Organization in changing environment

Conditions, methods and management practices
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Introduction

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change. In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment.”

Charles Darwin

Adapt or disappear - a comparison with the animal world is very apt in regard to the business enterprise. The dinosaur example (their failure to adapt to rapidly changing conditions) is not totally dissimilar from contemporary organizations, which ignore rapidly changing circumstances. Static nature of organization does not guarantee them stability. Quite the contrary. Organizations that do not adapt to the changing environment have a lot problems of survival in a marketplace. In recent years we have seen many large and significant companies that could not find their place in a changing environment: Lehman Brothers, Kodak, Nokia, Gdansk Shipyard and many others.

Today’s changes may not be unprecedented, but it is surely spectacular: political and social transformations (eg. in the post-communist countries or in the Arab countries), financial crises, globalization of the economy, the rapid development in technology, the growing importance of information and knowledge in the economy, with new threats to the information security of the organization, growing competition but also development of international co-operation.

Adapting to the above changes may be difficult, but is not impossible. Changes are forcing the organization to the introduction of innovations as well as to the development of new methods of management which allow them to survive and develop so in consequence leading organizations to the growth.

This monograph consists of fifteen chapters which describe the outline of the issues of organizations functioning in changing environment. We were trying to present selected conditions of environment variability, affecting today's organizations as well as methods and practices of management which support solving unexpected situations.

The First Chapter raises the problems of the new crises in the future which will shock not only enterprises but also regions, countries, continents or perhaps even the whole world. Trying to answer the question: "Do we have a chance to get out of this dilemma and how does the answer look like?", this chapter presents discussion about different aspects, different tasks and roles as well as some general
theories and methods to support a special management to solve unexpected situations.

Chapter Two presents diagnoses and evaluates the post-crisis financial architecture of the European Union. Its main purpose is to explain the idea and design of a common European supervision over the activities of financial institutions versus the underlying considerations related to the financial instability issue.

In Chapter Three on Georgia's example there are investigated main threats to Economic Stability in the Post-Communist Countries: unemployment and poverty as well as negative balance of the trade.

Issues of unstable development of the Belarusian economy are described in the Chapter Four. It is shown that transition of the Belarusian economy to new steady quality of growth is possible only as a result of carrying out the structural economic reforms directed to acquisitions by the Belarusian economy of the market status but these require the political decision.

Chapter Five draws on extensive studies devoted to dimensions of non-profit marketing which in that chapter is perceived as a continuum in the framework of reaching the consensus in the discourse of marketing philanthropy.

Chapter Six explores the problems of new information security threats in organizations in the knowledge-based economy and indicates the role of risk analysis as a key element to create an optimal security system.

Chapter Seven presents the information as an important decision tool in uncertain conditions, focusing on two complementary aims: the identification of information disclosure compliance of IASB’s international accounting standards on provisions, contingent liabilities and deferred taxes and the identification of variables that best explain the variance of those information disclosure indexes.

In Chapter Eight the author aims to describe the problems of using the Balanced Scorecard in an entity from the sector of micro-, small and medium enterprises in conditions of variability surrounding indicates that the behavioural factors, i.e. the attitude of the enterprise's management and employees that are of basic importance for successful implementation of this method.

Business model rethought, based on two heuristic tools: Altshuller’s 40 inventive principles and Osborn’s seven SCAMPER questions, to the improvement of the organization’s functioning in an uncertain and fluctuating business environment are given in Chapter Nine.

Chapter Ten contains not only the analyses of the efficiency measurement possibilities of strategic management in cluster structures but also the analysis of structure and linkages as well as characteristics of distribution channels.

An attempt to identify the nature of stakeholders in changing environment of the organizations from the theoretical perspective was made in Chapter Eleven.

Chapter Twelve presents the theoretical background of building the project management team structure as well as provides a framework for incorporating this concept into the practice to achieve expected results from the project implementation within institutions of higher education.

Chapter Thirteen seeks to define and identify the knowledge management in various organizations, especially in modern higher education adapted to the changing conditions.
The analysis of the conditions affecting the stability and development prospects of four biggest electricity companies in Poland in a changing environment are described in Chapter Fourteen.

The last Chapter - Fifteen focuses on the problem of reforming the social taxation and social security in Republic of Belarus - one of the major tasks which the Belarusian society needs to solve in the course of economic and social transformations.

We are honoured to express special words of acknowledgement and gratitude to all co-authors and the reviewer for their greatly appreciated efforts and contribution towards this unique joint international publication.

Beata Domańska-Szaruga
Tomasz Stefaniuk
CHAPTER I

How can we establish a special European Management to solve Unexpected Situations

Elvira Kuhn 1
Walter Voigt 2

1.1. Description of problems

Vital interventions into all types of cooperation in life - like increasing virtuality, may be job-related or private, while playing or shopping, or in the increasing Information Networking, which is send secured into all parts of the world, or in Communication and Social networks via Web4.0 or by the keyword SMART CITY, - the Society and Culture will alter completely and permanently. This will although happen to the climate if we don’t take any precaution which are known as Green IT.

Starting point of the questions, which result from this chapter, are based on the coherences between the changes in the environment and the stability of enterprises, societies or states and the influences of these elements on the targets of the individual subjects and the impact on the markets 3(Figure 1).

We have no common target system neither in Europe nor worldwide. Therefore we cannot give a statement about effectiveness and in consequence we do not know something about the stability of our town, our region, Europe, the world 4. Do we have a chance to get out of this dilemma and how does it look like?

In Conclusion of our previous study 5 we have postulated that it is not enough to observe the markets and to evaluate the processes, but there are possibilities de-

1 Prof. Dr, Hochschule Trier, Fachbereich Wirtschaft Organisation und Informationsmanagement Schneidershof, Germany
2 Dipl. Ing., Universitätsklinik Ulm Comprehensive Cancer, Germany
5 Ibidem.
scribed in ITIL\textsuperscript{6}: IT-Strategy (Quality, Cost), IT-Governance (rules and standards which have to be followed), (IT-Organization, IT-Processes, IT-Infrastructure, IT-Applications, characterized by direct communication with the user and IT-staff and team-members with the appropriate IT Know-How. And we have found out that the new activities need new roles like trainers, coaches, market observers, lawyers for international IT law, administrators, buyers (Cooperation with banks, authorities), Interface Officers, risk managers or strategists on a political platform.

Also last year, in another paper\textsuperscript{7} we have shown, that we can understand crises as important conditions surrounding the public and private sector organizations as well as our life and society. So it is important to examine the conditions under which the activities of public sector organizations take place from different perspectives and to be clear about its impact on our whole life.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{The worldwide dilemma of future processes}
\label{fig:worldwide}
\end{figure}

To answer these questions, we have to reduce the complexity in different small parts and to analyse the conditions and the problems, and at last to find the adequate organization structures and the measurements. The High Reliability Organization (HRO) is a world-wide accepted tool for the Management of Enterprises, which are confronted by a permanent change of environment.

To reduce the complexity multiple methods it will be helpful, to examine some methods in respect to their usefulness for our problem. Some of these methods derive from the area of Software Engineering, others from the Marketing and others


\textsuperscript{7} E. Kuhn, I. Maier, \textit{Must we have fear of change? reflections about the conditions of activities of public organizations and their effects by the view of a normal citizen}, 16. Mai 2013, Management in Public Organizations, Session V, 4th International Scientific Conference, Warschau, Polen, 2013.
from the Organisation section etc. First of all we have to find a phase concept. This complies on one hand in detail the phases which have to be passed through (e.g. pilot survey, inventory control) and on the other hand the definition of the way in which theses phases have to be executed (linear, cyclic, prototyping, evolutionary, incremental, etc.).

One phase concept possible is described by L. Grumbach, V. E. Richert, Kuhn. It is a mixture of an incremental model (in respect of the necessity of a consistent target system), an prototyping model (in respect of the cooperation of different enterprises as a single organization structure) and evolutionary model (Adaptation to a new environment). We will begin with the actual state analysis.

### 1.2 Actual State Analysis

The actual state analysis is divided into the following subtasks: System scope, System survey – including analysis of the organisational structure of the relevant enterprise or enterprise department, the analysis of tasks, analysis of communication data and work flow analysis – system specification as well as analysis of weak points.

To carry out the actual state analysis, discussions, conferences and high level tasks have to be held, existing enterprises/committees are monitored at work, activity protocols are studied, forms, flyers, and other publications or protocols are analysed and questionnaires initiated. To cut a long story short, all people concerned are involved in this analysis. The biggest problem are the different terminologies used by the different specialists. This can be avoided by an introduction of a thesaurus.

**Environment as a reference value**

To recognise the relevance of system and the relevant environment, the View Concept is widely accepted. But in order to take up the view of each actor, the relevant environment factors have to be recognised. This can be done by the KUHN method, where the environment factors are put into relation to the success factors. By these valuation process future scenario strategies can be deducted. The valuation (scenario technique) is the relation between influence variable and success variable.

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**Management principles**

To get from error management to the High Reliability Organisation (HRO) the following 5 principles have become established, to solve unexpected situations.

Error management has got a higher priority than success management (principle 1), nevertheless the feasibility (principle 2) of the operational work flow is thoroughly carved out in unison. Thus an oversimplified interpretation can be avoided (principle 3). The workflow should be flexible (principle 4), if necessary additional personnel, internal or external, can be consulted and makes a fast reaction possible (in case of floods, fire etc.). The responsibility will be issued due to the competence and skill (principle 1). „The combination of these five principles create a state of collective awareness, which enables these enterprises to meet these crises and malfunctions much quicker and to react target-oriented“\(^{11}\).

**Categorising of people**

The following questions have to be answered:

- Up to which degree is this person?
- Which fundamental values are of significant importance?
- What are his attitudes towards business, family, leisure time, money, consumption etc.

To find an answer to these questions, people have to be categorised in standardised categories. There exist different methods to categorise people and their peculiarities, like e.g. Sinus-Milieu-Model\(^{12}\).

The Sinus-Milieu-Model combines demographic characteristics like education and income with the subjective world of a person. Thereby the human being is looked at in a holistic way: everything of importance to him, is valued. His social background, divided into upper, middle and lower class, is put into context with his basic orientation in tradition, modernisation / individualisation and re-orientation. More information on milieu- description like milieu of the performer, liberal intellectual milieu, traditional milieu etc., you will find in Myers-Briggs-Type indicator (MBTI).\(^{13}\) On the basis of this categorisation the personality can be evaluated. This can be used by the enterprises in the field of personnel employment or in the marketing department to create customer profiles. But it also can be used to investigate the characteristics of society. Thus the shift in values or trends can be investigated.

T. Sedlacek in his paper deals with the humanity and the human being.\(^{14}\) The focus is not put on efficiency of the human being and his role as a factor of productivity or android, but on companionship and teamwork. Thus automatically arise energies, which are never evoked by a sophisticated examination of the HOMO OECONOMICUS.

How can we solve this task? By additive consideration and psychosociological findings?

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\(^{13}\) Myers-Briggs-Type indicator (MBTI), www.typentest.de/typentest_de__erklarung/mbti.htm.

1.3. Target System

If humanity is in the focus of our target concept, then different values have to be in the focus of our interests (Figure 2).

![Figure 2. Humanity as target system](source: own research)

Not money, profit and greed, not economy, efficiency and effort are important but we have to consider a civilised, cultural and a happy and contended world. Human relations, love, friendship, beauty, arts, emotions are accompanying factors - and result in a stability in all situations – within ourselves, within the families, within society, within Europe. Easily, without nearly any effort, „mountains” can be „moved”. Automatically we think not only for ourselves but for our friends, too. We are getting cooperative. This is expressed in an old children saying: “The joy we give to others will come to our heart in return”. (”Denn die Freude, die wir geben, kehrt in´s eigene Herz zurück”).

Consequently, to manage an enterprise by these principles, the ambition to follow the strategies: much further-, much higher, much quicker, must not have priority, but the management of ponderabilities and imponderability’s.

Do we take a look at the Software organisation technic, we now have to answer the question of functionality? What must our system accomplish? Do we ask for agility, then we must consult the „Agile Manifest”. The IT-Support would be done by a work flow management system in terms of the required adaptivity of the processes. Don’t forget: you need an assistant to deal with unforeseen problems when starting the computer. The objective must not only be to increase the responsiveness but although the autonomous acting and manipulating of situations. With

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15 T. Sedlacek, *Die Ökonomie.....*, op.cit., p. 36.
17 Agiles Manifest in www.heise.de › heise Developer › Rubriken › Architektur/Methoden.
that said the anticipatory thinking and prevention measures are important. Defence strategies and evasive manoeuvres can be developed at an early stage. We need a Software, to describe the interaction with the enterprise environment. This interface has to prescribe the patterns of behaviour and if necessary, the dialogs needed at special situations. The potential cooperation partners and the documentation – who documents which data for whom and why - have to be specified.

In difficult cases we need a feasibility study. Can the problem be saved at all? Do we have the personnel needed? Have we got the money and the time needed?

Different levels, views and aspects can be transferred from the field of Systemdesign19. How can we accomplish a change of thinking?

1.4. Solution - systematically leadership and management

To administrate systematically, people have to be willing and able to communicate and to respect each other. Semantics are of vital importance and you have to find a consistent terminology. The consistency of the management in roles and committees in times of crises and problems can be easily handled by the adherence to competences and skills. The one with the greatest competence and authority will be responsible. There isn’t a more simple assignment of tasks combined with the greatest benefit of happiness. Precautionary measurements as well as enhancement of the catalogue of measurements will be discussed.

Committees similar as discussed in the multi-project-management committees have to be established20. Karl E. Weick gives an advice, how to manage systems more effectively21. His advice of wisdom: „chaotic activity is better than an orderly inactivity. Furthermore he imposes the insight, that there is not but one solution. There is not a right or false solution. he also recommends to avoid the benefit/profit thinking. Concentration on the momentarily profit might collide with the benefit in future. It is better to accept a certain disorder, to be free for future options.” Enterprises should be looked at as an evolutionary system “you should observe, what’s happening, what can be done and what could be done, but although what can’t be done.”

1.5. Summery and Outlook

A precise target system, corporate activities, which people love to do, genuine communication even in cases of difficulties are basic prerequisites to maintain stability in all of the systems. In future you don’t dare to think in categories of productive and non-productive, the wellbeing of the human being should have the utmost

20 N. Bircks, E. Kuhn, I. Maier, Multi-project Management as a Mean to Increase the Capacity for the Integration and Functional Capability of Armed Forces, Budapest, Ungarn 2009.
priority. The research in happiness will, which also deals with this problems, will bring together all the different cultures and religions, which know how to deal with their own problems very well. So we can learn by them. We are at the moment in a phase of moving closer together which according to Schopenhauer in his parable of the porcupine finds its limits: „it goes as far as one can feel the spike of his neighbour and then recedes. This process continues until the right distance is found.”
Even though a few years have passed since the peak of the global financial crisis, national economies are still dealing with the consequences of financial instability. This instability is the cause of slowdown in business, the problem ensuing from, among others, prolonged distant economic horizon for business activity. Businesses postpone their investments and households reduce (or cut down) consumption, trying to reduce their debts. The financial instability issue continues to be a predicament for households, business and nations. It also causes problems for financial markets and makes a permanent impression on their performance.

Market mechanisms cannot provide stability. We need institutions acting for the security of the financial system and adequate regulations designed to inhibit crisis-genic market behavior.

This section diagnoses and evaluates the post-crisis financial architecture of the European Union. Its main purpose is to explain the idea and design of a common European supervision over the activities of financial institutions versus the underlying considerations related to the financial instability issue. The discussion is based on studies of sources (mainly legislative acts and anti-crisis regulation drafts), references and professional literature.

2.1. Financial Instability

Development and efficient working of the financial system are important for the performance of the real economy and public welfare. These relationships have

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been broadly described in the subject literature\textsuperscript{23}. Stability is highlighted as a beneficial effect of the financial market on the whole economy. Conversely, financial instability disrupts the economy and, typically, leads to a financial crisis. Financial instability is most often defined through the prism of “financial stability”. From such perspective, financial instability means any deviation from the optimum investing-and-saving course of the economy, brought to life by imperfections of the financial market\textsuperscript{24}.

The architecture of the contemporary global financial market contains many factors feeding instability on the financial market. The existence of the giant financial sector and its pressure on financial innovation, including development of new investing instruments, is just one example of factors creating instability and contributing to the rise of crisis drivers\textsuperscript{25}. Crisis drivers spread among financial institutions and financial markets like a “contagious disease”. The process continues both locally and globally and its consequences are the aggravation of imperfections of, and a damage to, the global financial market.

To operate smoothly, and thus prevent financial crises, the financial market requires security and financial stability. Today, the key challenges in this area are as follows\textsuperscript{26}:

- define an optimum level of global monetization, including the volume of banking business,
- build an adequate financial safety net,
- identify an optimum coverage of security regulations and obligations to be imposed on financial institutions including banks,
- put together a well-designed structure of bailout and liquidation measures for individual financial institutions in trouble, including banks,
- develop good practices for financial institutions,
- improve the public awareness of the world of finance.

Financial stability has never been given a strict definition in literature, perhaps due to the complex nature of the idea. If we take a closer look at the existing definitions, we will find they can be cascaded from very generic to increasingly specific ones. The following two approaches to defining financial stability prevail:

1. A broad approach highlighting attributes that the financial system should feature to be recognizable as stable.

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\textsuperscript{25} See J. Pera, Globalizacja rynków finansowych a problem bezpieczeństwa finansowego w Europie, [in:] Wyzwania gospodarki globalnej, Prace i Materiały Instytutu Handlu Zagranicznego Uniwersytetu Gdańskiego, No. 31/2012.

2. A narrow approach tending to define financial stability as the state of freedom from financial crisis.

The National Bank of Poland defines financial stability as a state in which the financial system plays its role without interruption and efficiently even when it happens to encounter an unexpected and harmful major disturbance. So, this is more or less the same definition as those accepted by the members of the European System of Central Banks (ESBC).

Also this definition follows the “broad approach” and stresses the most frequently mentioned aspects, such as the financial system’s resistance to shocks and its ability to continue performing its tasks.

According to O. Szczepańska, a stable financial system does not have to be static. On the contrary, it is desirable that the financial system grows with stability. The functions of the financial system should be stable rather than manners by which they are performed. Considerations about stability of the financial system compel its regulators to draft bills intended to secure the operation of the financial market institutions and avoid stresses likely to undermine this stability. However, over-regulating the system can stagnate it and, in time, pose a barrier to economic growth.

J. Koleśnik, looks at the relationship between stability and financial system security. A stable system is only resilient to shocks whereas a secure one is immune and confers protection to its stakeholders. A secure banking system may be somewhat unstable, i.e., display a degree of inconsistency, but never to the point of undermining the confidence of its participants. We can also imagine an opposite situation of a stable system that is not perceived as secure. Note, however, that the same causes that can make the system unstable in a short term can frustrate confidence in the banking system and make it look insecure in the long run.

Most people associate financial stability with stability of the banking system. This is due to the role the banks play in the economy. They are the critical money lenders in the economy and participants of clearing systems. Therefore, destabilization of the lending sectors can have many adverse effects on the economy as a whole. The monitoring of stability of the lending market has to be proactive since accurate identification of risks and the level of the sector’s sensitivity to external challenges is necessary to maintaining balance. Besides, banks have to live under a unique exposure to a “systemic risk”. Considering the magnitude of possible adverse consequences, this risk poses one of the major threats to the smooth operation of the financial market. Broadly speaking, systemic risk means the possibility of occurrence of serious disruptions in the financial transaction chain as a result of interlinking the individual members of the financial market. Accordingly, any shocks or disruptions spilling over from one segment of the financial system to an-

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28 O. Szczepańska, Stabilność ... op. cit., p. 35
30 O. Szczepańska, Stabilność ... op. cit., p. 35
31 J. Koleśnik, Bezpieczeństwo systemu bankowego. Teoria i praktyka, Dfiin, Warsaw 2011, p. 54.
other can start an avalanche culminating in a full-scale crisis. We also know of other market imperfections with potential to precipitate a banking crisis. Among others, these include the asymmetry of information, adverse selection and moral hazard, any of which are capable of eroding the security of banks and their clients.

2.2. Post-crisis Architecture of Financial Supervision as a Response to the Sector’s Crisis

Researching into the matter of stability will reveal that the market mechanism is incapable of providing stability. This creates demand for institutions working for the financial system’s security. These institutions form the financial safety net.

The financial safety net comprises the functionally and institutionally interrelated solutions whose mutual relations cause an increase in safety and effectiveness, while maintaining competitiveness among banks both domestically and internationally. These solutions are designed to guard the system against destabilization and disasters caused inter alia by financial crises and systemic risk, build confidence in the financial system, and protect the customers from the consequences of financial institutions insolvency. Protection against the effects of the financial crisis and reduction of its impact are of a key significance to the single European market, which is particularly susceptible to disruptions in financial markets due to the numerous links and financial relationships of large European capital groups and the euro zone operation.

Ensuring financial stability is a multidimensional task, forcing involvement of many institutions from individual segments of the financial. In narrow terms the safety net is limited, however, to the safety of the banking system. In such an approach, in most countries the financial safety net of the banking market consists of: the central bank, financial supervisory institution, and the deposits guarantee system. The safety net also includes the government as a regulator and trustee of public funds. At the European Union level, the financial safety net currently primarily consists of the European Central Bank, the Basel Committee on Banking Supervision, national deposits guarantee systems, the financial supervisory system at national level and that of the European Union.

34 J. Koleński, Bezpieczeństwo… op. cit, p. 109.
37 M. Capiga, Determinanty i struktura bezpieczeństwa finansowego, [w:] M. Capiga, W. Gradoń, G. Szustak, Sieć bezpieczeństwa finansowego, CeDeWu, Warsaw 2010, p. 20.
38 A. Stelmach, Geneza i uwarunkowania… op. cit., p. 25-26.
The lessons from the financial crisis brought to light mistakes made in the management of financial institutions, including banks, and imperfections of the existing supervisory mechanisms. Above all, problems with the coordination of supervision over banks engaged in international business came to the fore. It transpired that the individual national supervisory bodies did not work together or share information efficiently and the national regulatory and supervisory requirements varied between the EU member states. Thus, there was a need for developing new solutions to ensure that the mistakes are not repeated in the future. Therefore, the centralized European supervision over the financial market was brought into being.

The present architecture of the European financial security system consists of two groups of tools:
1. Instruments and regulations enacted before the crisis which began in 2007.
2. Instruments and regulations developed in response to the crisis:
   a. the European System of Financial Supervision: the post-crisis supervisory architecture set up on the EU territory, proposed by a group led by Jacques de Larosiere,
   b. the banking union project designed for gradual implementation.

The report presented by de Larosiere’s group in February 2009 proposed an EU financial supervision model considered by the group as optimal from the point of view of individual nations and the community. The model assumed strengthened cooperation and coordination between the national supervisory authorities and a European-level body responsible for monitoring threats faced by the EU financial system as a whole. The group recommended an in-depth re-engineering of the supervision architecture in Europe by implementation of two-level supervision consisting of macro- and micro-prudential supervision. This project gave birth to the centralized European supervision (Figure 3).

The macro-prudential supervision, defined as the monitoring and evaluation of possible threats to the stability of the EU’s financial system, was placed under the charge of the European Systemic Risk Board. The purpose of the Board is to identify threats, give warnings and, if applicable, make recommendations on risk alleviation measures. Therefore, the primary responsibility of the Board is to monitor the systemic risk in the EU member states.

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The micro-prudential supervision was commissioned to three European Supervisory Authorities (ESAs) operating as part of the European System for Financial Supervision (ESFS):

- European Banking Authority (EBA),
- European Insurance and Occupational Pensions Authority (EIOPA),
- European Securities and Markets Authority (ESMA).

ESAs succeeded the hitherto committees of European supervisors with their primary responsibility for advising the European Commission (specifically on the matters of harmonized application of the Community directives and the convergence of supervisory efforts of the EU nations). These committees were never authorized to exercise supervision directly.

### 2.3. The Banking Union as a Building Block for the Post-crisis Regulatory Architecture

The former architecture of the financial security system has proved to be insufficient, as many financial institutions are multinationals. In addition, the lessons learnt from the financial crisis support the argument that the EU needs a stronger
European supervisory architecture and prudential control to support the maintenance of financial stability. This need is particularly urgent in the banking sector as it plays a special role in the financial transactions chain and is heavily exposed to systemic risk. Accordingly, legislative work on the harmonized supervision over the activities financial institutions continues.

The appointment of the additional supervisory authority over the Euro Zone (so-called Banking Union) members is one essential transformations of the supervision model undergoing in EU. This idea arose in response to the global financial crisis and is expected to provide financial stability in the Euro Zone nations.

The concept of establishing an integrated financial framework (the so-called banking union) was presented by European Commission Chairperson José Manuel Barroso at the informal meeting of the European Council dated 23 May 2012. At the European Council summit meeting held on 28-29 June 2012, Herman Van Rompuy, in collaboration with the Commission and the Eurogroup and the President of the European Central Bank, presented the report entitled „Towards A Genuine Economic and Monetary Union”41 that defines four pillars of the future of Economic and Monetary Union (EMU):

- an integrated financial framework,
- an integrated budgetary framework,
- an integrated economic policy framework,
- ensuring the necessary democratic legitimacy and accountability.

The notion of the integrated financial framework actually means the banking union42.

It is believed that a well designed Banking Union could help ease the crisis by the following means, without limitation43:

- breaking the negative feedback between insolvent banks and insolvent states,
- easing the moral hazard by offering managed bankruptcy (resolution) to banks “too big to fall”),
- building depositor confidence by harmonizing deposit guarantee systems,
- stronger supra-national supervision for early risk identification in the banking sector.

The concept of banking union is about creating a new dimension to the financial safety net and the uniform principles of restructuring, liquidation and resolution of banks in a pan-European dimension. The banking union is to cover all the EU Member States and consist of the following pillars44:

- Single Supervision Mechanism (SSM),

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42 B. Domańska-Szaruga, Common... op. cit., p. 268.
– Deposit Guarantee Scheme (DGS),
– Banking Recovery and Resolution Plan (BRRP, resolution).
Also the CRD IV Directive\(^{45}\) and CRR Regulation\(^{46}\), which are to implement the Basel III\(^{47}\) recommendations into the European legal order in the period of 2013 - 2019, are part of the efforts taken to increase financial security\(^{48}\).

Establishing the Single Supervision Mechanism was the first step towards the creation of the Banking Union. The Council of the European Union passed the final draft of the two regulations establishing the Single Supervision Mechanism on Oct. 15, 2013:


The European Central Bank is currently preparing to fully undertake its prudential supervision responsibilities. It will launch its full-scale activities in this area in Nov. 2014. At the same time, EU institutions are continuing with the next phases of Banking Union development, i.e., the Single Resolution Mechanism. The implementation of the Single Supervision Mechanism has indeed transformed the framework of the financial supervision in EU existing before 2014 (Figure. 4).


\(^{48}\) B. Domanska-Szaruga, Common banking... op. cit., pp. 269-270.
The Single Supervision Mechanism consists of the following:
- ECB as the supervisory authority, subject to the separation of the ECB’s monetary and supervisory functions,
- Member States of the euro zone,
- Other Member States, if they join the SSM on the basis of a ‘close cooperation’ mechanism.

The cooperation between the supervisory authorities of the Member States which have joined the SSM, and those remaining outside the SSM, will be coordinated by EBA.
The European supervision will be exercised over the relevant credit institutions in the euro zone, i.e. such that\textsuperscript{49}:

- have assets in excess of EUR 30 billion, or
- have assets in excess of 20\% of the GDP of the home country and they are higher than EUR 5 billion, or
- shall be deemed relevant by the European Central Bank at the request of the national supervisory authority, and
- credit institutions that have received assistance funding from the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM).

The idea of a banking union raises hopes for solving many problems, as well as objections and comments. In general, it seems logical and coherent. The main argument in favor of the banking union project is the multiplicity of cross-border links between financial institutions in the EU. With a high-level of confidence, one may say that the scale of these bonds will not decline in the coming years. By harmonizing regulatory and supervisory standards and by establishing the single European banking supervision, the integrated management of banks in a crisis situation would be enabled and conditions would be created to ensure that the cost of rescuing big banks could be paid by the entire euro zone, while protecting the interests of depositors through making a common system for protection of deposits. It would also provide the possibility for restructuring and an orderly liquidation of banks. The proposed concept of the union would also allow the Member States remaining outside the euro zone to enter the banking union if they wished so and if they were ready to adapt to the proposed requirements, thus enabling the financial sector to increase the range of its stability\textsuperscript{50}.

The Banking Union also raises many doubts, questions and critical comments. A review of the design of the European banking supervision would reveal that its structure will be quite cumbersome. The process will not eliminate the structures established in 2011. This means an institution supervised can be controlled (directly or directly) by multiple institutions including the supervisors from the parent and host countries. Accordingly, the addition of another decision-making center brings about a necessity of clarifying competences, mutual reporting lines and relations between the new supervisory bodies on the one hand and not only the existing authorities but also the European commission, national supervisory bodies and national governments on the other hand. Another important question is the cost of operation of the Single Supervision Mechanism and related concerns that these costs will burden the clients of the institutions supervised\textsuperscript{51}.


The banking union project also creates some questions about moral hazard\textsuperscript{52}, regulatory chaos, the consequences for the commercial banking sector of the countries outside the euro zone, the marginalization of national supervision, and many others.

Note also that legal regulations do not provide for automatic guarantees of stability or security of banks\textsuperscript{53}. This is because what really matters is bank managers’ performance, accountability for deposits and plain integrity. Although the questions and unknowns are many, we should hope that the coming of the Banking Union heralds a new quality of financial governance and improved financial security.


CHAPTER III

Major Threats to Economic Stability in the Post-Communist Georgia: Reality and Prognosis

Iasha Meskhia\textsuperscript{54}  
Shota Shaburishvili \textsuperscript{55}

Immediately after regaining its independence, Georgia began to build a democratic, legal state oriented to market economy. However, during the transition period the country faced serious difficulties (civil war, military activities in Abkhazia and former South Ossetian Autonomous Region, hyperinflation, economic collapse, loss of old and traditional markets, energy and transport blockade, extremely tense criminal situation, Georgia-Russia war, etc.). However, due to the reforms, the country began to overcome economic and social problems gradually. Constitution of the country was adopted, various laws were developed, Georgian national currency was adopted and a number of reforms were carried out almost in all spheres of public life\textsuperscript{56}. However, the reforms were often random and not successive, as a result, they could not bring the desired result. Although, in recent years there were high rates of economic growth, majority of the population didn’t benefit from that, task of reducing poverty and unemployment was not performed. Many other extremely important and pressing economic and social threats also remain in the agenda. Solution of these problems requires serious, reasonable and thoughtful activities. Making quick, momentary decisions, which was usual for the government coming to power after the Rose Revolution, had only short-term impact, which became obvious in 2012, after the new government came to power\textsuperscript{57}. Selective enforcement of laws, violation

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\textsuperscript{57} I. Meskhia, Political instability and economic turbulence in Georgia, Journal „Economics and Business”, 2013, №5.
of human rights, insecurity of property rights, elite corruption, pressure on business and other negative factors significantly endangered macroeconomic stability and economic development of the country. Simultaneous functioning of new and old governments in 2013 seriously damaged the country: political controversy between different parts of society deepened, economic growth rate almost halved, foreign trade turnover decreased, volume of both foreign and domestic investments reduced, the task to create more jobs wasn’t implemented, etc. Although economic growth slowed down, a number of reforms were carried out in the country and it’s expected to see the positive effects of these reforms in the nearest future.

The objective of this chapter is to investigate and evaluate basic macroeconomic threats the country is facing, which might become even more serious in the nearest future due to exogenous and endogenous factors.

3.1. Number one threat – Unemployment and Poverty

In recent years, population of Georgia has been in decline. From 1990 to 2013, the population decreased from 542.4 thousand to 4483.8 thousand. Birth rate drops, mortality rate increases, the share of aging population has also increased. 53 percent of the population lives in the urban areas and 46.8 percent in rural areas. There has been a declining tendency in the number of rural population, resulted in the growth of urban population. Because of high unemployment and poor living conditions migration rate is quite high. According to the calculations of the experts, over the last 20 years over one million people migrated from Georgia to other countries. This amounts about 25 percent of the country’s population. The amount of money sent annually by the immigrants to their relatives living in Georgia amounts to 1.3–1.5 billion USD.

Despite high rates of economic growth, living conditions of the population have not substantially improved. In recent years, average monthly salary of the population has been increasing. By 2012, nominal wage increased nearly 5 times compared to 2000. Despite the high rates of salary increase, its average volume is still far below compared to the respective figures not only in developed countries, but also in post soviet countries. In 2012, average monthly nominal salary was 712.5 GEL. The highest average salary was in financial sector (1402 GEL) and in state administration (1031 GEL) and the lowest in education (355 GEL) and agricultural sector (425 GEL). Poor living conditions of the population becomes obvious from the following figures: by 2012 the average household income did not exceed 675 GEL, income of the employed person - 580 GEL, income of the self-employed person - 67 GEL, income from agricultural products - 48 GEL. By the same year, average monthly per capita income was 187 GEL and the living wage for an able-bodied man was 158 GEL. The median of consumption is 192 GEL. The share of population below 60 percent of median consumption is 23 percent and below 40 percent is 10 percent. Gini coefficient according to total income is 0.43 and according to total expenditures 0.45. 9.7 percent of the country’s population is beneficiary of government social

58 The source of the data given here and hereafter is the National Statistics Office of Georgia
assistance programs to the poor. Poor conditions of life are conditioned by high rate of unemployment (Table 1).

