed on the basis of employment contract are protected by trade unions, whereas the self-employed cannot count on such protection.

8.4. Results and discussion

Self-employment is a frequently chosen form of employment, being either an attractive alternative to people dissatisfied with their full employment jobs or as the only possible way to find work, especially in the period of economic slowdown when many companies face the necessity to restructure and cut costs.

Table 8.1

The volume of self-employment in Poland in 2005–2013 (in thousand)

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013
Employment	14390	14911	15538	16005	15885	16075	16201	15636	15713
Self-employment	2972	2911	2942	2914	2979	3017	3052	2988	2879

Source: Główny Urząd Statystyczny (GUS), 2014

Table 8.1 shows the data concerning the volume of self-employment in Poland in the background of the total volume of employment in the years 2005–2013. It is generally assumed that the economic crisis in the world began in 2007, but the first symptoms had been observed earlier and that is why such a long period was chosen for the analysis. Poland was not hit by the crisis, however, in the analysed period a distinct economic slowdown was observed. The information shows that the volume of self-employment in Poland hardly changes, but if we compare that number to the total number of the employed we can

see that since 2005 the participation of the self-employed in the total number of the employed has decreased by 2 percentage points; which can be explained by the increase in total employment in that period. (see Table 8.2) According to the data from the Central Office of Statistics, at the end of June 2011, 3,9 million firms in Poland had National Business Registry Number. Out of this number, according to the Research Institute on the Market Economy, nearly 2 million were “economically active” (Nowakowski, 2014 March 02). This results in the fact that annually, the income generated by the self-employed is considerably smaller than the estimates based on the number of the registered firms and it amounts to more than 730 million PLN.

Table 8.2

Participation of self-employment in the total number of the employed in the years 2005–2013 (in %)

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
Participation of self-employment in the total number of the employed	20.25	19.52	18.93	18.20	18.29	18.77	18.84	18.40	18.30

Source: authors own study based on Central Statistical Office of Poland

At the beginning of the examined period, the participation of the self-employed in the total number of the employed was higher, which might be explained by a relatively better economic situation at that time. There is a sharp decline starting from 2007, the moment when economy started to deteriorate due to the financial crisis. Despite the fact that the crisis in Poland was not as severe as in Western Europe, one should bear in mind that many firms in Poland produce for export, thus, seeing the worsening situation in the world economy they took preventive measures, especially those which would allow to economize, cut costs and wait, rather than expand to new markets.

Table 8.3

Self-employed according to gender in 2005–2013 (in thousand)

Gender	2005	2006	2007	2008	2009	2010	2011	2012	2013
Women	1013	1011	1022	1030	1024	1036	1043	1012	953
Men	1881	1893	1910	1941	1955	1981	2009	1974	1926

Source: GUS, 2014

It is worthwhile to see how many women and men decide to become self-employed. Table 8.3 shows the distribution of self-employment according to gender. Approximately, men tend to become self-employed twice as often as women. It is probably due to the fact that women are limited here by the role they are to fulfill in a family, which makes them less flexible than men. Moreover, men traditionally try to be decent breadwinners in a family so they tend to be more audacious in this respect.

Table 8.4

Self-employed conducting their economic activity in town and villages in the years 2005–2013
(in thousand)

Place of residence	2005	2006	2007	2008	2009	2010	2011	2012	2013
Town	1137	1166	1197	1260	1296	1360	1376	1204	1282
Village	1757	1737	1735	1711	1683	1657	1676	1644	1596

Source: GUS, 2014

Self-employed persons more frequently live in villages (see Table 8.4) than in towns. It is due to the fact that there are far fewer number of companies that might employ a larger number of people (as the case is in towns). Especially at the beginning of the examined period this imbalance is considerable, which means that in 2005 the number of the self-employed in towns amounts to 64,71% of self-employed inhabitants of villages. In 2013, on the other hand, this disproportion became considerably smaller, which means that the number of self-employed inhabitants of towns amounts to 78,10% of the self-employed in villages. These changes are due, among other things to the fact that self-employment has become better known and more acceptable in the more conservative countryside, which adjusts more slowly to new solutions and forms of activity. Moreover, in the insecure economic situation resulting from the long-lasting economic slowdown inhabitants of villages are forced to show initiative and entrepreneurship to survive economically.

Table 8.5

Self-employed in chosen sections of PKD (Polish Classification of Activity)
in towns and villages in 2013 (in thousand)

Place of residence	Agriculture, forestry, hunting and fishing	Manufacturing	Construction	Wholesale and retail trade; repair of motor vehicles, motorcycles	Transport and storage	Education	Health and social work
Town	81	111	169	312	89	35	66
Village	1124	72	103	143	37	6	14

Source: GUS, 2014

While analysing the distribution of self-employment in most frequently chosen sections of activity one can notice that the inhabitants of towns generally choose different sections from the inhabitants of villages (see Table 8.5). Among the self-employed inhabitants of towns, trade and car repairs predominate, whereas among the self-employed inhabitants of villages the most frequently chosen is agriculture, forestry, hunting and fishing.

Table 8.6

Self-employed according to gender and education in 2013 (in thousand)

Category	Higher education	College and secondary-vocational education	Secondary comprehensive education	Vocational education	Gymnasium education, primary education, not completed primary education
General	695	832	181	912	258
Women	274	270	99	253	74
Men	422	562	82	659	184

Source: GUS, 2014

Among self-employed women, the majority have a college and secondary-vocational education, whereas self-employed men most frequently have a vocational education (see Table 8.6). Then, in case of women, we have vocational education, gymnasium education (high school first degree), primary education, not completed primary education and secondary comprehensive education. In case of men the order is slightly different, namely second comes college education and secondary-vocational and then, higher education, gymnasium education, primary, primary not completed and finally secondary comprehensive education.

One may generally say that the participation of self-employment in the total employment in Poland is barely changing, which means that it is the form of professional activity which has turned out to be either the only solution on the unstable job market, or an effective way to earn a living for a large group of Polish people. While analysing the structure of self-employment on the basis of the above-mentioned criteria one may risk the conclusion resulting from the analysis of age, education and gender conducive or not to self-employment. However, observing self-education in chosen PKD sections one can see that this form of employment does not work equally in each kind of activity, and hence, the imbalance presented in Table 8.4.

The above information allows for the conclusion that the group of people willing to become self-employed is very diversified – demographically, socially and economically. Thus, this kind of employment provides a real alternative to other forms of employment.

8.5. Conclusions

Self-employment has become a challenge and a necessity for people losing their professional status. At the same time it has become a symptom of entrepreneurship which has become paramount in Poland in recent years. The situation on the job market is unstable, and a constant discrepancy between job demand and supply has become a permanent feature of this market.

The need to react to a dynamically changing economic situation dictates comprehensive solutions in order to make the job market more flexible and more adjusted to the needs of the economy. Self-employment, as an unconventional form of employment is thus a part of a solution to deregulate the job market.

The analysis of the statistical data concerning self-employment in Poland shows that this kind of economic activity encompasses nearly a fifth of the total working force. That proves that it is not a marginal form of employment, but a quite frequently chosen form of professional activity. The motives for undertaking such an activity vary and they are more or less discretionary, which was pointed out in the article. Also, not in every section of PKD self-employment is effective and popular, but undoubtedly it constitutes an alternative to other forms of employment.

Referring to the research hypothesis put forward in the introduction one may point out that the self-employment is a form of employment which might constitute a real alternative to other forms of employment, especially in the period of economic slowdown in Poland. It is evidenced by the fact that this form of employment coexists with other forms of employment, and is, thus, a part of job market policy being one of the opportunities of those who are professionally active.

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TRENDS AND TENDENCIES IN FLEXIBLE BENEFITS IN FIVE CENTRAL AND EASTERN EUROPEAN COUNTRIES

József Poór*, Zoltán Šeben*, Agneš Slavić**, Katalin Óhegyi***

*J. Selye University, Komárno, Slovakia

**Faculty of Economics, University Novi Sad, Subotica, Serbia

***Szent István University, Gödöllő, Hungary

Abstract

The aim of this paper is to determine the trends and tendencies in flexible benefits in Croatia, Hungary, Slovakia, Romania and Serbia. The article uses literature review, examination of primary and secondary data, authors' own conceptual work. The authors first review the most important features of the cafeteria system (interpretations, goals, typical 'stakeholders' and strategic HR issues). Then they examine the usage of the system of flexible benefits in the light of Cranet (this is a global HR survey, established at Cranfield University, in UK in 1989). Today universities from 42 countries are members of non-profit HR research network (www.cranet.org) for global survey (2008–2010). The authors analyse the evolution of cafeteria system on basis of experiences from five Central and Eastern European countries (Croatia, Hungary, Romania, Slovakia and Serbia). The reader can also find insight into the major changes in the field of cafeteria system in the analysed countries. The findings of the Cranet global survey are very useful. By the means of a summary of our research outputs from Croatia, Hungary, Romania, Slovakia and Serbia we can identify the trends and tendencies in flexible benefits in this region. At this point, and in our opinion, the time has come to devote more attention to the characteristics and trends in flexible benefits in CEE region. The results obtained may also contribute to a better understanding of cafeteria system in the Central and East European business context.

Key words: cafeteria, cafeteria system, benefits, Cranet global survey, Central and Eastern European Countries.

JEL codes: J3

9.1. Introduction

While studying the literature dealing with economics many scholars indicate that one of the keys to the success of a corporation is its efficient managing and motivating people. The utilization of employees' skills to the highest possible level through a stable human resource philosophy, policy and practice is a significant tool in gaining competitive advantage. The aim of the paper is to determine the trends and tendencies in offering flexible benefits in five Central and Eastern European countries on the basis of the authors' consulting, training and research experiences.

9.2. Literature review/theory development

Employee benefits are the forms of remuneration, which are not classified as a wage and are not performance-based, either. There are no companies, which would not give their employees some sort of benefits. The three most important kinds of employee benefits are the following: the first group consists of benefits, which are obligatory and are stipulated by laws and regulations. The second group is made up of the benefits, which are given to employees by their employers in order to improve their standard of living and their working conditions. The provision of these benefits is initiated by the employers themselves, which is in their own interest (Snell & Bohlander, 2007). The third group is made up of benefits paid out by firms to those in social need.