**Table 1. Unemployment in Georgia in the years 2000-2012**

<table>
<thead>
<tr>
<th>Year</th>
<th>Economically active population (workforce), thousand</th>
<th>Employed, thousand</th>
<th>Unemployed, thousand</th>
<th>Unemployment rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2049.2</td>
<td>1837.2</td>
<td>212.0</td>
<td>10.3</td>
</tr>
<tr>
<td>2005</td>
<td>2023.9</td>
<td>1744.6</td>
<td>279.3</td>
<td>13.8</td>
</tr>
<tr>
<td>2006</td>
<td>2021.8</td>
<td>1747.3</td>
<td>274.5</td>
<td>13.6</td>
</tr>
<tr>
<td>2007</td>
<td>1965.3</td>
<td>1704.3</td>
<td>261.0</td>
<td>13.3</td>
</tr>
<tr>
<td>2008</td>
<td>1917.8</td>
<td>1601.9</td>
<td>315.8</td>
<td>16.5</td>
</tr>
<tr>
<td>2009</td>
<td>1991.8</td>
<td>1656.1</td>
<td>335.6</td>
<td>16.9</td>
</tr>
<tr>
<td>2010</td>
<td>1944.9</td>
<td>1628.1</td>
<td>316.9</td>
<td>16.3</td>
</tr>
<tr>
<td>2011</td>
<td>1959.3</td>
<td>1664.2</td>
<td>295.1</td>
<td>15.1</td>
</tr>
<tr>
<td>2012</td>
<td>2029.1</td>
<td>1724.0</td>
<td>305.1</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Source: own research.

The number of active population in Georgia is gradually reducing, the number of the employed people is also decreasing and unemployment rate is increasing⁵⁹. There is an extraordinary situation in the country – economy is growing, GDP growth rate is quite high, new companies and small business enterprises are established, tax revenues increased by ten times. Under these circumstances, instead of increase in employment rate, it’s still decreasing.

The problem is conditioned by the following factors: first – due to structural transformation of the budget sector and the reforms carried out in the country thousands of people lost their jobs in recent years. Most of these people are intellectuals who couldn’t change their mentality and profession and therefore couldn’t find another job; second – increase of the unemployment is partly conditioned by the fact that the inflow of foreign direct investments in Georgia was followed by inflow of foreign workforce and consequently, the number of jobs for domestic workforce has reduced; third – scientific, technical and technological progress is evident, as a result there are less jobs; and finally, the forth and main factor – only about one third of the country’s gross domestic product is produced in the country, the rest is imported. This means that most of the goods consumed in Georgia is produced in foreign countries. This is a very acute problem, as it’s connected with weakening of not only economic, but also social security of the country. In case negative trade balance is maintained for a long time, the problem of unemployment will remain unsolved. Some causes of unemployment should be also mentioned here:

- Optimization of employment, as a result of transformation of form of ownership of soviet enterprises. Due to this most of the employed people lost their jobs;

- Most of the large enterprises closed down as they were irrelevant to market economy;
- Introduction of new technologies due to structural changes in economy;
- Seasonality in employment as a result of construction of non-economic infrastructure;
- Inappropriate and ineffective state employment Policy.

Official statistics of Georgia didn’t reflect employment rate perfectly. Only those who are registered as job seekers in state employment office are considered as unemployed. Because of ineffective functioning of such offices, actual unemployment rate is much higher and according to experts, the number of unemployed is 2 or 3 times more than the official statistics say. Accounting practice, based on the methodology of International Labor Organization can’t reflect the real situation in Georgia. Official statistics doesn’t register outflow of workforce from Georgia, as a result, exact number of the migrants is unknown. Most of the migrants leave the country to find a job. If we include them in total number of the unemployed, unemployment rate will exceed half of the economically active population. Most of the state programs developed to reduce the unemployment in recent years, turned out to be ineffective, as they were mainly held in pre-election period to get political dividends. Thus, it can be concluded that effective state policy wasn’t carried out to reduce unemployment in the country and the problem became especially acute in recent years.

Unemployment rate differs by regions of the country. In the regions, where the mining and manufacturing industries, as well as agricultural sector (e.g. tea production) were developed, unemployment rate is relatively high. The highest unemployment rate is in large cities. According to data of 2012, unemployment rate in Tbilisi, the capital of the country is about 30%.

As for the structure of unemployment by gender, female unemployment exceeds male unemployment by nearly 50%. From the perspective of global employment, which includes managing households, caring for children, caring for old and disabled people, etc, the number of unemployed women is less than unemployed men.

Distribution of unemployment also differs by age groups. The share of the young, especially aged 20-25 years, in the total number of the unemployed is relatively high. The share of the people unemployed for more than one year is the highest (75%) in the total unemployment and the share of the unemployed for one to three months is relatively small. At the same time, people who find it most difficult to find jobs are people with higher education (over 20%), as their profession or qualification isn’t in demand on labor market. It’s comparatively easier to find jobs for the people with primary, incomplete and complete secondary education.

One of the important aspects of labor market regulation is the amount of remuneration (salary). The higher is the share of the people with higher and vocational education in economically active population, the higher is the demand for high-paying jobs. Because of low salaries, highly qualified specialists don’t apply to employment offices.
In recent years, average monthly salary has been obviously increasing in Georgia. By 2012, nominal wage in total economy increased nearly by seven times compared to 2000. Despite high rates of salary increase, its average amount is still far below compared with the respective figures not only in developed countries, but also in post-soviet countries. At the same time, inflation is growing and consequently, increase in salaries doesn’t have essential positive impact on improving of living conditions. This was caused by spontaneous and hasty economic policy carried out in the country.

Development and realization of employment program is extremely difficult. It requires systematic and complex approach, deep and causal analysis of the country’s social and economic development trends, study of the factors and causes of unemployment, analysis of international experience in fighting against unemployment, development of appropriate suggestions and recommendations. Not only the ministries and institutions of economic and social profile, but also president’s administration, parliamentary committees, companies, small business representatives, labor unions and others should be included in the process of development of such program. Employment program developed by only one ministry, as it’s today in Georgia, can’t provide the desired results.

In order to overcome the problem of unemployment, we believe that the following measures should be taken:

- Long-term program for the country’s economic development should be developed. The program should be oriented to attracting not only foreign but also domestic investments. Based on the long-term forecast of economic growth, the concept of employment of economically active population should be developed.

- It is important to calculate the exact number of the unemployed. For this purpose, the Ministry of Economy and Sustainable Development of Georgia should develop scientific method to define exact number of the unemployed (by age groups, gender, education, place of residence) and ensure providing accurate information to the society and the government, which shall become the basis for long-term employment programs.

- It is recommended to review and make appropriate adjustments to the country's macroeconomic policy, so that the problem of employment becomes a priority. Here we mean optimization of the negative trade balance, stimulation and promotion of producing goods and services for export by the state, transformation of custom policy, so that to ensure the country’s economic security.

- Planning technology for preparing specialists with higher and vocational education should be fundamentally changed and it should be based on forecasts of labour market needs. Otherwise, the gap between demand and supply of qualifications on labour market will deepen and additional funds will be necessary for retraining the workforce.

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In order to create independent energy complex of the country, special attention should be paid to projection of large projects in this field (nuclear power stations, hydro and thermal electrical power stations, wind energy, etc). Therefore, relevant domestic specialists should be prepared for new jobs in this field, not to employ foreign staff.

Tax system of the country should be focused not only to the increase in budget revenues but also to employing economically active population. For this purpose, it’s advisable to stimulate small business and grant them a tax exemption for the first two years. It’s reasonable to reduce income tax rate, so that to use the rest of it for reinvestment and to create new jobs.

An employment service should be established and become a center for obtaining exact information about the labor market, processing and distribution of the information. The center should systematically and quickly obtain the information regarding the demand and supply of the workforce, regarding each job, working conditions and wages. The center should have retraining centers. As the problem of unemployment is very challenging, the idea of establishing a Ministry of Labour might be considered.

Some relevant laws, such as Labour Code, the Law on Public Sector Jobs and others need improvement and amendments. Like in developed countries, there should be regulations for workers (as well as the unemployed) close to retirement age to go on pension with preferential terms.

As the problem of unemployment is especially pressing in regions, it’s advisable to develop local employment programs within the municipalities. Such programs should be initiated by local self-governments. Both on micro and regional level, employment programs should be developed jointly by highly qualified specialists, government officials, labour unions and scientists.

The role and importance of labour unions in the regulation of labour market should increase. Labour unions should overcome the crisis they are facing and get actively involved in the activities directed to improvement of working conditions, increase of salaries, increase of employment rate, etc.

The state should take the responsibility of social protection of the unemployed. In developed countries, the amount of assistance of the unemployed is connected with the average salary. In terms of current budget of Georgia, it’s possible to accumulate funds to give assistance to the unemployed in the amount of 30% of the average salary.

First of all, appropriate measures should be taken to reduce unemployment rate in rural regions and in social and demographic groups, which are not competitive on labour market.

In order to reduce unemployment, it’s needed to improve investment climate by carrying out administrative and economic reforms, which ensure reduction of transaction costs and stimulation of legalization of in-
formal sector. Special attention should be paid to promotion of agricultural goods production and development of tourism business, allocation of preferential loans for small business and stimulation of women employment.

- Is it necessary to change the orientation of vocational training centers according to market demand and to develop training centers within the companies, etc.
- Overcoming of unemployment problem will significantly depend on economic growth rates, development of small business and entrepreneurship, improvement of investment climate, improvement of quality and competitiveness of workforce.

3.2. The second threat - negative foreign trade balance

At the current stage, foreign trade policy of Georgia greatly determines the main vector of the country's economic development. This is caused by low level of the country’s economy, technical and technological backwardness and lack of investments. The world practice knows two different regimes of foreign trade – protectionism and free trade\(^{61}\). Georgia chose the free trade regime, as a result nowadays it has one of the most liberal foreign trade policy.

Foreign economic policy of Georgia is characterized with preferential foreign trade regimes. Due to the reforms in customs system and technical regulations of customs unions, foreign trade regimes and customs procedures were simplified, import tariffs reduced and non-tariff regulations reduced to minimum. 16 import duties, existing in Georgia since 2006 reduced to 3 (0.5 and 12%), tariffs on almost 85% of imported goods and seasonal tariffs has been almost fully abolished. Tariffs on imported goods are regulated by tax code of Georgia. Export and re-export is free from customs duties. Georgia has free trade regimes with Turkey and CIS countries. Based on this regime trade with these countries is free from custom duties. Georgia benefits from Most-Favored-Nation regime (MFN) with the WTO countries. Georgia benefits from a Generalized System of Preferences (GSP) when trading with the European Union, the USA, Canada, Japan, Switzerland and Norway.

In 1995, Georgia was granted Generalized System of Preferences (GSP) by the EU. In 1996 Partnership and Cooperation Agreement (PCA) was signed between Georgia and the EU and some institutions were established to realize this agreement. Since 2005, Georgia benefits from new GSP+ regime when trading with the European Union. The GSP+ covers around 7,200 products and means removal of tariffs on products exported to the EU from Georgia. In November 2013, Georgia and the EU signed a memorandum of Association Agreement (AA) hoping to be finally signed in 2014. A very important part of this document is the agreement on Deep and Comprehensive Free Trade Area (DCFTA)\(^{62}\), which aims to support economic integra-

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tion of Georgia in the EU, increase the volume of trade between Georgia and the EU by removing of tariffs and quotas, make the laws and regulations on trade closer to the EU’s and finally to create deep and comprehensive free trade area.

Georgia signed Double Taxation Avoidance Agreements with 33 countries and agreements on encouragement and mutual protection of investments with 32 countries. Georgia’s trade with the WTO countries is based on the principle of Most Favored Nations (MFN).

Direction of the foreign economic policy of Georgia is largely determined by active participation of the country in different international and regional organizations and programs, including with the following organizations in frames of the Black Sea regional cooperation:

Black Sea Economic Cooperation (BSEC) – main objective of the organization is to develop both bilateral and multilateral cooperation between the member states in the following fields: small and medium business, energy, agriculture, mining and processing industry, transport and communication systems, tourism, etc. Georgia actively cooperates with other member states of the organization.

GUAM – members of the organization are Georgia, Ukraine, Azerbaijan and Moldova. The objective of cooperation between these countries is to strengthen economic ties between European and Central Asian countries. GUAM actively cooperates with Japan and the USA. It is planned to establish relations with Korea. In January 2013, Georgia became the chair of GUAM.

CIS – the organization was established in 1991 and Georgia was the last country to join it in 1994. All the post soviet countries were the members of the organization except the Baltic States. The aim of CIS was cooperation in economic, political and cultural fields. In 1993, the member countries signed the agreement to create economic union. After Russia occupied Georgian territories and recognized their independence in 2008, Georgia decided to withdraw from CIS. This didn’t prevent the country to strengthen trade and economic ties with other members of the organization and it has a growing tendency. The share of CIS countries in foreign trade turnover of Georgia in 2013 was 35 %, compared to 27% of the EU.

The idea to create Eurasian Economic Community, initiated by Russia was supported by Belarus and Kazakhstan. The three countries created a customs union, which is intended to become an economic union in nearest future and in long-term perspective, political and military integration of the members of this union is expected. Georgia and Moldova firmly refused to join the Eurasian Customs Union and made a clear choice in favor of associate membership in the European Union. As for Armenia, it’s preparing for accession to the Eurasian Customs Union. Armenia’s desire to be associate member of the EU and the member of Eurasian Customs Union at the same time has no perspective, as the agreement on deep and comprehensive free trade area doesn’t allow such format. At the same time, Armenia can communicate with the Customs Union only through Georgia, this increases Rus-
sian threat to Georgia. Ukraine also has to make a difficult choice, the government's orientation toward Eurasian Customs Union made the country to face the most difficult political problems. There might be some threats from Russia towards Georgia as well, however acceleration the process of signing Association Agreement with Georgia, like in cases of Romania and Bulgaria, may provide certain guarantees of stability.

In recent years, Georgia’s trade relations have obviously deepened with the neighboring countries, especially with Azerbaijan, Turkey, Armenia and Ukraine. Since 2013, a new direction becomes visible in trade relations with Russian Federation. After restoration of state independence of Georgia and collapse of the Soviet Union, trade relations between Georgia and Russia did not break off. However, as political relations between two countries tensed in 2006, Russia declared an embargo on the import of agricultural goods, including wine, from Georgia. As a result of military conflict between Russia and Georgia in 2008 and occupation of Georgian territories, two countries completely broke off diplomatic relations. Consequently, economic relations between the countries ceased. In 2013, the new government of Georgia decided to restore trade relations with Russia. As a result, export of Georgian agricultural products (wine, nuts, grapes, pear, quince, citrus, etc) to Russia began. Due to access to Russian market, in 2013 wine export doubled, the export of mineral water increased by 80.1% and amounted to 106.8 million USD in 2013. Georgia's largest trade partner countries in 2013 are shown in Table 2.

Table 2. Georgia’s largest trading partners in 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Export million USD</th>
<th>share (%)</th>
<th>Import million USD</th>
<th>share (%)</th>
<th>Trade turnover million USD</th>
<th>share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2 09310,3</td>
<td>100,0</td>
<td>7 874402,5</td>
<td>100,0</td>
<td>10 783712,8</td>
<td>100,0</td>
</tr>
<tr>
<td>Turkey</td>
<td>182 863,4</td>
<td>6,3</td>
<td>1 346 37,5</td>
<td>17,1</td>
<td>1 528 900,8</td>
<td>14,2</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>710 214,7</td>
<td>24,4</td>
<td>638 107,3</td>
<td>8,1</td>
<td>1 348 322,0</td>
<td>12,5</td>
</tr>
<tr>
<td>Ukraine</td>
<td>192 767,1</td>
<td>6,6</td>
<td>602 360,8</td>
<td>7,6</td>
<td>795 127,9</td>
<td>7,4</td>
</tr>
<tr>
<td>Russia</td>
<td>190 242,9</td>
<td>6,5</td>
<td>589 419,5</td>
<td>7,5</td>
<td>779 662,4</td>
<td>7,2</td>
</tr>
<tr>
<td>China</td>
<td>33 862,5</td>
<td>1,2</td>
<td>563 665,3</td>
<td>7,2</td>
<td>597 527,8</td>
<td>5,5</td>
</tr>
<tr>
<td>Germany</td>
<td>73 037,3</td>
<td>2,5</td>
<td>449 286,5</td>
<td>5,7</td>
<td>522 323,8</td>
<td>4,8</td>
</tr>
<tr>
<td>Armenia</td>
<td>315 697,4</td>
<td>10,9</td>
<td>181 931,5</td>
<td>2,3</td>
<td>497 628,9</td>
<td>4,6</td>
</tr>
<tr>
<td>USA</td>
<td>136 484,2</td>
<td>4,7</td>
<td>253 900,3</td>
<td>3,2</td>
<td>390 384,5</td>
<td>3,6</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>150 753,8</td>
<td>5,2</td>
<td>200 019,9</td>
<td>2,5</td>
<td>350 773,7</td>
<td>3,3</td>
</tr>
<tr>
<td>Romania</td>
<td>5 085,0</td>
<td>0,2</td>
<td>323 270,8</td>
<td>4,1</td>
<td>328 355,8</td>
<td>3,0</td>
</tr>
<tr>
<td>Other countries</td>
<td>918 301,9</td>
<td>31,6</td>
<td>2 726 403,3</td>
<td>34,6</td>
<td>3 644 705,2</td>
<td>33,8</td>
</tr>
</tbody>
</table>

Source: own research.

Since 2013, new directions occur in foreign trade policy of Georgia. On the one hand, the positions of five largest trading partners changed and on the other hand, import is growing with higher rates compared to export. In 2013, export grew by 22% and import by 0.4% compared to the previous year. Turkey still holds leading position in the first five largest trading partners of Georgia. Turkey is followed by Azerbaijan and Ukraine. Russia and China took the fourth and fifth positions in
this list for the first time. Georgia has negative trade balance with its largest trade partners. The only exception is Azerbaijan at the expense of re-export of cars. Export to Ukraine grew by 15.4% and import by less than 1%. Trade turnover with Russia grew by 33%, mainly at the expanse of growth of export by 4 times, import increased by 24%.

In 2013, commodity structure of export also changed. Re-export of cars took the first position, followed by ferroalloy, nuts, copper ores and concentrates, fertilizers, wine, mineral water, non-denatured ethyl alcohol and alcoholic beverages, raw or semi-processed gold, etc.

There were no changes in large commodity groups of import in 2013 compared to previous years. Oil and oil products still hold the leading position with 12.1%, followed by cars (9%), hydrocarbons (3.8%), drugs (3.6%), wheat (2.3%), telephones (1.9%), copper ores and concentrates (1.4%), cigarettes (1.2%); processing machines (1.1%), trucks (1%).

There were quite positive changes in trading relations between Georgia and the EU in 2013. Namely, compared to previous years import grew much faster than export. In 2013, Georgia’s export to the EU increased by 72% and import increased only by 7%. As a result, negative trade balance with the EU countries reduced from 38% in 2012 to 33% in 2013. Improvement of export potential of Georgian goods should become an important guarantee for improving the effectiveness of the Association Agreement between Georgia and the European Union.

Signing agreements on foreign economic relations is important but it’s quite difficult to use these agreements to strengthen economic security of the country. One example of this is joining the World Trade Organization without being prepared for this. As a result, Georgia didn’t actually benefit from joining the organization, just on the contrary, it contributed to the decline of the agricultural sector and increased deficit of trade balance. Therefore, while formation of foreign economic policy, special attention should be paid to define how the new foreign trade initiatives will influence the country’s economic and political security in future. We consider it’s necessary to strengthen the government’s efforts in two directions: first, in cooperation with business, the government needs to develop a program supporting production of market basket products with local resources, so that to replace imported products with competitive local goods and services; second: in cooperation with business, the government should develop a state program to support production of goods and services for export and reduce the trade deficit. It’s also possible to combine these two programs into one program. The new government took some positive measures in this direction (Agricultural Development Fund, Co-investment Fund, supporting wine and citrus industry, the program of cheap loans, adoption of the Law on Agricultural Cooperatives, etc), but most of them are irregular and less effective. As a result, high rate of unemployment is still maintained. It seems that it’s important to carry out aggressive and unordinary policy in this direction. The reforms oriented to creation of permanent jobs should be carried out. For this

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purpose, the state should use all economic levers: tax preferences, cheap loans from the budget, methodical and technical assistance.

Therefore, due to liberal foreign economic policy, Georgia’s involvement in the process of global economic integration is gradually deepening. The foreign trade turnover of the country is increasing every year, however, there is still deficit in trade balance, which represents significant economic threat. Since 2013, new aspects become evident in foreign economic relations, the most important is a clear perspective to sign Association Agreement between Georgia and the European Union, restoration of trade relations with Russian Federation, more intensive trade relations with neighboring countries. In order to protect economic security of the country, the state should provide more support to enterprises producing goods and services for export, as well as producing market basket products. Reduction of trade balance deficit and increasing the employment rate should be the main objective of the foreign trade policy of Georgia.

3.3. Reality and Prognosis

The new government inherited many political, economic and social problems, which are difficult to overcome. There were especially numerous problems in the country’s economy, as economy was a political hostage under the previous government.

Despite the tensed political and social situation in the country, the new parliament and government managed to do quite a good job in carrying out reforms.

Among the strong points of the reforms the following aspects should be mentioned: business was released from political pressure; power tariff reduced; prices of fuel, pharmaceutical products, bread and sugar reduced; pension increased to 150 GEL; cash assistance for socially unprotected doubled; budget transparency increased and became more socially oriented; the amount of penalties reduced; interest rates on bank loans began to reduce; salaries of the public school teachers increased; getting education on 17 specialties at state universities and vocational colleges is funded by the state budget; pupils at public schools get textbooks for free; public nursery schools are funded by the state budget; state health insurance programs began to develop; development of agriculture became the priority of the country; a program supporting small farmers and preferential agro loans programs were launched; agricultural products processing enterprises are built; agricultural cooperatives are established; investment and demographic revival funds were established; management of local self-governments is reorganized; working on the Association Agreement with the European Union became more active; trade relations with Russia began to restore; the Labour Code has improved; etc.

The first positive results of these reforms became evident at the end of 2013 and at the beginning of 2014. Economic growth rates significantly increased, foreign trade turnover increased, export is increasing with especially high rates; infrastructural programs were launched; tourism business increased; new players entered the investment market; banking sector strengthened; prices became more stable, etc.
Despite some successes, the new government so far didn’t manage to solve a number of pressing economic problems:

There are still some artificial monopolies that hinders development of free entrepreneurship. Large business is still represented as monopolies and cartels, which dictate their own terms to market and impose high prices on widely consumed goods and services. This is especially true for oil, mineral water and mining industry businesses;

Adequate measures haven’t been taken to protect private property, for legal assessment of the criminal acts committed in this area in the past, as well as to ensure protection of business and property in future;

Adequate measures haven’t been taken to encourage domestic investors, they haven’t been granted the preferences foreign investors benefit from;

Activities carried out in the direction of labor market regulation, reducing of unemployment, creation of database for the unemployed aren’t sufficient;

Activities to develop land-tenure regulations have not become more active;

Measure to protect the local market from low-quality goods and dumping haven’t been taken; etc.

From the current perspective, two possible scenarios of the country’s economic development might be forecasted:

First - pessimistic forecast scenario, this means inertial development of the country’s economy, maintenance of low rates of development achieved in terms of cohabitation of political parties. Such situation occurs in case the new government doesn’t fulfill their promise justice restoration, property protection and solving the unemployment problem. Dealing with these problems requires united, common activities of the society and political parties. However, current tense confrontation in the society and between political groups does not provide a guarantee for such collaboration. Thus, because of the high possibility of the pessimistic forecast scenario, it can’t be removed from the agenda.

Second – optimistic forecast scenario, this means to achieve high growth rate of economic development and ensure macroeconomic stability. Such forecast depends on the following factors: political stability of the country, significant reduction of state spending, especially in public administration, allocation of funds from budget only for the programs, which are oriented to complete solution of the problem and are provided with relevant projects and cost accounting; optimal distribution of the tax burden over capital, entrepreneur and consumer; optimization of the ratio of direct and indirect taxes; differentiation of VAT; establishment of effective antimonopoly service; to focus not only to profitability of banking sector but to state interests as well and to ensure access to credit resources; to ensure real independence of the National Bank; announcing a temporary moratorium on new external debts; support attraction of FDI mainly in real sector; to encourage domestic investments; regulation of export-import ratio with non-tariff barriers; supporting national production to replace imported goods; support production of goods for export by tax and budgetary measures; providing tax preferences for micro and small business; removing the taxation burden from entrepreneurs in high mountain and mountainous regions; to create municipal bodies to manage production and processing of agricul-
tural products; harmonization of energy tariff, etc. Implementation of these measures will contribute to accelerating economic development of the country, creating of new jobs and improving living standards.
CHAPTER IV

Unstable development of the Belarusian economy: reasons and operation principles

Alexandre Egorov

4.1. Essence of the Belarusian economic model

Distinctive feature of the Belarusian economy is that it doesn’t function as the transformational economy that developing in the direction of market economy, and as a preserved relict of the command social and economic system. The economy of Belarus is organized by the principles of work of large corporation. Using such analogy the Belarusian economy can be called conditionally corporate economy, model of corporation-state. Thus the corporate economy us is understood as complete social and economic system in which actions of separate structural elements (business entities) are subordinated to the general system expediency, and results of economic activity are formed not at the level of certain business entities, and at the level of a national economy as a whole. To the main structural divisions of corporation state – to the organizations of the state form of ownership – operating structures offer the behavior directed not on the achievement of the traditional purposes in the conditions of market economy – growth of profit, cost of firm, profitability of the invested capital, and on achievement of the coordinated work of corporation as whole: maintenance of planned growth rates of GDP, priority development of certain sectors of economy, organizations, employment preservation, maintenance of the minimum social standards and so forth.

The substantial commodity-money relations work on perimeter of corporate economy – in its communications with the outside world. In corporation-state the

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conditional commodity-money relations work in relationship between its structural links. The internal relations "corporations Belarus" are governed by command methods.

From two sectors of economy – internal and external – the dynamic equilibrium state is supported by market methods only in external sector. It is compelled situational behavior. As for foreign economic activity, the Government, bank and corporate sectors, getting under influence of the foreign commodity and monetary markets, are compelled to adhere to rules of rigid budgetary restrictions set by them, balancing with balance of current accounts. On the contrary, as for internal part of economy, participants of the domestic financial market operate in a mode of soft budgetary restrictions. Current accounts of business entities are balanced both market, and non-market (administrative) methods. It is shown, for example, in periodic write-off of problem credit debt of the state organizations, or in improvement of periodically broken liquidity of backbone state banks at the expense of means of the state budget.

The characteristic feature of the Belarusian financial market is that private and state sectors of economy have no equal access to financial resources as whenever possible their acquisition, and at the price. The private sector of the Belarusian economy, practically hasn’t access to the resources directed on performance of state programs. Supersoft conditions of resources allocation on performance of state programs are wrapped for the private sector in supersevere constraints – very high interest rates for the bank credits, many times exceeding interest rates for the state enterprises.

The considerable part of the budgetary financial resources is distributed to the state enterprises through commercial banks in the form of the credit though it is not a credit in fact. The share of "quasi-credits" makes about 50% of a credit portfolio of the Belarusian banks. It means that the majority of financial decisions in the Belarusian economy is accepted not by banks, but by administration of the state-corporation proceeding not from criteria of efficiency, but from criteria of corporate expediency. Manipulation with distribution of the budgetary resources through banks is carried out to hide real extent of command state intervention in economy.

Backbone state banks, being engaged in crediting of state programs, carry out not peculiar to banks function of distribution of budgetary funds. The basic solution of a question on release of commercial banks from performance of distributive function would be the creation of so-called Agency of development coordinated with the International Monetary Fund which would adsorb on itself the problem credits and would be engaged in financing of state programs at the expense of budgetary funds.

However the Belarusian authorities didn't decide to carry out reform in such direction. Instead of Agency of development the JSC «Development bank of the Republic of Belarus» was created. The Development bank not only didn't eliminate noted problems, but also aggravated them. In reality it turned out so that the Development bank didn't withdraw problem assets from a banking system, but on the contrary by careful selection transferred the best, most risk-free and profitable assets of commercial banks to its balance. The Development bank turned into one more investment bank working at the budgetary resources, and state programs in considerable part both were financed, and continue to be financed by other state backbone
banks – JSC «ASB Belarusbank», JSC «Belagrombank». Thus the problem credits still remain on balances of these banks. The typical example of how the sensible idea directed on reforming of corporate economy, in substantial part is torn away by it and emasculated is accepted formally.

Also as in corporation firm in the Belarusian corporation-state are provided both the centers of formation arrived, and creating conditions for generation of profit planned and unprofitable divisions – the organizations and the whole branches. The centers of creation of profit in the Belarusian economy are such it is export the focused branches, as oil processing, production of mineral fertilizers. Planned and unprofitable branches, in particular, are the public transport, housing and communal services, agriculture. Unprofitability of these branches is a consequence of administratively established disparity of the prices. Prices for products and services of the unprofitable centers are underestimated while prices for products and services of the centers of creation of profit are overestimated.

4.2. Violation of reproduction proportions at a microeconomic level

We will show on the example of relationship of banks and the enterprises of agrarian sector how the corporate model of the organization of economy generates emergence of disproportions of reproduction at a microeconomic level.

About ten years ago some Belarusian state banks, and also National bank of the Republic of Belarus according to the indication of the Government got controlling stakes of several large agrarian organizations. In particular, the National bank invested resources in 7 agrarian organizations. Thereby banks acquired the right for external management of the enterprises which have become for them affiliated. The organization of steady business in agrarian sector was the purpose of this action which is carried out at the initiative of the Government. Banks had the role of financial donors and effective managers. Non-core for banks and potentially unprofitable sphere of investment aren't an obstacle for adoption of such decisions in corporate economy.

The disparity of the prices and the principles of managing in agrarian sector where the majority of the enterprises are state, led to that the usual scheme of relationship between banks and clients – by means of crediting – ceased to work long ago. The majority of the agrarian enterprises are chronically unprofitable and don't return the credits. At acquisition by banks of a controlling stake other scheme of the relations bank client is realized. To agrarian enterprises as to the affiliated organizations, the credits under an interest rate for level are given is much lower market (at 5-10 than times). Thereby it is supposed that cheap credit resources will be a basis of further successful business.

But in practice it appeared that in all cases of such organization form of relationship between banks and the agrarian enterprises, latter still can't pay off with banks on the credits which have been given out on favorable terms. There are arrears which in this scheme are liquidated following for usual banking practice. Banks at the expense of own means increase authorized capitals of the affiliated agrarian organizations, and those, in turn, direct financial injections on repayment of overdue
credit debt. Such is the scheme of investment of banks fulfilled on years in agrarian sector in corporate economy. The financial position of such agrarian enterprises, despite large-scale investments in fixed capital, doesn't improve, and remains unstable.

In what reason of such situation? Seemingly successful form of relationship banking and real sector of economy found. The financial position of the organizations of the agrarian sector receiving preferential financing, doesn't improve because they function not as the independent independent economic entities doing business at own risk, and as structural elements of system of corporate economy. Such organizations have no opportunity to sell the production and services at discretion and at free market prices. Production is realized according to administrative indications of government bodies of management and on the state to the established prices. Planning underestimated prices do not provide agricultural organizations work with a normal level of profitability. In the result and the new scheme of relationship bank client becomes unprofitable both for banks, and for the affiliated agrarian organizations.

Agricultural branch because of its place in the state-corporation is put in severe financial conditions and has as a result low production efficiency. The corporate model worsens and without that weak economy of the planned and unprofitable organizations. The collected debts on soft loans heavy burden lie on balances of the organizations. The problem credits considerably exceed annual output of the enterprises of agrarian sector.

The principles of the organization of corporation-state break reproduction proportions at a microeconomic level: not only unprofitable centers, but also the potential centers of creation of profit don't carry out the tasks set by it, work is unprofitable. The industrial processing enterprises, receiving from inefficiently working agrarian enterprises expensive raw materials (at above world’s average prices), can't create the product competitive at the price and quality in foreign markets. So following the results of 2013 the majority of the Belarusian meat-processing and milk-processing enterprises were unprofitable.

The Belarusian economy doesn't cope with calls of time and in process of competition strengthening everything works at foreign markets worse. So warehouse stocks in 2013 grew more, than twice, the sizes them as a whole on economy reached monthly output – maximum in the history of sovereign Belarus. In 2013 profitability of production and sales decreased, the profit in economy decreased by 50%. These tendencies have been proceeding in 2014.

4.3. Monetary financing in corporate economy

The Belarusian economic model is based on the macroeconomic regulation not compatible to conditions for development of private investments (the state investments are carried out on an unbalanced basis, their inefficiency becomes cov-

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ered at the expense of budgetary funds). The basis of management is made by "manual" directive macroeconomic regulation. As instruments of administrative regulation it is used first, the budgetary financing (its share is considerable and comparable to the cumulative credits of banks to economy), and, secondly, monetary financing: the lack of financial resources becomes covered due to excessive credit and monetary issue of National bank.

The high rate of inflation in economy, continuous depreciation of national currency is a direct consequence of monetary financing. Inflation never falls lower than 10% a year, and at the moments of financial crises reaches 200%. It is difficult to believe in it, but during existence of sovereign Belarus the national monetary unit is devaluated in relation to US dollar by 100 000 000 times.