9.2.1. Features and characteristics of cafeteria systems

One of the newest solutions in the management of benefits is the Cafeteria Model (flexible benefits, flexible spending accounts, cafeteria or cafeteria style benefits) (Noe et al., 2000; Snell & Bohlander, 2007). This model was developed in the USA and has become widely used all over the world (Grawert, 1996). In Europe it is most widely used in the United Kingdom. The aim of the model is to meet the needs of everyone (Kasper & Mayrhofer, 2002 and Jung, 2008). It is a sort of *self-service* system (Snell & Bohlander, 2007). In this model there is a sort of *menu*, which lists all the benefits available for employees together with their costs. The system also shows the amount of finances, which can be spent by individual employees on chosen kinds of benefits. On the basis of the costs and the available sum employees can choose which benefits they would like to receive on the basis of their own preferences (they choose what they consider important). On one hand, thank to these model the employees can see how much each available benefit exactly costs (how much the company spends on benefits). On the other hand, employees are given the freedom of choice (Milkovich & Boudreau, 1997).

Table 9.1

The advantages and disadvantages of cafeteria systems

Positive impacts	Negative impacts
<ul style="list-style-type: none"> – benefits paid out on the basis of individual needs – freedom of choice for employees – employees are well-informed and aware of their choices – efficient utilisation of financial resources – efficiency can be automated, transparency 	<ul style="list-style-type: none"> – higher administrative costs – a need for more complex, individual consultation with employees. – difficult choices: employees might make bad choices. – cost neutrality of the system's introduction

Source: own study based on (Kolb, 2008, p. 347)

There are several kinds of flexible benefits systems. The most important ones to be mentioned are the following:

- modular plan,
- core plus option plans,
- mix and match plans.

The advantages and disadvantages of cafeteria systems are listed in Table 9.1.

9.3. Material and methods

The Cranet research project launched in 1989 had a pioneering role in the research of the HRM models in Europe and other regions. Nowadays researchers from 42 countries participate in the project and the network has become the world's biggest HR research network. The *questionnaire* used in the Cranet survey (Karoliny et al., 2010) has been designed to find out information about the most important fields of HR, including employee benefits. Approximately 60 questions are divided into seven main groups and are designed to get factual, objective information from the respondents.

9.3.1. Benefits above the legal requirements

In the research of 2008–2010 as many as 6258 respondent institutions from 30 countries took in the survey. As for the sectors represented by the respondents, the vast majority were from the service and the industrial sector. The respondents from the third sector (44%) slightly outnumbered those from the industrial one (42%). The typical size of businesses in the research sample was between 251 and 1000 employees; however, those with fewer staff (fewer than 250) also had a considerable proportion of more than 30%. Large enterprises counted for 20% of responding institutions.

In the framework of the abovementioned research, conducted among 6258 businesses and institutions in 30 countries, the researchers aimed to find out the proportion of benefits in excess of statutory requirements. In many European and post-communist countries the proportion of benefits guaranteed by the state was high. This might be the explanation (see Table 9.2) for the fact that the proportion of the abovementioned extra benefits in the northern countries (Sweden and Norway) or in the transition countries, such as Hungary, is not very high. In other countries, such as the Netherlands, Germany and Austria, the proportion of benefits in excess of statutory requirements is higher due to the existence of collective agreements on different levels. Businesses in less regulated, so called liberal economies, such as in the USA, mostly give only the minimum obligatory amount of benefits to their employees.

Table 9.2

Benefits offered in excess of statutory requirements in different countries of the world, (%) (2008–2010) ($n = 6258$)

Benefits /countries	Workplace childcare	Childcare allowances	Career break schemes	Maternity leave	Paternity leave	Parental leave	Pension schemes	Education /training break	Private healthcare
Australia	2	2	18	59	54	52	49	38	14
Austria	12	8	23	68	60	74	56	84	35
Belgium	10	8	41	51	48	50	81	44	67
Bulgaria	2	22	5	50	17	22	21	48	21
Cyprus	0	1	12	56	21	35	52	57	70
Czech Republic	0	0	11	17	0	15	51	55	9
Denmark	3	2	58	66	64	56	75	48	63

Benefits /countries	Workplace childcare	Childcare allowances	Career break schemes	Maternity leave	Paternity leave	Parental leave	Pension schemes	Education /training break	Private healthcare
South Africa	4	3	6	90	69	61	84	75	74
United Kingdom	11	27	26	50	49	36	72	28	52
Estonia	2	6	37	31	35	31	4	53	29
Finland	8	2	26	40	33	45	31	44	46
France	3	16	13	51	45	45	27	39	75
Philippines	4	4	15	58	54	46	54	38	81
Greece	7	58	10	62	39	64	41	65	79
Netherlands	8	19	12	65	32	78	58	50	42
Iceland	2	1	14	23	19	24	13	44	26
Israel	3	5	8	21	11	27	24	17	21
Japan	48	19	56	90	97	84	74	16	89
Lithuania	3	8	3	30	30	13	11	24	26
Hungary	4	14	14	21	31	25	50	68	31
Germany	17	20	23	76	72	62	92	90	43
Norway	8	5	10	25	30	23	68	67	25
Russia	3	16	29	81	42	68	16	71	77
Switzerland	13	21	11	81	41	32	77	80	42
Sweden	1	0	2	41	41	19	46	33	31
Serbia	0	0	50	66	50	61	39	61	5
Slovakia	3	20	9	28	25	31	41	27	31
Slovenia	1	2	1	72	74	69	51	54	11
Taiwan	10	7	89	90	87	70	62	71	32
United States	7	5	4	25	22	23	17	14	13
Countries on average	7	11	23	53	42	45	47	50	41

Source: own study based on (Poutsma & Lighthart, 2011, pp. 78–79)

9.3.2. Use of flexible benefits on the basis of the Cranet survey

In the framework of the research we aimed to find out whether the respondent businesses and institutions use flexible benefits. The findings show that there are flexible benefits in each of the researched countries. As for the different employee segments, flexible benefits are offered mostly to managers (36,6%), followed by professionals (31,8%), clerical administrative staff (28,0%) and manual workers (20,1%).

If we look at the research findings in regional breakdown, it is the USA where the proportion of businesses/institutions offering flexible benefits is the highest (65,9%). In Europe, offering of flexible benefits is mostly typical in Central and Eastern Europe (39,7%). Flexible benefits are used to the lowest extent in Northern Europe (31,4%). Only 21,5% of the respondent institutions based in the participating Asian countries use flexible benefits.

Table 9.3

Proportion of institutions using flexible benefits in a breakdown of employee segments, (%)
(2008–2010), ($n = 6258$)

Country	Managers	Professionals	Clerical administrative staff	Blue-collar workers
Australia	34,5	29,1	20,9	10,0
Austria	42,2	33,0	26,9	18,5
Belgium	39,2	26,7	23,3	9,6
Bulgaria	28,6	23,9	22,1	18,8
Cyprus	14,5	12,6	13,5	10,80
Czech Republic	42,6	40,7	38,9	33,3
Denmark	51,2	42,1	39,3	28,4
Estonia	63,6	59,1	47,3	47,3
Finland	27,3	20,8	17,9	13,3
France	0,6	1,3	n.a.	n.a.
Germany	49,7	45,2	37,5	20,5
Greece	41,4	32,2	25,4	18,3
Hungary	49,6	48,2	43,9	36,7
Iceland	12,3	11,6	8,0	1,4
Israel	38,9	25,8	25,0	5,0
Japan	10,2	10,0	9,4	8,8
Lithuania	31,1	26,9	24,4	16,0
Norway	40,2	30,1	30,7	20,0
Philippines	24,0	14,8	14,8	21,7
Russia	30,6	30,6	25,0	22,5
Serbia	18,8	16,1	13,8	7,1
Slovakia	24,7	19,0	17,2	13,6
Slovenia	61,7	54,1	48,0	44,2
South African Republic	43,7	38,3	24,7	18,8
Sweden	14,2	10,6	9,9	6,4
Switzerland	31,5	23,0	24,1	21,1
Taiwan	40,3	35,8	30,5	15,5
United Kingdom	38,4	33,6	27,7	30,8
United States of America	65,9	66,2	64,8	53,6
Countries on average	36,6	31,8	28,0	20,1

Source: own study based on (Poutsma & Lighart, 2011, pp. 78–79)

9.3.3. Cafeteria in Five CEE countries

Croatia

Even now an EU member, Croatia is still facing social and economic problems caused by the war and disintegration of former Yugoslavia. Croatia now has about 4,30 million inhabitants, while the GDP is about 80 billion USD. The GDP per capita is about 18 100 \$. The inflation rate in 2012 was 4,7%, while the unemployment rate in June 2013 was about 18,6%. According to Radman, Stanković and Štajduhar (2011) the net wages are 36–50% higher in Croatia compared to the countries of the region.

Only about 51% of Croatian enterprises use some kind of performance management system (Pološki, 2004). The performance of managers is evaluated in only 37% of big companies. Besides, the employees of large enterprises get 10–15% higher wages than in smaller companies on the average. The incentives are present only in 14% of enterprises. The Croatian companies spend on average about 23 EUR per employee for trainings, health and medical programs of family allowances.

The most popular traditional benefits in Croatia are: the Christmas and Easter bonuses, vacation allowances, and packages for the children of employees. In a given company all employees get the same benefits or of the same value. The majority of companies offer material benefit when an employee gets a child and the most successful companies offer a 13th monthly pay, as well. According to collective agreements, companies offer the remuneration of travel expenses for their employees travelling to work. The supplementary health insurances are becoming more and more popular. The flexible benefits – cafeteria approach – are present mostly at the multinational companies.

In the state-owned companies and institutions the benefits beyond basic pay are almost ceased. In the period of economic crisis the employees in the public sector wrote off their past privileges and only the Christmas packages has been left from the wide range of benefits. The maximum tax-free benefit of 330 EUR is divided into three parts as the employees get it for Christmas, Easter and for summer holidays (Szlávicz et al., 2013).

Unfortunately a developed system of benefits or incentives is not present in the big Croatian companies, while in the SMEs or public owned companies facing problems there is no material possibility to offer wide range of benefits.