At realization of inflationary financing in the credit and monetary sphere there are following relationships of cause and effect. Excess monetary issue of National bank out of requirements of a turn of the solvent enterprises conducts to relative excess of liquidity at commercial banks. It in turn promotes credit expansion of commercial banks in economy. The compulsory credit expansion of commercial banks directing limited resources to the inefficient enterprises, allows temporarily to eliminate deficiency of their settlement accounts. Sooner or later badly served accounts payable of inefficiently working enterprises creates a problem for creditor banks. Banks can't return credit resources which are badly served by insolvent borrowers. As a result the credits are frozen in inefficient projects, and banks incur losses on them. The non-return of money results in deficiency of liquidity at banks (first of all backbone). Banks start experiencing difficulties at service of the obligations. For the purpose of prevention of reduction by banks of obligations and currencies of balances the Government periodically carries out increase in authorized capitals of the state banks at the expense of budgetary funds. Accumulation of contradictions in the sphere of maintenance of short-term liquidity at backbone banks in the long term leads to the subsequent monetary issue of National bank.

Macroeconomic regulation in corporate economy creates such macroeconomic climate at which it isn't possible to make a little exact investment and business forecasts. Uncertainty at adoption of medium-term and long-term financial and economic decisions in the Belarusian economy is extremely high. Inflation and devaluation depreciate results of economic activity of the organizations. Accumulation in national currency in the conditions of high inflation becomes almost insoluble task.

4.4. Monetary financing Influence on efficiency of investment projects implementation

We will show on a concrete example negative influence of factors of inflation and high cost of credit resources on implementation of investment projects. Thus we will use a technique of taking note of inflation and devaluation of efficiency of the investment projects, stated in the book of the Belarusian economists Lapchenko D.
and Levkovich A. of "A basis of commercial and financial calculations". We will note that the average cost of credit resources in 2012 made 31.5%, in 2013 – 40.5%. Inflation for 2012 made 21.8%, following the results of 2013 - 15.6%.

Let's assume that the investor has invested in the investment project the capital of 50000 thousand Belarusian rubles. The project is calculated on 4 years, the level of the taxation of profit – 18%, an interest rate for the credit – 33%. We will calculate cash flows according to the investment project on condition of total inflation absence in table 3.

**Table 3. Calculation of cash flows for the investment project, thousand rubles**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Current expenses</th>
<th>Amortization</th>
<th>Profit</th>
<th>Taxes</th>
<th>Net profit</th>
<th>Cash flows after the taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10000</td>
<td>5000</td>
<td>1200</td>
<td>3800</td>
<td>684</td>
<td>3116</td>
<td>4316</td>
</tr>
<tr>
<td>2</td>
<td>10000</td>
<td>5500</td>
<td>1200</td>
<td>3300</td>
<td>594</td>
<td>2706</td>
<td>3906</td>
</tr>
<tr>
<td>3</td>
<td>12000</td>
<td>6000</td>
<td>1200</td>
<td>4800</td>
<td>864</td>
<td>3936</td>
<td>5136</td>
</tr>
<tr>
<td>4</td>
<td>16000</td>
<td>7000</td>
<td>1200</td>
<td>7800</td>
<td>1404</td>
<td>6396</td>
<td>7596</td>
</tr>
</tbody>
</table>

Source: own study

We will consider a situation when the rate of inflation in a year will make 21.8% and it is expected that monetary receipts will grow together with inflation by identical rates. We will show cash flows according to the project taking into account inflation in table 4.

**Table 4. Calculation of cash flows for the investment project taking into account inflation, thousand rubles**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Current expenses</th>
<th>Amortization</th>
<th>Profit</th>
<th>Taxes</th>
<th>Net profit</th>
<th>Cash flows after the taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12180</td>
<td>6090</td>
<td>1200</td>
<td>4890</td>
<td>880</td>
<td>4010</td>
<td>5210</td>
</tr>
<tr>
<td>2</td>
<td>14835</td>
<td>8159</td>
<td>1200</td>
<td>5476</td>
<td>986</td>
<td>4490</td>
<td>5690</td>
</tr>
<tr>
<td>3</td>
<td>21683</td>
<td>10842</td>
<td>1200</td>
<td>9641</td>
<td>1735</td>
<td>7906</td>
<td>9106</td>
</tr>
<tr>
<td>4</td>
<td>35213</td>
<td>15406</td>
<td>1200</td>
<td>18607</td>
<td>3349</td>
<td>15258</td>
<td>16458</td>
</tr>
</tbody>
</table>

Source: own study

For definition of influence of inflation it is necessary to calculate real cash flows – to count them on a rate of inflation. We will make calculation in table 5.

**Table 5. Calculation of real cash flows, thousand rubles.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Real cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5210 / 1,218 = 4278</td>
</tr>
<tr>
<td>2</td>
<td>5690 / 1,2182 = 3835</td>
</tr>
<tr>
<td>3</td>
<td>9106 / 1,2183 = 5039</td>
</tr>
<tr>
<td>4</td>
<td>16458 / 1,2184 = 7478</td>
</tr>
</tbody>
</table>

Source: own study

68 Д. Лапченко, О. Левкович, Основы коммерческих и финансовых расчетов, БГЭУ, Минск, 2014.
69 Official national statistics…., op. cit.
Thus, calculation shows that real (taking into account inflation) monetary receipts after the taxation there are less than monetary receipts without inflation.

We will analyse efficiency of implementation of the investment project taking into account the data obtained earlier. For an assessment of efficiency of the project we will use three indicators: net current value of the project (NPV), period of return on investment (PP), and index of profitability (PI).

We will calculate the net current value of the investment project, having accepted as a discounting rate the cost of credit resources – 33%:

\[
NPV = \frac{4278}{1.33} + \frac{3835}{1.332} + \frac{5039}{1.333} + \frac{7478}{1.334} - 50000 = 9917 - 50000 = -40083 \quad (1)
\]

Thus, \( NPV < 0 \). The project will yield a loss to the investor.

We will calculate the return on investment period. During the term of implementation of the project (4 years) the investor will be able to return 20630 thousand rubles from 50000 thousand rubles. Return of all invested sum other things being equal will require 5 more years.

We will calculate an index of profitability of the project:

\[
PI = 1 + \frac{-40083}{50000} = 0.20
\]

Thus, \( PI < 1 \). The investment project isn't capable to generate demanded profitability, therefore it is unacceptable for the investor.

Macroeconomic parameters of inflation and the costs of credit resources specified in this example, are typical for the Belarusian economy for the last years. It is possible to draw a conclusion that despite efforts which the Government directs Republic of Belarus created by it macroeconomic conditions on increase in investment appeal implementation of investment projects doesn't promote. The vast majority of projects isn't able to leave on normal for the investor efficiency level. For payback of investment projects it is necessary to reduce the cost of credit resources which in turn, are guided by a rate of refinancing and a bank margin. It is necessary to lower a rate of inflation in economy in order to decrease a refinancing rate. However today at existing level of devaluation expectations decrease in a rate of refinancing is very ambiguous task. Depreciation of credit resources is a laborious and difficult process which will demand carrying out the whole complex of actions for economy restructuring.

4.5. Violation of macroeconomic reproduction proportions

In the Belarusian economy violation of macroeconomic proportions of reproduction is result of use of administrative methods of management. In particular, between growth of labor productivity and salary growth. The inefficient economy doesn't provide acceptable (comparable to neighboring states) salary level. So, in
2013 labor productivity grew by 2.3%, while the real wage – by 15.8%. Illusion of wellbeing is created and supported due to attracting of external credit resources for financing of not earned wages. Foreign credit resources are used inefficiently and rapidly increasing external debt of Belarus. Other instrument of creation of illusory wellbeing are manipulations with a Belarusian ruble exchange rate in relation to hard currencies. Salary growth in a dollar equivalent can be provided not only due to labor productivity growth, but also due to artificial overestimate of a Belarusian ruble exchange rate. For the same reason – the overestimated rate of national currency – growth rates of GDP, estimated in a dollar equivalent, above growth rates of GDP in Belarusian rubles.

But artificial overestimate of a Belarusian ruble exchange rate – a dangerous manipulation which doesn't remain without consequences. It causes the increased demand for foreign currency as on goods which is on sale below its fair value. In the conditions of deficiency of currency of a current account (excess of import over export) there is a decrease in gold and foreign exchange reserves of the country due to currency purchase by the population and enterprises. The second negative consequence of the overestimated of the national currency rate is rise in price of domestic goods in foreign markets, decrease in their competitiveness, the decrease in export conducting to deterioration of a condition of gold and foreign exchange reserves.

4.6. Instability of the Belarusian economy development, periodic financial (currency) crises

Disproportions collecting in the Belarusian economy generate periodic financial (currency) crises (March, 1996, January, 2009, March-September, 2011). The reasons of financial crises in the economy of Belarus are connected with policy of artificial stimulation of internal demand in conditions of a fixed rate of the national currency – namely stimulations of internal demand by building of investments into fixed capital by means of the mechanism of directive budgetary and quasi-budgetary crediting within state programs of development. Excess of internal investments over internal savings creates a situation of chronic negative balance of a current account of the balance of payments that in turn results in need of sharp correction of a Belarusian ruble exchange rate – to devaluation.

Means of eliminating the causes of financial crises in the economy of Belarus is firstly the refusal of the actual explicitly or implicitly policy of fixed rate and adherence to the principles of market exchange rate - floating rate policy and, secondly, the implementation of a coherent moderately rigid monetary policy.

\[^{70}\text{Official national statistics…, op. cit.}\]
4.7. Parameters adjustment of reproduction by means of devaluation, transition to equilibrium economic state

As a result of adjustment of one only macroeconomic parameter – an exchange rate of Belarusian ruble in relation to foreign currencies – disproportions in other spheres of economy are automatically eliminated. Thus, the condition of an exchange rate of national currency plays a key role in the correct control of proportions of reproduction of the Belarusian economy.

So when carrying out devaluation salary size to that value which is generated really by economy is corrected. Thereby disproportions between growth rates of labor productivity and growth rates of a salary are automatically corrected. The salary expressed in hard foreign currency, receives the real economic measurement therefore real rates of its growth are comparable to growth rates of labor productivity. For the population such adjustment means falling of a standard of living at a devaluation size. But it no more than ascertaining of the fact of an inefficiency of work of economy. For country gold and foreign exchange reserves such adjustment has positive value: the foreign currency which has become the road cease to buy in former volume, the size of gold and foreign exchange reserves are stabilized.

The real wage is one of measuring instruments of the valid situation in economy. In it the manipulation reason with its growth in dollar measurement by means of the overestimated Belarusian ruble exchange rate is covered. Rather unattractive there will be a situation if the average salary counted on the overestimated Belarusian ruble exchange rate – it made about 600 US dollars for the beginning of 2014 – to count at a real course.

Considering need of carrying out devaluation at level about 20% (the saved-up amount of inflation after devaluation of 2011), the average salary will appear within 400-500 US dollars. Meanwhile, in 2010 the Belarusian authorities set the purpose to reach in 2015 of level of an average salary in an equivalent of 1000 US dollars. It is impossible, it is available a gap between declarations and reality. Real (taking into account inflation and devaluation) the salary is at the level of five-year prescription, that is practically doesn't grow, just as labor productivity practically doesn't grow. Such situation is a reflection of stagnation in the Belarusian economy, low level of its efficiency.

In the same way correction of an exchange rate of Belarusian ruble influences and the valid condition of the Belarusian GNP. After adjustment it appears that its real (at calculation of value of GNP taking into account really necessary devaluation) growth rates are much lower than the declared. So in 2013 the prime minister of Republic of Belarus noted with satisfaction that growth rates of GNP expressed in US dollars, make about 10% while growth rates of GNP expressed in Belarusian rubles, made less than 1%. The picture of a condition of the Belarusian economy depending on a choice of a technique of measurement (in rubles or in US dollars) changes directly in the eyes: from a condition of recession (in Belarusian rubles) – to a condition of rapid growth (in US dollars). But such can't be. Actually this discrepancy is not an indicator of the successful work of the Council of Ministers of Belarus, but of the conscious or unconscious manipulation of the exchange rate of the Belarusian ruble against solid foreign currencies.
The overestimated exchange rate of Belarusian ruble creates favorable illusory – better, than not the business – a GDP growth picture. Therefore it is so difficult for Belarusian Government to decide on correction of a course and therefore adjustments always happen forcedly, spontaneously and painfully. In the real business cycle devaluation of Belarusian ruble from the middle of 2013 is carried out by the Government about 1.3% a month are dosed, operated in limits. The monetary authorities manage to carry out such operated devaluation even within an operating free exchange rate formation mechanism. However scales of planned devaluation of Belarusian ruble are insufficient already for the reason that its parameters practically coincide with inflation parameters in Belarus – 1.3% a month.

Actions of the Belarusian monetary authorities on artificial maintenance of the overestimated rate of national currency lead to exhaustion of the gold and foreign exchange reserves spent for maintenance of a no equilibrium Belarusian ruble exchange rate. Maintenance of gold and foreign exchange reserves at least in minimum admissible sizes requires considerable external credit feed. In the last 10 years the external debt of Belarus constantly grows rates more than 10% a year that GDP considerably exceeding growth rates. At the beginning of 2014 the cumulative external debt of economy of Belarus made about 70% of GDP.

4.8. Conclusion

Thus, according to the conducted research the mechanism of emergence of disproportions has natural character and is connected with features of the Belarusian economic model. Elimination of disproportions and creation of prerequisites for a sustainable development is achievable only by means of creation the mechanism of effective use of limited resources. Change of essence of the Belarusian economic model is required. For creation of the mechanism of growth of efficiency other incentives, than what are available in corporate economy – incentives of the owner maximizing cost of the capital, firm cost in the conditions of limitation of resources have to work. Transition of the Belarusian economy to new steady quality of growth is possible only as a result of carrying out the structural economic reforms directed on acquisitions by the Belarusian economy of the market status. As we see Carrying out economic reforms, requires the political decision.
CHAPTER V

Continuum and dimensions of non-profit marketing on the threshold of the XXI century

Tetiana Borysova

Important social and economic changes on the threshold of the XXI century initiated various discussions on the development of the non-profit sector based on the practice of market methods and values. These issues are aimed at transforming action, structure and philosophy of non-commercial subjects into more market-like for reaching their goals. This discussion was started by P. Kotler and S. Levy in the late 1960s. It is still widely discussed in the works of foreign scientists and finds its popularity in numerous specialized journals. There is increasing in the number of training courses on non-profit marketing at leading universities in the world. The debate on the importance of marketing of non-commercial sphere in domestic scientific community has been initiated recently and has been only connected with certain applications, mainly in the field of education. However, some empiric research on the efficiency of marketing activity of non-profit organizations (NPOs) has been conducted by the representatives of NPOs of Ukraine.

The relevance of a comprehensive theoretical analysis of the conceptual scheme of non-profit marketing has been caused by the need to intensify the development of Ukrainian non-profit sector. The suggested chapter is intended at scrutinizing the dimensions of non-profit marketing and stages of this marketing with managing the non-profit organization.

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5.1. Analysis of Recent Researches and Publications.

The analysis of scientific research has revealed that in terms of discussing the phenomenon of non-profit marketing certain approaches have been outlined. These approaches are integrated in the system of academic knowledge. Studying the theoretical prerequisites of non-profit marketing the following ideas are worth mentioning:

- The ideas of inter-sector exchange of marketing knowledge which have been suggested and developed in the articles of P. Kotler, S. Levy, G. Zaltman⁷⁴ and others;
- The theoretical and methodological aspects of pro-marketing orientation of non-profit subjects which have been substantiated by A. R. Andreasen, P. Kotler⁷⁵, S. Andrieiev, L. Melnichenko⁷⁶ and others;
- Another point of view has been shared by the researchers S. Dolnicar, K. Lazarevski⁷⁷. Their main idea is that the mission of NPO and non-profit product were formed far beforehand, thus they cannot be changed in accordance with the market demands. That is why NPO should not be purely oriented at marketing. However, some scholars admit the usage of certain strategies and marketing tools for non-commercial activities for achieving non-profit purposes. Such an approach is justified in terms of the concept of bounded rationality which has been initiated by H. Simon⁷⁸. This concept centered the questions of ethic violations of the principle of consumer sovereignty in the use of «bad goods», the issue of identification of goods and services as «bad goods», the regulation of production and consumption of «bad goods». These ideas, concepts and theories established the ideological foundation of the concept of non-profit marketing.

5.2. The Aim, methods and Research Statements

The Aim of Our Research is to analyze the dimensions of non-profit marketing and establish the stages of connecting marketing with the management of non-profit organization. The purpose of this chapter is the necessity of solving the following tasks: to outline the peculiarities of non-profit marketing; to analyze the dimensions of the concept of non-profit marketing; to formulate and substantiate the continuum of non-profit marketing.

⁷⁵ Ф. Котлер, А. Андреасен, Стратегический маркетинг некоммерческих организаций, Феникс, Ростов н/Д 2007.
⁷⁶ С. Андреев, Л. Мельниченко, Основы некоммерческого маркетинга, Прогресс-Традиция, Москва 2000.
The of the Research are systematic and comparative analysis of scientific literature.

The end of the XX and beginning of the XXI century witnessed increasing interest in non-profit marketing. What actually determines the process of marketization of Ukrainian non-profit sector is increasing the number of non-profit subjects; the increase of most non-profit organizations that resulted in the need to manage multiple functional areas, geographic locations and social groups, etc; the necessity for updating marketing potential usage as additional tools of involved funds; strengthening inter-sector and intra-industry competition; shift of responsibility from state authorities towards the sphere of non-profit entities; poor quality of non-profit goods; reduced funding from the government, business and international organizations; reduction of human resources; fundamental changes in the staff of customers serviced by non-profit organizations.

In spite of variety of approaches to treating the notion of non-profit marketing there can be identified some important market peculiarities of non-profit marketing:

1. Marketing tools, strategies and technologies that are used in commercial business cannot be directly transferred into the sphere of non-profit sector without any adaptations due to a number of specific things common for non-commercial market

   a. limited amount of secondary information in marketing sphere as to non-profit clients and their needs, which is compounded by the complexity to obtain reliable information from the clients themselves;

   b. gap of information among the customers of non-profit product (information asymmetry). Thus, before affecting the behavioral patterns of the clients, they must be informed about an existing problem and non-commercial product, and only after that it is allowed to use the rest of the marketing tools;

   c. the need to influence the behavior of the client in order to change it radically, even if customers dislike new changes, but they are intended for their benefit, the benefit of other social groups or society as a whole. This topical issue presupposes high moral and ethical standards in the implementation of marketing activities;

   d. benefit gained by a client as a result of non-profit exchange is not always evident;

   e. the presence of more complex behavioral patterns and attitudes than in the commercial sphere;

   f. the complexity of measurement and display through mass media of social and psychological benefits from the use of non-profit product;

2. Non-profit marketing covers a wide range of fields of human activities, much more than the production and promotion of goods and services;

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79 Ф. Котлер, А. Андреасен, Стратегический маркетинг некоммерческих организаций, Феникс, Ростов н/Д 2007, pp. 54-58.
3. Non-profit marketing leads to a wider and more effective validation of a number of other important needs of the people in community (for instance, need for realization of civil rights and the need for social and cultural values, etc.);

4. Non-profit marketing helps resolve problems connected with establishing mutual links between the three groups of non-profit entities: government, non-governmental entities and individuals engaged in non-commercial activities.

5. Non-profit marketing should be based on the principles of classical marketing concepts which include the prevailing role of the exchange, willingness to change the proposal, focusing on coordinated programs, the crucial role of marketing research, a tendency to segmentation, planning and assessing the risks, targeting at the outcome. Thus, the non-profit marketing business can be defined as a set of subsystems that are bound with associations and the sole purpose. It functions with respect of fundamental principles of classical marketing, however, limited in accordance with the principle of the priority of the consumer.

A literature review of scientific analysis of the problem suggests that the concept of non-marketing can be viewed in the context of the following dimensions: the holistic, normative, operational, social, strategic and ethical.

**Holistic dimensions** of marketing in non-profit field are particularly important, since the effective activity of non-profit entities depends on effective relationships not only with the target market, but also with multiple stakeholders. Holistic aspect of non-profit marketing is manifested in the development, creation and execution of marketing programs, processes and activities that take into account the breadth and interdependence holistically combining components such as relationship marketing, integrated marketing, internal marketing, and socially responsible marketing. At this point a number of interactions between non-profit entity and its environment are considered, because non-profit organizations themselves are part of large and complex service delivery systems.

**Normative aspect** of marketing is manifested through creating and maintaining values and positive behaviors of recipients of marketing activities. The normative dimension of non-profit marketing can be treated as a set of economic, social, ethical guidelines, options of behavioral patterns, theories that are implemented by the managers of non-profit organizations in the process of forming marketing strategies.

**Strategic aspects** of non-profit marketing are associated with the presence of external factors of non-profit organization and can be considered as its target state for non-commercial market, i.e. as the one that changes with the time. Scientists distinguish several alternative strategic orientations of non-profit marketing: customer orientation (integrating preferences of customers into the product development and marketing process), competitor orientation (integrating competitor intelli-

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gence into the product development and marketing process), and product orientation (integrating innovation into the product development and marketing process)\textsuperscript{83}.

Non-profit marketing can be viewed in terms of different operations (operational dimension of non-profit marketing) and is treated as a systematic performance of some functions aimed at the analysis, implementation and monitoring of relationships between non-profit entity and its external and internal audiences interested. In order to ensure effective exchanges between non-profit entity and its target audience and enhance the competitive position there used marketing tools, techniques and approaches of classical marketing, "marketing mix" i.e. product, price, promotion and place. The others distinguish social media and fundraising among the complex non-specific elements of marketing\textsuperscript{84}.

The social dimension. Unlike commercial entities, which are known for absolutisation of importance of the economic effects of marketing activities, marketing activities of NPOs aim at achieving social and psychological effects\textsuperscript{85}. Thus, as a non-profit marketing encompasses activities not directly related to profit, i.e. non-profit activity, it is obvious that the economic dimension of non-profit marketing is not a priority, it rather gives way to focusing on social, psychological, political and informative results.

Ethical dimension of non-profit marketing. The focus of the concept of non-profit marketing is the needs of people and social groups, thus it cannot be detached from ethical principles. While justifying the appropriateness of the process of marketing of non-profit sector, one should be aware that this phenomenon can lead to a number of threats in the society. Thus, some scientists\textsuperscript{86} appeal to financial and ethical aspects of marketing activity, rightly arguing that marketing activity is the way that may constitute just waste money of benefactors, besides marketing activities can be wrongly treated as manipulative techniques and thus can be annoying. The problem is further aggravated due to the complex dimension of marketing investment and a long time lag between costs and effects. In addition, marketing ethically may violate the privacy of the individual, degrade perceived quality and discourage the spirit of volunteerism as well as the role of democracy and altruism\textsuperscript{87, 88, 89, 90}. In our opinion, the criticism is fair, but only to a certain extent, because

\textsuperscript{85} Ф. Котлер, А. Андреасен, Стратегический маркетинг некоммерческих организаций, Феникс, Ростов н/Д 2007, p. 60.
\textsuperscript{86} А. Іхновська, Маркетингова стратегія позаурядових організацій, "Логістика", Вид-во Нац. ун-ту „Львів. Політехніка”, Львів 2008, p. 260.
\textsuperscript{89} A.M. Eikenberry, Refusing the market: A democratic discourse for nonprofit and voluntary organizations, [in:] „Nonprofit and Voluntary Sector Quarterly", 2009, No. 38, pp. 582-596.
ethically sustained marketing efforts of non-profit entities incorporate the potential for positive social and psychological impact.

To sum it up, non-profit marketing can be viewed as a notion or process the mission of which is directed at forming non-profit and socially targeted exchanges among targeted individuals, groups and society and it is characterized by operational, normative, holistic, social, strategic and ethical dimensions. The degree of penetration of the concept of marketing into non-profit management system of NPOs may vary for each of the measurements depending on several factors: the stage of the life cycle of the organization, the specificity of non-profit market where NPOs function, and personal preferences of management of NPOs.

Having summarized the numerous theoretical approaches and taking into consideration the bipolar orientation of the concept of non-profit marketing in terms of "focus on the goals of a NPO" and "marketing orientation", we would like to offer, as a possible consensus in the discourse of marketing philanthropy, to treat the concept of non-profit marketing as a space-time continuum. Since the activities of non-profit entities are differentiated in time and in the context of non-commercial market, we should not limit the marketing of non-profit entities to only two versions: a pure marketing orientation and pure focus on the goals of the NPOs. In our opinion, there is a possible orientation of a continuum in which the activities of NPOs are carried out with more or less focusing on the needs of the target audiences and purposes of NPOs. The combination of targeted preferences of non-profit subjects and preferences of target audiences in every specific case has its own value, which is displayed in the level of penetration of the functions of marketing into NGOs’ management. In some cases the significance of the organization's goals outweighs, and in the others, the significance of the wants of consumers and other stakeholders is of prior importance. Options of combining the marketing and management of a non-profit organization can differentiate within the non-profit marketing. All these differences can be implied historically: evolving from simple to more complex forms, from left to right and also they may vary depending on the specific supply and demand for a particular non-profit market. Stages of a combination of marketing and management of non-profit organization as a continuum are shown in Figure 5.

![Figure 5. Non-profit marketing continuum.](source: own research)
In our opinion, depending on the level of orientation of the aims of NPOs towards the needs of target groups and the importance of marketing functions there can be differentiated the following stages:

1 stage. Latent Marketing. This phase is characterized by the predominance of the organization's goals over the needs of target customers. These needs are often neglected. Historically, it is the initial stage of the development of non-profit marketing. This period can be characterized as a period of "latent" non-profit marketing when the NPOs use the elements of marketing, however, this usage is not yet recognized: "… every organization performs marketing-like activities whether or not they are recognized as such". The reason for using this non-profit marketing within the activities of NPOs at this stage is the perception of marketing as a threat to their autonomy and power marketing is seen as advertising and sales promotion, rather than a radical philosophy of the organization. In the framework of the fields of non-profit sector, this approach is justified when the clients consume «bad goods» and some certain works of art as "purely market-centred philosophy is inconsistent with what the concept of art is all about". In other cases, this approach borders on “marketing myopia”.

2 stage. Symptomatic Marketing. At this stage marketing is not considered as a marketing philosophy of the organization but it focuses on the objectives of the NPOs. In order to achieve the organization's goals non-systematically some marketing activities are used with reference to sales. It is typical to focus on the range of products and individual transactions in the market, advertising and personal selling. In fact, this orientation is identical to the product and production concepts of classical marketing orientations. This approach is inherent, for instance, in museum exhibits. The museums are focused on their collections, but not on the target audience, that is why the main marketing efforts should be intended for persuading potential customers with the help of advertising campaigns. This approach is justified according to the following aspects: the scope of art or museum exhibits is focused on consumers who are still in two minds about their artistic preferences; non-commercial product (exhibit, artwork, etc.) is characterized by a significant level of innovation; among consumer-pioneers there is a need for empirical knowledge of non-profit products proposed by artists, then these consumers will continue to inform themselves and follow artists.

3 stage. Functional Marketing. Within the second approach marketing acts as one of the functions, but not yet fully integrated into strategic management. To the sphere of strategic planning there belong only certain aspects of marketing activities, mainly those aimed at intensifying marketing priority for non-commercial products and services. It is typical to focus on the exchange as a result, in contrast to creating long-term relationships. Marketing is traced as a function that helps solve organizational goals, namely, sale increase of non-commercial products/services, increase

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92 P. Kotler, Strategies for Introducing Marketing into Nonprofit Organizations, „Journal of Marketing” 1979, No. 43 (1), pp. 44.
of cash flows from donors and others. This marketing orientation is identical to the classical orientation of marketing directed at the intensification of commercial marketing efforts (selling concept).

4 stage. Quasi-Marketing Orientation. To the extent of NPOs’ openness to the needs for targeted market there is a historic transition to the next stage. In terms of field dimensions, this approach is typical for non-profit entities such as political parties or religious organizations. At this stage the market is chosen as the key point and marketing is outlined as one of the required functions in the management of NPOs. In spite of the lag between organizational goals and target markets, there is a focus on the needs of target customers. The establishment of long-term relationships is typical for this stage of non-profit marketing as well as learning marketing environment and market segmentation. Marketing of NPOs can be characterized as the one of a strategic nature.

5 stage. Customer-Focused Marketing. Within this phase the needs of target markets are prevailing. Marketing becomes the philosophy of the organization, its integrating function. The focus of business administration in marketing is the relationships with customers and some other stakeholders. Marketing becomes a means of gaining competitive advantage. The stage is also characterized by a strategic marketing. There is an orientation not only towards customers but other significant for the organizations audience. This approach is typical for educational institutions and organizations.

6 stage. Stakeholder Marketing. Stakeholder marketing - activities and processes within a system of social institutions that facilitate and maintain value through exchange relationships with multiple stakeholders. A. R. Andreasen and P. Kotler trace NPOs and their interested audiences as the elements of a unique mechanism of “transforming resources”: incoming contact audiences supply resources which transform the internal contact of the audience into a useful product that is provided for an audience of consumers by affiliate contact audiences. NPOs stay in touch with a number of interested audiences such as clients, consumers, donors, volunteers, advocates, trustees, committee members, government agencies, funds, businesses and local communities. These groups affect the objectives of the NPOs, that is why effective interaction with them is important for the NPOs. Marketing is defined not only as object direction but also as a presence of exchanges, thus, stakeholders fall into the subject field of marketing. Thus, at this stage of scientific research stakeholder-oriented marketing is extreme subset of a continuum of options. So, the market orientation in the nonprofit sector becomes multiple dimensions and directs toward different stakeholders. Non-profit marketing becomes a system of exchanges among subjects and directs toward research the expressed and latent needs of stakeholders, to improve exchanges with NGOs stakeholders. Different purposes of exchange give rise to the need for the exchange of different strategies and different target effects.

5.3. Conclusions.

Having positively assessed the works of scientists as to the concept of non-profit marketing we consider the further development of this idea in the framework of its adaptation to the conditions of the activities of Ukrainian entities of non-profit sphere. In the conclusion it has been defined that non-profit marketing is characterized by operational, normative, holistic, social, strategic and ethical dimensions. Taking into consideration the bipolar non-profit marketing concept (focus on company’s goals and marketing orientation), the suggested chapter proposes to examine the concept of non-profit marketing as a space-time continuum. There is an opinion that the concept of non-marketing continuum eliminates the conflict between supporters and opponents of marketing-oriented non-profit entities. Continuum takes into account other intermediate options that are formed by various combinations of weight goals and the needs of their stakeholders. We have grouped them into six subsets depending on the level of combination of marketing and management of non-profit organization. The received results provided a clearer understanding of the essence and diversity of varied explications of non-profit marketing and this will definitely lead to further theoretical and empirical researches.
In the past few years, we already got used to the messages about information security violation incidents. The observed social conflict around ACTA with uncomfortable attacks on government services and "Basia’s" speech on the Prime Minister websites, as well as a number of serious attacks on companies such as Sony, Oracle, Adobe, Microsoft and Google disproved myths about systems security.98

Self-replicating virus shamoon infected 30,000 Windows-based machines of computer network of Saudi Aramco and deleted data from their hard drive. Despite its vast resources as Saudi Arabia’s national oil and gas firm, Aramco, according to reports, took almost two weeks to recover from the damage.99

Another, even more dangerous virus - Stuxnet that has infected nuclear installations in Tehran, delayed Iran's nuclear program by two years. As experts note, that cyber attack was so effective as a military strike, and even better, because it did not cause loss of human lives or war. The level of complexity of the virus indicates that Stuxnet could arise only through the cooperation of several countries and its development proceeded for a years100.

96 PhD, Siedlce University of Natural Sciences and Humanities
97 Professor, Cracow University of Economics
98 For example, the attack on Sony ended data leakage about 70 million users, and hacking into Adobe resulted in more than 150 million rows of data (the list of accounts, e-mail address and password protected), which fall into the wrong hands (After:Największe zagrożenia dla bezpieczeństwa Internecie w roku 2013 – Raport, Fundacja Bezpieczna Cyberprzestrzeń, p. 6-7).
99 http://www.infosecurity-magazine.com/view/29750/shamoon-was-an-external-attack-on-saudi-oil-production
100 http://www.przeglad-tygodnik.pl/pl/artykul/podstepny-stuxnet
Disclosed details of the Mandiant report\textsuperscript{101} about hacking to the databases of organizations operating primarily in the U.S., Canada and the UK by representatives of China, and finally Edward Snowden's sensational information including government PRISM program of the June 2013 years have made, that issues of constantly growing threat to the security of information have become perceived not only by specialists.

In search of answers to the question about the reason for the continuous increasing the amount of incidents related to the information security violation is worth to paying attention to the constantly increasing role of knowledge and information in the global economy. Relying competitive advantage in every area of life on knowledge (both in the economy, the military, medicine or sports) results an increase in its value, and that increase in the value leads to more risks associated with its security.

6.1. Knowledge-based economy and being its consequence overall threats

The last years of the twentieth century brought in a global economy realization of new, different from the occurring, conditions and trends.

The new conditions characterizing the economy meant that it began to be defined as the "new economy", and later used the term "knowledge-based economy", which has been widely adopted in the economic world.

Probably the first time the concept of "knowledge-based economy" was defined in the report of a study conducted by the OECD The Knowledge-based Economy in 1996, recognizing it as the economy which are “directly based on the production, distribution and use of knowledge and information"\textsuperscript{102}.

Today as a one of the most appropriate terms of the knowledge-based economy is using the the OECD and the World Bank definition where it is considered as the economy, in which “knowledge is created, acquired, transmitted and used effectively by companies, organizations, individuals and community. It is not narrowly focused on high technology industries and ICT, but rather creates a framework to analyze the range of policy options in education, infrastructure and innovation systems that can help initiate the knowledge economy”\textsuperscript{103}.

The advent of the conditions of knowledge-based economy (KBE) has become for many companies a chance for development, but also has brought a lot of new threats. They result mainly from the basic qualities the KBE:

\textsuperscript{101} In the report, released 19 feb.2013 by Mandiant, identified particular group of cybercriminals from China which is blamed for stealing "hundreds of terabytes of data from at least 141 organizations" since 2006, including 115 targets in the U.S. Twenty different industrial sectors were targeted in the attacks: from energy and aerospace to transportation and financial institutions. (http://abcnews.go.com/Blotter/mandiant-report-fingers-chinese-military-us-hack-attacks/story?id=18537307).


\textsuperscript{103} Ibidem, p. 95.
treating knowledge as a primary production factor, which is the base of rational use of other factors - labor, land and capital - has resulted that many organizations introduced significant changes in the modes of action. The changes consisted inter alia on the purchase and use of modern machinery, specialized computer systems, implementation of knowledge management systems, restructuring of employment and a whole range of organizational changes that have perfected their functioning. However, the creation of a knowledge-based organization carries a risk: in the necessity of incurring large capital expenditures that with lack of proper accuracy, lack of adequate discharge his obligations to business partners, or instability in the financial markets, may lead enterprises to loss of financial liquidity and his fall;

globalization, which opens up new markets in the world by creating facilitate when purchasing raw materials and intermediates or selling their products, but also intensifies the competition of businesses in the market (also local), creating new spaces for foreign companies;

the networking, which are consequence of the development of cooperative systems and globalization increasing, which promotes better use of their enterprises abilities, concentration of financial capital, but by the formation of strong economically groups it threatens the existence of small and medium-sized businesses, which are the base of the economy and labor markets especially in developing countries up;

the turbulence, which is creating unpredictability and chaos;

increasingly wider use of computer technology in business and in many other spheres of life of societies, that brings many benefits, but also creates a lot of threats like: viruses locking systems, malicious software that obtain private data from the Internet users' computers, etc. Irregular development of electronic economy favors the emergence of phenomena of various kinds of exclusions;

changes in societies expectations and lifestyles, which creates a demand for many new groups of products and services, but also a whole range of threats, such as a decrease in the level of fertility rate in highly developed societies, increasing the number of divorces, isolation of individuals in community and establishing contacts only with the use of modern means of communication, the growth of various types of addiction and the development of new social pathologies, etc.

In summary these very general and casually presented hazards it should be noticed, that the main danger stemming from the modern economy towards enterprise is widely understood unpredictability.

6.2. Information and knowledge in business and in the economy

Information and knowledge accompany every economic process and determines its efficiency. There are also resources which are involved in the management
process, as a participants in the process of planning, organizing, motivating and control. Information and knowledge are the modern economic resources that allow to reduce the level of uncertainty and the level of unpredictability of the future.

Therefore they have at the present great importance, and an expression of concentration on them special attention are the conceptions of information management and knowledge management.

One of the attempts to distinguish between information and knowledge through the concept of "data" presented DJ Skyrme. According to him, data this are the facts and figures without context (such as sky, 41565), the information consist of the data presented in a specific context (eg a completely overcast sky speed of 130 km / h), while knowledge are the informations having a specific meaning (such as my experience shows that such weather can cause serious delays airplanes). Knowledge leads to wisdom (intelligence), generally perceived as the whole of knowledge and skills of use this knowledge (eg I book a train ticket before other passengers will use this alternative) 104.

This easy distinguish of two characterized economic resources allows to conclude that - in western terms - information is an element of knowledge. Therefore, in practice, information management should be tightly integrated with knowledge management, and from the information quantity and quality depends the quality and quantity of knowledge.

Looking at knowledge resources from the macroeconomic level, L. Zienkowski making a global assessment of the results of model econometric analyzes, infer, a significant impact of knowledge capital on economic growth in the long term the country, no effect of short-term and significant impact in the medium term, however dependent on coexistence of other factors, such as investment in fixed assets and the openness of the economy (the transfer of modern technology and the absorption of knowledge) 105.

The importance of information and knowledge in the economy and business is increased with the organization growth and the volatility and complexity of the economic environment. This resources constitute a necessary basis for rational decision-making, without which we can't talking about the successes and economic development of the country, as well as individual companies.

When we are focusing on the microeconomic level, it should be noted that the gathering of information and knowledge resources in the enterprise, which are appropriate in terms of quantity and quality, necessitates conducting many costly projects through a long period of time. Possession of these resources can be a source of sustainable competitive advantage. Additionally they are more valuable, if it is more difficult to imitate them. Therefore, businesses limited or even protected access to them. However, the situation in this area is not easy. Today, in a substantial part of the work on information and knowledge resources, are used computers connected with the Internet. This gives the possibility of unauthorized acquisition of infor-


mation and knowledge by entities desiring them. It is not necessity to explain in detail how valuable can be to stakeholders the informations contained in the personal computer:

- Official's who is finishing work on the zoning plan,
- A marketer who is working on the promotion campaign for a new product group
- Chief technologist having technical documentation about breakthrough technology of some product,
- A scientist who working on a new application of a raw material,
- Analyst who terminating a financial statement of large listed companies, etc.
- Therefore, the importance of information security increases significantly: not only this information which are processed by specialized computer systems, but also recorded on small personal computers.

6.3. New information security threats in the knowledge-based economy

Organizations in the Knowledge-based Economy employ technology and ubiquitous connectivity to share an unprecedented volume of knowledge and information assets with customers, service providers, suppliers, partners, and employees. The sophisticated technologies enable organizations to perform business tasks with a velocity and degree of efficiency that are unprecedented\(^\text{106}\). But risks associated with information security can disrupt operations and even destroy businesses. For this reason, information security is a critical factor for organizations in the knowledge-based economy. In last years, information security threats have changed and have become more common than ever before.

The results of a global survey indicates that the number of security incidents increased in 2013 more than 25% compared with the previous year.\(^\text{107}\)

According to an international study which involved 676 IT and IT security practitioners with involvement in endpoint security, the greatest risks to the organization are increased mobility and public cloud computing services (figure 6).\(^\text{108}\)

Since the 2012 study was conducted, the percentage of respondents who identified the use of cloud computing resources as a major concern has increased from 28 percent to 44 percent. Fifty-five say the increased use of mobile platforms is a threat to the organization, up from 47 percent last year.

The data in the knowledge-based economy are increasingly distributed and shared between many partners, suppliers, contractors and customers. There are used systems to provide remote access to knowledge and information, as well as mobile devices such as smartphones and tablets, as well as the “bring your own device” (BYOD) trend. While the use of mobile devices to share and transmit data continues


\(^{107}\) Bezpieczne informacje– bezpieczna przyszłość. Kluczowe obserwacje z wyników ankiety „Globalny stan bezpieczeństwa informacji 2014”, p.11 wwww.pwc.pl/bezpieczenstwo-biznesu

\(^{108}\) 2014 State of Endpoint Risk Report, Ponemon Institute LLC, Traverse City, p. 4
to increase, deployment of mobile security policies lags the proliferating use of smartphones and tablets. Based on data and interviews with experts, here are the top five mobile device threats:

- **Increased use of mobile platforms**: 55% in FY 2013 vs. 47% in FY 2012
- **Use of cloud computing**: 44% in FY 2013 vs. 28% in FY 2012
- **APTs**: 39% in FY 2013 vs. 36% in FY 2012
- **Sophistication of cyber attackers**: 31% in FY 2013 vs. 35% in FY 2012
- **Growing volume of malware**: 30% in FY 2013 vs. 28% in FY 2012
- **Insufficient budget**: 30% in FY 2013 vs. 25% in FY 2012
- **Lack of integration between endpoint operations and security technologies**: 18% in FY 2013 vs. 6% in FY 2012

![Figure 6. IT security risks of greatest concern to the organization](http://www.darkreading.com/mobile/4-mobile-device-dangers-that-are-more-of/240161141)


Lost and stolen phones. Symantec researchers left 50 phones behind in different cities and found that 83 percent of the devices had corporate applications accessed by the person finding the phone. The challenge is that there is relatively easy techniques for evading some of the on-device security controls, such as bypassing a lock screen password.

Insecure communications. While there is a lot less data on how often mobile users connect to open networks, companies consider insecure connections to wireless network a top threat, Rapid7's Sreenivas says. The problem is that wireless devices are often set to connect to an open network that matches one to which it had previous connected. A lot of people will look for a WiFi hotspot, and they won't look to see if it is secure or insecure," he says. "And once they are on an open network, it is quite easy to execute a man-in-the-middle attack."

Leaving the walled garden. Users who jailbreak their smartphones or use a third-party app store that does not have a strong policy of checking applications for malicious behavior put themselves at greater risk of compromise. If some user are making the decision to download an app from an unknown source in a third-party app store, you are opening yourself up for the potential of malware.

Vulnerable development frameworks. Even legitimate applications can be a threat to the user if the developer does not take security into account when developing the application. Vulnerabilities in popular applications and flaws in frequently used programming frameworks can leave a device open to attack.

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Malicious And Suspicious Software. According to the McAfee Labs', mobile malware will drive growth in both technical innovation and the volume of attacks in the overall malware market. That prediction is based on the last two quarters of 2013, which saw new PC malware unchanged and Android samples growth of 33 percent. Because of this, ransomware is expected to blossom as more people and businesses shift over to mobile. Attacks will likely target vulnerabilities in NFC (near field communication), and in the form of compromised valid apps.¹⁰ The number of malicious software and applications that are dangerous for users Android, exceeded 1 million.¹¹

Another great risk to data security is cloud computing,¹² which has been around for more than a decade, and has simultaneously transformed business and government. Cloud computing has made knowledge and information available in the organization, without spacetime limitation. Almost half (48%) of respondents from Poland use some form of cloud computing. The development of the cloud service model delivers business-supporting technology more efficiently than ever before, but also created new security challenges. Experts identified the following nine critical threats to cloud security (ranked in order of severity):¹³

1. Data Breaches.
2. Data Loss.
3. Account Hijacking.
4. Insecure APIs.
5. Denial of Service.
8. Insufficient Due Diligence.

While cloud computing threat is become easier to detect and diffuse simpler and higher-volume attacks, concerns about advanced persistent threats (APT)¹⁴ - targeted attacks that attempt to breach a specific company's data over time - have risen from 14 percent in 2009 to 39 percent in 2013, an increase of 55 percent, according to the Ponemon and Lumension study.¹⁵

The general trend indicates that in the future APT may constitute a large part of all the risks. In The Global State of Information Security® Survey, hackers increasingly were nominated as a potential source of attacks, so it seems alarming that

¹¹ Największe zagrożenia dla bezpieczeństwa Internecie w roku 2014 – Raport, Fundacja Bezpieczna Cyberprzestrzeń, s.6-7
¹² Cloud computing is an on-demand service model for IT provision. It means "a type of Internet-based computing," where different services -- such as servers, storage and applications -- are delivered to an organization's computers and devices through the Internet.
¹⁴ An advanced persistent threat (APT) uses multiple phases to break into a network, avoid detection, and harvest valuable information over the long term. This infographic details the attack phases, methods, and motivations that differentiate APTs from other targeted attacks.
only 30% of respondents in Poland has implemented safeguards against such risks. For comparison - more than half of the survey respondents globally claims that already apply appropriate remedies.\(^{116}\)

Increasing the level of security, both traditional and computer, lead cybercriminals to the "weakest link", which is a man. Therefore, we can observe a growing number of attacks aimed at obtaining knowledge and information from individuals within the organization who have unfettered access to them. People from "inside" the organization and trusted partners are the dominant source of incidents in organizations around the world (figure 7).

![Estimated likely source of incidents](image_url)

**Figure 7. Estimated likely sources of incidents**

Special risk is associated middle managers, because they have greater access to information important to the organization than employees in lower positions.

Man acting unconsciously, or through breaking information security rules may cause to complete discrediting the security system (eg, using "yellow sticky note" of the saved password). Therefore, staff and their IT resources (computers, systems and networks, office, online services) are really just another front, which should include the corporate defenses. The increase in incidents combined with a concurrent rise in the volume of business knowledge being shared digitally results in an unsurprising finding: Proliferating data loss. According to The Global State of Information Security® Survey, in 2013 24% of respondents reported loss of data (in Poland – almost 50%!!!) as a result of security incidents, a hike of 16% over 2012. Delving into the types of data exploited reveals some interesting findings. In almost half the cases, these incidents relate to the brand or reputation. But on the lead the effects of security incidents also were (figure 8).  

Figure 8. Impact of security incidents in Poland


- stealing of "soft" intellectual property (eg, processes of institutional knowledge, etc.),
- identity theft (customer information or employee),
- heft of "hard" intellectual property (eg, strategic business plans, transaction documents, etc.).

However, the survey results indicate that the applied security measures do not allow for an effective fight against the risk of of intellectual property theft.

6.4. Risk analysis as a key element of creating a security policy in knowledge-based economy

To combat today’s risks, organizations should be able to achieve ongoing insight and intelligence on ecosystem vulnerabilities and dynamic threats. Activities and investments should be driven by the best available knowledge about information assets, ecosystem threats, and vulnerabilities—and evaluated within the context of business activity.\(^{118}\)

The traditional reactive approach to information security strategy, which typically relegates security to an IT challenge, remains commonplace. But it is no longer effective, nor is it defensible. Today’s new world of security risks demands that organizations treat information security threats as enterprise risk-management issues that can critically threaten business objectives. Safeguarding all data at the highest level is no longer realistic or even possible.

Risk analysis enables an organization to identify threats and the associated vulnerabilities which have the potential to negatively impact their business. Resources can then be effectively allocated to implement controls that reduce the likelihood and/or the potential impact of the threats being realized. Therefore risk analysis is a critical element for the management of knowledge and information systems security.\(^ {119}\)

Risks are a function of: \(^ {120}\)

- the asset values,
- the threats, and their associated likelihood of the occurrence, that may threaten the assets,
- the ease of exploitation of vulnerabilities by threats to cause unwanted impacts, and
- the existing or planned safeguards, which might reduce the severity of vulnerabilities, threats and impacts

Organizations have many reasons for taking a proactive risk analysis to addressing information security concerns.\(^ {121}\):

Necessity of having an accurate inventory of IT assets as well as data assets and asset value in dollars, the importance of assets to the organization, or their criticality to the organization.

Risks analysis lets identified and documented threats, and known vulnerabilities and prioritized based on impact or criticality of the IT asset or data asset that it impacts.

A risk assessment assists the organization in justifying the cost of needed security countermeasures and solutions to mitigate the identified risks, threats, and vulnerabilities, as well as assists IT organizations with understanding the return on investment if funds are invested in IT security infrastructure.


\(^ {120}\) ISO/IEC TR 13335 – Part 3b, p. 78

Legal and regulatory requirements aimed at protecting sensitive or personal data, as well as general public security requirements.\textsuperscript{122}

One of the key elements of ISO 27001 certification involves doing a comprehensive risk assessment.

Risks analysis is the initial point for risks management and can be performed without any useless time investments and investments to sources by the short initial analysis performance of all systems.\textsuperscript{123}

A comprehensive enterprise security risk assessment also helps determine the value of the various types of knowledge generated and stored across the organization. Without valuing the various types of knowledge in the organization, it is nearly impossible to prioritize and allocate technology resources where they are needed the most. To accurately assess risk, management must identify the knowledge that are most valuable to the organization, the storage mechanisms of said knowledge and their associated vulnerabilities.\textsuperscript{124}

\begin{center}
\textbf{Figure 9. PDCA cycle in information security management system}
\end{center}


\textsuperscript{123} O. Strnád, Risk analysis and management of information security, [in:] Transfer inovácií 26/2013, p. 44.
In particular, risk assessments provide a basis for establishing appropriate security policies and selecting cost-effective techniques to implement these policies. Since risks and threats change over time, it is important that organizations periodically reassess risks and reconsider the appropriateness and effectiveness of the policies and controls they have selected. This continuing cycle of activity, including risk assessment, may be conducted follows the plan-do-check-act (PDCA) cycle (figure 9).

Reliably assessing information security risks can be more difficult than assessing other types of risks, because the data on the likelihood and costs associated with information security risk factors are often more limited and because risk factors are constantly changing.

Many ISS risk analysis methodologies and standards have been developed by both academic researchers and practitioners, including quantitative methods such as analysis, questionnaire, fuzzy metrics, and popular practical toolkits such as:
- ISO/IEC 27005:2008 - Information security risk management
- CRAMM (CCTA Risk Analysis and Management Method) developed by Central Computer and Telecommunications Agency (CCTA).
- NIST SP800-30 - Risk management guide for IT systems
- OCTAVE (Operationally Critical Threat, Asset, and Vulnerability Evaluation) information security risk evaluation
- IRAM (Information Risk Analysis Methodologies) developed by Information Security Forum,

One of the simplest methods of risk analysis described in ISO/IEC TR 13335 – Part 3b, is the Ranking of Threats by Measures of Risk. A matrix or table is used here to relate the factors of impact (asset value) and likelihood of threat occurrence (taking account of vulnerability aspects) in the following steps (table 6):
- Evaluation of the impact (asset value) on a predefined scale, e.g., 1 through 5, of each threatened asset (column 'b' in the table).
- Evaluation of the likelihood of threat occurrence on a predefined scale, e.g., 1 through 5, of each threat (column 'c' in the table).
- Calculation of the measure of risk by multiplying (b x c).
- Making ranking in order of their ‘exposure’ factor.

Table 6. Simple risk assessment table

<table>
<thead>
<tr>
<th>Asset</th>
<th>Threat</th>
<th>Impact value</th>
<th>likelihood of threat occurrence</th>
<th>measure of risk bxc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Server</td>
<td>Electricity outage</td>
<td>4</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Fire</td>
<td>5</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Staff</td>
<td>Loss of key staff</td>
<td>5</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Accident</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Own research

This procedure permits different threats with differing impacts and likelihoods of occurrence to be compared and ranked in order of priority, as shown here. In some instances it will be necessary to associate monetary values with the empirical scales used here.

6.5. Conclusions

Today’s world is constantly changing: is unpredictable, volatile, and seems to become more dangerous every day. In this world information and knowledge are the modern economic resources that allow to reduce the level of uncertainty and the level of unpredictability of the future. They are a necessary base for rational decision-making, without which we can't talking about the successes and economic development of the country, as well as individual companies. Possession of information and knowledge can be a source of sustainable competitive advantage.

Growing importance of information and knowledge has made that has arisen new threats to their safety. Every year we can observe a growing numbers of new threats to the security of information and knowledge, associated with mobility increasing and using public cloud computing services.

In effect, in knowledge based economy, no system, no organization and none knowledge can be absolutely secure.

To ensure the best possible protection for knowledge, organizations should conduct a risk assessment of information security. Through this analysis, it will be possible to create an optimal security system.
CHAPTER VII

Information as a decision tool in uncertain conditions: a disclosure index on provisions, contingent liabilities and deferred taxes

Ilídio Tomás Lopes

7.1. Background of business information disclosure

In businesses uncertain environment, information is managed as a key resource in decision making. Used by multiple stakeholders, it should be disclosed through a structured way and should also comply with quality requirements in order to ensure its utility in the management processes and decisions. However, multiple detractors and enablers exist, driving the intensity of information disclosure. These theoretical factors are supported by several theories such as agency theory\textsuperscript{127}, institutional theory\textsuperscript{128}, or contingency theory\textsuperscript{129}. Thus, international committees and boards (v.g. IASB, FASB, APB) tend to harmonize the accounting principles in the financial statements preparation and dissemination, including a set of topics to be disclosed in the companies’ management reports and in annual accounts statements.

\textsuperscript{126} PhD, ISCTE Business School – University Institute of Lisbon, Portugal


The effect of those harmonization principles has driven an increase in information quality towards a reliable and time based comparison of companies’ financial reports.

According to International Financial and Reporting Standards (IAS/IFRS), companies should disclose to their stakeholders a set of structured information, towards the quality assurance and business comprehensiveness\(^{130}\). Thus, several topics should be disclosed such as the related-party disclosures, contingent liabilities and contingent assets, comparative information, uncertainties, and judgments and estimations. For specifics items included in the balance sheet or in the income statement, additional disclosures are required according the specific IAS/IFRS. Besides the mandatory information described in the accounting standards, the annual reports also include a set of voluntary information\(^{131}\), both influencing the market volatility\(^{132}\). Indeed, the compliance level information disclosure can potentially influence the stakeholders’ decisions and drive the financial markets. Sector regulators and other legal institutions (v.g. sector activity regulators, securities and exchange committees, national banks, and even courts) and corporate governance committees (v.g. audit committees) have the responsibility to monitor and ensure that financial reporting is prepared and managed in accordance with legal requirements and rules. The capital market manipulation is also mitigated through the reports certification as required by international and national legislation. Audit firms play within the legal certification of accounts, an important and decisive contribution.

Information asymmetry is the focus of the information disclosure needs. Companies tend to provide to stakeholders the information they really trust and, therefore, positively influence their expected future returns, or mitigate their business and financial risks\(^{133}\).

This chapter has two complementary aims: the identification of information disclosure compliance of IASB’ international accounting standards on provisions, contingent liabilities and deferred taxes, and the identification of variables that best explain the variance of those information disclosure indexes. Evidences, applied for non-financial listed companies, integrating the Euronext Lisbon regulated market, also constitute an overview about information disclosure, eight years after the international accounting standards adoption in Portugal as required by European Union. This approach also aims to provide new insights and contribute to a global and integrated index construction, structured on overall assets and liabilities.


7.2. Information in decision making

The concept of information is nowadays broadly used. It translates everything that can be digitized, that can be converted into a set of bits and disseminated through multiple platforms. Information is a symbolic representation of a set of events, objects, and streams which requires rules in its disclosure\textsuperscript{134}. It integrates the chain of knowledge creation when data acquires meaning, when flows inside or across organizations, through multiple structured or unstructured networks. This dynamic transformation is dynamically subjected to the filters of contextualization, categorization, calculation, correction, and condensation as stated by T.H. Davenport and L. Prusak\textsuperscript{135}. Hence, information is a message in itself and is vulnerable to all the noise that arose from the processes of communication.

F.I. Dretske argues that information is all that can produce knowledge\textsuperscript{136} while others see it as a message flow\textsuperscript{137}. This flow of information supports the commitment and beliefs between organizations and their stakeholders. Thus, knowledge and information disclosure to the entire company value system is embedded in the traditional theories as:

- agency theory,
- legitimacy theory,
- institutional theory,
- contingency theory.

The transformation of data into information does not develop through a linear path. It depends on the filters used in that process\textsuperscript{138}. Embedded in sense and logic, data outflows into information which embodies meaning and structure. Each transformation filter highlights those who, in essence, can provide mechanisms for excellence in the pursuit of intrinsic formalization of corporate value\textsuperscript{139}. Condensation translates the aggregation process of data by carrying out the mathematical and statistical analysis while contextualization relates to the purpose of data collection, its correction, and the elimination of errors. The categorization seeks for the identification of their main components.

Assuming that information and knowledge are a key resource driven by individuals, groups, and organizations, the intensity in the disclosure process influences management decisions and stakeholders’ actions as a whole\textsuperscript{140}. Market volatility, as a result of economic globalization, however associated with traditional business models, increases the urgency to produce useful information that can support multi-


\textsuperscript{138} T.H. Davenport, L. Prusak, Working..., op. cit.

\textsuperscript{139} Ibidem.

ple decisions on a timely and reliable basis. The accounting harmonization effort that we have experienced in the last decades, comply with the need of information quality. This is not merely a mechanism of standardization but fundamentally a mechanism to ensure the comparability of the information produced, in a scattered way, in the context of a globalized market. As a result of the unquestionable advances in the information and communication technologies, many users and agents are more experienced with regard to the usefulness of the information. Organizations develop increasingly sophisticated systems that provide the information on a time based way\textsuperscript{141}. This revolution in the concepts of time and space is one of the leading brands of digital revolution that has marked the last two decades. So far, information is disseminated to stakeholders through multiple platforms, however improvements are required regardless its structuring and comprehensiveness. This increase is also associated with the development of integrated management and control systems.

The sophistication of those systems, through a dynamic two-way relationship, is characterized by the integration of financial and non-financial information, but also from its predictive nature. Management control systems have acquired flexibility, by enabling organizations to identify trends and warning signs which facilitate the implementation of emerging strategies. Characterized by their multiple languages, these systems integrate both internal and external information (quantitative and qualitative). Qualitative information is becoming increasingly important as part of the integrated financial reporting. Thus, this evidence can be found in the international accounting standards, especially in the topics related to the information disclosures requirements. Although it is mandatory to disclose the information required by accounting standards, there is still some resistance to its disclosure, which can be explained by the theories mentioned above.

7.3. Information disclosures

The accounting information disclosure to stakeholders is strongly influenced by the agency theory principles. Broadly, this theory has been incorporated in multiple scientific fields\textsuperscript{142}. However, the controversy over its usefulness, applicability


and validity, remains valid even today. It was developed during the 60s and the early 70s XX century, by several economists, including K. Arrow and R. Wilson. It translates the problem of attitude to risk either by individuals and/or by groups. The differentiation of objectives inherent to those parties that leads their attitude is also different. Those are relations between the principal and agent, metaphorically supported by a contract-oriented behaviour of parties who take different attitudes towards risk.

According to K.M. Eisenhardt, the agency relationship arises between two or more parties in a designated agent, acting for the other, called the main field in a particular decision. Acting both parties in favour of their own interest, the principal conducts its action to minimize costs, the agent in order to minimize their action. According M. K. Jensen Mec, and W. Ling, the agency costs correspond to the sum of the costs of monitoring by the principal (associated with the incentives of the agent and the monitoring process of their activity), expenses of the undertaking by the agent (associated with resources spent by the agent to compensate the principal for inappropriate actions) and residual losses (associated with the degree of divergence between the agent's decisions and the decisions that potentially maximize the well-being of principal).

The paradigm of the usefulness of information for decision-making is now one of the key issues in the designing process towards the information dissemination to their stakeholders. The profound changes that have occurred in the economies in general and in particular business models require information to be disclosed in a timely manner and meeting the expectations of its users. However, many are the factors that determine the type, timing and intensity with which this information is disseminated.

There are several theories that have explained the various factors that influence the information disclosure drivers. However, it is our understanding that the factors that determine the dissemination of information result from a symbiosis between the business complexity and stakeholders’ needs. Each of those theories has its basis in the social contract, established between the company and its stakeholders, creating internal mechanisms to respond to changes that occur in the environment.

The contingency theory assumes a theoretical perspective that contingencies such as size, uncertainty and risk, technology and environmental pressures affect the organization’s development and operating processes. Thus, organizations cannot

147) M. Jensen, K. Mec, W. Ling, Theory..., op. cit.

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develop a standard framework to plan, organize and control their own activities. The second theory (institutional) considers that organizations should adapt to external expectations, so there external pressures to implement appropriate practices to disseminate information. The fact that organizations tend to implement the same structures and practices along time as a response of social requirements is designated in the literature as institutional isomorphism\textsuperscript{148}. The theory of legitimacy is based on the notion of the social contract between the reporting entity and the society in which it operates\textsuperscript{149}. The dissemination of information is one way to relieve social pressure and legitimate their organizational activities.

The usefulness issue of the information management has a diffuse scope, based on multiple drivers: the type of information user, their information needs, the emerging pressure from the capital markets, the changes occurred in the environment in which organizations develop their activities and even regulatory requirements often resulting from political decisions. Indeed, we cannot link a particular theory to the entities and stakeholders’ behaviours, regarding the dissemination of information. Those theories have specific determinants that embody the individual and collective behaviours. These behaviours derive from the symbiosis assumptions which are inherent to each particular theory.

In this context, we assume that companies have a certain level of resistance in the disclosure of their liabilities. Stakeholders usually associate those liabilities to short or long term financial risk which detracts companies to voluntarily disclose this type of information. Although those disclosures are mandatory according international accounting standards, most of them do no comply with those requirements. This assumption supports the need to identify a “Disclosure Index” (DI) for the main liabilities recognised in the companies’ financial statements, such as provisions and deferred taxes.

**Provisions and contingent liabilities**

A provision is a liability of uncertain timing and amount. A contingent liability is a possible obligation that arises from past events and whose existence could be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. It could also be a present obligation, derived from past events but without probable outflows from the entity. Furthermore, contingent liabilities can also arise in the case of difficulties in its measurement on a reliable basis (IAS 37).

In order to comply with the qualitative characteristics of the financial information, companies should, in compliance with the international standard, disclose several topics about their provisions and contingent liabilities. Thus, for each class of provisions and contingencies, it is mandatory to disclose the following items – table 7.

\textsuperscript{148} P. DiMaggio, W. Powell, *The iron...*, op. cit.

## Table 7. IAS 37 disclosure requirements

<table>
<thead>
<tr>
<th>DI2&lt;sub&gt;n&lt;/sub&gt;</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DI1&lt;sub&gt;1&lt;/sub&gt;</td>
<td>The carrying amount at the beginning and end of the economic period</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;2&lt;/sub&gt;</td>
<td>Additional provisions made during the period, including all increases to existing ones</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;3&lt;/sub&gt;</td>
<td>Amounts used during the period</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;4&lt;/sub&gt;</td>
<td>Unused amounts reversed during the period and recognized as revenues</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;5&lt;/sub&gt;</td>
<td>Increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;6&lt;/sub&gt;</td>
<td>A brief description of the nature of the obligation (v.g. legal issues, onerous contracts, restructuring plans, etc.) and the expected time of any resulting outflows of economic benefits</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;7&lt;/sub&gt;</td>
<td>Indication of uncertainties and related major assumptions</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;8&lt;/sub&gt;</td>
<td>Amount of expected reimbursements</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;9&lt;/sub&gt;</td>
<td>Estimate of the financial effect of contingent liabilities</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;10&lt;/sub&gt;</td>
<td>Indication of uncertainties relating to the amount or timing for any contingent liabilities outflow</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;11&lt;/sub&gt;</td>
<td>Possibility of any reimbursement for contingent liabilities</td>
</tr>
<tr>
<td>DI1&lt;sub&gt;12&lt;/sub&gt;</td>
<td>Statement about non-disclosure reasons</td>
</tr>
</tbody>
</table>

Source: own research

This class of liabilities, associated to the recognition of accruals and deferrals, are usually associated to earnings management practices. A. Ascioglu, S. P. Hedge and G. V. Krishnan evidences that firms which exhibit greater earnings management are associated with lower market liquidity<sup>150</sup>, while D. Marciukaityte and S.H. Szewczyk argue that discretionary accruals peak when firms obtain debt financing<sup>151</sup>. Furthermore, these authors also evidence that accruals are higher for firms that rely on debt rather than on equity financing. Complementarily, R.L. Crawford and T.R. Weirich have associated deferrals recognition as a common form of financial statement fraud and as a red flag of risk<sup>152</sup>.

### Deferred tax liabilities

The issue of disclosure of the deferred tax arises associated with the characteristic of understandability of financial information. The breadth and clarity of accounting disclosure are highly dependent on preparers of financial information. According to G.K. Meek, C.B. Roberts and S.J. Gray, voluntary information only oc-

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<sup>150</sup> A. Ascioglu, S. P. Hedge, G. V. Krishnan,[in:] „Review of Quantitative Finance and Accounting”, 2012, Vol. 38.


curs in cases in which the benefits outweigh exceed the costs\textsuperscript{153}. Although IAS 12 enumerates the requirements in terms of qualitative and quantitative extent of the matters to be disclosed, the content and form remain dependent on the discretion of the preparer of financial information.

Deferred taxes liabilities are the amounts of income taxes payable in future periods in respect to taxable temporary differences. Hence, taxable temporary differences result in taxable amounts when the carrying amount of the asset or liability is recovered or settled. With regard to deferred taxes, IAS 12 establishes that company discloses the following structured topics (table 8).

Table 8. IAS 12 disclosure requirements

<table>
<thead>
<tr>
<th>D12\textsubscript{a}</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>D12\textsubscript{1}</td>
<td>Current tax expense</td>
</tr>
<tr>
<td>D12\textsubscript{2}</td>
<td>Adjustments recognized in the period for current tax of prior periods</td>
</tr>
<tr>
<td>D12\textsubscript{3}</td>
<td>Amount of deferred tax expense relating to the originating and reversal of temporary differences</td>
</tr>
<tr>
<td>D12\textsubscript{4}</td>
<td>Benefits from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense</td>
</tr>
<tr>
<td>D12\textsubscript{5}</td>
<td>Deferred tax expense arising from the write-down, or reversal of a previous write-down</td>
</tr>
<tr>
<td>D12\textsubscript{6}</td>
<td>The amount of tax expense relating changes in accounting policies</td>
</tr>
<tr>
<td>D12\textsubscript{7}</td>
<td>Deferrals associated to items directly charged or credited in the equity</td>
</tr>
<tr>
<td>D12\textsubscript{8}</td>
<td>Reconciliation between tax expense and accounting profit</td>
</tr>
<tr>
<td>D12\textsubscript{9}</td>
<td>Changes in applicable tax rate</td>
</tr>
<tr>
<td>D12\textsubscript{10}</td>
<td>Amount and expiration dates of deductible temporary differences and other related items</td>
</tr>
<tr>
<td>D12\textsubscript{11}</td>
<td>Deferred taxes associated to investments in subsidiaries, branches and associates, and interests in joint ventures</td>
</tr>
<tr>
<td>D12\textsubscript{12}</td>
<td>The amount of deferred tax assets and liabilities recognized in the statement of financial position for each period</td>
</tr>
<tr>
<td>D12\textsubscript{13}</td>
<td>The amount of the deferred tax income or expense recognized in profit or loss</td>
</tr>
<tr>
<td>D12\textsubscript{14}</td>
<td>Gains and losses associated to discontinued operations</td>
</tr>
<tr>
<td>D12\textsubscript{15}</td>
<td>Income taxes consequences of dividends to shareholders</td>
</tr>
<tr>
<td>D12\textsubscript{16}</td>
<td>Other deferred taxes related to business combinations</td>
</tr>
</tbody>
</table>

Source: own research

We believe that those disclosure requirements are complex and, even in a holistic way, this may constitute a severe inhibitor to disclosure behavior. Thus, the financial reporting will be incomplete which implies a weak utility of the annual accounts. As evidenced by E. Amir, M. Kirschenheiter and K. Willard, the omission

of information relating to deferred taxes are negatively associated with expected futures returns that flow to the entity. The omission of those effects undermines the completeness of financial information. To disclose information about deferred taxes is relevant to stakeholders. Investors usually associate the disclosure of deferred taxes on revaluation of tangible and intangible assets with the expectation of continuous investments in depreciable and amortizable assets. Evidences obtained by P. K. Chaney and D. C. Jeter and by R. Colley, J. Rue, A. Volkan also show a positive association between deferred taxes recognition and company’s capitalization. The market seems to recognize and incorporate the continuity of operations and their effects in terms of a desirable future returns.