Hungary

Prior to the market economy, employers in Hungary provided wide range of benefits. These were mainly social provisions, such as usage of the company's holiday facilities, subsidized meals in the company's canteen, health & safety related provisions or company products. After the introduction of the personal income tax in 1988 the wages were grossed up, but the benefit provisions remained tax free, providing a clear cost advantage for these benefits. During the privatisation, companies, especially those with foreign ownership, have re-evaluated the role of benefits in the total compensation package. International companies attempted to implement their compensation philosophy regarding base pay, incentives, as well as benefits – they adopted their approach in the Hungarian regulatory environment. The range of provisions was still based on the heritage of the pre-market economy era.

Flexible benefit plans were adopted early in the privatization era in the 1990s, not only by international companies, but large state-owned employers also introduced such benefit packages. Gradually cafeteria benefits became widely spread in Hungary. Several variations of the cafeteria plans came into practice. Some employers defined a range of core

(fixed) benefits, and provided flexible choice to the larger part of the benefit allowance or gave a fully flexible allowance to employees. Some other companies provided the full allowance for flexible choice. In terms of determining the flexible allowance, three model became regular: providing the same amount of allowance for all employees, different amount of allowance for different group of employees (e.g. management and others), or determining the allowance as a percentage of the basic salary of the employees.

The government aims to align the tax preferences with the actual macroeconomic policies: drive consumption in specific sectors (e.g. tourism and catering), support social purposes (meals for employees) and incentivize self-provision (e.g. pension and healthcare savings) (National Ministry of Economic Affairs, 2011). The government limited the tax exemption to a defined range of benefits which were supported, and imposed high tax to the rest of in-kind provisions. Each year the range of preferred benefits and maximum tax-free amounts changed. Employers are liable to pay for the tax and contributions on benefits, however, they have the choice to make the employees liable for these charges in part or in full, or they can bear the full cost. According to the authors' research 39% of the employers take all charges, 13% shares with employees, and 48% deducts all charges from the benefit allowance (Poór et al., 2013).

In 2010 a tax has been introduced to all benefits which were previously tax-free, although this tax rate was lower than on those previously taxable benefits. This preferential tax rate also changed from year to year, and lately a social security component was also charged on them. Figure 9.1 shows how the preferential and regular tax rates have converged over the years, reducing the cost differential on the two different categories of benefits.

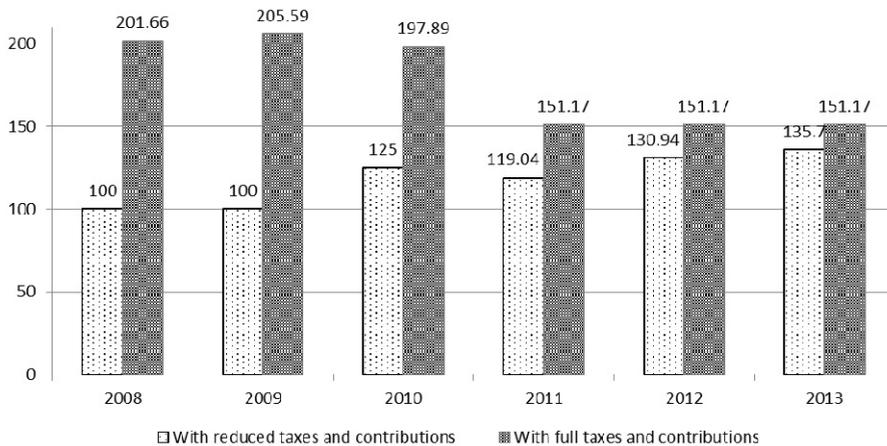


Fig. 9.1. Total cost of net benefits in Hungary, 2008–2013

Source: authors' own research

Rationale why employers implemented benefits packages varied. One end of the spectrum (typically employers in highly cost-sensitive industries or with lower paid employee base) wanted to maximize the tax advantage, some even offered benefits in lieu of salary increases. Others aimed to implement a strategic compensation approach (often stemmed from their foreign mother company) with main focus to attract and retain the best people—cost considerations were also important in these cases. According to the authors' research,

the top three reasons for introducing or maintaining cafeteria systems are the cost containment, tax efficiency (compared to wages) and employee satisfaction (Poór et al., 2013).

Originally benefits were provided in kind or through direct subsidy. When cafeteria systems became widespread, vouchers appeared (e.g. meal vouchers, vacation vouchers), making it possible to accommodate individual choices. In parallel with this, providers of benefit services entered the market providing not only the vouchers themselves, but also professional advice, infrastructure and administration services. The most recent trend is the expansion of electronic solutions, such as the Széchenyi recreation card, which eliminates the need of physical printing and distribution of the vouchers. There are already employers, which provide benefits available in electronic form only.

Government influence on benefits also became prevalent in the past years, when state-owned entities entered the market of benefit providers, offering some popular benefits on preferential taxation (e.g. meal voucher) exclusively.

The regulatory environment goes through a variety of changes in the area of tax, social security, labour law, etc. which requires companies to review their practices and adapt their systems regularly, and making the administration of benefits more complicated. In parallel, the cost advantage versus wage payment is becoming smaller. In 2013 61% of employers offering cafeteria benefits thought that it is still worth to maintain and operate the system in the future, compared to 79% in 2011.

Romania

Looking at promotion practices of the Romanian companies, it should be concluded that a significant number of companies consider wages and salaries as the only financial motivational tool. This is especially true of junior employees (PwC Romania, 2013). Different wage contribution, because of the government's decision, is changing relatively frequently. Now employers pay 30 to 40% of gross salaries as personal tax contribution, which significantly increases labour costs.

The food and meal voucher is one of the most commonly used forms of benefits (IntegraHR, 2012, 2013). On second place there is company telephone (29% private, 11% public sector) followed by health insurance (27% private, 18% public sector) and training programs (17% of private sector, public sector 8%). Also on the list of preferred benefits, there are gift certificates, private pension contributions, company cars, and the rent subsidy, monthly passes for public transportation, recreation and fitness support tickets. 47% of public servants and 25% of private sector workers have not received any forms of benefits.

Compared to the business practices of employees' expectations, it can be concluded that many Romanian companies do not pay enough attention to the stimulus of cost-effective "soft" factors such as the establishment of a fair reward and promotion system or nice working atmosphere and flexible working time. HR professionals are accountable to drive the attention of business leaders and the importance of these factors developing effective management systems (AIMS, 2013).

Serbia

Serbia's territory is 88,361 km², where about 7121000 inhabitants live. In Serbia the majority (85%) of the population consists of Serbs and Orthodox, but there are more than 20 nationalities and other religions, too.

The former republic of Yugoslavia still faces serious economic problems, what can be assumed from the main macro-economic indicators, too. The GDP in 2013 was about 32,7 billion EUR, while the value of GDP per capita was about 4550 EUR, which is significantly

lower than the EU average, where this country aims to join. The positive tendency is present as in the period between 2012 and 2013 the GDP increased by 2,2%. The main success of Serbian macro-economic policy is present in the field of inflation. While in 2012 it was more than 12%, in November of 2013 it reached 1,6% and as a result in 2013 it averaged about 2,3%. In 2013 the average net income in Serbia was about 390 EUR and there was a decline of 1,9% in comparison with 2012. The most serious problem is the high rate of unemployment. Even if there is a small decline, in October of 2013 it was about 20,1%.

The characteristics of the national culture of Serbia make the adaptation of western management techniques difficult. Based on Hofstede's (1980) dimensions, Serbia is a country with high power distance (76), uncertainty avoidance (88), explicitly individualistic (27), and feminine (27) values. According to Janičijević (2003) the dimensions of national culture affects the organizational culture, as well, and results in authoritative leadership style, the high importance of informal relations (networking), and high bureaucracy. This is why the Anglo-Saxon management techniques could not be used directly, but only after studious adaptation.

According to the Labour Law in Serbia the employees are eligible for the following types of compensation: basic pay for the work done and time spent on the workplace, incentives and benefits. The pay for the work done consists of basic pay, pay for performance and enlarged pay. The basic pay is usually formed based on the law, labour contract and time spent on work. The pay for performance is defined according to the quantity and quality of employee's performance. For enlarged pay the workers are eligible if they are working on holidays, at night, overtime etc. (Szlávicz et al., 2013)

In Serbia the minimal wages are set by the Social and Economic Council for three-month periods based on the costs of living, the average wages and the rates of unemployment. In November 2013 the minimum hourly pay was 115 dinars (about one euro).

Besides, the most well paid managers in Serbia get about 10000 EUR monthly pay. Based on the research of Serbian Delegacy of German Economy (2012) the incentives are present in less than 5% of the compensation package of Serbian managers. In case of top managers the incentives make 8%, in case of line managers 7%, while in case of professionals 4% of the total compensation package.

Serbia has a comprehensive social security system covering all the nine benefits listed in ILO Convention No. 102: old-age, invalidity, survivors, sickness, maternity, employment injury, unemployment, medical care and family benefits. Most benefits are provided on the basis of social insurance, but elements of direct employer liability still remain, in particular in the case of employment injury protection (ILO, 2012).

The practice of developed flexible benefits – well known as cafeteria approach in market economies – is not included in the labour law system of Serbia, yet. But the employees are eligible for some types of benefits, like for the remuneration of the costs of travelling for work, for travelling and accommodation cost during field-work or business trips, meals during work and messing and vacation allowance. In the case of professional health problems of injuries the workers are eligible for compensation.

According to the collective agreements the employer may offer Christmas packages for the children of its employees' or for employees after 10, 20 and 30 years working there or offer social aid or preferential loans for its employees.

In the subsidiaries of multinational companies in Serbia it is possible to offer benefits beyond the principles of collective agreement. Among their employees professional trainings, reward journeys and different bonuses are the most popular types of benefits.

In the future it is expected that the compensation packages – and benefits – used successfully in market developed countries will be popular in Serbia, too. It is important to offer transparent and fair flexible benefits.

Slovakia

Social policy issues in Slovakia are dealt with in the Slovak Labour Code (Zákonník-práce, 2013). All businesses that pursue their activities as legal entities in the Slovak Republic and all entrepreneurs who are based in Slovakia as natural persons and employ people in any form are obliged by law to raise a so called *social fund* (Sociálny fond, stipulated by Act No. 152/1994 Coll.) This social fund serves as a financial source for the implementation of their corporate social policy. The Act on Social Fund is closely aligned with the Act on Income Tax in Slovak Republic, which allows accepting more employers' contributions as tax expenses, contributing to improve social conditions of employees (Wéber & Gyurián, 2011). It concerns, for example, improvement of safety and health at work, training and retraining of employees, 55% of eligible expenses for meals, etc. Employers must stipulate in a collective agreement with a trade union the following specifications of their social fund: its establishment, its size, the way of its utilization, what conditions have to be met for the provision of benefits from the fund and how those payments can be monitored. If there is no trade union, the employer must stipulate the above terms in the framework of internal rules.

The SODEXO catering and service company published the data on the basis of a survey conducted among 400 managers and HR managers, according to which meal vouchers were the most widely used employee benefits in Slovakia in 2009 (see the Fig. 9.2).

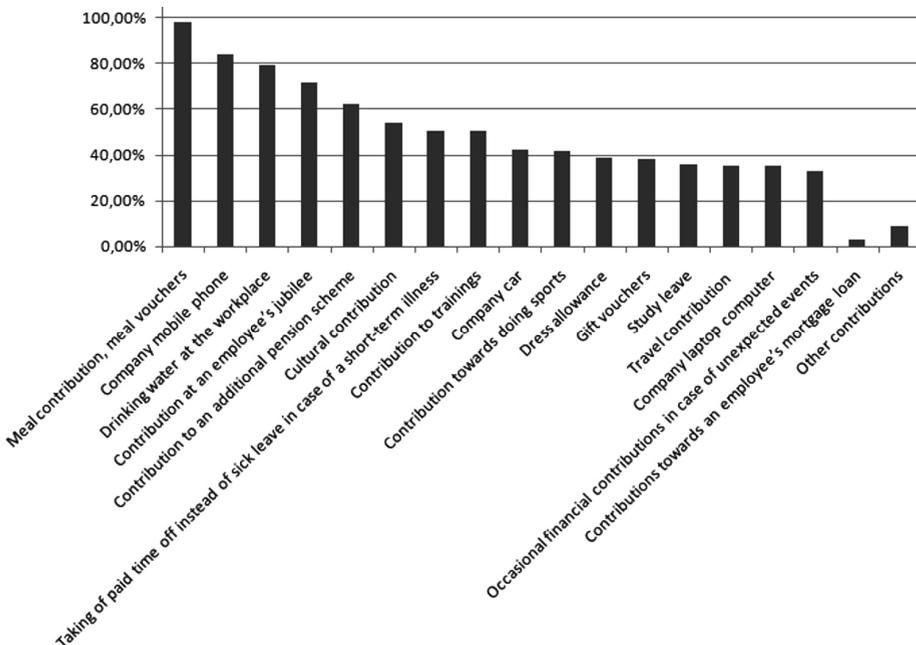


Fig. 9.2. Provision of several employee benefits according to the SODEXO survey (%)
Source: own study based on (SODEXO, 2009)

The result of a research similar to the above-mentioned one was published in 2012 by Edenred Slovakia. Their press release says that meal vouchers are the most preferred kind of benefit offered in excess of statutory requirements among respondents from the researched Slovak businesses. These are followed by flexible working hours and cash benefits. Company events, such as team building events, parties and skiing trips are also considered important by respondents. Different trainings, professional training courses and language courses were chosen by less than 10% of the respondents. Further benefits also mentioned were the availability of sick days and fringe benefits (Edenred Slovakia, 2012).

9.4. Results and discussion

The cafeteria system is undergoing continuous transformation both in the international area, in Hungary in other CEE countries. Changes in domestic systems are driven by the enforcement of the discounts in tax and charges. These are the factors that determine the way companies adjust themselves to the regulating environment.

Cafeteria elements can contribute to the relaxation, or entertainment of employees outside the workplace, to the variety of spending their leisure, and continue to provide adequately flexible assortment allowing employees to choose the benefits that meet their individual demands in the best way. On the whole it can be stated that companies which offer cafeteria at present, as well, consider these benefits to be important components of the compensation package and will adapt themselves to the changing regulations by reasonably optimizing their cost-efficiency and HR criteria.

9.5. Conclusions

As for subsequent research, we have standardized our research approach for conducting a similar survey in several countries of the region. This project is now underway. We are also negotiating with colleagues to duplicate this research and/or conduct studies consistent with our model and on parallel issues in other countries in our region.

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IMPROVING THE COMPETITIVENESS OF ENTERPRISES IN POLAND BY INCREASING FINANCIAL SUPPORT FOR EARLY STAGE OF DEVELOPMENT

Honorata Howaniec
University of Bielsko-Biala, Poland

Abstract

The support that can be obtained from the EU funds to start a business greatly encourages potential entrepreneurs to start a business. Unfortunately, they often do not have knowledge of other funds available to entrepreneurs, including those intended for people who want to be entrepreneurs, what very often is the cause of termination of business or a smaller scale operation. This article presents a support system to entrepreneurs and would-be entrepreneurs in Poland, in the form of seed capital and start-up capital, the knowledge and the degree of utilization by stakeholders. In the article it is assumed that higher knowledge of such funds may increase the innovativeness of SME, scope of their operation, and – consequently – their competitiveness. The work is based on statistical data and primary research.

Key words: development of entrepreneurship, system of business support institutions, financial support of entrepreneurs (start-up capital, seed capital).

JEL codes: L26

10.1. Introduction

Fostering entrepreneurship in the regional and structural policy is part of the intervention of public authorities in the field of economic policy. It means a package of activities related to administrative modification of the market allocation through the direct impact of state on the system of forces of supply and demand in the market system, as well as exerting an indirect influence on the system as a result of formation of the elements of the socio-economic.

National programs define the main directions of government intervention in the area of promotion of entrepreneurship, taking into account specific national circumstances and compatible with the objectives of more detailed operational programs (e.g. Operational Programme “Innovative Economy 2007–2013”). An important aspect of these administrative actions are:

— reducing the information asymmetry-creation of information centres, from sources of public information, training programs to raise the knowledge and skills in order to sup-

port entrepreneurship in high-technology sectors as a prerequisite for the development of the knowledge economy,

- creating system facilitating access to capital for long-term development projects, supporting the development of human resources in enterprises;
- generating positive externalities – improving transport and telecommunications infrastructure, the integration of entrepreneurship, supporting the preparation of legislative proposals, reduction of transaction costs – the introduction of improvements in the scope of public procurement, help in the internationalization of enterprises;
- taking into account the public good in the economy – the compensation of investment in research and development, preventing the bankruptcy of companies in regions with structural unemployment and economic and social stratification regions.
- Business support instruments are diverse in nature, but can be divided into seven main areas of support to regional policy:
 - assistance in starting a business,
 - facilitating access to capital,
 - specific support work in the field of R&D, together with the implementation of new technologies,
 - provide appropriate advice and information as part of the development known as "soft skills"
 - creation of conditions for the internationalization of economic activity,
 - reduction of personnel costs in order to improve the situation in the local market work,
 - investments supports.

Forms of support implemented during the last programming period (2007–2013) include for example:

1. **Priority Axis 1.** – “Research and technological development (R&D), innovation and entrepreneurship” of the Regional Programme of Silesia Province 2007–2013. The main objective of this priority was to increase the competitiveness of the regional economy based on knowledge. Priority I was supporting infrastructure measures of economic development, investment promotion and development of micro, small and medium enterprises through direct investment and advisory services, and technology and innovation transfer.
2. **Measure 4.1.** – “Support for implementation of results of R&D works” in the Programme Innovative Economy under which support was given to investment projects related to implementation of the research results.
3. **Measure 4.3.** – “Technological credit” in the Programme Innovative Economy under which the National Economy Bank gave the technology bonus as repayment of the technological loan granted by a commercial bank. Financial support was allocated to the investment process, related to the purchase and implementation of their own or a new technology used in the world for no more than five years and launch of the production of new or substantially improved products, processes or services.

Important activity aimed at business growth and reduction of unemployment was related to the grants for starting a new business for unemployed. District Labour Offices spent in 2011 funds of the total value of 592078,6 thousand PLN¹ on job creation by / for the unemployed which allowed for the creation of 36765 workplaces, including 26108 through

¹ 1 EUR = 4,15 PLN (Value as of 31.12.2013).

one-time funds for starting a business, the remaining 10657 through refunding the cost of equipment and workplaces for unemployed workers incurred by employers. The average amount of funds allocated to the unemployed to take up economic activities in 2011 amounted to 16 160 PLN (in 2010 – 18 thousand PLN), and the average cost refund was 16 200 PLN (in 2010 – 18,4 thousand PLN) (Ministry of Labour and Social Policy, 2012, p. 21).

Major support for beginning companies included also Activity 6.2. “The support and promotion of entrepreneurship and self-employment” in Human Capital Programme, in which entrepreneurs could receive a non-repayable grant of 40 thousand PLN for the development of the company.

An alternative source of financing for SME development, including in particular the formation and initial development stages, are venture capital funds and business angel funds. Despite the relatively high availability of these funds (with the relative lack of funding opportunities from others sources – see Table 10.1), they are not popular in Poland. The level of knowledge about venture capitals among potential entrepreneurs is also low, which limits their development and market expansion, and thus the competitiveness of their enterprises.

Table 10.1

Availability of finance for SMEs in the different phases of the development of companies in Poland

Source of funding	Type of funding	The phase of the development of company			
		Seed	Start-up	Expansion	Development
Own	Self-funded	–	++	+++	+++
	The contributions of partners	+++	+++	+++	+++
Other	Bank credit	–	+	+++	+++
	Trade credit	–	++	+++	+++
	Leasing	–	+++	+++	+++
	Factoring	–	+	+++	+++
	Aid funds (including the EU funds)	+	++	++	+++
	Venture Capital	+	++	++	+
	Business Angels	+	++	++	+
	Issue of shares or bonds	–	+	+	+++
	Loans from family or friends	+++	+++	+++	+++
	Loans from non-banking sector	–	+++	+++	+++

– inaccessible, + difficult access, ++ medium access, +++ easy access

Source: own elaboration

10.2. Literature review

Seed phase is considered the highest risk phase in the development of company. Entrepreneurs often need support to carry out extended research, market analysis or other activities whose purpose is to transform innovative projects into business concepts, and

finally – the enterprise. Likewise critical are start-up and marketization phases, which require financial and other support and usually at a higher level than seed phase.