Information Disclosure Index

The construction of an Information Disclosure Index is a common technique to aggregate information in several scientific fields, especially in social sciences. In management and accounting, the same approach has been followed in order to identify the intensity and level of information reporting. In this regard, I. Dragu, A. T. Tudor have regressed the disclosure index of borrowing costs (IAS 23) with multiple variables (e.g. turnover, return on assets, return on equity, total sales, debt rate, solvency) and have evidenced that an increase in debt rate would generate increased disclosure while an increase in solvency, in return on equity (ROE) and in return on assets (ROA), would mean lower quantities of disclosed information. A. Mutawaa and A. Hewaidy found a negative association between leverage and disclosure compliance level (dependent variable). A positive and significant asso-

155 Ibidem.
159 I. Dragu, A. T. Tudor, Developing..., op. cit.
ciation was found between disclosure compliance level and company size, and sector of activity. These evidences corroborate the previous evidences was provided by R.S. Wallace and K. Naser\textsuperscript{161}, A. Mora and B. Al-Shammari, P. Brown and A. Tarca\textsuperscript{162}. Type of auditing company (Big4) is also positively associated to the dependent variable, however not statistically significant.

Broadly, information disclosures are significantly associated to company size which means that large companies provide more mandatory and even voluntary disclosures than in SMEs\textsuperscript{163}. Relating key profitability indicators such as ROE or ROA, evidences are not convergent\textsuperscript{164}, which means that other variables exist that drive the effective information disclosure.

7.4. Methodology of research

This research is based on 47 non-finance companies, all of them listed in the Euronext Lisbon regulated market, with reference to 31 December 2012. General data was collected from DataStream database and information associated to dependent variables was collected through a content analysis procedure to the annual consolidated accounts\textsuperscript{165}.

The theoretical information disclosure index

Information disclosure level can be measured through several approaches\textsuperscript{166} (Arvidsson, 2011), including the construction of an index metric\textsuperscript{167}. The disclosure index (ID) for each company can be obtained through the ratio between the total of items disclosed by the company and the sum of the items that should be disclosed to stakeholders. The first step in this research consists in achieving the disclosure index for provisions and contingent liabilities, and the disclosure index for deferred taxes. Each index will be computed as follows:

\textsuperscript{161} R.S. Wallace, K. Naser, A. Mora, The relationship..., op. cit.
\textsuperscript{162} B. Al-Shammari, P. Brown, A. Tarca, An investigation..., op. cit.
\textsuperscript{165} S. Abraham, P. Cox, Analyzing the determinants of narrative risk information in UK FTSE 100 annual reports, [in:] „The British Accounting Review”, 2007, Vol. 39, No. 3.
\textsuperscript{166} S. Arvidsson, Disclosure..., op. cit.; B. J. Bushee, C. F. Noe, Corporate..., op. cit.
\[ DI^i_j = \frac{\sum_{i=1}^{n} y^i_j}{TD^i_j} \]  \hspace{1cm} (1)

Where:

- \( DI^i_j \) - Disclosure index for IAS\(_j\) in company \( i \)
- \( y^i_j \) - Disclosure observed in company \( i \) for IAS\(_j\)
- \( TD^i_j \) - Total disclosures required by IAS\(_j\) and applicable to company \( i \)

These two indexes will be integrated in a multiple linear regression model as dependent variables. This is an un-weighted index which is assumed that all items are considered with the same level of importance to many users of financial statements. The use of weighting factors would imply a previous study of the importance attributed by many users of information, for each of the elements considered. Thus, the results would be eventually biased by subjective factors.

**The variables**

In the first step, we have looked for the construction of a disclosure index on provisions and liabilities (DI1) and on deferred taxes (DI2). These indexes are included in the regression model as dependent variables, illustrating the level of compliance about information disclosures, according IAS 37 and IAS 12, respectively. Independent and control variables and corresponding signs are supported by agency theory, legitimacy theory, contingency theory, and institutional theory.\(^{168}\)

The dummy variable AUDIT assumes 1 if accounts were certified by a big4 auditing company and 0 otherwise. The sector of activity is used in the model as a control variable, namely:

1. Consumer services and transportation;
2. Basic equipment and industry;
3. Construction and infrastructures;
4. Technologies and communications;
5. Consumer materials;
6. Petrol and energy;
7. Media and advertising.

---

Table 9. Variables description and framework

<table>
<thead>
<tr>
<th>VARIABLE TYPOLOGY</th>
<th>VAR.</th>
<th>DESCRIPTION</th>
<th>PREDICTED ECONOMIC SIGN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEPENDENT</strong></td>
<td>DI1</td>
<td>Provisions and contingencies disclosure index</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>DI2</td>
<td>Deferred taxes disclosure index</td>
<td></td>
</tr>
<tr>
<td><strong>INDEPENDENT</strong></td>
<td>DIM</td>
<td>Natural logarithm of total assets</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>ROA</td>
<td>Return on assets (net income/total assets)</td>
<td>+/-</td>
</tr>
<tr>
<td></td>
<td>ROE</td>
<td>Return on equity (net income/equity)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>EBITDA</td>
<td>Natural logarithm of earnings before interests,</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>taxes, depreciation and amortization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DEB</td>
<td>Debt ratio (Debts/Total Assets)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>BGROW</td>
<td>Business growth between 2011 and 2012</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>NIGROW</td>
<td>Net income growth between 2011 and 2012</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>AUDIT</td>
<td>Auditing company (1 – Audited by a Big4 company and 0 otherwise)</td>
<td>+</td>
</tr>
<tr>
<td><strong>CONTROL</strong></td>
<td>SEC</td>
<td>Activity sector</td>
<td></td>
</tr>
</tbody>
</table>

Source: own research

**The regression model**

In order to identify which variables \(X_i; i=1,…k\) best contribute to explain the variance of dependent variables, the model stated below has been regressed for both indexes.

\[
DI_p = \beta_0 + \beta_1 DIM_{ij} + \beta_2 ROA_{2j} + \beta_3 ROE_{3j} + \beta_4 EBITDA_{4j} \\
+ \beta_5 DEB_{5j} + \beta_6 BGROW_{6j} + \beta_7 NIGROW_{7j} + \beta_8 AUDIT_{8j} + \beta_9 SEC_{9j} + \varepsilon \\
(j = 1,...,n) \tag{2}
\]

Thus, all variables were simultaneously introduced in the model in order to identify which ones can predict (rejection of \(H_0: \beta_1=\beta_2=\ldots=\beta_9=0; p<\alpha\)) the information disclosure index on provisions, contingent liabilities and deferred taxes for non-finance listed companies.

**7.5. Results and discussion**

**Descriptive measures**

The sector of consumer services and transportation integrates 11 companies (23,4%) while the sector of basic materials and industry is represented by 21,3% (10 companies). The overall distribution by sector is evidenced in the figure 10.
In order to provide an integrated overview about the variables included in the research, we summarize in table 10 the basic descriptive measures such as minimum, maximum, mean, and standard deviation.

**Table 10. Descriptive measures**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DI1</td>
<td>0.08</td>
<td>0.92</td>
<td>0.4677</td>
<td>0.20542</td>
</tr>
<tr>
<td>DI2</td>
<td>0.00</td>
<td>0.98</td>
<td>0.5470</td>
<td>0.29016</td>
</tr>
<tr>
<td>DIM</td>
<td>7,14328</td>
<td>10,31918</td>
<td>8,7398</td>
<td>0.719196</td>
</tr>
<tr>
<td>ROA</td>
<td>-78,16</td>
<td>15,00</td>
<td>-1.6832</td>
<td>13,31658</td>
</tr>
<tr>
<td>ROE</td>
<td>-190,87</td>
<td>56,10</td>
<td>-2.8264</td>
<td>36,64751</td>
</tr>
<tr>
<td>EBITDA</td>
<td>5,64870</td>
<td>9,14265</td>
<td>7,3775</td>
<td>0.88732</td>
</tr>
<tr>
<td>DEB</td>
<td>27,93</td>
<td>533,85</td>
<td>98,9568</td>
<td>89,88984</td>
</tr>
<tr>
<td>BGROW</td>
<td>-52,60</td>
<td>16,22</td>
<td>-9,0311</td>
<td>17,44445</td>
</tr>
<tr>
<td>NIGROW</td>
<td>-306,60</td>
<td>601,46</td>
<td>38,8798</td>
<td>145,99483</td>
</tr>
</tbody>
</table>

Source: own research
Relating auditing services, the annual accounts were certified by a Big4 auditing company in 34 (72%) of cases. We found a positive and significant association between this variable and the information disclosure index on deferred taxes ($\chi^2=42,00; \text{df}=28; \text{p}=0,001$). Relating the disclosure information on provisions and contingent liabilities, that association is positive but not significant ($\chi^2=12,452; \text{df}=14$).

Other significant associations were identified between information disclosure indexes and other variables such as size, return on assets, net income growth rate, among others (Table 11). Size is positively associated with both indexes which corroborates the literature. Broadly, larger companies tend to disclose higher levels of information in order to respond to the increase in the stakeholders information needs. However, that association is significant only for the information disclosure level on provisions and liabilities ($\chi^2=658,00; \text{df}=644; \text{p}=0,011$). EBITDA, as a sustainability key performance indicator, is significantly associated with both indexes ($\chi^2=658,00; \text{df}=644; \text{p}=0,023$ and $\chi^2=1316,00; \text{df}=1288; \text{p}=0,013$, respectively).

Table 11. Most significant association measures

<table>
<thead>
<tr>
<th>Variable X_a</th>
<th>Variable X_p</th>
<th>$\chi^2$</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
<th>Person’s Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIM</td>
<td></td>
<td>658,00</td>
<td>644</td>
<td>0,011</td>
<td>0,369** (0,011)</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td>658,00</td>
<td>644</td>
<td>0,023</td>
<td>0,332** (0,023)</td>
</tr>
<tr>
<td>NIGROW</td>
<td></td>
<td>572,00</td>
<td>559</td>
<td>0,041</td>
<td>0,309** (0,041)</td>
</tr>
<tr>
<td>ROA</td>
<td></td>
<td>1253,33</td>
<td>1232</td>
<td>0,006</td>
<td>0,403* (0,005)</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td>1316,00</td>
<td>1288</td>
<td>0,013</td>
<td>0,360** (0,013)</td>
</tr>
<tr>
<td>DEB</td>
<td></td>
<td>1316,00</td>
<td>1288</td>
<td>0,002</td>
<td>-0,431* (0,002)</td>
</tr>
<tr>
<td>AUDIT</td>
<td></td>
<td>42,00</td>
<td>28</td>
<td>0,001</td>
<td>0,474* (0,001)</td>
</tr>
</tbody>
</table>

*<0,01 **<0,05 ***<0,1

Source: own research

The regression model

One of the main objectives in this research is to identify a set of variables that best explain the variance in the information disclosure level by the companies listed in the Euronext Lisbon. Furthermore, it also aims to provide the literature with additional insights in this scientific topic. Ordinary Least Squares (OLS) multiple regression were used to test the relationships between the various independent variables and control variable, and DI1 and DI2. Outliers were removed from the analysis. Thus, table VI evidences the regression models for DI1 (p-value<0,1; adj. $R^2=0,183$) and DI2 (p-value<0,01; adj. $R^2=0,53$).

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Information disclosure on provisions and liabilities is positively correlated with company size (DIM), EBITDA, NIGROW, AUDIT and sector of activity (SEC), however not significantly. Otherwise, it is negatively correlated with ROA (p-value<0.05), debt ratio and business growth rate, but in these two cases not significantly. Corroborating the evidence provided by I Dragu and A.T. an increase in debt rate (DEB), in return on equity (ROE) and in return on assets (ROA), is associated to lower quantities of disclosed information\textsuperscript{170}. A positive association was also found between disclosure compliance level and company size, and sector of activity. Thus, the sector of activity signs positively the level of information disclosed. Lower disclosure indexes rates are observed in consumer services and transportation sector, and in basic equipment and industry sector.

Table 12. Regression models summary

<table>
<thead>
<tr>
<th>VAR.</th>
<th>DI1</th>
<th></th>
<th>DI2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.604</td>
<td>0.148</td>
<td>-0.954</td>
<td>0.044**</td>
</tr>
<tr>
<td>DIM</td>
<td>0.297</td>
<td>0.290</td>
<td>0.165</td>
<td>0.435</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.555</td>
<td>0.040**</td>
<td>-0.089</td>
<td>0.652</td>
</tr>
<tr>
<td>ROE</td>
<td>-0.024</td>
<td>0.881</td>
<td>-0.044</td>
<td>0.720</td>
</tr>
<tr>
<td>EBITDA</td>
<td>0.170</td>
<td>0.544</td>
<td>0.278</td>
<td>0.195</td>
</tr>
<tr>
<td>DEB</td>
<td>-0.204</td>
<td>0.415</td>
<td>-0.344</td>
<td>0.074***</td>
</tr>
<tr>
<td>BGROW</td>
<td>-0.104</td>
<td>0.541</td>
<td>0.046</td>
<td>0.720</td>
</tr>
<tr>
<td>NIGROW</td>
<td>0.247</td>
<td>0.108</td>
<td>-0.357</td>
<td>0.003*</td>
</tr>
<tr>
<td>AUDIT</td>
<td>0.123</td>
<td>0.430</td>
<td>0.405</td>
<td>0.001*</td>
</tr>
<tr>
<td>SEC</td>
<td>0.071</td>
<td>0.646</td>
<td>0.331</td>
<td>0.007*</td>
</tr>
</tbody>
</table>

Adj. R\textsuperscript{2}=0.183 Adj. R\textsuperscript{2}=0.532
F=2.072 F=6.437
Sig. 0.061*** Sig. 0.000*

*<0.01 **<0.05 ***<0.1

Source: own research

Both regression models are statistically significant for a 5% (F=2.072; Sig. 0.061) and 1% significance (F=6.437; Sig. 0.000), respectively. Although several variables are not statistically significant, both equations are evidenced towards an integrated predictive outlook.

\[ DI1 = -0.604 + 0.297 \times DIM - 0.555 \times ROA - 0.024 \times ROE + 0.17 \times EBITDA - 0.204 \times DEB - 0.104 \times BGROW + 0.247 \times NIGROW + 0.123 \times AUDIT + 0.071 \times SEC \]

This equation can be used as a proxy to predict the information disclosure on provisions and contingent liabilities while the regression model stated below can be used to predict the information disclosure on deferred taxes.

\textsuperscript{170} I. Dragu, A. T. Tudor, Developing..., op. cit.;
Most of the evidences achieved with current research corroborate other insights emerged from the literature review. Hence, those evidences arise as new knowledge in the scope of financial information disclosure levels, namely on compliance with IAS 37 and IAS12.

\[
D12 = -0.954 + 0.165DIM - 0.089ROA - 0.044ROE + 0.278EBITDA - 0.344DEB + 0.046BGROW - 0.357NIGROW + 0.405AUDIT + 0.331SEC
\]

7.6. Final remarks and limitations

Several insights about information disclosure have been produced over the last decades. However, in globalized and volatile markets, the topic relevance increases as a result of the businesses complexity and more decentralized stakeholders. Thus, the compliance of information disclosure with international accounting standards is the most visible way to provide an outlook weather companies comply with their legal information disclosures obligations. Liabilities are potentially the most important inhibitor as far as stakeholders associate those liabilities as an overall risk level indicator.

Through a content analysis, two information disclosure indexes (disclosure index on provisions and liabilities and disclosure index on deferred taxes) were computed. These indexes were regressed as dependent variables with a set of independent variables (size, profitability indicators, debt ratio, auditing, and activity sector). Both models are statistically significant, contrary to what occurs with some isolated variables. Positive associations were obtained between disclosure indexes and some variables such as size, EBITDA, return on assets, debt ratio, net income growth rate, and auditing company. Thus, the compliance level with international accounting standards is driven by financial and non-financial indicators. The extent in the sample size could refine those evidences and provide additional insights on the topic.

As further research, a disclosure index should be computed for a large range of time, in order to evaluate the trend in the intensity disclosure procedures. Thus, acting the year as a control variable, some economic effects could be observed and economically interpreted. Furthermore, specific detractors and enablers in the information disclosure behaviour can also be found if the analysis could be carried out for particular regions and countries.
CHAPTER VIII

Using the Balanced Scorecard in an entity from the sector of micro-, small and medium enterprises in conditions of variability surrounding

Teresa Szot-Gabryś

8.1. The determinants of strategic management in the MSME sector

The role of the strategic approach in enterprise management is currently appreciated both in scientific circles and among management practitioners. Operational management is of short-term dimension and is focused on meeting the enterprise's current goals as well as its needs. On the other hand, the strategic approach provides a wider perspective of several years of the enterprise's development. Using the strategic management tools and methods in practice depends on the owner's decision and is not frequently found in entities operating on a smaller scale, which belong to the sector of micro-, small and medium enterprises.

The assurance of efficient functioning of an organization on the market is hedged around the development of an effective strategy. Leading an economic activity based on elaborating strategy have a very important signification in present conditions of instability and variable surrounding, where the enterprises operating. The development of a good strategy is a difficult and complicated process. It requires a thorough analysis of the conditions in which a particular organization is operating. Thus, it requires as precise as possible recognition of the internal and external factors that decide about the enterprise's possibilities and chances of development and its achievement of the intended goals. Taking into consideration the number of such factors, the analysis cannot be conducted in a chaotic manner. It must be systema-

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171 PhD., Siedlce University of Natural Sciences and Humanities, Poland
tized into a logical sequence of actions that will allow for drawing conclusions and will help to specify the desired directions of the company's development.  

The development of an optimal strategy of an enterprise, as it has been mentioned before, requires good knowledge of the inside and the surrounding where it is operating as well as the possibility of changes in the surrounding, their influence on the company and its ability of proper reaction to these changes. The possibility of examining the enterprise's surrounding is provided by the strategic analysis. Nevertheless, development of the entity's strategy of operation takes place in the concept sphere. Another issue is its effective implementation. In many cases, although the strategy is accurately formulated, it is not implemented successfully. Moreover, it is commonly believed that strategic management is a methodology suitable for the specificity of larger economic entities and is not adequate to the situation of the companies from the sector of micro-, small and medium enterprises which are numerically dominant in the economy. A modern tool facilitating the effective implementation of the strategy is the Balanced Scorecard, developed by Robert Kaplan and David Norton. The aim of this work is to present the possibility of using the Balanced Scorecard with regard to the development concept of an economic entity from the sector of micro-, small and medium enterprises.

8.2. Basic assumptions of the Balanced Scorecard method

The Balanced Scorecard is a tool used in strategic management and strategic controlling. The Balanced Scorecard facilitates the implementation of a developmental strategy of an economic entity. Preparation of a developmental strategy document is preceded with strategic diagnosis and analysis.

Strategic analysis is the stage of diagnostic actions aiming at determination of the current and future opportunities and dangers, i.e. external conditions of the enterprise's growth, as well as evaluation of the internal potential of the enterprise in the context of its ability to use the opportunities and prevent the dangers. The final stage of the strategic analysis is determination and evaluation of the enterprise's strategic position. The strategic analysis provides us with the answer to the question: in what conditions will the company be operating in the future and what are its possibilities of adjustment to them. The subject of the strategic analysis examination is everything that surrounds an enterprise as well as its internal resources. Based on the results of strategic analysis, the mission, the vision as well as the strategic and operational goals are formulated that are to be achieved within the intended time period. Nevertheless, in practice, although the strategy of development is accurate, very frequently there are difficulties with its implementation.

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The Balanced Scorecard is a complex management tool which aims at allowing for an effective strategy implementation\(^{176}\). The implementation procedure of this methodology consists of the following stages:

- developing the enterprise's vision of operation and its strategy,
- explaining the strategic goals and indicators to employees and integrating them with the management system,
- planning, setting the goals and undertaking strategic initiatives,
- monitoring the strategy implementation and learning about the organization.

The Balanced Scorecard is a tool for transforming the planned strategy into the process of its implementation. It includes a set of indicators used for combining the vision and the strategy expressed in the form of specific goals as well as for measuring of the progress in strategy implementation. The indicators are integrated in mutually connected perspectives (categories) of both financial and non-financial nature determining the results of actions and stimulating the company's development. The Balanced Scorecard explains the goals and results of the enterprise's operation in four perspectives\(^{177}\):

- financial,
- customer,
- internal processes (internal plane),
- innovation (learning, knowledge and growth plane).

In each of the above mentioned perspectives, the goals are developed together with the indicators for measuring the degree of achieving them and the actions are indicated which, if taken, will facilitate the achievement of the goals set. Thanks to such methodology, a system of measuring the degree of strategy implementation is created, not only with regard to the financial results of the enterprise's operation.

Between individual perspectives, there are cause and effect relations. For example, the development of the staff's competences, knowledge and the ability to use it (elements of the perspective of knowledge and growth) is reflected in better quality of the internal processes. Thanks to effective accomplishment of the tasks within the framework of internal processes, better quality products and services are created which correspond better to customers' needs. A customer satisfied with the offer is more prone to making a purchase and to repeating it, which is finally reflected in better financial results revealed in the financial perspective. A traditionally operating enterprise, if it takes any financial measurements, uses the indicators referring to the results revealed only in the financial perspective. Nevertheless, financial success is the result of customers' satisfaction, which can be achieved thanks to an attractive offer of products and services. The concept of products and services is created in the innovation perspective (knowledge and growth) and the actions taken in the perspective of internal processes aim at practical fulfilment of the ideas and innovations created in the perspective of knowledge and growth.


\(^{177}\) Ibidem, pp. 96-114.
Innovativeness of the Balanced Scorecard as a method involves the fact that the goals, the indicators for measuring the degree of achieving them and the actions thanks to which they can be achieved are not only formulated in the financial dimension. The measurement system also covers the effects of the economic entity's activity in the sphere of customers, internal processes as well as knowledge, research and development management, which is not used in a traditionally operating enterprise. The above described Balanced Scorecard methodology may also be used in an entity belonging to the MSME sector, which will further be presented based on a chosen example.

8.3. The use of the Balanced Scorecard concept in the MSME sector based on a chosen example

In this part of the work, a case study is presented for a Balanced Scorecard project developed for "My Garden" enterprise belonging to the sector of micro-, small and medium enterprises. As in the Balanced Scorecard method, the goals, indicators and actions leading to achievement of these goals are developed in four perspectives: financial, customer, internal processes and innovation (knowledge and growth), the basic processes and resources have to be described that are characteristic for a particular enterprise in these perspectives.

1) The subject of the activity of "My Garden" enterprise:
The basic subject of the conducted activity is designing home gardens, winter gardens, recreational lots (mini ponds, ponds, rock gardens, lighting), designing green areas next to public buildings (e.g. banks, schools, etc.), specialist advisory services during implementation of the projects within the scope of landscape architecture.

2) The products/services offered:
The enterprise offers design within the scope of landscape architecture and execution of these designs as well as nurturing and maintenance services for already existing gardens. In particular, the scope of the services includes:
   a) designing landscape architecture, detailed selection of plants, surface designs, lightning and watering system designs, selection of small architectural elements, designing water elements: ponds, cascades, mini ponds, designing garden details, other detailed designs, etc.
   b) technical execution of designs,
   c) services within the scope of nurturing and maintenance of green areas.

3) The target customer market:
The market in geographical sense where the enterprise is functioning is of regional range (Siedlce region). As far as the market segments are concerned, the cus-

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customers are mostly relatively well-off individuals who own residences and houses outside the city as well as institutional customers: companies and institutions taking care of their surrounding.

4) The basic internal processes in "My Garden" enterprise:

The basic internal processes include individual customer service, design with the use of computer techniques: virtual visualizations, simulations in 3D technology, arrangements of plant compositions, fountains, paths, location of garden furniture, etc.

5) The key competences and the necessary knowledge in the enterprise:

The key competences required from the employees include aestheticism, spatial imagination as well as knowledge and minimum 3-year experience in using PL/SQL software and data modelling, practical knowledge in the area of data warehouse functioning, ability to communicate in English, specialized university degree (landscape architecture, horticulture), knowledge of Informatica Powercenter and Business Objects software.

The basic system of goals, indicators and actions for the described enterprise is as follows:

Table 13. Financial perspective

<table>
<thead>
<tr>
<th>Goals</th>
<th>Indicators</th>
<th>Target indicator value</th>
<th>Actions aiming at achieving the planned indicator value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increased income from sales</td>
<td>sales increase pace</td>
<td>increase by 5% annually</td>
<td>- wide-ranging advertising, e.g. Internet, leaflets, billboards, attractive prices</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- extending the service offer</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- introducing novelties</td>
</tr>
<tr>
<td>2. High profitability</td>
<td>gross profitability index</td>
<td>increase by 10% during 3 years</td>
<td>- initial design and consultation at a promotional price</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- increase in the amount of services sold</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- reduction in the enterprise's fixed costs</td>
</tr>
<tr>
<td>3. Cost reduction</td>
<td>the level of incurred prime costs, the cost of service manufacturing</td>
<td>reduction by 3% annually</td>
<td>- placing larger orders for materials for garden realisations, which is connected with discounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- looking for possibilities of changing the suppliers into cheaper ones</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- improvement of labour efficiency</td>
</tr>
</tbody>
</table>

Source: own research

Table 14. Customer perspective

<table>
<thead>
<tr>
<th>Goals</th>
<th>Indicators</th>
<th>Target indicator value</th>
<th>Actions aiming at achieving the planned indicator value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increasing customers' satisfaction</td>
<td>marketing research, e.g. opinion poll, survey</td>
<td>mark 8 / 10</td>
<td>- extending the service offer</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- quick design execution</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- competitive prices</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- trainings within the scope of customer service</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>communication</td>
</tr>
<tr>
<td>2. Attracting new customers</td>
<td>number of new customers in comparison to the</td>
<td>increase by 10% during 1 year</td>
<td>- discounts for new customers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- loyalty cards</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- signing agreements on cooperation</td>
</tr>
</tbody>
</table>
3. Strengthening the company's image

<table>
<thead>
<tr>
<th>Goals</th>
<th>Indicators</th>
<th>Target indicator value</th>
<th>Actions aiming at achieving the planned indicator value</th>
</tr>
</thead>
</table>
|       | recognisability on the market, position in specialized rankings | increase by 15% during 1 year | - wide-ranging marketing activities  
- contact with current and former customers by means of sending new offers  
- participation in charity events |

Source: own research

Table 15. Internal processes perspective

<table>
<thead>
<tr>
<th>Goals</th>
<th>Indicators</th>
<th>Target indicator value</th>
<th>Actions aiming at achieving the planned indicator value</th>
</tr>
</thead>
</table>
| 1. Improvement of service quality | number of satisfied customers | increase by 20% during 1 year | - implementation of the ISO system  
- improvement of the complaint examination procedure  
- purchase of high quality plants and materials  
- increased expectations towards subcontractors |
| 2. Improved Internet system | number of employees operating the Internet system | increasing the number of positions by 5% during 1 year | - purchase of new computers and software  
- extension of the website  
- new visualizations |
| 3. Making the offer more attractive and extensive | increase in the number of customers | increase by 10% during 1 year | - introduction of new products  
- higher flexibility of design and realisation processes  
- equipping the work stations in modern devices |

Source: own research

Table 16. Knowledge and growth perspective

<table>
<thead>
<tr>
<th>Goals</th>
<th>Indicators</th>
<th>Target indicator value</th>
<th>Actions aiming at achieving the planned indicator value</th>
</tr>
</thead>
</table>
| 1. Increasing the employees' competences | number of qualified employees | 100% during the year | - trainings and courses for employees  
- promoting the participation of employees in specialized competitions |
| 2. Increased employees' work satisfaction | number of satisfied employees | 100% | - attractive remuneration connected with work effects  
- flexible working hours  
- using new non-financial motivators |
| 3. Development of Information Technologies | expenses on the purchase of equipment | increase in the level of expenses by 12% during 1 year | - purchase of computers and modern software |

Source: own research

The above presented Balanced Scorecard model for a chosen entity is very simple and it may be said that it has been developed within a minimum, basic scope. Nevertheless, its huge advantage is planning of the actions in the key spheres of the enterprise's operation (market, technological, knowledge management), which are reflected in improved financial results of the entity.
8.4. The methodological and behavioural aspects of using the Balanced Scorecard in an entity from the sector of micro-, small and medium enterprises - Conclusion

In a traditionally operating enterprise, the measurement of economic quantities refers to the data revealed in the financial statement, i.e. they are of ex post nature. Micro-, small and medium enterprises have limited obligations as regards the accounting records and the financial reporting\textsuperscript{179}. Moreover, reporting is limited to financial aspects and involves calculation of indicators such as: sales profitability, return on assets, return on capital engaged. The logical construction of the Balanced Scorecard indicated that the results that are illustrated by financial indicators are the effect of effectiveness and efficiency of the enterprise’s performance in the customer, internal processes as well as knowledge and growth spheres. The advantage of the Balanced Scorecard is determination of the goals and monitoring of the effectiveness of their implementation also in these spheres and not only in the financial sphere. Enterprises using the Balanced Scorecard have a greater chance of gaining advantage over their competitors through more effective and efficient management. The example of the Balanced Scorecard presented in this work indicates that the method in a properly simplified form may be used in enterprises from the MSME sector operating on a small scale. This does not require a huge amount of work or involvement and may facilitate the implementation of a well-thought-out manner of acting focused on the achievement of specific goals.

According to the authors’ beliefs published in various works, the Balanced Scorecard allows for adjustment and focusing on execution of the strategy of enterprise’s resources such as\textsuperscript{180}:

\begin{itemize}
  \item the enterprise’s management staff,
  \item human resources,
  \item departments (organizational units) of an enterprise,
  \item Information Techniques and knowledge management,
  \item financial resources.
\end{itemize}

In spite of explicit benefits connected with the use of the Balanced Scorecard in enterprise management, the method is quite rarely used in practice. It is not an obligatory method and, thus, its implementation depends on the management’s decision and the employees’ attitude to its use in everyday practice. It appears that the basic determinant of using the Balanced Scorecard in practice is the attitude and behaviour of the human resources. Thus, the factor of behavioural nature is the basic determinant of the use and effectiveness of this method.

The creators of the Balanced Scorecard, R. Kaplan and D. Norton, formulated five principles of the operation of an enterprise focused on execution of the strategy with the use of the Balanced Scorecard\textsuperscript{181}:

\textsuperscript{180} E. Nowak, Advanced management accounting, PWE, Warsaw 2003, p. 296.
- Principle 1: Transferring the strategy into operational terminology - developing partial goals in four perspectives.
- Principle 2: Adjusting the organization's structure to the strategy - assigning tasks to individual units in the organizational structure.
- Principle 3: Making the strategy an everyday issue for each employee - explaining the goals and tasks to be accomplished to the crew.
- Principle 4: Making the strategy a continuous process - monitoring the progress in achieving goals with the use of indicators developed in individual perspectives and introducing the necessary modifications in the Balanced Scorecard.
- Principle 5: Initiating changes in the Balanced Scorecard by the management.

As the above presented determinants of the effective use of the Balanced Scorecard indicate - the behavioural factors, i.e. the attitude of the enterprise's management and employees are of basic importance for successful implementation of this method.
CHAPTER IX

Business models rethought: applying the heuristic methods of Altshuller and Osborn to improve an organization’s fitness in a variable environment

Michał Jasieński¹⁸², Magdalena Rzeźnik¹⁸³

Variability of the business environment creates the need for constant reinvention of the way firms and institutions operate. Those which are not able to cope with this variability, by not responding in sufficiently creative ways to the macro- and micro-economic challenges, disappear. The term “fitness”, borrowed from evolutionary biology, is meant to express an organization’s ability to survive under competition or in hostile socio-economic conditions, to withstand time pressures and scarcity of resources, and to increase its share of the market.

The purpose of this chapter is to show that two well-known methods for stimulating creative thinking, one originating in the world of advertising¹⁸⁴ and the other developed by and for engineers¹⁸⁵ may also be applied to business and management. The framework we use is that of business models (BMs) whose several components encompass the entire spectrum of issue relevant to the functioning of a modern organization. We believe that reinvention of BMs through application of heuristic methods should become the everyday reality of sophisticated managers and business leaders¹⁸⁶,¹⁸⁷.

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9.1. Tools for reinvention

The methodology known by the acronym TRIZ (from its Russian name, meaning „theory of inventive problem solving”) was developed in the context of engineering by Genrich S. Altshuller\textsuperscript{188,189} and it is based on an analysis of a very large collection of patent applications. One of his goals was to review the methods used by inventors when overcoming various technological obstacles and categorize them into well-defined „inventive principles“. Mann & Domb’s\textsuperscript{190} attempted to provide explicit translation of such engineering-derived heuristic principles into terms related to business and management; see also Moehrle\textsuperscript{191} who explored how various TRIZ methods may be used in organizations.