Seed funds (seed capital) is the capital used to finance investments in the very early stage of the operation of enterprises, i.e. in the seed phase, which covers the period since the creation of the idea to the emergence of enterprise in the market. The demand for this type of capital comes primarily from companies with high growth potential that do not have sufficient access to capital markets, mainly due to their early stage. Meanwhile, seed capital is offered by investors who are willing to take high risk, but in exchange for potentially higher than the average return on invested capital (expected average annual rate of return of at least 20–50%). These entities, however, do not invest in existing companies, but in the ideas, that only have a chance to become a profitable business.

Funds for start-up (start-up capital) is the capital intended – as the name suggests – on the development of a business for the company, which is looking for a business model that will ensure its development.

Seed funds and start-up funds are subgroups of a larger group of funds, which are venture capital. Venture capital funds are treated as investments in private equity made in the start-up phase by the company, in the early stages of its development and its expansion (Panfil, 2005, p. 17), and these in turn – along with business angels funds – form a group of private equity funds.

The private equity therefore relates to equity investments and quasi-equity directed to SMEs in seed, start-up and expansion phases. Risk capital investments may be executed by professional investors (venture capital funds), informal' investors (business angels) or investments by alternative stock markets specialized in SMEs.

Venture capital issues dealt with include: J. Węclawski, M. Ken, W. Robbie, T. Hellmann, M. Puri, P. Gompers, J. Lerner, P. Tamowicz, A. Kornasiewicz, M. Panfil, R. Sułkowski, J. Grzywacz, M. G. Colombo, L. Grilli (Węclawski, 1997; Ken & Robbie, 1998; Hellmann & Puri, 2000; Gompers & Lerner, 2001; Tamowicz, 2004; Kornasiewicz, 2004; Panfil, 2005; Sułkowski, 2004; Grzywacz, 2005, Colombo & Grilli, 2010). Studies show the assumptions of venture capital funds and their role in the financing of enterprises, including SMEs and their role in the development of innovation.

10.3. Material and methods

The aim of this paper is to present a system of support to entrepreneurs and would-be entrepreneurs in Poland in the form of seed capital and start-up capital and to determine the level of knowledge of these funds by potential interested.

The author assumes that greater knowledge about these funds can increase the innovativeness of SMEs, the scope of their activities and – consequently – their competitiveness, understood as the ability to cope with competitors.

The development is based on the author's own empirical research, which uses a questionnaire. The study was conducted among students of Bachelor studies from Silesian and Malopolska region, in the period December 2013 – January 2014.

Purposeful selection was used in the study. The study included students aged 18–25 years old, from management major. The study assumes that students from selected major are most (relative to other majors) interested in starting their own business (42% of respondents say that desire to start a business, 3% of running his own business, and 10% have tried to obtain the funds to start a business). 120 questionnaires were distributed, of which

due to errors 12 were rejected. The basis for the analysis are 108 questionnaires. Due to the sample size ($N = 603161^2$), the test can be regarded as initial research, and form the basis for further research.

10.4. Results and discussion

Polish entrepreneurial and financing system

Polish system of business support institutions that support the development of entrepreneurship is rich both in terms of number of institutions and because of their diversity. There are three main groups of these institutions:

1. Entrepreneurship centres – wide promotion and business incubation (often in disadvantaged groups), the provision of support services to small businesses and the activation of the development of peripheral regions or regions, that are affected by structural crisis;
2. Innovation centres – wide promotion and incubation of innovative entrepreneurship, technology transfer, innovation-oriented service delivery, activation of academic entrepreneurship and cooperation between science and business;
3. Financial institutions – facilitate access to finance for start-up and small businesses with no credit history, the provision of financial services tailored to the specifics of innovative business ventures.

The entrepreneurship centres are:

- training and consulting centres,
- entrepreneurship centres,
- business centres,
- entrepreneurship clubs,
- consultation points,
- consulting and advisory points,
- pre-incubators,
- business incubators

The innovation centres are:

- Technology Transfer Centres,
- Academic Business Incubators,
- Technological Incubators,
- e-incubators,
- Technology parks, scientific, research, industrial – technological.

The financial institutions include:

- Regional and local loan funds,
- Credit Guarantee Fund,
- Seed capital funds,
- Business Angels Network.

² Numbers of students of Higher Education Institutions in group of directions: social sciences, economy and law (Central Statistical Office, 2013, p. 62).

In 2012, there were diagnosed 821 active business support centres, namely (Mażewska & Bąkowski, 2012, p. 11–12):

- 40 parks and 14 technology park initiatives;
- 29 technology incubators;
- 73 pre-incubators and academic business incubators;
- 58 business incubators;
- 69 centres for technology transfer;
- 68 seed capital funds;
- 10 business angel networks;
- 86 local and regional loan funds;
- 55 credit guarantee funds;
- 319 training and consulting and information.

The organizations that have a particular role in supporting of development of enterprises in the early stages of its development are:

1. Seed capital funds (SCF).
2. Funds affiliated with Polish Private Equity Association.
3. Entrepreneurship incubators.
4. Academic Business Incubators.
5. Training and consulting centres.

Seed capital funds (68 in Poland) are the operators of professional investment activities. They provide relatively small amounts (up to 1 million EUR) to invest in projects at an early stage of development – seed and the start-up phase. Their offer is directed to small and medium-sized enterprises operating in Poland (Lityński, 2012, p. 113).

Operating in Poland seed capital funds have a large spread in the value of investment capital (from several hundred thousand to one hundred million PLN). The average value of the capital, which has SCFs in Poland is around 10 million PLN. This amount is sufficient to carry out the investment in seeding stage (seed), especially in industries that do not require expensive equipment. Seed Capital Funds in Poland are private enterprises. They cover the entire country.

A few of the funds providing funding in early business development stages is affiliated to Polish Private Equity Association. These funds declare interest in investing in the embryonic stage (these are: Caresbac-Poland SA, Intel Capital, Kerten Capital Sp. MCI Management SA, Oresa Venture Sp., Regional Funds Investment Sp., Renaissance Partners).

By the end of November 2010, this group of funds has completed 261-incubation processes, which resulted in creation of 45 new companies (at the end of 2010 further 60 were prepared to enter to the capital, and 245 pre-incubation were conducted). The total value realized by investments in incubators was approximately 23,5 million PLN (that means that the average size of the capitalization of the new company from the incubator is approximately 522 thousand PLN, with an average share of capital of 45% to 49%).

Further entities supporting the development of business are entrepreneurship incubators (58 in Poland), which are defined as separate organizational units that combine support services, offer small businesses for a rent a place to conduct the business activity. The units are primarily focused on supporting the development of the newly established companies. Support offered by incubators includes, inter alia:

- different types of services (legal, marketing and financial advice),
- providing adequate space for economic activity,

- promoting entrepreneurship,
- providing advisory services and access to the network resources,
- creating the right climate,
- networking of institutions.

A special role in the development of entrepreneurship is played by Academic Business Incubators (73 in Poland). Offer and operation of the Academic Enterprise Incubators are mainly (but not exclusively) directed to college students. The main task of Academic Incubators of Entrepreneurship is to provide practical knowledge to students, scientific workers, but also to other interested people, starting a business activity in the conduct of their activities without incurring large expenses and giving the start in the business, including training appropriate to the needs, renting office space with equipment, assistance in law, finance, and promotion activities.

Large support for the development of entrepreneurship are also training and consulting centres (319 in Poland), which for many years constituted the largest group of innovation and entrepreneurship, providing access to knowledge and skills through mentoring, training and transfer of information. Glossary defines it as “not-for-profit entities advisory, information and training (usually found under the following names: Enterprise Support Centre, Centre for Business Support, Entrepreneurship Club, Point Consulting and Advisory), working towards the development of entrepreneurship and self-employment and to improve the competitiveness of small and medium-sized enterprises” (Matusiak, 2011, p. 179). Training-Consulting Centres participate in all initiatives aimed at increasing the economic potential and improving the quality of life of the local community. Objectives of the centres are integrally related to the needs and requirements of local labour markets and the adaptation of new technologies. These objectives include, in particular:

- to promote and popularize the idea of entrepreneurship and self-employment;
- to actively support local community initiatives for the creation and development of small and medium-sized enterprises;
- active cooperation with the local (local and central government) administration and other organizations (private, non-governmental organizations and others) in order to create a common ground to work for economic and social development of the region;
- active participation in the short-term actions in situations resulting from economic or social needs in the region.

Perceptions of venture capital by students and would-be entrepreneurs

The survey results show that the entities subject to the SCF investment expect funds’ support in the following areas (Lityński, 2012, p. 119)³:

- development and implementation of a company strategy – 4,27 points;
- consultancy on an organisation structure – 4,18 points;
- networking and establishing business relationships – 3,95 points;
- assistance in financial management – 3,86 points;
- maintaining company’s liquidity – 3,82 points;
- legal assistance – 3,73 points;
- know-how made available for managing the venture – 3,59 points;
- marketing and PR support – 3,55 points.

³ The average of the answers, scale of 0–5 points.

The least interest is in the support for the following services:

- finding qualified executives and staff – 2,5 points;
- assistance in intellectual property management – 3,27 points.

A pervasive problem is the lack of knowledge about the funds to start a business, including on the seed capital funds. The majority of respondents have not met with the notion of risk capital (definitely not – 14%, probably not – 44%, definitely yes – 5%, probably yes – 37%; see Fig. 10.1). The vast majority can not also define the concept of risk capital (definitely not – 14%, probably not – 57%, definitely yes – 0%, probably yes – 29%; see Fig. 10.2). Taking into account that 3 people surveyed are entrepreneurs, 11 – tried in the past to raise funds to start / develop their own business, and 45 (42%) plan starting a business after graduation – the results are not satisfactory. Potential entrepreneurs have no knowledge about alternative forms of financing of business development.

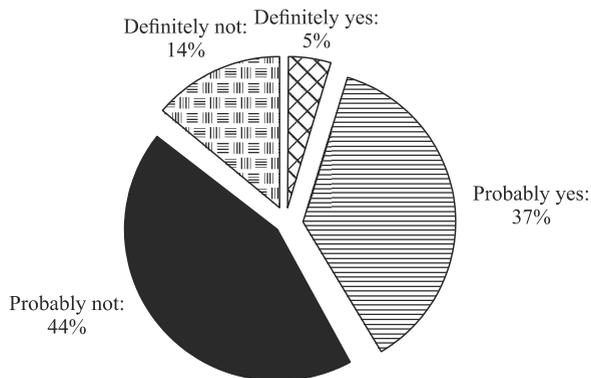


Fig. 10.1. Answers to the question: Did you meet with the notion of venture capital funds? (in %)
Source: own elaboration, $n = 108$

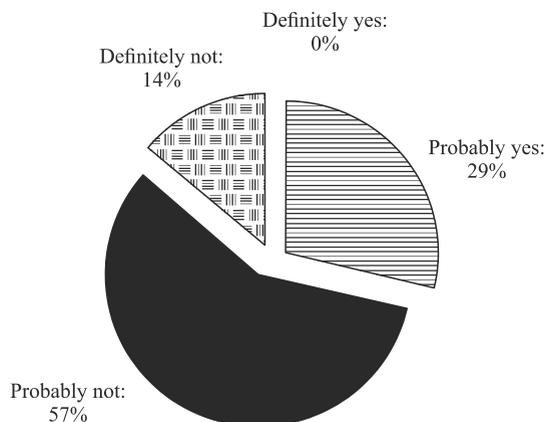


Fig. 10.2. Answers to the question: Are you able to define the concept of venture capital funds? (in %)
Source: own elaboration, $n = 108$

In the survey, in order to obtain a more precise answer, respondents were asked to identify the knowledge of these funds, by giving a convertible name. Unfortunately, the results even more confirm the lack of knowledge about the private equity funds. Respondents declared a slightly higher degree of knowledge of Business Angels Funds – up to 16% of the respondents indicated to have knowledge about them, and 15% indicating that probably heard about these funds (see Fig. 10.3).

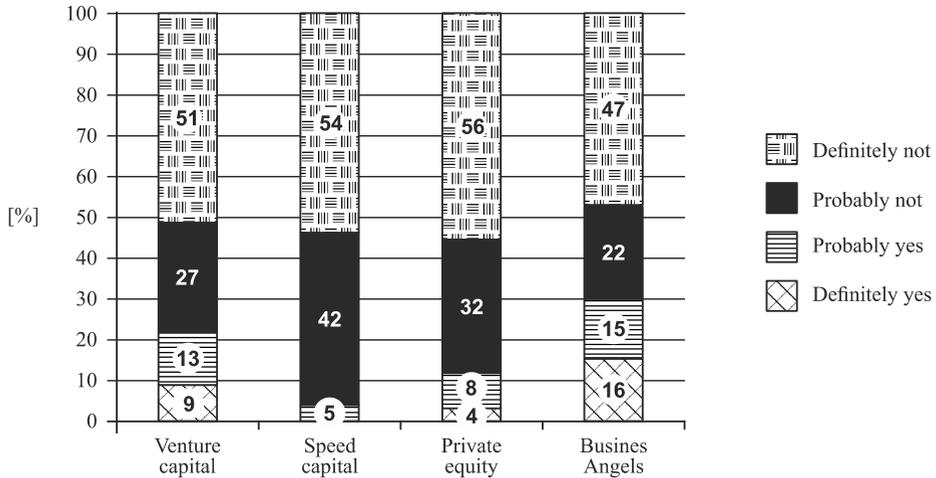


Fig. 10.3. Degree of knowledge of the concept of private equity in view of research (in %)
 Source: own elaboration, n = 108

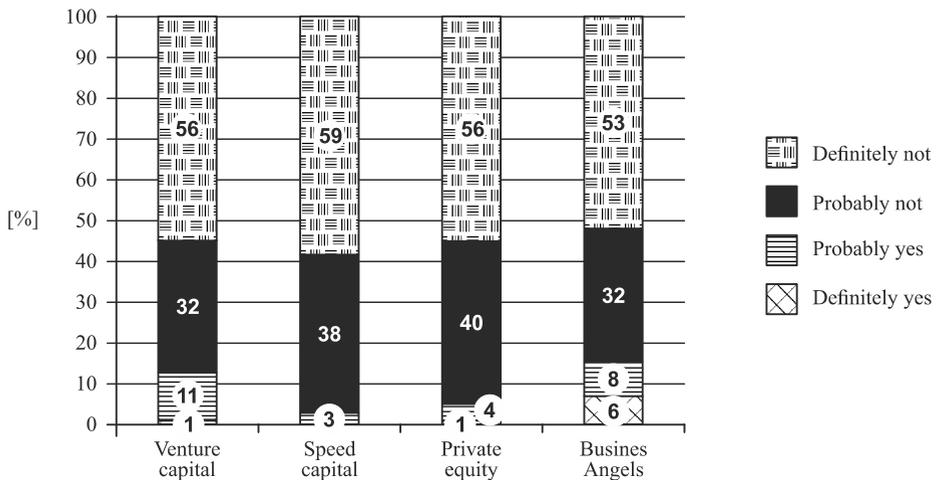


Fig. 10.4. Declared ability to take advantage of private equity (in %)
 Source: own elaboration, n = 108

The surveyed do not have the knowledge of benefits of venture capital funds and business angels. Replies – “definitely not” in every area were given by more than 50% of

respondents. The highest knowledge in relation to the Business Angels, may suggest better promotion of these funds (see Fig. 10.4).

10.5. Conclusions

In Poland there is system of business environment institutions that support entrepreneurship both in the area of training and consulting, as well as funding the development of SMEs in the seed, start-up, expansion and development phases. There were also started a series of activities (including those financed by the EU), whose purpose is the development of entrepreneurship and to improve the competitiveness of enterprises. Unfortunately support is insufficiently focused on the development of innovative projects with a high degree of risk. Promotion the development of the system of financing of SMEs by private investors is carried out insufficiently.

The respondents, despite the fact that 42% of them are potential entrepreneurs, have no knowledge about venture capital and the possibility of using this form of financing of enterprise development, which indicates an information gap in this area. Lack of promotion of private equity funds, reliable information about the possibilities and ways to use such capital and the pros and cons of such solutions is a major problem that must be solved in order to increase cooperation between entrepreneurs and private investors. Lack of system solutions in this area will not allow for the effective commercialization of research, ideas for which other sources of financial support (e.g. bank loans) are not available. This in turn limits the development of innovativeness of the Polish economy, because many solutions will never be developed enough to be able to become products sold successfully on the market.

A well-functioning system of financial support for high-risk business ventures is a characteristic of an economy based on innovation. An essential component of this system are the seed capital funds – creating the infrastructure for the financing of innovation. Developed system of financial institutions and lending, which serve to develop innovative SMEs, is financing of specific economic and scientific projects and removal of capital barriers for entities engaging in the construction of knowledge-based economy.

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THE SYSTEM OF INSTRUMENTS STIMULATING THE DEVELOPMENT STRATEGIES ADOPTED BY THE CENTRAL EUROPEAN ENTERPRISES

Waldemar Gajda

Warsaw School of Management – Higher School, Poland

Abstract

The identification and utilisation of a system of instruments stimulating the development strategies for the Central European enterprises. The method of analysis was used to determine the model strategic situations as well as to identify the instruments. The Delphi method was used in case of the empirical research. Four types of the market strategic situations were established. 50 economic and financial and organisational instruments were identified. The article revealed that the enterprises cannot develop effectively without a properly generated and pursued strategy and that the development strategies should include in their structure a creative role of the economic and organisational instruments. Thereby aims and research hypotheses were achieved. Added value of the text is original approach to the identification of the instruments determining the operation of the enterprises on the basis of the strategic spheres of the operation of enterprise. Another contribution are an innovative creation of a system of instruments providing basis to create effective strategies of operation in various strategic situations which is not common in literature, and model depiction of the strategic situations to which each of enterprises currently existing on the national and international market may be subordinated.

Key words: development strategies.

JEL Codes: L1, D22

11.1. Introduction

A turbulent environment and ongoing transformation of the economic system of Central Europe implicate the necessity of continuous reorientation of the way of the operation of business entities. An economic organisation must exist in order to achieve some targets. In the light of this, the creation of the strategy of survival leading to the strategy of development should be the most important criterion of the maintenance of durability of each entity on the national or international market. Nowadays, managers of almost each company in Central Europe think that the company has a generated strategy of operations. Meanwhile, it turns out that projects and concepts called strategic, in practice fail to play an important role in shaping the processes of development. In most cases, they serve only as the proof of professionalism of managerial staff and explanation of works realised by them. As a result, actions conducted on their basis limit to the standard improvements of basic

structures and processes. They fail to implicate the creation of rational changes, use of occurring strategic challenges as well as the newest knowledge concerning organisation and management. The enterprises should at first determine their strategic situation, position on the market and then use modern variety of the instruments for creation of the effective development strategies with creative (lateral) approach of managerial staff relating to the existing strategic problems in order to be successful on the altering and competitive market.

11.2. Literature review

Bibliography on the subject includes various classifications of the strategic situations and the scenarios created for them. First concepts of division of the companies concerning their strategic behaviour was introduced by Miles and Snow (1978) who described them as: Defender, Prospector, Analyser and Reactor. Similar concept and division was created by Kotler (1994). Going with the flow, Crisis and what next?, Changing the direction, Be the best are concepts of Wawrzyniak (1989). Drucker (1992) promotes in his vision the following strategies and entrepreneurial scenarios: Be the first and the strongest, Find their weak points, Ecological niche, change of the value and features. The most valued concept among traditional ones was made by Porter (1992). It was based on: Low-Cost Leadership Strategy, Differentiation Strategy and Focus Strategy. When one of the strategies is not used, it causes “getting stuck”. The concept of Porter is the one which is most often modified and the new concepts are created on its basis as well on the basis of other traditional models, the examples being a concept of Treacy and Wiersem’s (1995), Value Disciplines, which has many followers, or Value Innovation by Kim and Mauborgne (2005).