SCAMPER is a heuristic method, created in the world of advertising. At first the list of 83 questions was developed by Alex Osborn\textsuperscript{192}, the father of brainstorming\textsuperscript{193}, and then refined by Eberle\textsuperscript{194} who decided to make the list short and simple to help teachers in triggering children’s natural creativity. He used the mnemonic tool of an acronym of the names of seven potentially useful procedures: (S)ubstitute, (C)ombine, (A)dapt, (M)odify, (P)ut to another use, (E)liminate and (R)everse; his goal was to make it easier to learn and remember, and then put it into action during brainstorming. Additional feature of the method is that it is based on the meaning of the word “to scamper”. This helps associate the name of the method with the seven principles that may help “to run playfully about in one’s mind in search of ideas”\textsuperscript{195,196}.

The set of simple questions offers a systematic and practical way to stimulate creativity by suggesting counterintuitive ideas, thinking outside the box, and destroying mental blocks which can prevent finding solutions. Brainstorming was found to work particularly well in solving cross-functional problems, because it could exploit the intellectual diversity of the participant group\textsuperscript{197}, although SCAMPER itself may be more effective in improving verbal rather than figural

\textsuperscript{188} G. Altshuller, Creativity..., op. cit.
\textsuperscript{190} D. Mann, E. Domb, 40 Principles for business, with examples, [in:] „The TRIZ Journal”, www.triz-journal.com, September 1999.
\textsuperscript{192} A. F.Osborn, Applied... op. cit.
\textsuperscript{195} B. Eberle, Help! In Solving Problems Creatively at Home and School, Good Apple, Inc., Carthage 1984.
\textsuperscript{196} M.Michalko, Thinker Toys. A Handbook of Creative Thinking Techniques, Ten Speed Press, Berkeley, CA 2006.
creative thinking\textsuperscript{198}. SCAMPER can be helpful when aiming to generate an idea about a product, service, or a process, or also how the existing BMs can be improved by changing some or all of their components.

9.2. Business models

Business model is understood as a conceptualization of the way a firm does its business\textsuperscript{199,200,201,202}. A. Osterwalder and Y. Pigneur\textsuperscript{203} explain that a BM is like a guideline, by describing its key aspects of functioning, and specifying what the company does and how it operates in order to create value for the customers\textsuperscript{204}. One may say that BM provides a big picture of an organization and aids in communicating and implementing new market opportunities. Although specific components comprising the BMs vary according to different authors, creating and delivering value is the element they all share; see Baden-Fuller & Morgan\textsuperscript{205} for a useful summary of various definitions of BMs.

Osterwalder and Pigneur\textsuperscript{206} define nine building blocks that are critical to design a successful BM. “Value proposition” is the array of products or services that satisfy the customers’ needs or help solve their problems. “Channels” are the way of communicating and reaching the customer segments in order to provide them a value proposition. “Customer segments” are clearly defined groups of people which the company aims to serve and which it plans to omit. It is crucial to have a deep understanding of particular needs of the customers which a company tends to reach. “Customer relationships” are types of interaction that a company wants to establish and maintain with the customer segments for long time. “Key partners” are the established network of partners and suppliers that the company maintains (for many reasons i.e. risk reduction, reliable access to resources or outsourcing etc.). “Key resources” (physical, financial, intellectual or human) enable the organization to create and deliver value to its customers. “Key activities” are the most important actions which make possible creating and delivering a value proposition, maintaining relationships with customers and generating profits for the company. Finally, two com-

\textsuperscript{202} M. Jasieński, M. Rzeżnik, M. Candi, \textit{Understanding ...}, op. cit.
\textsuperscript{206} A. Osterwalder, Y. Pigneur, \textit{Business...}, op. cit.
ponents concern the financial aspects of business activity. “Cost structure” describes all the costs the company incurs to create and deliver value, maintain relationships with the customers and earn revenue. “Revenue streams” are generated when the company successfully (i.e. profitably) creates and delivers value proposition to its customers.

9.3. How TRIZ and SCAMPER may be applied to business model components

Each of these methods has already found application in various areas of business and management. For example, various TRIZ methods were used in human resource management aspects of manufacturing, product design, product service systems, marketing and sales, customer service and quality management. Chen et al. combined both SCAMPER and TRIZ methods in a creativity-based Kano model (C-Kano model) that was aimed at discovering customer needs and helping practitioners focus on the most important dimensions of product quality.

Examples of how each of the seven SCAMPER questions and each of forty TRIZ Inventive Principles can be used are shown below. The latter are always given with their numbers (from 1 to 40), since the numbering system, proposed originally in 1960s by Altshuller and modified in early 1970s, has been kept by the practitioners of the TRIZ approach. While the SCAMPER questions are phrased in a general way that may easily be applied to any field, the TRIZ Inventive Principles are in

207 D. Mann, E. Domb, 40 Principles..., op. cit.
209 M.G. Moehrle, How..., op. cit.
219 G. Altshuller, 40 Principles..., op. cit.
some cases very technical and their application outside of engineering requires some imagination. They should be considered not literally (e.g. Principle 18. Mechanical vibrations, Principle 37. Thermal expansion), but metaphorically, when “vibrations” or “temperature” may be understood also in terms of e.g. “emotional resonance” or “excitement”.

**Value proposition**

SCAMPER - Modify?

A value proposition can be modified through product range extension or by increased frequency of proposed offerings. By changing inventory weekly, a particular product will not be available in a few days, so the client must buy it now or never. For example Tchibo\(^{220}\), which produces and supplies coffee, has expanded its offering beyond coffee and related products, with a wide range of carefully selected products which make up its changing weekly offering of clothing, shoes, household and office articles, electronics, etc. Zara uses a similar approach in its stores.

TRIZ

Extracting functionalities from hardware to software transformed expensive workstations into cheap desktop computers (e.g. Indigo graphic workstation by Silicon Graphics) (Principle 2. Extraction - Taking out). Bundling less popular services or products with more popular, helps moving inventory (Principle 8. Counterweight). Allocation of resources to marketing efforts should be adjusted to the customers’ perception of product’s „temperature“ (Principle 37. Thermal expansion). In general, practically all principles may be applied to the improvement of products or, more generally, of value proposition.

**Channels**

SCAMPER – Combine?

Channels can be combined and used together to reach customers in new ways. For example, Tchibo combined its traditional channels for reaching customers, i.e. brand stores, with an on-line store offering the same products \(^{221}\).

SCAMPER - Reverse?

Some package-delivery companies offer automated package pick-up locations, where the customers themselves can go to pick up their mail, i.e. the traditional roles have been reversed: the customer becomes active and the delivery service company becomes passive during the final stage of delivery.

TRIZ

Applying circularity in logistics may mean that there are no load-free routes (Principle 14. Spheroidal or curved). Applying modular designs (IKEA-style) means that methods of shipping very different products may be unified and simplified (Principle 5. Consolidation-Merging). Also, shipping and storage of pellets is much easier than of the powdered fertilizer (Principle 35. Change of parameters). Delivery


\(^{221}\) Ibidem.
of products to customers may be moved to virtual domain (e.g. as ebooks, software updates, and apps) (Principle 17. Another Dimension).

Customer segments

**SCAMPER - Substitute?**

When current customers do not show sufficient interest in a company’s products, the customer segment can be substituted. Assumptions about a product and its uses can be changed. For example, Segway²²² originally assumed that their product would revolutionize the way people move. However, its innovative solutions such as electric drive and control using gyroscope did not meet with interest from customers. The substitution of the target audience and offering the product to security companies and the police was successful and currently many shopping malls and exhibition halls are patrolled by people on Segways.

**TRIZ**

Conduct market research with attention to detail, since it will allow you to define your customer segments with precision; each of them should be homogeneous with respect to various criteria relevant to you e.g. age, gender, ethnicity, or musical taste (Principle 33. Homogeneity). Find heterogeneity (demographic sub-groups) in what was previously assumed to be a homogeneous group of customers, e.g. teenagers (Principle 1. Segmentation). Isolate customer segments with the use of invisible barriers, thus making them feel special and unique (separate web sites, separate stores) (Principle 30. Flexible shells and thin films). Look for a class of objects (e.g. customers or concepts) nested within a broader category and this forces us to define them more precisely (Principle 7. Nesting). Find mission statements about your organization that will resonate with specific customer segments (Principle 18. Mechanical Vibrations).

Customer relationships

**SCAMPER - Combine? Adapt? Put to another use?**

Customer relationships may be strengthened through multiplying the benefits delivered to customers. A strong message that the company cares for customers and that it will try to meet its needs and be available when convenient for them can work wonders. A club-cafeteria “Rodzinka” (Folks) from Nowy Sacz is a good example of such a company. This is a cozy and friendly place for both seniors and for parents with children where the owners combine professionalism with passion and commitment. They support comprehensive development of children aged 0-12 years through creative and constructive play and workshops under the supervision of specialists. A cafeteria is adapted to support the building of social bonds, assists in establishing contacts with peers, integrates generations and gives the parents a meeting place to exchange their parenting experiences. At the same time it helps the company to maintain and strengthen the relationships with clients.

**TRIZ**

Use „limited-time offers“ as a marketing tool (Principle 19. Periodic Action). Data gathering about customer behavior should be continuous, with the use of

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²²² K. Karliński, Odporny..., op. cit.
various IT tools (Principle 20. Continuity of useful action). Some business decisions that may lead to erosion of customer trust, such as mergers, should be carried out quickly (Principle 21. Skipping). Negative commentaries from customers may serve as valuable feedback (Principle 22. Blessing in disguise). Change sensitivity to customer evaluation results depending on the previous history of interactions with that customer (Principle 23. Feedback). Replace face-to-face interactions with video conferences (Principle 28. Substitute mechanical interaction).

**Key partners**

**SCAMPER - Substitute? Eliminate?**

Substituting key partners can lead to an improvement of the entire business model. The key questions here are whether someone else could do things better and even whether some partners are simply redundant. For instance, a consulting company could substitute cooperation with a partner in the field of information technology services by its own team of software developers. As a consequence, software development can further enhance the company’s value proposition and enrich its range of services.

**TRIZ**

Payoffs from interactions may be of „asymmetric“ nature, i.e. may involve not only money, but also prestige (Principle 4. Asymmetry). Before announcing to the business partners the necessary changes, educate them about new economic realities which necessitate lower profit margins from partnerships (Principle 9. Preliminary Counteraction). Publish clear rules of partnership, describing up front partners’ mutual obligations (Principle 10. Preliminary Action). Use mediators for solving company’s internal problems arising among employees (Principle 24. Intermediary). Partners‘ internal code names may refer to gold or silver, depending on their value for the company (Principle 32. Changing color or clarity).

**Key resources**

**SCAMPER - Substitute?**

Enhancing diversity in the employee group can be an effective way to introduce a new spirit. Heterogeneity in the team may have a positive impact on its creative potential: to build a creative team, its composition could be diversified and consist of people with a broad array of personalities and talents (even including employees not trained in a given area) which complement each other, leading to new opportunities.

**TRIZ**

Hire employees who have broad spectrum of skills (Principle 6. Universality). Restructure the organization: dissolve university departments and replace them with project-oriented teams (Principle 15. Dynamics). Use cheap offices, rented by the hour, as copies of permanent locations (Principle 26. Copying). Make „organizational“ holes in the „glass ceiling“ which prevents women from advancement in the corporate hierarchy (Principle 31. Porous materials). Recruit team members who have heterogeneous educational profiles and the profile of the entire team becomes a composite of various competencies (Principle 40. Composite materials).
**Key activities**

**SCAMPER - Combine?**

Apart from traditional activities a company could offer more to its customers by combining a product with a service. For example, a Polish brand Irena Eris, in addition to producing a wide range of cosmetics, offers its customers a network of spas that provide wellness services based on its own products.

**TRIZ**


**Cost structure**

**SCAMPER - Modify? Eliminate?**

One way to reduce costs is to replace traditional forms of employment with outsourcing. This is an attractive option for companies to not do everything by themselves and can expand the scope of business and at the same time reduce employment costs for the employer.

**TRIZ**


**Revenue streams**

**SCAMPER - Modify? Eliminate?**

Reducing prices or promotional pricing are potential ways to espouse to the philosophy of "less is more". In the long term this can lead to increased profits since the increased appeal of lower prices and resultant higher sales could more than compensate for the lower revenue per item. For example, a complex of geothermal pools in southern Poland attracts visitors by offering, in addition to traditional family discounts, free use of the swimming pools on selected days for every fifth visitor.

**TRIZ**

Customize the payment structure, so that it is addresses the needs of the clients (Principle 3. Local Quality). To stimulate sales of luxury goods, increase the prices instead of lowering them (Principle 13. Do it in reverse). Simplify the process of paying by accepting credit card transactions of low value without any authorization (Principle 16. Partial or Excessive Action). Prepare the company’s

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accounting system to transitions between „bull“ and „bear“ market periods when cash flow may fluctuate (Principle 36. Phase transitions).

9.4. Discussion

Briggs and Reinig 224 suggested that more emphasis should be placed on the quality of proposed solutions during the ideation phase, and not only on the number of generated ideas, as postulated by Osborn 225. Addressing this issue, Chulvi et al. 226 compared effectiveness of SCAMPER and TRIZ as idea-generating tools in an engineering area, using an experiment in which each method was used by seven teams. Novelty and utility of the proposed solutions were compared and the solutions generated by TRIZ were found to be more novel than solutions based on the SCAMPER, while both methods yielded solutions similar in their level of utility. Furthermore, Ogot and Okudan 227 concluded that various learning styles of students of engineering were more compatible with TRIZ procedures than offering them only brainstorming as a creative thinking method.

However, it was not our intention to compare in this chapter the levels of innovativeness of ideas generated by either method, but only to encourage practitioners to open their minds to heuristic methods in general. Especially difficult for traditional engineers and managers is to accept a certain level of metaphorical thinking inherent to both of these methods. As the examples given in this chapter show, even the algorithmic approach of Altshuller may require some imaginative improvisation to adapt engineering-derived principles of invention to the areas of business and management.

Finally, the degree to which either of the described methods may be found useful to entrepreneurs or managers seeking the way to effectively re-invent the business models of their companies depends on several factors. It is important to have in mind that heuristic methods cannot operate in organizational vacuum: there must first exist in the organization an environment conducive to innovativeness 228,229. It should have a constellation of features of organizational culture of which probably the most important is a lack of stiff and hierarchical relationships among employees. Once such environment is in place, innovative thinking flows easily, improving the chances of the organization to succeed.

225 A.F.Osborn, Applied... op. cit.
228 M. Jasieński, M. Rzeźnik, Innovatics... op. cit.
Acknowledgements

At different stages when writing this chapter we were supported by the project “The culture of innovation” within the “Kreator innowacyjności” program (funded in part by the Polish National Center for Research and Development, NCBiR) and by the project “Reinvent: Transforming SMEs in creative sectors through business model innovation” (number 324448), funded by the Marie Curie Industry-Academia Partnerships and Pathways Programme (IAPP).
CHAPTER X

Management strategy within clusters in changing environment

Ewa Kowalska-Napora

In literature of the subject, we can find many characteristics of the definition of strategy and management, and for quite a long time it has been easier and easier to find a full identification of cluster structures. Doubts in understanding the message appear in the form of a miscomprehension on the level of management strategy, strategic management or long-range management, for it is difficult to understand the idea of management if it is made shallow, short-term and short-range.

Whereas we may reduce the understanding of management to a small cognitive perspective, in such case we can talk about leading rather than managing. Management means using the available supplies rationally in such a way to efficiently create added value. The aggregated form of this value and the form of supplies allocation is in a way a different subject of discussion. It is a completely different issue to understand this added value, which actually does not necessarily have to be measurable and calculable and does not need to apply only to material and financial value.

Objects and figures only appear to be describable, the continuum of changes dishes the morale of a statics explorer.

PhD., Opole University of Technology, Poland


The aim of this chapter is to research the measurability of added value creation possibilities in cluster structures. Hence, the research thesis is as follows: proper strategic management creates added value in cluster structures and there is a proof confirming the above.

10.1. Product pushing-out in cluster structures

Clusters – a cluster is a geographically distinct area where, through concentration, chain configuration based on co-opetition occurs. Moving on from this, according to M.E. Porter’s interpretation, a cluster is a geographic concentration of interconnected companies which create vertical and horizontal value in the value chain through “co-opetition”\textsuperscript{233}. Some of the most important attributes of clusters could be\textsuperscript{234}:

- a close geographical proximity of the locations; linkages between the cluster members; a sufficient number of cooperative concentrations; a high intensity of interactions in a network; similar objective or subjective characteristics of concentration activities in a given area; shared resources at the disposal of cooperation partners; external authorities’ acceptance and support for the value created within the cluster.

A company’s economic efficiency can be understood as a phenomenon expressed through respective relations occurring between given categories of expenditure and effects\textsuperscript{235}. Thereby, we could define logistics as providing the availability of the right product in the right amount, in the right condition, at the right place and time, to the right customer at the right cost\textsuperscript{236}.

The Council of Logistics Management (CLM) defines logistics in this aspect as “the process of planning, implementing, and controlling the flow of goods and services in order to satisfy the customer’s needs”.\textsuperscript{237} You can also encounter the concept of customer service as a philosophy – in this approach, customer service is treated as a management philosophy in accordance with the company objectives. The company is trying to fulfill the contractor’s order in a professional manner. It is emphasized in professional literature that such concept is related to the marketing notion of service. It has a large impact on the concept of logistic management\textsuperscript{238}.

The organisational creation of processes in a company, their coordination, implementation and control are essential in operation planning. Some of the basic crite-
ria of control are the financial potential or solvency and the economic efficiency of the actions taken\(^{239}\).

The operation level is subordinate to strategic logistics and marketing planning and it encompasses the following four phases\(^{240}\):

- Defining the company’s value system and vision.
- Strategic positioning of the company on the market.
- Specification of the expected strategic position – structures creation.
- Achieving the expected strategic position – operational and tactical actions.

In the contemporary understanding, the aim of logistic marketing is an increase of the organisation’s competitiveness and efficiency through\(^ {241}\):

- proper management of storage and flow of goods (materials, raw materials, products, intermediate products and final services) from the supplier to the end recipient (customer), which should in turn cause
- cost reduction, time cycles reduction and service level maximisation, and therefore\(^ {242}\)
- creation of managerial efficiency within a chain\(^ {243}\);
- creation of value for the customer, which means determining the economic and qualitative parities of the product created within a chain with the use of marketing tools.

And indeed, the above statement is nothing insightful, both in the marketing and logistic aspect\(^ {244}\). However, the new demagogy of quality, expressed by the aspect of the product in the form of a service, has a different meaning in an area of interconnected managerial levels – and it achieves a synergy effect in the marketing and logistics value creation for the customer\(^ {245}\).


In the category of marketing analyses, we can distil information from data such as:

- internal data, concerning, among other things: sales, profitability of products and product groups, marketing expenses, some information regarding the customers, e.g. their number, distribution and supplies;
- data derived from market reports and observation – such as: value of a given market, the biggest competitor’s sales, marketing expenses in the sector, price monitoring, closer information on the form and structure of distribution used by the main competitors;
- data obtained from marketing researches – the results of brand awareness, advertisement efficiency and media range researches, customer satisfaction surveys and intention-to-buy-scale estimation.

Activity within the area of production logistics needs to be justified and conditioned by the product’s disposal after it is produced, which is obvious. It is, however, less obvious how to do this – how to estimate and plan this.

The measure of efficiency on each of the levels of value creation in a supply chain is made possible by the company’s implementation of activity cost ABC – which according to R.S. Kaplan and R. Cooper’s assumptions enables us to:

- design both products and services which would on one hand fulfill the customers’ expectations and on the other hand provide production and sales profits;
- signal the need of constant or interim (in the case of a technology change) quality, effectiveness or action speed improvement;
- encourage the employees to improve their level of qualification;
- manage decisions regarding production structure and investment;
- choose the suppliers;
- negotiate the price, properties, quality and delivery method of products and services with the customers;
- create efficient and productive distribution networks, appropriate for specific market sectors and groups of customers.

10.2. The bullwhip effect and channel clogging

There are three choice components important for the creation of “co-operation”:

- the choice of a partner;

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As it was noticed by E. Gołembska and M. Szuster, there are two visible company development trends in modern economy:

- supply chain driven by demand;
- procurement of raw materials, intermediate products and often even final products in low-cost countries.

Together, these trends create a stream in the distribution channel area and encompass elements such as: the relocation of products, information, capital, responsibility and permission, marketing elements, risk, relations within the network and contracts.

The above evaluates the product and the possibilities of its distribution in the strategic aspect (figure 12).

![Purchasing Portfolio Management](image)

**Figure 12. Kraljic Model**


The interpretation of the Kraljic Model may be analysed through the supply channel and a possible appearance of a bullwhip effect (figure 13), meaning a supply redundancy in the preceding chain links.

Incorrect demand estimation, overproduction and supply redundancy may lead to a clog in the distribution channel, especially in intermediate channels in selected co-operation structures.

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Regardless of the type of a co-opetition structure and its fragmentation, the principal issue remains the possibility of demand verification based on product LCA and its nature, with the next verification elements being barriers to entry and the channel characteristics. In the last case the principal issue is its length, as well as the
transfer of the product effect, understood also via the analysis of the iceberg theory.\textsuperscript{252}

While trying to unify the parametrisation model of the exogenous factors changes on the chain’s reactions, we can determine the spheres of topological impact on these fluctuations (1):

$$\exp L (x,y,z)=\logit \text{ demand } \partial$$

(1)

L – channel length or the number of members
X,y,z – selected estimation variables, e.g. batch size, product range diversity, supply frequency
\(\partial\) – ambivalence of the estimated function

The question is, does such a formula exist and can it be validated? Definitely not; it is only possible to try to construct a pattern and get closer to selecting a solution with the lowest number of standard aberrations. Yet, can we afford the lack of an alternative solution in strategic management?

10.3. Conclusion

The discussion above is undoubtedly rather complex, not to say strange. It is difficult to understand, let alone to write. The author has been trying to find new solutions for selecting measurement options of effective management in cluster structures. The main area of analysis has become the supply chain with a special emphasis on the distribution channel. Why specifically so? In modern economy, the weight lies with the supply and fixed cost. Lack of degrees of freedom impacts the advantage of demand over supply. It is easy to buy but harder to maintain, easy to produce but harder to distribute and sell. Has this chapter reflected the essence of the issue outlined at the beginning of the introduction? Surely the design of this chapter enforces an insightful autosuggestion of the person analysing its content – but can wisdom be described and evaluated? One can only try and search for the answer.

CHAPTER XI

The nature of stakeholders in changing environment of the organizations

Wioletta Wereda

Describing changing environment of the organization it can be referred as the amount of change and complexity in the environment of the public or private unit. The greater the amount of change in environmental factors, such as technology, social aspects and governmental regulations, and/or the greater the number of environmental factors that must be considered, the higher the level of environmental turbulence. For many reasons environmental volatility and instability have been increasing for the past 100 years, and lately it has been very intensive, especially when the economic crisis has appeared in 2008. Each organization itself, in the contemporary times, should be thought of as a grouping of stakeholders and the purpose of the unit should be to manage their interests, needs and viewpoints. Due to this fact both top parties as stakeholders and managers should collaborate together to create more stable relations and cope with environmental changes.

In this chapter it was made an attempt to identify the nature of stakeholders in changing environment of the organizations from the theoretical perspective.

11.1. The stakeholders concept – general description

Theory has been very important in the stakeholder field. Different literatures adopting different definitions have shown cross-discipline research and debate about stakeholders. Chronologically the theme was pointed out in 1963 by Stanford Research Institute and is being continued.

253 PhD., Siedlce University of Natural Sciences and Humanities
According to the classic definition of a “stakeholder” by R. E. Freeman is any group or individual who can affect or is affected by the achievements of the organization’s objectives. What is more, R. E. Freeman’s hub-and-spoke depiction of the firm and its stakeholders was pioneering, by suggesting that managers take the expectations and needs of different groups into account in their strategizing in addition to the shareholders, and manage these relationships accordingly. The scholar uses also a different definition of stakeholders as “those groups who are vital to the survival and success of the corporation” and in later work he presents two principles:

1. The stakeholders-enabling principle. Corporations shall be managed in the interests of stakeholders.
2. The principle of director responsibility. Directors of the corporations shall have a duty of care to use reasonable judgment to define and direct the affairs of the corporation in accordance with the stakeholder-enabling principle.

There are more and more definitions within last five decades but one is worth of mentioning. J. S. Frooman’s study addressed the stakeholder influence on a firm’s strategy somewhat differently by adopting the stakeholders’ rather than the managers’ perspective. That is why, J. S. Frooman proposed that stakeholders may employ strategies based on their access to resources, and may either directly or indirectly attempt to use these resources to influence the firm’s behavior through coalitions with other stakeholders. By flipping sides on the stakeholder–firm relationship, J. S. Frooman emphasized the relevance of studying the stakeholders’ viewpoint in the stakeholder identification process.

The different stakeholder definitions are classified on the basis of their strategic and normative dimensions by A.M. Friedman and S. Miles:

Along the strategic dimension, definitions differ according to a number of factors. We can distinguish definitions with a very high strategic implication that limit stakeholders to those that are critical or affect the very survival of existence of the organization. At the other end are definitions with a very high strategic implication that involve legal or institutional conditions that may force organizations to deal with stakeholders, such as through contracts, explicit or implicit. In the middle are definitions that define stakeholders in terms of their power, influence or ability to affect the organization (figure 15).

From the polish perspective of studies the concept of stakeholders, that is those internal and external factors which in any way participate in the functioning of the organization is known in general management theory.

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257 Ibidem.
From the polish perspective of studies the concept of stakeholders, that is those internal and external factors which in any way participate in the functioning of the organization is known in general management theory.

Strategic supporters of the organization (stakeholders) are a group of institutions and organizations that meet two conditions: first, they have their "stake" in the operation of the company, in its decisions and their outcomes, secondly, they are able to exert effective pressure on organization.\(^{261}\)

### 11.2. Stakeholders – divisions, goals and strategies in changing environments

In discussing the management process for institutions—including large business corporations, small enterprises, government agencies, and non-profit organizations - the concept of stakeholders has been broadened to include everyone with an interest (or "stake") in what the entity does. This includes not only its vendors, employees, and customers, but even members of a community where its offices or factory may affect the local economy or environment. In this context, "stakeholder" includes not only the directors or trustees on its governing board (who are stakeholders in the traditional sense of the word) but also all persons who "paid in" the figurative stake and the persons to whom it may be "paid out" (in the sense of a "payoff" in game theory, meaning the outcome of the transaction). Below in the table 17 is shown the division of stakeholders in the main and broaden scale.

The other division of stakeholders, which is also in common to the table 1, is shown below in figure 16. The company is inside the rectangle of two other rectangles but it is strictly connected.

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Table 17. Division of stakeholders in the wider and more detailed scale

<table>
<thead>
<tr>
<th>Main stakeholders</th>
<th>More detailed stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Shareholders</td>
<td>✓ Labor unions</td>
</tr>
<tr>
<td>✓ Employees</td>
<td>✓ Government regulatory agencies</td>
</tr>
<tr>
<td>✓ Management</td>
<td>✓ Government legislative bodies</td>
</tr>
<tr>
<td>✓ Customers</td>
<td>✓ Government tax-collecting agencies</td>
</tr>
<tr>
<td>✓ Competitors</td>
<td>✓ Industry trade groups</td>
</tr>
<tr>
<td>✓ Creditors (i.e. Banks)</td>
<td>✓ Professional associations</td>
</tr>
<tr>
<td>✓ Suppliers</td>
<td>✓ NGOs and other advocacy groups</td>
</tr>
<tr>
<td>✓ Local Communities</td>
<td>✓ Prospective employees</td>
</tr>
<tr>
<td>✓ Others</td>
<td>✓ Prospective customers</td>
</tr>
<tr>
<td>✓ Local communities</td>
<td>✓ National communities</td>
</tr>
<tr>
<td>✓ National communities</td>
<td>✓ Public at Large (Global Community)</td>
</tr>
<tr>
<td>✓ Schools and universities</td>
<td></td>
</tr>
<tr>
<td>✓ Future generations</td>
<td>✓ Analysts and Media</td>
</tr>
<tr>
<td>✓ Alumni (Ex-employees)</td>
<td>✓ NGOs and other advocacy groups</td>
</tr>
<tr>
<td>✓ Research centers</td>
<td>✓ Prospective employees</td>
</tr>
<tr>
<td>✓ Each Person</td>
<td>✓ National communities</td>
</tr>
<tr>
<td>✓ Others</td>
<td>✓ Public at Large (Global Community)</td>
</tr>
</tbody>
</table>


![Figure 16. Typical stakeholders of the company](image)

Source: Business Stakeholders: Internal and External, Article on-line, www.boundless.com, [dated on 08.05.2014].

Continuing description internal stakeholders are groups within a business or people who work directly within the business, such as employees, owners and investors. That is why, employees want to earn high wages and keep their jobs. Owners are interested in maximizing the profit the business makes. Investors are concerned about earning income from their investment. External stakeholders are groups outside a business or people who are not directly working within the business but are affected in some way from the decisions of the business, such as customers, suppliers, creditors, community, trade unions, and the government. The government wants
the business to pay taxes, employ more people, follow laws, and truthfully report its financial conditions. Customers want the business to produce quality products at reasonable prices. Suppliers want the business to continue to buy their products. Creditors want to be repaid on time and in full. The community has a stake in the business as employers of local people.

The other aspect of defining stakeholders are different categories. The main analytical categories that are used, analyzing stakeholders, are: the thrust (power), legitimacy and urgency of requests\textsuperscript{262}.

- Each fan has a different power and thus has a different thrust force, which the organization must evaluate before it implements the final decisions.
- Validation of the impact of stakeholders - some of them, such as shareholders, tax offices, government agencies, have a natural, legal validation of their actions. (...) The case is more complicated in the case of strategic supporters in the global environment. Firstly, it’s harder they define them, because many of them are simply amorphic fans. As long as someone does not hold consumers (disabled, women, environmentalists, students, etc.) in a social movement, they exist only as a potential and poorly validated threat. Secondly, it’s direct contacts with the fans in close environment provide constant feedback about their needs and expectations and directions of change.
- The urgency of stakeholder claims - and thus the necessary speed of response to these requests. It is difficult to satisfy the demands of many stakeholders at once, hence it is natural to build a queue and prioritize.

Next division which can be seen in figure 17 describes stakeholders as four “cross groups” like social, outsocial, basic and secondary.

Each stakeholder has specific expectations and claims against the company\textsuperscript{263}:

- Customers expect high quality products and services at a low price and deferred payment;
- Suppliers - high prices for their goods and services, as soon as possible payment and long-term cooperation;
- Employees - high wages, long-term employment contracts, social services, promotion opportunities and boost of skills;
- Board and Management - high wages and bonuses, the implementation of career;
- Government - paying taxes;
- Local communities - participation in improving the quality of life;
- Shareholders - maximization of profits from invested capital.


Figure 17. Stakeholders groups

Defining stakeholders goals it is also important to analyse their behaviour and strategies. M. Porter ignored, in his five forces analysis model, the influence of stakeholders on the formulation of strategy, advocating that industry structure alone determines appropriate strategy. According to R. E. Freeman the success of particular strategic programmes can be affected for change and its relative power. This should involve an investigation of past and future stakeholders actions that could enhance or hinder corporate goals. If a manager explores all possible scenarios, strategic surprise is limited and the downside risk associated with dealing with a particular stakeholder is covered. He recommends that managers attempt to construct logical explanations of why a stakeholder could act in the manner observed. The overall long-term objectives of each group should be examined as well as the objectives advanced on specific issues.²⁶⁴

In recent years, markets seem to have evolved from somewhat predictable entities to more turbulent settings. This increased complexity seems to be a consequence of multilevel changes and turbulent times. It is very important to define and differentiate changing and turbulent environments. There can be considered two issues in the functioning of organizations: turbulent environments and environment turbulence. From the general opinion these two terms are interpenetrating.²⁶⁵

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According to the web dictionaries “environmental turbulence refers to the amount of change and complexity in the environment of a company. The greater the amount of change in environmental factors, such as technology and governmental regulations, and/or the greater the number of environmental factors that must be considered, the higher the level of environmental turbulence. For many reasons environmental volatility and instability have been increasing for the past 100 years”266.

For instance, I. Ansoff introduces the concept of environmental turbulence to describe the different environments. He classifies the different environments in which organizations operate into five distinct turbulence levels. At one extreme is the stable, placid environment where nothing changes; at the other is the creative environment, characterized by major technological breakthrough, and social political upheavals.

Describing the first level so called the repetitive environment - this is the placid environment where nothing ever changes. In a free market economy, very few organizations are operating in this environment except for some not-for-profit organizations. The museum is an example of an organization in this environment.

Second level is the expanding environment - slow incremental - usually found in the segment of the economy which is growing rapidly. In this environment, demand usually exceeds supply, and customers’ needs are basic and undifferentiated.

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266 www.planningskills.com, glossary on line, [dated on 20.07.2011].
Price is the main determinant in the purchase decision and production efficiency is the key success factor.

Thirdly is the changing environment - fast incremental. In this environment, customers’ demands are differentiated by different buying power and product preferences. The key success factor shifts from production efficiency to marketing effectiveness.

Fourthly is the discontinuous environment – predictable. With the emergence of the global market place, influx of foreign competitors, technology substitution, rapid shifts in customers’ needs, wants and attitudes, and governmental and social changes, the majority of companies today are operating in this complex and discontinuous environment. In this environment, changes are taking place at a rate faster than the company’s ability to respond and the future is difficult to predict. The complexity and discontinuity of the environment also make it impossible for companies to succeed simply by optimizing on a single success factor as in levels 2 and 3. Production efficiency, marketing effectiveness and product responsiveness are all important determinants of the firm’s success, but their relative importance are constantly adjusted by management in response to changes in the marketplace.

The fifth environment can be described as the surprising environment – unpredictable. In this environment, technological leadership is the key success factor. New technologies and new industries develop rapidly and customers are prepared to pay for the most advanced technology. It is in this environment that Steven Job created the personal computer.