It is also important, in the literature review, to pay attention to the strategic spheres and the economic and organisational instruments generated by them. Some economists develop the strategic spheres, e.g. Bieniok and Marek (1992) recognise twelve strategic spheres of the company. Stankiewicz (1995) distinguishes seven strategic spheres whereas Rue and Holland (1986) limit their number to five: marketing, manufacturing, finance, human resources as well as techniques and technology. Similar strategic spheres were created by Porter (1990) on the basis of his value chain of enterprise. Analysing the approach to the identification of the strategic spheres in the bibliography on the subject, it should be said that their indication and multiplication is not appropriate approach because it causes distraction of operations onto spheres which exist in the company but which are not so important for its operation and development.

Coyle (2004) writes about the economic and organisational instruments in the operation of business entities. Zimmiewicz (2014) identifies and describes the instruments of management. Łobejko and Pierścionek (2011) mention factors and mechanisms of competitiveness. Vast majority of articles include Key Success Factors (KSF) (Flores & Faden, 2000). Olszewska (2008 p. 123) mentions six universal criteria which create the KSF for enterprise, i.e. participation in the market, cost competitiveness, image, technical competences, financial potential and skills of managers. Zelek (2008) presents the KSF with reference to Pareto’s Principle (the 80–20 Rule). Gierszewska and Romanowska (2014) also invoke the 80–20 Rule while analysing the KSF. In the literature, terms of instruments, KSF or factors and mechanisms of competitiveness are similar. Nevertheless, the most important is (it is mentioned by all authors) that as a result of mutual interactions they influence the creation of a system of the dynamic relations which directly determines the operation and the development of the enterprise in the modern economy.

11.3. Material and methods

The main aim is the identification and utilisation of the system of instruments stimulating the development strategies for the Central European enterprises. The auxiliary aims are as follow:

- the determination of the model strategic situations which reflect the standing of enterprises operating in Central Europe;
- the identification of the economic and organisational instruments which determine development opportunities available to the enterprises;
- the empirical research into the influence of the identified instruments on the development of enterprises in the particular model strategic situations.

The paper uses the following research methods:

- the method of analysis was used to determine the model strategic situations as well as to identify the economic and organisational instruments;
- the empirical research, based on the Delphi method derived from the group of inventive methods, was used to create the ranking of the economic and organisational instruments for each model.

The following research hypotheses were established:

1. In the current economic situation the enterprises which are devoid of the properly generated strategy pursued on the national and international market fail to develop effectively.
2. The structures of the development strategies for enterprises should take into account a creative role of the economic and organisational instruments.

11.4. Results and discussion

The creation of the model strategic situations

On the basis of the conducted analysis of the strategic situations exploited in Central Europe, four models of the market-driven strategic situations were established, which may match each of the enterprises existing in Central Europe. Apart from the author's own materials, following publications were used in order to describe the model strategic situations (Bąkowski, Jamroga, Mączyńska & Szewczuk, 1993; Pierścionek, 2011).

The model of “the difficult strategic situation”

Model of “the difficult strategic situation” presents pessimistic situation of the business entities. This situation is in part the consequence of a worldwide crisis which has begun in 2008. The enterprises which qualify to this model operate in conditions of the organisational and financial crisis. They fail to have a recognized market and choose only reproduced investments. Continuation of this model of action is connected with lower effectiveness and worsening financial situation. Signals from market reach the company with a great delay, effectiveness of leading activity decreases permanently, there is a loss of place on the market. The most valuable part of strategic potential of the enterprise, i.e. human resources, is focused on the battle with the crisis, the lack of developing and motivational perspectives is pervasive. This causes a serious danger not only to the continuation of business activity but mainly to the existence of the business entity. Such difficult situation of the enterprise is

intensified by the lack of effective strategic plan and discrepancy between visions (concepts) of the operation and the pursued strategic policy and changes happening in its environment.

The model of “the stable strategic situation”

The model of “the stable strategic situation” is characterised by the established position of the enterprise among its contractors which at the same time gives it profitable financial standing. Internal state of the company causes that it operates in safe conditions which do not imply directly any threats. The company has a quite well generated strategy of operations in the current market conditions which assures it stable development within the particular segment of the market. Stable organisational and financial situation causes that the system of management of the company is dominated by a linear style of thinking with limited number of stimuli for the creative strategic solutions and the time-lags of establishment of a new aggressive vision of the operation in the future. However, change of the environment because of economic reality, e.g. prolonged crisis, intensification of competition, fall of demand, lowering revenues from sales etc. may cause occurrence of states of danger for the business entities described in this model.

The model of “seeking chances for development”

Next strategic situation may be interpreted as “seeking chances for development.” It refers to the enterprises which have a difficult as well as a stable strategic situation but they have potential and they are aware of the necessity of reorientation of their position on the market e.g. by the changes in the structure of business entity or seeking new strategic solutions. The entities which are included into this model, seeing the market chances, work on a generation of the new effective visions as well as their operation now and in the future. The managerial staff recognises its market position and the necessity of the reorientation or modification of the previous activity of the company as well as the changes of the accepted strategic assumptions. It is clear to the management that from the pragmatic point of view it is very difficult to reform a strategic policy of the company but even though it is complex, it is possible. Reform of the current strategic policy of the enterprises in this model gives the opportunity to change the occupied position on the market and perspective of the fast development of the enterprise.

The model of “the dynamic development”

The enterprise identical with “dynamic development” is a main strategic target of the numerous business entities in each segment of the market in Central Europe as well as on the global market. Such company has a well-created strategy of operations which confirms its practical effectiveness in competitive conditions. Constantly growing return on sales or assortment of services having at the same time relatively low costs causes that there are no interruptions in the maintenance of the liquidity of the company. The position is so strong that each occurrence of the external threat is neutralised with its own force or with the aid of the cooperation partners. The management knows the advantages of prosperity of the enterprise as well as is aware that if the market conditions are not effectively used, turbulent environment will lead it to the mediocrity i.e. the stable model. Therefore, the enterprise constantly works on the generation of the most effective strategic solutions.

11.4.1. The identification of the economic and organisational instruments determining development opportunities of the enterprises of Central Europe

The strategic spheres of the operation of the enterprises

The analysis of the basic functions which are performed in the typical economic organisation was used for the identification of the economic and organisational instruments determining the development opportunities of the enterprises operating on the markets of Central Europe. The decomposition of the entire collection of operations (functions) made by the enterprise is possible because of the specification of the value chain. This tool launched by M.E. Porter (1990) allows us to present in a sequent form all elementary collections of functions occurring within the enterprise (from business concept, through shopping, manufacturing of goods, service, distribution and sales, to the achieved profit).

As a result of the mutual interactions and connections, functions being parts of the value chain allow us to determine the strategic spheres of operation, i.e. elements of a dynamic structure, in which there are processes deciding directly about the development of the enterprise and its position on the competitive market. Identified strategic spheres for business entities operating in Central Europe include: sphere of finance, sphere of staff, sphere of marketing, sphere of manufacturing and sphere of management. The selection of the strategic spheres allows us to eliminate possible effect of distracting actions on the spheres existing in the enterprises which have minor significance for their development and to focus on the identification of the most important instruments for each strategic sphere which determines the development and success of the company.

The economic and organisational instruments functioning on the contemporary competitive market of Central Europe are descriptors of development of the business entities both on the stage of the creation of the concept of development and processes of its realisation.

The identification of the economic instruments

The economic instruments constitute tools of the sphere of finance. Because of the range of their usage and their characteristics (real movement of financial resources is a direct result of their operation) they were divided into the exogenic economic and financial instruments which have an effect on economic organisations and which are at disposal of a given state as well as the endogenic instruments which determine operation of the business entities which depend to a great extent on their managers.

The exogenic economic and financial instruments are unambiguously included to the instruments of the economic reaction of the state to the economic organisations. The instruments of **direct investments from budget** or **subsidy** are considered as the regulators of the supply in the conditions of the market economy. Support of enterprises with financial tenders from the budget is a direct result of their influence. The instruments burdening activity of the business entities i.e. tax instruments both in the form of tax burden such as: **VAT and excise, CIT, property tax, VED** and quasi taxes as **payments from profit, State Fund for Rehabilitation of Handicapped People, social security contribution for employees** as well as various **charges** are of different nature. The identified exogenic instruments such as: **customs, tariffs, exchange rate, interest rate** determine demand and supply and shape market conditions as well as enable a rational allocation of manufacturing factors.

The endogenic economic and financial instruments are typical tools of the market economy generated within enterprise or tools whose usage depends on the managers of such entities. **Price** of manufactured goods is a basic endogenic instrument. This instrument allows us to: make profit (a fundamental, synthetic factor of the effectiveness of management), compete in the particular segment of the market, create a pricing strategy. The **allocation of profit** giving managers the possibility to have at the disposal this part of profit which remains in the enterprise after deducting the part of compulsory taxes and **charges** given to the state as well as **investments** and **depreciation** connected with new or enlargement existing objects belonging to fixed assets constitute identified derivatives of the above-mentioned instrument. The endogenic instruments include also financing business activity i.e. achievement of capital or its disposals, starting from **long-term loans** and **supplier credit, receiver credit, overdraft, mortgage loan, bill discount facility** to the obtainment of capital in the form of crediting through **shares** and **bonds** connected with the capital market and **venture capital** – capital with higher risk. **Leasing** and **factoring** are also the endogenic instruments of the sphere of finance.

The identification of the organisational instruments

The organisational instruments which determine operation of the common business entities in Central Europe should be perceived as a group of instruments of management whose main aim is to shape forms of operations. Decisions indicating areas of operation in the identified strategic spheres: staff, marketing, manufacturing and management, constitute a direct result of their influence.

In order to identify the organisational instruments, the same division like in case of the economic and financial instruments was used (into the exogenic and endogenic ones). Taking into account retrospective assumption, the exogenic instruments constitute a group of non-economic instruments being in hands of entities which create an economic policy. As non-parametric instruments they may have a **legal, administrative** or **informational** form. The legal form refers to the normative acts relating to organisational, functional and private structure of entities. The administrative form includes instructions and resolutions of the authorities of imperative nature; concessions, limits, licences, permissions; location decisions etc. The informational form is connected with reports of development of a region and a given state; information relating to the structural changes planned in economy; information concerning supply and demand situation etc.

The identified endogenic organisational instruments are instruments determined by the market. However, they are disposed by the managers of the economic organisations.

In the sphere of staff, obtainment, deployment, support of development and motivating employees to realise targets of the enterprise with the usage of following instruments: **selection of staff, motivation, evaluation of employees, education** and **remuneration** is a priority task of the identified instruments.

The sphere of marketing includes the following identified instruments: **market research, company research, distribution and promotion**. Actions in this sphere are connected with the analysis of the current situation, market research and company research as well as with improvement of the existing and the creation of the new distribution channels of goods and promotion in a broad sense.

The instruments in the sphere of manufacturing, i.e.: **organisation of production, diversification and quality** determine directly: suprastructure and machinery stock, level of their exploitation, organisation of the process of production, diversification activities as well as improvement of the quality of the offered goods.

The sphere of management, with its main processual target, i.e. the generation of decisions in the four most important functions of management, namely: planning, organisation, motivating and control, directly determines the operation of the remaining strategic spheres and at the same time whole economic organisation. The identified instruments of this sphere consist of: **system of information, organisational structure, planning, control and effectiveness of management.**

11.4.2. The empirical research of the influence of the identified instruments on the development of the enterprises in the specified model strategic situations

The methodological assumptions and the course of the empirical research

The Delphi method, derived from the group of inventive methods, was used in this article to classify and to evaluate the economic and financial as well as organisational instruments which stimulate the development strategies whereas a score-based assessment was exploited in the implementation of the research problem considered.

The empirical research was based on the group of ten Polish best performing enterprises from the transport sector (PKS) which provide passenger and cargo services in Central Europe as well as the European Union. These enterprises qualify as the medium-sized enterprises. 80 experts took part in the research, including presidents, chief accountant, directors/managers of the finance department, operating department, marketing department, logistics department and HR department.

The selection of such representative body enabled to fulfil the most important criterion of the use of the Delphi method, i.e. a proper selection of the specialists (experts) who constitute co-authors of the research. The above-mentioned method assumes that the specialists should be selected from the experts on the issues which are substantially related to the subject matter of the research in order to represent all fields of knowledge and experiences which consider problem being resolved. Having met these requirements, representatives of the management board and the sphere of finance of the given enterprises (managers, chief accountants, financial directors, finance specialists) were selected to the team of assessment and classification of the economic and financial instruments. The organisational instruments were evaluated and classified by the team representing the remaining strategic spheres, i.e. staff, marketing, production of goods and management (i.e. managers of the enterprises, directors/managers of HR department, marketing department, passenger and cargo departments and logistics department). One should also add that a part of experts taking part in the research managed to lead their enterprises from very difficult strategic situations (similar to the model of “the difficult strategic situation”), through the indirect strategic situations, up to the current condition following the model of “the dynamic development.”

The following course of the empirical research was approved. Four generated model strategic situations were presented to the experts. The models included the list of the identified economic and financial as well as organisational instruments. During the first iteration, the groups of experts determined a maximal number of criteria with the use of which it is possible to evaluate all of the identified instruments in developing dimension in order to be able to use the technique of the score-based assessment. Then, the specialists chose the most significant criteria from the list at the same time giving each of them a weight whose sum is equal to the unity. The experts chose and gave the following weights to the follow-

ing criteria: the economic weight of the instrument – 0,40; the intensity of the impact of the instrument – 0,35; the susceptibility to the influence of the instrument – 0,25. The score-based assessment technique was used in the next iteration by the experts to evaluate the particular economic and financial as well as organisational instruments in the specified models according to the 1 to 10 scale of points for each of the criteria. After the second iteration, the calculated and cumulated weighted averages for each criterion determined the position of the instrument in the ranking of significance in the particular strategic model. The next stage of the classification relied on the summarising of the ranking of the instruments for the particular model, calculation of the averages and as a consequence, the creation of the ranking based on the results of all experts taking part in the research. This ranking was presented to the experts who, in the next iteration, having worked within one team and having used given results, evaluated together each of the instruments of the particular model. The results of this research determined the final classification of the economic and financial as well as organisational instruments for the particular strategic situations. In the final stage of the research, the experts, having taken into consideration the strategic situation in the particular models as well as the results of the ranking, determined the number of 14 instruments which create the system for each model.

Table 11.1

The classification of the economic and financial instruments

Ranking	The model of			
	The difficult strategic situation	The stable strategic situation	Seeking chances for development	The dynamic development
1	Long term loans	Profit allocation	Overdraft	Prices
2	Depreciation	Prices	Prices	Investments
3	Subsidies	Investments	Leasing	Shares
4	Leasing	Tariffs	Subsidies	Bonds
5	Prices	Overdraft	Venture Capital	Venture Capital
6	Supplier credit	Factoring	Long term loans	Profit allocation
7	Receiver credit	Long term loans	Investments	Leasing
8	Tariffs	Leasing	Receiver credit	Long term loans
9	Overdraft	Supplier credit	Mortgage loan	Factoring
10	Direct investments from government budget	Depreciation	Charges	Interest rate
11	Profit allocation	Subsidies	Shares	Exchange rate
12	Social security contribution for employees	VAT and excise	Factoring	Overdraft
13	Property tax	CIT	Depreciation	Depreciation
14	VED	Mortgage loan	Bonds	Supplier credit
15	Mortgage loan	Receiver credit	VAT and excise	Tariffs
16	Interest rate	Property tax	Supplier credit	Mortgage loan
17	Charges	Direct investments from government budget	Profit allocation	Receiver credit

Ranking	The model of			
	The difficult strategic situation	The stable strategic situation	Seeking chances for development	The dynamic development
18	CIT	VED	Direct investments from government budget	Direct investments from government budget
19	Bill discount facility	Social security contribution for employees	Social security contribution for employees	Bill discount facility
20	Factoring	Bill discount facility	Bill discount facility	Subsidies
21	VAT and excise	Interest rate	CIT	VAT and excise
22	Exchange rate	Charges	Interest rate	CIT
23	State Fund for Rehabilit. of Handicapped People	Exchange rate	Exchange rate	Property tax
24	Labour Fund contribution	Labour Fund contribution	Tariffs	VED
25	Investments	State Fund for Rehabilit. of Handicapped People	Property tax	Charges
26	Customs	Customs	VED	Customs
27	Venture Capital	Venture Capital	Labour Fund contribution	Payments from profit
28	Payments from profit	Shares	State Fund for Rehabilit. of Handicapped People	State Fund for Rehabilit. of Handicapped People
29	Bonds	Bonds	Customs	Labour Fund contribution
30	Shares	Payments from profit	Payments from profit	Social security contribution for employees

Source: own study made on the basis of the conducted empirical research

The instruments being on the top of the above-mentioned classification constitute the system of instruments which stimulate the development strategies for the Central European enterprises. Notwithstanding the fact that the research was conducted only on the group of the Polish enterprises the generated system of instruments may be used by the enterprises from other countries of Central Europe because of its universal character. Each enterprise operating in Central Europe may be subordinated to the generated models of the strategic situation. What is more, the identified instruments have universal significance because they occur in majority of the countries of Central Europe with similar names or they are of similar character.

During the empirical research, identified instruments were classified according to the influence on development opportunities of enterprise in the strategic models specified in this article.

Table 11.2

The classification of the organisational instruments

Ranking	The model of			
	The difficult strategic situation	The stable strategic situation	Seeking chances for development	The dynamic development
1	Market research	Distribution	Market research	Quality of offered goods
2	Organisation of production	Effectiveness of management	Selection of staff	Effectiveness of management
3	Effectiveness of management	Planning	Effectiveness of management	Control
4	Diversification of operation	Quality of offered goods	Promotion	Selection of staff
5	Selection of staff	Promotion	Quality of offered goods	System of information
6	Company research	Market research	Diversification of operation	Market research
7	Organisational structure	Organisation of production	Organisation of production	Motivation
8	Planning	Selection of staff	Company research	Education
9	Motivation	Control	Planning	Diversification of operation
10	Control	Motivation	Organisational structure	Planning
11	Quality of offered goods	System of information	Distribution	Promotion
12	Evaluation of employees	Diversification of operation	System of information	Organisation of production
13	Distribution	Company research	Control	Company research
14	Promotion	Education	Motivation	Evaluation of employees
15	System of information	Remuneration	Evaluation of employees	Organisational structure
16	Legal	Organisational structure	Remuneration	Remuneration
17	Administrative	Administrative	Education	Distribution
18	Remuneration	Informational	Informational	Legal
19	Education	Evaluation of employees	Administrative	Administrative
20	Informational	Legal	Legal	Informational

Source: own study made on the basis of the conducted empirical research

The instruments classified at the top of each model created the system. The system was defined in terms of the organised collection of elements which are combined or constituted as a whole by the specified relations and nexus (Cygan, 2013). The relations of input and output constitute the essence of the system. As the input, the characteristics of the created system of instruments specifies the instruments which are used by the market (sur-

rounding) to affect the enterprise, and, as the output of the system, we may indicate the instruments used by the enterprise creating the development strategies to affect the market and its competitors. Ergo, the generated systems of instruments in each models are the basis to create of development strategies giving the possibility to place newer, better strategic position of the enterprise as well as a strong basis to compete on the international market.

11.5. Conclusions

On the one hand, the procedure of the formation and the implementation of the strategy of the development for the enterprises of Central Europe constitutes a complex process, on the other hand it is “the art” of using all opportunities and avoiding or minimizing the occurring threats. The process of the creation of the strategy relies mainly on the usage of the collection of the economic and financial as well as organisational instruments which are identified in this article. The generated system of instruments stimulating the development strategies of the enterprises of Central Europe was created on the basis of the newest empirical research (17th January 2014 is the date of the last material from the conducted research).

The whole paper indicates that the enterprise (even the one which has the most beneficial economic and organisational situation) fails to develop itself on the market without the properly planned and pursued strategy. It confirms the legitimacy of the first approved research hypothesis of this article. The generated system of economic and financial as well as organisational instruments within the conducted empirical research indicates that they play the creative role in the structures of the development strategies of the enterprises of Central Europe. It confirms the legitimacy of the second approved research hypothesis.

The factual and scientific value of the content of the article concerns: a concrete transmission of the theory to practice; an original approach to the identification of the instruments determining the operation of the enterprises on the basis of the strategic spheres of the operation of the enterprises; an innovative creation of the system of instruments providing basis to create the effective strategies in the various strategic situations which is not common in the literature; a model depiction of the strategic situations to which each of the enterprises currently existing on the market of Central Europe may be subordinated.

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