According to I. Ansoff’s concept in the first three levels of environmental turbulence, the future can be extrapolated from the past and there are few surprises. Rapid corporate growth usually leads to high profitability. The company’s strengths and successful strategies in the past are likely to remain relevant in the future.

In the environments of turbulence levels 4 and 5, profits do not follow growth, extrapolation of the past into the future is dangerous, surprises are frequent, historical strengths can become weaknesses and what were successful strategies in the past may not be successful in the future.267

For these reasons, it is very important for each organizations to know how to operate in different environments - or to be aggressive or responsive to some turbulent changes in the market (figure 19).

The environment of firms is represented by stakeholder networks where firms and stakeholders are interlinked in value creation. In contrast to this, in economic theory but also in strategy theory, competition is the focus and, therefore, the environment of a firm is represented by anonymous markets.268

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Figure 19. Matching turbulence – aggressiveness – responsiveness
Source: S. Seng Pun, MANAGING IN TURBULENT ENVIRONMENTS. Igor Ansoff’s Strategic Success Model [in]“FEATURE – Management News” issued by Singapore Institute of Management, pdf format [dated on 20.07.2011].

11.3. Co-opetition among stakeholders in turbulent times

A. M. Brandenburger and B.J. Nalebuff are considered precursors of introduction of the co-opetition notion in economy and management. In their publication entitled "Co-opetition" the authors pointed to the necessity to develop co-opetition relationships and to use them in economies. They found that until then business strategies (games) had accounted for only the following participants: a company, suppliers, competitors and customers. However, based on their considerations, they added another link – an economic entity, which becomes a kind of complementor. Definitely in a different way one can and should shape their strategy if they can occur at five, and not just four positions. Thus, this is another important link which in situation of repeated interactions is able to both compete and be willing to cooperate, and such combined efforts should be profitable to all participants. It should be noted, however, that it is necessary to define such co-opetition areas in which this duality of actions will create added value. Co-opetition becomes thus realignment of the logistics quintessence, which is the art of conflict management, becoming a staple for two opposite areas. The traditionally perceived market game is losing its importance because it is no longer an increased number of competitors in the market that is expected to contribute to lowering prices, improving quality, shortening the time of order execution, and deployment of innovative solutions, but more frequent attempts to cooperate by entities which used to be competitors.

According to K. E. Walley, in case of co-opetition one can get a new situation: a win-win-win, where the consumer is the third winner. He proposes three types of co-opetition\textsuperscript{270}:

- the dominance of cooperation: when there is more cooperation between two entities than competition,
- equal cooperation: in the case of such co-opetition there is the same level of cooperation and competition within the existing relationship,
- domination of competition: where there is more cooperation than competition.

It is assumed, however, that competition is a game that is not aimed at elimination of the rest, because cooperation can bring much better results than destructive competition among each others.

Co-opetition, and cooperation within co-opetition, can be regarded as one of competitive activities bringing benefits to all participants. It is thus conceived as a strategy for joint value generation, competition in the distribution of that value in a partial convergence of goals and a varied structure of a positive-sum game\textsuperscript{271}.

According to S. Sachs and E. Rühli in evolutionary theory it is a central theme that evolution can be enhanced as much by cooperation as by competition. While cooperation often enlarges value creation, competition in general understanding of the stakeholder paradigm is understood as benchmarking. The environment is represented by stakeholder networks. With respect to these environmental conditions, they make the assumption that a balance between cooperation and competition enhances value creation between organizations and the stakeholders\textsuperscript{272}.

Stakeholders always are important because they create value for each organizations in stable or turbulent times. They will be cooperating and competing altogether but the main success is to reach goals for both parties.

\section*{11.4. Conclusions and tips for the practise}

Summing up, it is very important to respect mutual goals and accept risk possibilities because many stakeholders have developed organizational capabilities in recent years, and consequently they can contribute to value creation in a stronger and more differentiated way than before.

In figure 20 it is shown the perception of firms and stakeholders. This line of interactions and especially the different perceptions of actors is a key assumption in our understanding of the stakeholder paradigm. Respect for the similarities and differences of the firm and the stakeholder’s perception in the mutual value creation also implies that no one, neither the firm nor any other stakeholder, is always in a position to dominate the value creation process. Furthermore, firms and stakehold-

\textsuperscript{270} K.E. Walley, \textit{Coopetition: An Introduction to the Subject and an Agenda for Reasearch. International Studies of Management and Organization}, Special Issue on Coopetition 37, Newport 2007, p. 16.
ers have multiple, sometimes conflicting, roles that can change over time in the value creation process that also impact their perceptions.\footnote{Ibidem, p. 61.}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure20.png}
\caption{Perceptions of firms and stakeholders}
\textit{Source: S. Sachs, E. Rühli, Stakeholders matter..., op. cit., p. 62.}
\end{figure}

In conditions of turbulent environment all organizations must cope with new threats and find new opportunities connected with permanent changes. It should be pointed out that among others also territorial units must be prepared for more and more demanding customers/individuals and institutional entities and other stakeholders. It causes also in modification the idea of sources of value creation for different users.\footnote{W. Wereda, Value creation and stakeholders In the model of the Intelligent municipality – theoretical perspective, [in:] B. Kożuch (ed.), Modele biznesowe, „Przedsiębiorczość i Zarządzanie”, Tom XIV, zeszyt 13, część 2, Łódź 2013, p. 256.}
CHAPTER XII

Project as organization: role of project management structures within institutions of higher education in changing environment

Joanna Świętoniowska
Anna Warzybok

Institutions of higher education are not considered as pure business organization, however, the challenges they face in today’s instable environment (demographics trends, growing competition among universities etc.) force them to introduce tools and procedures of project management, especially that the sources for projects funding vary from structural funds, research grants, commercial orders to own funds.

Nowadays, repetitive, standardized processes are replaced by complex projects (research, educational, infrastructural, IT, organizational or even commercial for the business sector). Projects are defined as temporary organizations that are created to develop a unique product or service usually in a short period of time. That is why each project requires proper skills and responsibilities to finish it effectively. The project management team structure should be built in accordance with skills, experience and authority required by the type of implemented project. Establishing an effective project management team structure can facilitate the implementation of project activities in accordance with business case, that is essential to achieve project success. Though, on the first glance, the institutions of higher education differ from business units, in fact the approach to projects management in those institutions needs to be implemented in a similar way to business organizations. The project

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management team structure may be adopted to every size and kind of project at every organization.

12.1. Three different perspectives

There is no consensus in literature which project management structure is better to adopt. There is no one structure which suits to all different projects implemented by organizations. It all depends on the nature of the project, its complexity and organizational context. However, it is widely proved that the way the project management team is structured can affect the project outcomes and can play a major role in how successful the project is.

There are different methodologies and standards of effective project management, for example the ones developed by: Project Management Institute (PMI, described in A Guide to the Project Management Body of Knowledge PMBOK), International Project Management Association (IPMA, described in the IPMA Competence Baseline) and UK Government's Cabinet Office and APMG Group Ltd (PRINCE2). Traditional structured approaches mentioned above are often viewed as competing bi-polar choices to, so called, agile methods (a new generation of information systems (IS)), which have emerged in response to the rapid changes in users’ requirements. These methods of project management are characterized by frequent upgrades with a small number of new features released periodically and are not the subject of this chapter.

According to PRINCE2, each project must have a defined organizational structure which consists of different bodies involved in a decision making process and project activities implementation. The essential matter is to ensure that among project management team there are bodies who represents the perspective of three most important stakeholders: business, user and suppliers. It defines roles with a set of their responsibilities with regard to different levels of management within the team structure of project management (Figure 21).

The first level of management is directing with responsibilities of a project board (or sometimes named as steering committee). Project boards are accountable for an overall project success. Their other duties are as follow: managing the planning and assessment of project, providing guidance and direction to team members,

282 In the group of agile methods we can find: eXtreme Programming, Scrum, Crystal and Adaptive Software Development.
approving all plans, approving completion of each project stage, ensuring resources and communicating with stakeholders.

Figure 21. Project management team structure
Source: developed for this study, based on A. Murray, Managing Successful Project with Prince 2, TSO, 2009.

Fulfilling all responsibilities is possible by incorporating into the structure of a project board the point of view of a sponsor, user and supplier. Sponsor (also named as Executive) represents the business perspective, is the key person, a decision maker within a project team structure. Sponsor has to ensure that the project gives value of the money, ensuring cost – conscious approach. Other responsibilities are as follow:
- designing and appointing the project team,
- focusing on project objectives during the project life cycle,
- developing and re-affirmation of project business case.

User represents the interest of both those who will use the project products and those who will support or maintain that products and is responsible for specifying user’s needs with regard to the project outcomes and monitoring if the project results meet those needs in terms of quality and functionality. The role could be split between different users to cover different interests with regard to project outcomes.

Supplier represents the body designing, developing, implementing and maintaining project products. The main responsibility is to ensure that the proposal for designing and implementing a project product is realistic and feasible. Supplier is responsible for the quality of project products as well as for their integration.

The managing level refers to day to day project management within the three constraints: time, cost and quality. The main role at this level is a project manager who has the authority to run the project according to the project procedures stated at the starting phases. It manages the project support and the team managers. The main fields of project manager’s interest are: management of change, team, cost, commu-
nication, suppliers, quality, integration and risk, monitoring project progress, monitoring stakeholders needs etc.

The role of Project Assurance is to provide an independent view on project progress. It checks business assurance (costs and benefits), user assurance (meeting stakeholders needs), technical assurance (suitability of solutions). The role of Project Support is performing an administrative work: updating files, arranging meetings, updating plans, keeping everyone informed etc. Projects are implemented in changing environment that is why there is often a need to design an independent body such as Change Authority. The responsibility of Project Body is to agree to each change before its implementation but the request for changing can be handled by the Change Authority or Project Manager.

Team Manager represents the level of management which is responsible for delivering project products. Team Manager is responsible for monitoring and tracking project products to their required quality standards and within agreed time and costs. In case of projects where there is no need to establish separate project teams and Team Managers, the Project Manager will be responsible for managing work directly with the team members.

Unlike the Prince2 methodology, both PMBoK and NCB do not give a clear solution of how the project management team should be built. The reason is that Prince2 is a methodology with a clear process, steps and templates, while PMBoK and NCB are a collection of recommendations and best practices, consisting of tools and techniques of project management.

PMBoK states, that the project management team must identify both internal and external stakeholders (persons or organizations, who are actively involved in the project or whose interests may be affected by the project) in order to determine the project requirements and expectations of all parties involved. Main stakeholders are:

- customers/users – people or organizations that will use the project’s services or results (might be both internal and external to the performing organization),
- sponsor – a person or group that provides the financial resources for the project. When the project is first conceived, the sponsor champions it – including serving as a spokesperson to higher levels of management to gather support throughout the organization and promote the benefits that the project will bring. For issues that are beyond the control of the project manager, the sponsor serves as an escalation path,
- portfolio managers/portfolio review board – responsible for the high-level governance of a collection of projects or programs. Usually made up of the organization’s executives,
- project management office – an organizational body or entity assigned various responsibilities – ranging from providing project management support functions to actually being responsible for the direct management of a project,

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– project managers – assigned to achieve the projects objectives,
– project team – comprised of the project manager, project management team, and other team members who carry out the work but who are not necessarily involved with management of the project,
– functional managers – play a management role within an administrative or functional area of the business, such as human resources, finance, accounting or procurement,
– operations management – have a management role in a core business area, such as research and development, design, manufacturing, provision, testing or maintenance,
– sellers/business partners – external companies such as vendors, suppliers or contractors.

The relationship between the project, the project team and other common stakeholders is shown in Figure 22.

![Figure 22. The Relationship Between Stakeholders and the Project](image)


IPMA in NCB states that the organization of a project/program/portfolio should reflect the relevant interested parties in its management as well as in its execution and control. In all cases, there should be three different roles defined: the owner/sponsor who is responsible for the business case, the supplier(s) who has/have to take care of the resource requirements, including provision of necessary skills and the user(s) who has/have to work with the results and deliver the benefits. In several roles there can be more than one person representing different interested parties. The role of the owner/sponsor, however, should be assigned to one person.287

As shown above, there is no significant difference between Prince2, PMI and IMPA approach to the project management structure. The difference is that PMI

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does not constitute the separate management body (as project board in Prince2) but orders the project manager to manage all stakeholders (including users and suppliers, which in Prince 2 are including/represented in project board).

12.2. Types of projects at institutions of higher education

There is no (and cannot be) single uniform classification of projects. Projects are differentiated according to the industry (e.g. administration, services, construction, IT, chemistry), size (depending on the total budget), risk (high, medium, small), duration (short, medium and long-term), level of new technology (high, medium, small), by organizational structure or by the functional relationships involved\(^{288}\). The problem with single criteria is that all project features mentioned above vary from organization to organization – a project of 5 months’ duration might be classified as a short project for an administration, while for a small company as a long term one. Therefore project types must be suitable for an organization and provide clear criteria to clearly classify the project.

Crawford et al. at their work have suggested many ways of categorizing projects. They have identified a lot of attributes of projects that could be used as criteria to categorize projects such as: application area or product, strategic importance, scope, complexity, ownership, customer, stage of life-cycle etc.\(^{289}\)

Based on the authors experience in the Project Management Office at the institution of higher education and conducted researches covering about 50 projects, the categories of projects have been limited to five, which are mostly used by institutions of higher education. For the purpose of this chapter we propose the classification based on the product they produce. This approach is a consequence of impossibility to include all attributes proposed by Crawford et al. All the following types of projects could be implemented as commercial ones (typically in a business sector) or as non-profit ones (such as financed by structural funds, ministries etc.).

Classification based on project outcomes:

- research and development (R&D) – projects aimed at discovering and creating new knowledge about scientific and technological topics for the purpose of uncovering and enabling development of valuable new products, processes, services, etc.,
- IT (information technology) – projects that focus on development, installation, and implementation of computer systems and applications,
- educational – projects aimed at training, teaching and improving skills,
- infrastructural (also named as investment project) – usually long-term projects, aimed at building or improving some infrastructure (e.g. buildings),


– organizational – projects aimed to change existing processes and procedures or implement new ones in the organization.

Table 18. The typology of projects implemented by the institution of higher education

<table>
<thead>
<tr>
<th>TYPOLOGY</th>
<th>COMMERCIAL</th>
<th>NON-PROFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D project</td>
<td>* external order</td>
<td>* own research</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* external grants</td>
</tr>
<tr>
<td>IT project</td>
<td>* external order</td>
<td>* development of its own infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* external grants</td>
</tr>
<tr>
<td>Educational project</td>
<td>* trainings</td>
<td>* teaching</td>
</tr>
<tr>
<td></td>
<td>* postgraduate studies</td>
<td>* external grants</td>
</tr>
<tr>
<td>Infrastructural project</td>
<td>* typically do not occur as a commercial project</td>
<td>* capacity building</td>
</tr>
<tr>
<td>Organizational project</td>
<td>* external order</td>
<td>* internal process improvements</td>
</tr>
<tr>
<td></td>
<td>* consulting</td>
<td></td>
</tr>
</tbody>
</table>

Source: developed for this study

Above mentioned types of projects implemented by the institutions of higher education could be divided into two separate groups: strategic ones and non-strategic ones. The authors established the following criteria to define the strategic project:

– projects implemented at the highest level in organizational structure (i.e. implemented at any organizational level that is higher than a faculty),
– projects involving more than two different organizational units,
– projects of high value for the organisation (in financial terms: with budget exceeding an agreed % of institution’s turnover; or because of its importance: projects important from the strategic point of view).

For the purpose of this chapter, the authors focus on strategic projects that are classified as such in terms of their value to the institution. Comparing to non-strategic projects the group of strategic ones focuses more on the organizational aspects such as building effective project management team. Moreover, as the research conducted by the authors has shown, the team members in strategic projects expect a formal structure and perceive project goals as more likely to provide added value to the organization.

12.3. Organizational structure at institutions of higher education

Despite the fact that higher education institutions differ from each other because of their profile (universities of technology and universities) and types of founders (private or public), all are run in accordance with the same legal acts and traditional customs and in the same instable environment. Each has different statute which regulates, among others, their authorities, departments and units, but because of the nature of the institutions of higher education, all organizational charts are very similar. For the purpose of this study authors present the case study for the non-public university – University of Information Technology and Management in
Rzeszow (UITM). The university chosen is considered by authors as a good representation of the typical non-public institution of higher institutions because UITM:

- is one of the biggest private universities in Poland (in terms of the number of students),
- has its own infrastructure,
- consist of a relatively high number of diversified faculties,
- has a typical leadership model characterized by the strong power and the influence of the university’s President,
- acts in accordance with the Public Finance Act, which implies that economic activities can be run only by dedicated organizational units.

The authorities of the institutions of higher education are:

- Senate (a body consisting mainly of President, Vice-Presidents, Deans and representatives of the university),
- President – university is presided over by its President who holds the highest office at the University,
- faculties as the main organizational units, with its head – Deans,
- other internal units (such as institutes, chairs, departments, other units which conduct research or educational work, auxiliary units).
Figure 23. A typical organizational chart of institution of higher education

Source: developed for this study
12.4. Proposition of projects management structures vs. types of projects

Different types of projects require appropriate project management approaches including project management structure. As it was said above there is a relationship between project success and the structure of the project management team. The more effective and suitable structure of project management is, the highest probability of project success we can expect. Thus, the project management team structure should be built in accordance with skills, experience and authority required by the type of implemented project. Below is a suggestion of project management structures for different types of strategic projects which are implemented by the institution of higher education.

The main criteria used in building presented structures are as follow:

- Configuration: who is the member of the project management team (management seniority and functional diversity).
- Responsibility: the level of involvement in project scope and objectives definition process and in activities coordination
- Decision Authority: the power to make a decision and to control project manager

Despite the fact that the organizational chart of the institution of higher education shows traditional (functional) or matrix based structure, each project demands a separate, project-based organization, where project manager might have a high level of authority to manage and control the project resources. The project manager must have the authority over the project. In strategic projects internal stakeholders must be taken into consideration – such as managers of different units and other representatives. Because of the strategic nature of this kind of project some opposing interests may appear – that is why the project board must provide a room for discussion and understanding the nature of the project. It may happen, that the project manager is chosen not because of the managerial skills, but because of the high place in the university structure. That is why the authors recommend to establish a dedicated Project Support role (to provide every-day help) as well as a Project Assurance role (to ensure the stakeholder feedback in any time of the project).

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Table 19. An organizational chart for strategic project

<table>
<thead>
<tr>
<th>PROJECT BOARD:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXECUTIVE</strong></td>
<td>President or Chancellor</td>
</tr>
<tr>
<td><strong>USER</strong></td>
<td>Vice-Presidents or/and Presidents (from different units) or/and other representatives of units who will use the results of the project</td>
</tr>
<tr>
<td><strong>SUPPLIER</strong></td>
<td>Depends on the project’s specificity, e.g. representative of external contractor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROJECT MANAGER:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Representative of proper Chair</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROJECT ASSURANCE:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXECUTIVE</strong></td>
<td>Head of Bursary</td>
</tr>
<tr>
<td><strong>USER</strong></td>
<td>Head of proper Chair or/and Dean</td>
</tr>
<tr>
<td><strong>SUPPLIER</strong></td>
<td>Representative of external contractor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROJECT SUPPORT:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Representatives of:</strong></td>
<td></td>
</tr>
<tr>
<td>- Law office</td>
<td></td>
</tr>
<tr>
<td>- Bursar's office</td>
<td></td>
</tr>
<tr>
<td>- Secretary of appropriate Chair</td>
<td></td>
</tr>
<tr>
<td>- other needed</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TEAM MANAGERS or MEMBERS OF PROJECT TEAM:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project team could consist of different sub-teams with Team managers or Project manager will be the Team manager at the same time and project team will consist of team members.</td>
<td></td>
</tr>
</tbody>
</table>

Source: own research

In non-strategic projects, where stakeholders influence is minimal (or, except the project team, there are only a few stakeholders) the organizational structure might be smaller, but still providing sufficient authority to the project manager. There is no need to engage high managerial levels such as the Chancellor or the President. Quite often projects are done also without supervision of the deans. The only rule is to establish a structure that enables efficient management to the project manager. Depending on the project manager experience, the Project Support might be established or its role might be fulfilled by the project manager.
Table 20. An organizational chart for non-strategic project

<table>
<thead>
<tr>
<th>PROJECT BOARD:</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE</td>
</tr>
<tr>
<td><strong>Dean or Head of proper Chair</strong></td>
</tr>
<tr>
<td>USER</td>
</tr>
<tr>
<td><strong>Representatives of departments/units who will use the infrastructure, might not be established if the project result has clear specification and requirements are given</strong></td>
</tr>
<tr>
<td>SUPPLIER</td>
</tr>
<tr>
<td><strong>Depends on the project’s specificity, a representative of external contractor, might not be established</strong></td>
</tr>
<tr>
<td>PROJECT MANAGER:</td>
</tr>
<tr>
<td><strong>Representative of Project Office or representative of different units</strong></td>
</tr>
<tr>
<td>PROJECT SUPPORT:</td>
</tr>
<tr>
<td><strong>Representatives of:</strong></td>
</tr>
<tr>
<td>- Law office</td>
</tr>
<tr>
<td>- Bursar’s office</td>
</tr>
<tr>
<td>- other needed</td>
</tr>
<tr>
<td>MEMBERS OF PROJECT TEAM:</td>
</tr>
<tr>
<td><strong>Project team usually consists of different team members (without extra management level between the project manager and team members).</strong></td>
</tr>
</tbody>
</table>

Source: own research

Basing on the literature on project success, authors argue that at the universities of higher education especially in case of strategic projects, more complex project organizational structures are required, not only Sponsor and the Project Manager. The management of a single project (and also a portfolio of projects) is a distributed process that is often located in more than one organizational unit and thus directly or indirectly involves, affects, and is affected by several groups and individuals. Hence, not only stakeholders of a single unit affect the success of a project but also stakeholders who are directly or indirectly involved in the project management process (e.g. heads units who fight for the power and sources of financing particular departments). Because of the need to balance often contradictory interest, the members of Project Board should be senior enough to make strategic decisions about the project. In case of each type of project, the managerial level of members will depend on the scope and importance of the project. However, in strategic projects the members of Project Board should be the top management of the institution. Thus, in this kind of projects, President or Chancellor represents the investor – body who provides resources for projects (e.g. team members, funds). In the other cases Project Board could be represented by bodies at lowest managerial level e.g. Deans, Manage-

ers of Chairs. The responsibilities of Change Authority should be delegated between Project Board and Project manager (depending on how complex the project is).

The main reason to design project organization chart is to create an environment that fosters interaction between the team members. A properly (but not necessary according to one rigid standard) designed structure enables to interact with a minimum amount of disruptions, overlaps and conflicts. That is why instead of ‘what approach to designing a project should be taken?’ more important question should be ‘how to create a project structure that will meet the various stakeholders’ needs at different phases of the project?
CHAPTER XIII

The knowledge management orientation in modern higher education

Seweryn Cichoń

It is difficult to explicitly indicate the direction of university management should aim in the aspect of generating the knowledge, how the content of teaching different subjects should evaluate. Taking into consideration assumptions of the Bologna Process students education should connect theoretical and knowledge, so that they were able to handle in the demanding market. Basic skills, which a modern university should develop, include:

- ability of searching for and selection the information,
- ability of analysis and inferences,
- ability of using the knowledge
- ability to transmission of knowledge and the sharing of it.

Managing the university orientated to the knowledge, should be aware about its basic features (distinguishing it from other resources), so as:

- inexhaustibility (knowledge, understood as a factor of production - in the opposite of components such as land, labor, capital - can not be consumed, any number of persons or institutions may use the same piece of knowledge almost parallel, which does not cause the slightest depletion),
- simultaneity (knowledge is a resource that can be used simultaneously by a lot of units in various places - it is breaking the barriers of time and space),

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293 PhD. eng., Faculty of Management in the Structure of Czestochowa University of Technology, Poland
non-linearity (even a small amount of the particularly appropriate knowledge in a given situation may be decisive, while in other situations need much more knowledge to solve less significant problem.

The contemporary university as the organization providing education services a need to have the current and latest knowledge and ability to use it in order to achieve the mission and the vision of the higher education institution and ensuring survival in highly competitive market.

The knowledge is one of the basic resources of modern world. It should be noticed that the success of global economy as well as knowledge economy depends on the intellect and the effective information and knowledge management. The constant development of the organization management theory presents new models, tools and instruments that increase the company efficiency. Turbulent times force the organization to create the mobility and flexibility potential. It should be noticed that the process of gaining knowledge, also called the model of learning organization, has a great impact on creating the competitive advantage of contemporary organizations. This process may also be treated as a concept of knowledge management. According to R. Pawlak, “the knowledge management brings the creativity, innovativeness, knowledge of the customers, subordination to the customer’s needs, implementation of the best practice, learning and skills development, values, aims, rational actions, accountancy and finance together with completely new information technology that is present in each aspect of organization functioning.” The change in the way of thinking can be seen as a result of the increasing competition. Therefore, the proper usage of the intangible assets - knowledge, intellectual capital and information – becomes highly important. This process will contribute to a better effectiveness of the economic entities when it comes to the worksite, processes and the organization itself. The economic increase and the country development will be determined only by learning. Only the effective education may guarantee the results of using the resources such as work and capital. Higher education institutions play a highly important role in this process. Because of the fact that knowledge becomes outdated really quickly, the higher education system faces the problem of how to teach effectively and prepare the students to fulfill the requirements of the knowledge, innovation and information society.

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296 K. Zimniewicz, Współczesne koncepcje i metody zarządzania, Wydawnictwo PWE, Warszawa 1999, p. 82.
13.1. The dimensions of managing the organization

The following dimensions of managing the organization are distinguished: internal and external structure, human capital. It is possible also to relate this classification to the services providing company which is the university. The internal structure of higher education management consists of:

- favorable structures and systems, facilitating the process of the constant learning and sharing the knowledge of members of organization,
- constant raising the quality of education,
- popularizing standards of the organization of the teaching process,
- experimenting with new methods,
- creating passable and efficient communication and information systems,
- forming of the organizational culture,
- optimal organization of classes,
- rational organization of the academic year,
- strategic management (developing strategies consciously is being conducted as the learning process, everyone for the worker are participating in creating the vision of the future of organization),
- creating maps of the knowledge,
- storage the knowledge,
- stimulating innovation,
- holding and the improving the quality of services offered by the school,
- maintaining and improving the quality of services offered by the school education,
- cultivating habits, history of the school,
- identify methods of exams and credits,
- development of processes of organizational learning and the learning of individual members of the university,
- common and easier accessibility to the collections of libraries, reading rooms.

External structure of higher education management consists of:

- systematic exchange of researchers and students with other centers,
- personal transfer including formal and unofficial contacts of employees of the higher education institution with representatives of business practice,
- invitation to the participation of with representatives of business practice in conferences, scientific seminars,
- co - creation of science parks, centers of the innovation and the technology,

303 Ibidem.
304 Ibidem.
– the creation of joint ventures, which facilitates collaborative research,
– transfer of knowledge and of technology, including economical and technical analyses for enterprises,
– the possibility of internships for students,
– organization of monthly practice,
– developing an effective marketing policy,
– developing a good relationship with the local community,
– caring for the image and the reputation of the higher education institution,
– constant monitoring surroundings,
– participation in education fairs.

Thanks to the implementation of actions resulting from the internal and external university structure with the help of the human resources management of the organization seems to be more effective and efficient. Selection of human resources is one of the main stages of the personnel process. It aims on the one hand to ensure the continuity of personnel, as well as satisfy the needs associated with the constant development of every enterprise, especially a higher education. The specificity of described units consists in the development not only in the organizational and marketing aspect but also in teaching and research. To the process of selecting the right employees at the right positions bring the best results it should be used the analysis of internal factors, such as current and projected demand for qualified staff or also a development and restrictions concerning costs. In this respect, the operation of public and private universities differ from each other significantly. In spite of progressing privatizing of the higher education still functioning of national higher education is based on a central funding. From one side private institutions seem better to be organized, however state universities can afford the higher employment at frequently questionable financial coverage.

13.2. The value of knowledge and its management in organizations

On the economic level, knowledge may be interpreted dually: both as the information and the assets. The former interpretation implicates that knowledge is the information that may be processed and used to make rational economic decisions. The latter states that it is the economic good, which may constitute a private property and can be used in market turnover\textsuperscript{305}. According to E. Skrzypek, the knowledge is characterized as\textsuperscript{306}:

\footnotesize
\begin{itemize}
  \item S. Łobesko, \textit{Systemy informacyjne w zarządzaniu wiedzą i innowacją w przedsiębiorstwie}, Szkoła Główna Handlowa, Warszawa 2004, p. 33.
\end{itemize}
knowledge is the information about the actual state and the ability to use it, - knowledge along with the abilities and experience constitute the chance for the organization’s success,
- knowledge may enable changes and the choice of values and the learning process,
- knowledge is dynamic and changing (it can easily become outdated),
- it should be practical, - it is the most valuable, desired good and capital,
- it is an important tool of effective management, competence and power,
- it develops imagination and creativity.

It is important to manage the knowledge effectively in organization in order to function efficiently. Knowledge management is a methodical, regular and organized process of effective localization, gaining, transferring, using and maintenance of knowledge. As a result, it leads to achieving the competitive advantage\textsuperscript{307}. According to R. Pawlak, “the knowledge management brings the creativity, innovativeness, knowledge of the customers, subordination to the customer’s needs, implementation of the best practice, learning and skills development, values, aims, rational actions, accountancy and finance together with completely new information technology that are present in each aspect of organization functioning”\textsuperscript{308}. To manage knowledge means to reduce the knowledge gap – namely, the disparity between the knowledge that one may have and the knowledge really needed, important, valued when it comes to making decisions\textsuperscript{309}. To the organizations that effectively manages its knowledge we should include the institution that cooperates with others to improve the general situation within the scope of creative partner companies. It also concentrates on constant knowledge gaining, development and putting the knowledge into practice. Moreover, the aim of such organization is to build the global value for the consumers, employees, partners and the country\textsuperscript{310}.

13.3. The knowledge management in higher education

As A. Zduniak noticed, it should be stressed that in higher education the human knowledge comes mainly from a social life. At this point of educating, the main point of emphasize is the social intellect. The future managers and supervisors should be especially aware of it in order to gain the ability of reading the human potential effectively. It is the human capital that is in possession of an immense energy and power. Higher education is a way to develop the professional qualifications that may be divided into three categories\textsuperscript{311}:

human psychophysical characteristics, skills, predisposition, behavior, character,
various types of abilities useful in life or work,
resources of general, life, professional and specific knowledge.

Higher education institution should be characterized by number of features to function effectively as the managing organization. To the most important features we should include:

- offering the modern education services with the knowledge of the information technology, interactive methods and teaching techniques, computer programmes, that show the practical usage of knowledge, etc.,
- focusing on the intangibles of the organization (which form the intellectual capital of the organization). The goal of this process is increasing the level of competitiveness of the organization on the education market,
- management that aims at creative combination of the opportunities and hopes that the uncertain future may bring along with the perfect qualifications of employees and organizations,
- managing with simultaneous encouraging to experiment, cooperate, engage different staff and think in an unconventional way,
- using the modern and traditional concepts, methods and techniques of management in creating the complex systems of knowledge management. These systems support and develop the possibilities of creating, popularizing and using the organizational knowledge,
- creating the complex system of information and knowledge sharing,
- supporting the open communication systems that provide the accessible, comprehensive and current information by implementing the electronic IT tools, the team work and cooperation. These systems may lead to gradual withdrawal from hierarchy and functional structure and replacing it by process acting and achieving results,
- cooperating with the high-qualified specialists from the outside of the university that may share theoretical and practical knowledge,
- focusing on the great role of competent employees, achieved by the community of professionals who are characterized by such features as partnership, trust or responsibility.

It is also worth mentioning, that the process of gaining knowledge in higher education institutions is permanent. The knowledge gained from the process of education is individualized and should constantly be actualized. As a success of the university in the intellectual development we can enumerate the ability to use the knowledge in practice, combining its various areas, quick and efficient putting the knowledge into practice. The human capital both creates knowledge and receives it. The knowledge management by the university is complex and requires huge amounts of abilities and skills.

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E. Skrzypek notices that the involvement of the higher education institution in the process of globalization requires the acceptance of substantial changes (in the world of cultural values, ethics and civilization which carries the globalization of knowledge and learning in the form of:\textsuperscript{314}):
\begin{itemize}
  \item of adaptation of the educational systems, characteristic of states promoting ideas of the globalization,
  \item of improving the research techniques,
  \item of improving the organization of scientific works in terms of the effectiveness, the rationality and the innovation,
  \item subordination issues scientific research programs, experiments result from needs of the process of globalization,
  \item good knowledge of foreign languages.
\end{itemize}

To negative features of an current educational system in Poland projecting for managing universities it is possible to rank, among others:

- financial resources for the higher education are missing what next it caused, that the large portion of young people was forced to study in the national education in paid extramural studies even though a regulation on the education free of charge exists in the constitution. With reference to private schools - also taking tuition fees it constitutes the unhealthy competition (supported by the state in other - scientific and organizational - parts of activity),
- financial problems of the state contributed to the creation of large number of non - state higher education institutions educating young people against payment, at using the staff coming usually from state entities. It next is worsening their effectiveness at the basic work and is raising suspicions of the use of state resources for commercial purposes,
- lower funding for research and development in Poland than in the other states of the European Union. Structure of funds for education in Poland is also different from the EU structures, is based above all on budgetary resources, while the recently observed increase private sector involvement in scientific activity was inhibited for economic reasons. It is worthwhile recalling that the expenditure on one researcher in the country is about twice lower than, in the poorest countries of the European Union,
- low salary levels in science and education, which until recently impacted negatively on the growth of staff, now, due to the high unemployment rate, is becoming less important, as shown by the growth of employment in science and didactics. Unfortunately, low salaries also translate into a decrease in work efficiency and more frequent migration to larger centers and emigration for economic reasons of researchers, including those most valuable:\textsuperscript{315}.

To the challenges, which must deal with higher education institutions in this regard include, among others:\(^{316}\):

- adapting the massive nature of the education resulting from its accessibility to the need of diversifying programs to educate,
- the creation of new courses and specializations in line with the needs of graduates in the labor market,
- promoting graduates in relations with employers,
- seeking new sources of funding,
- establishing the relation between national and non-state schools (on the basis of exchange of certain experiences related to the provision of educational services and not only),
- increasing intensity of promotional activities,
- provision of educational services with high quality (involving in this process all employees of the higher education institution),
- providing long-term benefits posed by the process of education (not focusing only on selected aspects associated with it),
- keeping long-standing relations with students, as main beneficiaries of education services through the implementation of subsequent steps in the process of education on the educational path,
- improvement in relationships with surrounding through three plains: financial, associated with the financial incentive for students (additional services, discounts, loans, etc.),
- social, formed social bonds between participants in the relationship (foundations for higher education institutions, Alumni Associations etc.),
- structural, in adapting offer, procedures, the whole structure to agreements with the business partners in the aim of the satisfaction of the consumer of education services.

13.4. Conclusion

There are great expectations of the public towards the higher education which is in the center of creation and simulation of innovations. It cooperates with the social, economic and political community on the local, regional, national and international ground\(^{317}\). It can be concluded that the investment in education is now on of the cheapest methods of increasing the economy competitiveness. To gain knowledge one should remember about following rules: to learn to know, to learn to act, to learn to live, to learn to be\(^{318}\). As A. Kruk states „knowledge became the re-


source in the postindustrial era. It is also the side effect of the civilization and mankind’s negative and positive experience. In XX century, starting from the end of 1960s, the knowledge has started to be valued as an essential factor in the development of organizations. The education became the fundamental feature of the modern world development – the knowledge economy and the learning society. The higher education system abroad is various and difficult to be compared with. One may differentiate the trends, that indicate the need of a harmony in education systems, also when it comes to higher education. The aim of the higher education is to prepare its students not only to use the civilization inventions, but also to participate in the process of the civilization development.

D. Pauluk claims that "pessimistic diagnoses are being made more and more often during talking about weaknesses, dysfunctions, loss, twilight, decline, collapse, crisis or death of the contemporary university, with its mismatch to reality, the inability to prepare young people for tasks that life puts before them. Its deficiencies are often identified with the departure from the idea of the traditional model of the higher education institution, from its characteristics of identity, such as the transmission of general knowledge, seeking and disseminating the truth, caring about the integrity of the knowledge, research and teaching, the outside and internal autonomy. M Morawski notes that the widespread exchange of knowledge should be the core of the university, however, often in the generation of knowledge and interaction, both in this specific organization and in the environment, occur following barriers:

a) organizational culture is not conducive to knowledge sharing:
   - lack of trust between employees of different organizational units, resulting with frequent rivalry in area determined knowledge,
   - lack of trust in the intentions of the exchange of knowledge and information,
   - feeling distance between employees of different levels of the management,
   - dislike for loss of the exclusiveness to having an specialized knowledge,
   - lack of the constant dialogue, of discussion on problems of the entire university,
   - lack of staff’s attitudes and behaviors conducive to knowledge sharing

b) inadequate solutions for motivation system:
   - lack of financial incentives encouraging sharing the knowledge,

– lack of mechanisms which would reward the sharing of knowledge in the form of development of competence financing,
– lack of training for employees which would develop the skills knowledge sharing,
– lack of proposal of attractive task in exchange for sharing their knowledge.
During management authorities of the university, trying to collect data, facts and objective information however mechanical, diagnostic and decision-making abilities are important when the management is comprehended as knowledge\textsuperscript{323}.

Current trends in the global economy require enterprises to: continually improve standards offered by their products, respond rapidly to changes and improve operating processes. These days it is not enough to focus solely on launching production, planning services and identifying a target market. Of course, these factors are important in the course of business activity, but the demands of the global market and the pace of its development places great emphasis on conceptual thinking, planning, management of change as well as risk estimation and management.

The constant improvement of an organization’s operations, decision-making mechanisms and company management based on current knowledge, presents today’s enterprises with a sizeable challenge. A mere idea or vision of the future is not sufficient. It is necessary to define a precise course of action, which may seem easy to achieve in theory, yet which is difficult to put into practice. A changing environment, uncertainty and instability mean that enterprises tend to focus merely on surviving, and not on standing out from and winning against the competition. It is essential to be able to predict the behaviour of the environment, respond appropriately and adapt to change.

Strategic thinking plays a key role in modern and innovative organizational management and is significant in building the foundations of development, whether in terms of effectively fulfilling the company’s mission and vision, or in terms of gaining new areas of business activity.

This chapter aims to assess the strategy management systems of four of the largest electricity companies in Poland: PGE, ENEGA, ENERGA and TAURON, and to perform a comparative analysis of their conceived and implemented strategy, mission, vision and values as well as their main development assumptions and goals for the nearest future.
14.1 The essence of enterprise management in a changing environment

A changing environment, including the globalization of the economy, the lifting of trade barriers, growing competition, the development of international co-operation and dramatic advances in technology force organizations to develop and effectively implement long-term strategies which allow them to survive and develop, leading to a growth in prosperity and democracy. In order to adapt to change, enterprises have begun to focus on introducing innovation as well as new methods of management\(^\text{325}\).

Modern enterprise management is a multi-layered process which undergoes continual evolution and improvement. It is not possible to steer or order using only one approach, as this process is non-linear and disorderly, and subject to constant change. It is a process which is burdened with considerable risk, due to the fact that it is ever more difficult to accurately predict the future and because there are many changing factors which can cause even the best laid plans to become outdated\(^\text{326}\).

A management process which is focused on formulating and implementing strategies, ensuring that an organization is perfectly tuned to its environment and able to achieve its strategic goals is defined by the term ‘strategic management’\(^\text{327}\). This is a crucial information and decision-making process, aimed at dealing with key problems and making decisions regarding survival and development\(^\text{328}\).

It is a process which depends on defining and redefining strategies in response to changes in the environment, anticipating them, or even invoking them, as well as an integral implementation process that is able to make use of an organization’s resources and skills in order to realize long-term goals, develop and protect the security of the organization in times of uncertainty\(^\text{329}\). It is also a steering activity, involving setting targets and tasks as well as defining methods and means of realizing them which make optimal use of human, financial and material resources.

The last definition distinguishes two approaches to strategic management:

One which is steered towards defining the existing and future position of the company in relation to its competitors as well as defining long-term goals and enterprise tasks - this approach responds to the question: what do we want to achieve in the future?

One which is directed at identifying the methods and means of realizing and achieving goals – this approach attempts to answer the question: how and with what resources can we achieve the desired goal? An important aspect of this approach is the organizational form of the enterprise as well as management method\(^\text{330}\).

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330 Z. Drążek, B. Niemczynowicz, Strategic..., op. cit., p. 22.
Strategic management is a process steered by the management to define the goals and intentions of a given organization and to establish a decision-making hierarchy which allows these goals and intentions to be achieved. This management is based on the principles which are presented in the table below.

**Table 21. Principles of strategic management**

<table>
<thead>
<tr>
<th>Adopted values</th>
<th>Respected Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Openness</td>
<td>The global nature of enterprise, i.e. understanding the world as a common sphere of consumption, production and trade. Enterprise without doors, i.e. a conviction that direct, informal communication is the most effective. Mutual trust is far more important for results, as well as for the social climate, than the most effective organizational system.</td>
</tr>
<tr>
<td>Comprehensiveness</td>
<td>The essence of management lies not only in fulfilling functions but above all in solving problems. An organization is part of its environment, which presents a range of opportunities and threats and which determines the success of business activities. In order for an organization to develop, both economic results as well as human development are equally important.</td>
</tr>
<tr>
<td>Creativity</td>
<td>Developing human knowledge is much more important than developing material resources. Seeking and supporting leaders. Motivating people to fulfill themselves at work Adopting the principle rerum novarum cupidus (eager for new things).</td>
</tr>
<tr>
<td>Focus on results</td>
<td>Emphasis on action, trying out new things. Taking achieved results to be the basic criterion for assessment.</td>
</tr>
<tr>
<td>Co-operation</td>
<td>Seeking partners, avoiding conflict. Directing the form, organizational method and procedures towards co-operation, and not towards securing position or dominance. Seeking consensus, negotiation.</td>
</tr>
</tbody>
</table>


The effectiveness of enterprise management in a changing environment is affected by factors such as: information exchange at all levels of management, cooperation at all levels, seeking a common path to achieving established goals, mutual trust, defining resources for achieving goals as well as engaging all employees in realizing tasks and goals.

Enterprise strategy cannot be limited to simply envisioning the future shape and position of the company on the market, nor to imitating other rival companies. It must be formed of carefully thought out, long-term tasks and goals, as well as appropriately allocating resources in order to achieve these goals.

Creating a strategy is the fundamental duty of an organization. It should make every possible effort to define its behaviour in view of current and future customers and competitors. For a company this involves: taking risks, perceiving emerging

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possibilities, a high level of creativity in business management as well as identifying and creating consumer needs.\\n
14.2. A profile of the studied enterprises

PGE (Polish Energy Group) is the largest enterprise in the electricity sector in terms of income as well as profits (figure 24). PGE guarantees a safe and reliable supply of electricity to over five million households, businesses and institutions, and this is achieved through a combination of own fuel resources (mainly brown coal) and energy generation, as well as owning the distribution network.

![Figure 24. Business range of the four largest electricity concerns in Poland](http://www.elektroonline.pl/a/2327.Charakterystyka-krajowego-rynku-energii-elektrycznej) .Energetyka

The energy sold by PGE is produced above all from hard coal – which constitutes over 50%, as well as brown coal – over 30%. In 2012 PGE Capital Group achieved: total installed capacity – 12.9 GW, energy end users – 31.87 TW, electricity generation – 57.05 TW, number of energy recipients -5.1 million, total length of power lines – 277.2 thousand km, hard coal extraction – 50 million tonnes.

ENERGA is a capital group dealing in production, trading and distribution of electricity and central heating. The company also deals in street lighting, design, materials supply, network construction and specialist transport as well as hotel and IT services. The group operates the electricity distribution system in an area of 75 thousand square km, which accounts for 25% of Polish territory. It uses over 192 thousand km of power lines, via which it delivers around 20 TW of energy per annum. Electricity production runs at over 4 million MW in 55 power plants, including combined heat and power plants, coal-fired power stations in Ostrołęka, hydropower stations in Włocławek and many small hydropower units. The installed capacity of the ENERGA group amounts to around 1150 MW. Its share in the electricity market is relatively small at around 3%.

ENEA Capital Group deals in electricity trading, production and supply. The company sells around 16% of the electricity consumed in Poland. The group’s distribution network covers 20% of the country, supplying west and north west regions. It produces nearly 8% of the total electricity produced in Poland (in 2012 ENEA

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332 J. Rokita, Zarządzanie strategiczne, Tworzenie i utrzymanie przewagi konkurencyjnej, Polskie Wydawnictwo Ekonomiczne, Warszawa 2005, s. 32.
produced 11.8 million MW), with a capacity of 3170 MW. The group’s companies offer a whole range of electrical services. The client portfolio of ENEA Capital Group is diversified. Customers number more than 2.4 million, including 2.1 million private users as well as around 0.3 million business clients. The company owns wind farms, biogas plants as well as distribution networks located mainly in the west and northwest of Poland as well as hydropower plants in Białystok and Kozienice.

The TAURON group is one of the biggest economic entities in Poland. The holding is the largest electricity distributor in Poland. The distribution networks belonging to the group cover 18.3% of the country. The company provides distribution services to an area of over 57 thousand square km via 223.7 thousand km of power lines. The TAURON group deals mainly in: coal extraction, electricity and central heating production, electricity distribution and trading, distribution and sales of central heating. The group is the second largest producer of electricity in Poland. The capacity of its power stations amounted to 5.5 GW in 2012. In the same year TAURON produced 19.11 TW of electricity. The group generates electricity and heat in 11 power plants and combined heat and power plants, powered by hard coal as well as by biomass co-firing.

14.3. A comparative analysis of PGE, ENERGA, ENEA and TAURON

The largest operating area, almost twice that of TAURON and ENEA, belongs to PGE. However, the installed capacities of the companies are not proportionate to the size of their operating areas. The greatest capacity belongs to PGE – 12.9 GW, with TAURON in second place, with an operating capacity 57% less than that of PGE. Even so, TAURON’s capacity is 4.6 times greater than ENERGA, despite the fact that ENERGA is far better placed in terms of operating area. Nor is the operating area reflected in sales and customer numbers. The greatest number of customers belongs to TAURON – 5.3 million, while PGE has 5.1 million despite having a much larger area of operation.

Table 22. Company comparison (selected data from 2011)

<table>
<thead>
<tr>
<th></th>
<th>TAURON</th>
<th>PGE</th>
<th>ENERGA</th>
<th>ENEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power sales (TW)</td>
<td>45.0</td>
<td>30.4</td>
<td>18.6</td>
<td>14.3</td>
</tr>
<tr>
<td>Market share</td>
<td>36.1%</td>
<td>24.4%</td>
<td>14.9%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Power distribution (TW)</td>
<td>52.8</td>
<td>31.1</td>
<td>19.6</td>
<td>17.1</td>
</tr>
<tr>
<td>Market share</td>
<td>36.9%</td>
<td>25.5%</td>
<td>16.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Power generation (TW)</td>
<td>24.0</td>
<td>61.7</td>
<td>4.7</td>
<td>12.6</td>
</tr>
<tr>
<td>Market share</td>
<td>14.7%</td>
<td>37.8%</td>
<td>2.9%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Table 23. Company comparison (selected data from 2012)

<table>
<thead>
<tr>
<th></th>
<th>Tauron</th>
<th>PGE</th>
<th>Energa</th>
<th>Enea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power sales (TW)</td>
<td>44.7</td>
<td>31.87</td>
<td>20.5</td>
<td>16.0</td>
</tr>
<tr>
<td>Power generation (TW)</td>
<td>19.11</td>
<td>57.05</td>
<td>4.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Operating area (thousa-</td>
<td>approx. 57</td>
<td>approx. 122</td>
<td>approx. 75</td>
<td>approx. 58</td>
</tr>
<tr>
<td>nd km²)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating area (%)</td>
<td>approx. 18%</td>
<td>approx. 39%</td>
<td>approx. 24%</td>
<td>approx. 19%</td>
</tr>
<tr>
<td>Number of customers</td>
<td>5.3</td>
<td>5.1</td>
<td>2.9</td>
<td>2.4</td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of power lines</td>
<td>223.7</td>
<td>277.2</td>
<td>192</td>
<td>109</td>
</tr>
<tr>
<td>(thousand km)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating capacity (GW)</td>
<td>5.5</td>
<td>12.9</td>
<td>1.2</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: own research.

ENEA has the least customers – barely 2.4 million, less than half that of Tauron, despite the fact that the area of operation of both companies is of a similar size. ENERGA, despite having an area of operation approximately 33% larger than that of Tauron, possesses nearly half as many customers. This may be due to the fact that Tauron owns 223.7 km of power lines, while ENERGA owns 14% less, and ENEA as much as 51% less. The greatest length of power distribution lines is owned by PGE – 19% more than Tauron.

In terms of electricity sales and distribution, Tauron remains the leader, while ENEA fared the worst in 2011 and 2012. In these respects PGE came in second place (in both aspects showing results 50% greater than ENEA). However, in terms of generation, PGE is unrivalled. It produces 40% of the electricity in Poland, while Tauron produces only 15%.

PGE, despite a very large area of operation and unrivalled levels of energy generation, loses out against Tauron (with the smallest area of operation) in terms of customer numbers, sales volumes and distribution. ENEA and ENERGA show poorer results, although their position on the market is stable.

Each enterprise has a correctly formulated strategy in terms of content. On display and accessible to all stakeholders are: the mission, vision, values, goals and strategic assumptions.
Table 24. A comparison of company missions, visions and values

<table>
<thead>
<tr>
<th>Mission</th>
<th>Vision</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteeing energy to customers based on best practices and ensuring growth in the value of the company.</td>
<td>To become a leading power company in the region.</td>
<td>Power security, Customer care, Care of employees, Environmental protection, Socio-economic management.</td>
</tr>
<tr>
<td>Creating value and building a more secure future.</td>
<td>To be a leader in dynamic development, To be customer friendly, To have an innovative and diversified power generation portfolio, To be efficient, innovative and financially strong, To operate in Poland and abroad.</td>
<td>Openness and cooperation, Passion and determination, Responsibility and security.</td>
</tr>
<tr>
<td>Guaranteeing comfort at work and in daily life.</td>
<td>To create a Capital Group that is: close-knit, efficient and innovative, Co-operation and mutual support among all entities, To be a leader in terms of quality and services, To continually improve efficiency.</td>
<td>People, Environment, Energa.</td>
</tr>
<tr>
<td>To deliver a high standards of service to customers, ensure comfortable working conditions for employees, to increase value for shareholders while caring for the natural environment.</td>
<td>A socially responsible approach to business, in order to achieve long-term growth in the value of the company.</td>
<td>To be part of the community, To work with employees on a partnership basis, To take responsibility for the consequences of one's decisions and conduct.</td>
</tr>
</tbody>
</table>

Source: own research.
Table 25. A comparison of company strategy

<table>
<thead>
<tr>
<th>General assumptions</th>
<th>Goals</th>
<th>Time-scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieve continued growth in value guaranteeing shareholders a return on invested capital, Improve efficiency and build an effective organization, Strengthen the position of TAURON Group in Central and Eastern Europe.</td>
<td>Growth in the most attractive areas of operation, Operational efficiency and best practices in investment, Management of market risk and regulatory risk, Building an efficient organization.</td>
<td>2008-2012 with a view to 2020</td>
</tr>
<tr>
<td>Build long-term economic value for shareholders as part of an innovative and diversified power generation portfolio, Focus on customers through introducing innovation and improving efficiency, Hold a strong financial position, Operate in Poland and abroad.</td>
<td>Increased competitiveness in retail sales, Innovation, Operational efficiency, Building an organizational culture based on commitment and concentration on results, Activation of first atomic power station in 2023, Financial and operational goals.</td>
<td>2012-2034</td>
</tr>
<tr>
<td>Achieve a competitive position on the market and financial efficiency through investment in new technology and innovation.</td>
<td>Achieve a long-term competitive advantage, Improve profitability of distribution, Achieve a leading position in the field of energy from renewable fuels, Develop conventional power, Create a model of cooperation with end users.</td>
<td>2009-2015</td>
</tr>
<tr>
<td>Develop the main operations of ENEA Capital Group, Improve operational efficiency, Build a socially responsible company.</td>
<td>Operations in the following fields: Corporate Centre, Power production (fossil fuel and renewable fuel), Sales and supply, Shared services centre, Human capital management, Environmentally friendly approach, Dialogue with the local community.</td>
<td>2010-2015 with a view to 2020</td>
</tr>
</tbody>
</table>

Source: own research.
All the companies give priority to customer care and provision of customer comfort. However, only ENERGA and ENEA mention care of employees in their mission statements. All the firms, including ENERGA, focus their attention on creating and increasing value for shareholders as well. In their mission statement, PGE includes ‘building a more secure future’ which can be understood in two ways: in terms of a more secure and stable future for the company, along with business partners and employees, or in terms of power security for the customer. A clear distinguishing feature in the missions discussed is the particular concern for the natural environment shown by ENEA – the only company to include this element of its strategy in its mission statement.

All four companies are committed to development, quality, improved efficiency and innovation. Besides these aspects, TAURON, PGE and ENERGA place importance on achieving a competitive, leading position on the market. In addition, TAURON and PGE plan to operate not only in domestic but also in foreign markets. A further distinguishing feature of ENEA, this time regarding vision, is the prominence of social responsibility in business planning, based on the assumption that this will contribute to long-term growth in value of the company with a view to steady development.

A feature common to all the discussed companies in terms of values, is care of customers and employees. In addition, TAURON and PGE set power security for customers as a priority. A further important aspect for the companies is care of the natural environment and participation in the local community. Only PGE pays less attention to these issues. Meanwhile, PGE along with ENERGA underline their honesty, co-operation and openess. In order to emphasise its work ethic, PGE includes determination and passion as key values.

PGE, ENERGA, ENEA and TAURON are companies operating on a market in which there are both opportunities and threats. Opportunities include the predicted growth in demand for electricity. This presents an opportunity above all for PGE which has very large production capacity at its disposal and is the unrivalled leader in terms of power generation. If there is demand, then there are also sales, in which TAURON is unrivalled. The prospect of greater demand for energy opens up new, greater possibilities for these two companies in particular.

ENERGA and ENEA can benefit from opportunities to develop renewable sources of energy as well as growing social awareness. These enterprises want to focus on producing energy from renewable sources, both aiming to achieve a leading position in this field. Increasing the share of renewable energy in the national grid is a course of action planned as part of the national power policy. By focusing on this sphere, these companies will benefit economically, win the support of customers who are increasingly pro-environmental, and will also meet the growing requirements of the EU energy and climate change package.

All four companies can feel secure thanks to the national policy protecting electricity enterprises. With the assurance of stable operations, the companies can focus to a greater degree on achieving economic efficiency, a large client base as well as a competitive position on the market.
CHAPTER XV

The development of social tax and social protection in the Republic of Belarus

Lilia Barsegian

15.1. Economic and social aspects of social protection in Belarus.

The Fund of social protection of the population is the only off-budget fund of Republic of Belarus formed in 1993 for improvement of system of financing of the state social insurance. The Fund carries out collecting and accumulation of means of the state social insurance and management of them, the financing of payments of the state pensions provided by the legislation, grants and other payments, provides financing of expenses on sanatorium treatment and population improvement. Collecting on social insurance is the special payments to the state used on social payments to the population, in the form of taxes which payers are subjects of economic activity (legal entities and individuals) and citizens. Distinctive feature of collecting on social insurance is their special-purpose character. Insurance premiums are the source of the state off-budget fund of social protection are.

Social protection includes two concepts:

- pension insurance on a case of achievement of a retirement age, disability and loss of the supporter,
- social insurance on a case of temporary disability, pregnancy and childbirth, the births of the child, care of the child aged till three years, death insured or the member of his family.

Obligatory insurance premiums make 35% of compensation fund, including:

- 28% – from compensation fund on provision of pensions are paid by the employer,

333 Masters in Economics, State Institute of Management and Social Technologies of the Belarusian State University, Belarus
– 6% – from compensation fund on social insurance are paid by the employer,
– 1% – from a salary on provision of pensions are paid by the worker.

Despite on positive transformations to areas of provision of pensions, a number of the negative moments is inherent in pension system of the republic. One of them is low level of pensions from the point of view of their purchasing power that can't satisfy neither the state, nor the majority of their recipients.

To workers leaving on deserved rest and Republic of Belarus, especially highly paid, the pension doesn't provide a habitual standard of living. So, in December 2013 by data of the Ministry of Labour and Social Protection Republic of Belarus the average size of pension made 2 206.8 thousand BYR (235 USD or 8 USD a day). That is the pension replaces about 40.7% of an average salary. The small difference between level of the minimum and maximum pension on age is characteristic and for other countries, but it doesn't reflect the size of the contributions which have arrived from the payer in system in the period of able-bodied activity in Belarus. At the same time there is a number of the exclusive groups having warranties of high pensions, actually not provided with resources. And it in any way doesn't correspond to world practice when the pension of subjects is higher, than is more paid contributions. In the majority of the countries, for example in Poland, lists of exempts are reduced, and in some in general are absent (Norway).

The pension system of Republic of Belarus is founded on the principle of social solidarity and payment of pensions due to the current receipts, is respectively dependent on change of such indicators influencing volume of collected insurance premiums, as number taken in economy, the income of economically active population, number of payers of insurance premiums, a tariff of insurance premiums and others. The number of population of Republic of Belarus for January 1, 2014 made 9468.1 thousand people, the number of pensioners made 2537.3 thousand people, of them recipients of pensions on age – 81.3%; on disability – 10.5; on the occasion of loss of the supporter – 4.2; for long service – 1.4; social pensions – 2.3%. If in the 60th years at a stage of completion of formation of the Soviet pension system the share of pensioners made no more than 9-10% of the total number of the population, in 1990 – 18%, in 2013 it came nearer to 27% and will grow further. Population aging in Belarus generates need of essential increase in expenses for provision of pensions, health care and social support, increase of financial load of the working. It causes urgent need for development of a new state policy in the field of provision of pensions and medical care to elderly citizens, and also their social support. Unfortunately, present social policy properly doesn't consider a steady tendency to increase of specific weight of pensioners in population structure.

Within reforming of pension system it is gradually necessary to solve a number of problems of a strategic order, first of all age criteria of a retirement. Really, the distributive pension system founded on the principle of solidarity of generations payments in which are formed at the expense of the current contributions of working citizens, assumes additional load of the working population in connection with increase in life expectancy and decrease in birth rate in the developed countries. Therefore since 90th in the developed countries pension reforms by which gradual increase of a retirement age till 65 years, both for men, and for women, and also
cancellation of flexible modes of a retirement was provided were carried out. In such countries as Japan, Norway, Iceland and the USA the retirement age is established higher than 65 years. In Germany in 2006 the reform providing from 2012 to 2019 gradual increase in a retirement age from 65 to 67 years was approved.

It is obvious that in Republic of Belarus the smallest pension qualification which has to coordinate with average life expectancy is established. The pension on age is in accordance with general practice provided to men on reaching 60 years and at length of service not less than 25 years, and to women on reaching 55 years and at length of service not less than 20 years. Besides, more than 20 bases are legislatively defined for purpose of early pensions for 5-10 and more years before achievement of a generally established retirement age.

In table 26 are brought any National statistical committee of Republic of Belarus about average life expectancy in Belarus.

**Table 26. Expected life expectancy at the birth in Belarus (years)**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Belarus</td>
<td>70,5</td>
<td>70,5</td>
<td>70,4</td>
<td>70,6</td>
<td>72,2</td>
</tr>
<tr>
<td>men</td>
<td>64,7</td>
<td>64,7</td>
<td>64,6</td>
<td>64,7</td>
<td>66,6</td>
</tr>
<tr>
<td>women</td>
<td>76,5</td>
<td>76,4</td>
<td>76,5</td>
<td>76,7</td>
<td>77,6</td>
</tr>
</tbody>
</table>

Source: http://belstat.gov.by/

It is represented that for increase of a standard of living both working, and pensioners, Belarus will be compelled to prepare the program of stage-by-stage correction of age criteria of a retirement in which economic, demographic factors and, in particular, situation on a labor market have to be considered not to break the labor market. It is very important that need of introduction of this measure was realized in our society and was accepted. Smoothing of negative consequences would be promoted by the announcement of it for some years before.

Now in Belarus the question of increase in retirement age isn't considered. It is considered more productive granting to the person of a choice – to retire earlier and to receive smaller pension or on the contrary. According to the legislation of Belarus each Belarusian pensioner has an opportunity really to affect the size of the pension. At further work without receiving pension the size of pension can progressively grow: for the first year – for 6% of the earnings accepted for calculation of pension; in two years – for 14%; in three years – for 24%; in four years – for 36%; for the fifth and each next year increase of the size of pension for 14% of earnings which also are summarized with the percent of increase established for the previous period (in 5 years – 50%, in 6 years – 64%) is provided.

Thus maintenance of level of material security of pensioners – one of the priority directions of pension system. In the state pension system the ratio of average pension on age and an average salary of workers is supported at the level of not lower than 40% that corresponds International Labour Organization recommendations.

In the developed countries the vast majority of future pensioners don't plan to live only due to payments from the state (distributive) pension system. Especially as in many countries average pension in the general system in relation to a salary at the same level, as in Republic of Belarus, and even below (in particular, this indicator in
Belgium, Great Britain, Denmark, Ireland, Canada, the USA, from 30 to 42%). Essential additional source of the income of pensioners in called and other countries is voluntary non-state pension (corporate, personal) insurance. Such accumulative programs in the USA in which employers and the workers paying on these purposes additional contributions (as a rule, participate in equal shares) are widespread. More than 50% of employers participate in Great Britain in programs of additional pension insurance, they and workers direct on the average 10% of earnings. Certainly, besides additional pensions sources of comfortable life of pensioners of the developed states are savings in banks, in the form of securities, the income from property etc.

As a whole it is possible to note that in Republic of Belarus the main tax burden lays down on legal entities. It can be considered as one of features of the Belarusian fiscal policy. Business, legal entities bear the raised tax loading that has an adverse effect on investment policy of the enterprises and rates of economic growth of the state. High tax load of a wages fund due to payment of collecting in fund of social protection increase product cost that reduces its competitiveness therefore it is necessary to reduce the size of contributions to the social insurance, paid by employers, at the same time raising the insurance premiums deducted by workers. Today there is no interest of workers in formation of funds of provision of pensions because fund raising for needs of pensioners was carried out generally at the expense of contributions of employers. The principle of "free of charge" pensions for workers that created feeling of a social dependence at Belarusians was the basic principle of socialist system of provision of pensions. Sociological polls testify that the vast majority of citizens consider a question of provision of pensions only from position of the state responsibility and duty. In many respects it explains the steady tendency which is observing in the country in the last 20 years when workers agree with proposals of employers on "gray schemes" receiving a salary that significantly reduces sources of fund of social protection.

Pension reform in Belarus has to be directed on establishment of the size of pension depending on the size of the means entered by the person into the pension system, and to introduction of system of pension accumulation. In the future the state has to support a minimum level of social guarantees and create conditions for involvement of citizens in process of minimization of the social risks connected with decrease in the income at a retirement. For example, through pension accumulation in specially created for this purpose state and non-state pension funds. Considering that interests of social stability dictate very careful approach to cardinal reforms in the field of provision of pensions, and population adaptation to "new standards" is facilitated by their carrying out during economic growth, in the republic rather "soft" option of transformations of pension system, with orientation to consecutive use of results of economic growth and preservation of the pension rights acquired on operating system was chosen. Besides, it is necessary to consider all risk factors connected with accumulative system. The main negative consequences of transition from distributive to accumulative pension system are:

- low level of involvement of the population in accumulative pension system that can not meet the expectations connected with increase of moti-
vation of workers to formation of the pension accumulation and by that to solve a problem of legalization of the shadow income,

- low level of pensions for considerable number of pensioners because of the smallest salary of the majority of hired workers and their inability independently to save up necessary financial resources throughout all labor life for the provision of pensions,

- need of research by the state of large financial resources on payments of the minimum and social pensions in connection with abolition of the redistributive mechanism of social solidary mutual aid (highly paid categories of workers in favor of low-paid cohorts),

- expenditure essential big financial resources in comparison with the distributive system, directed on management of accumulative pension system by means of non-state pension funds and the management companies which are carrying out the activity at the expense of use of part of pension resources.

Besides, experts note lack of an expected positive effect on economy of the countries which have applied accumulative pension systems, received from investments of the capitalized pension resources that is explained by high volatility of norms of return of capital investments. Due to the low economic efficiency of the financial mechanism of investment of pension accumulation in conditions of the undeveloped financial markets and financial instruments, and also high expenses of functioning of accumulative pension system practically all countries using it as the main pension institute, or absolutely refused it (for example, Argentina), or reduced scales of its use, having added national pension systems with the distributive pension systems financed at the expense of the state grants (Chile, Uruguay, Kazakhstan). For these reasons to recommend to Belarus a choice of accumulative pension insurance as basic pension institute it would be precipitate.

State social providing is realized by means of payment of grants. In Republic of Belarus the following types of welfare payments are appointed and paid:

- on pregnancy and childbirth,
- in connection with the birth of the child,
- to the woman who has got registered in medical institution to 12-week term of pregnancy,
- on care of the child aged till 3 years,
- on care of the child – the disabled person till 18 years,
- on care of children aged till 18 years infected with a virus of an immunodeficiency or patients with AIDS,
- on unemployment,
- on burial, etc.

The system of protection of wellbeing of a family includes a number of the grants extending on families with children and without children. Children's benefit receive the majority of families, however it is obvious that these grants doesn't allow to provide need of mother and the child. The sizes of children's grants are specified in table 27.
Table 27. The sizes of children's grants in Belarus on February 1, 2014, USD

<table>
<thead>
<tr>
<th>Type of a grant</th>
<th>Grant size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lump sum at the birth of the first child</td>
<td>1 170,0</td>
</tr>
<tr>
<td>Lump sum at the birth of the second and the subsequent children</td>
<td>1 600,0</td>
</tr>
<tr>
<td>Lump sum to the women who have got registered in the state organizations of health care to 12-week term of pregnancy</td>
<td>117,0</td>
</tr>
<tr>
<td>Minimum size of maternity allowance</td>
<td>57,0</td>
</tr>
<tr>
<td>Monetary compensation in connection with the birth of twins (on each twin)</td>
<td>228,3</td>
</tr>
<tr>
<td>Grant on care of the child aged till 3 years (on the first child)</td>
<td>202,0</td>
</tr>
<tr>
<td>Grant on care of the child aged till 3 years (on the second and the subsequent children)</td>
<td>231,0</td>
</tr>
<tr>
<td>Grant on care of the disabled child aged till 3 years</td>
<td>260,0</td>
</tr>
<tr>
<td>Grant on care of the child aged till 3 years living in the territory of radioactive pollution in a zone of the subsequent resettlement or with the right for resettlement (on the first child)</td>
<td>292,6</td>
</tr>
<tr>
<td>Grant on care of the child aged till 3 years living in the territory of radioactive pollution in a zone of the subsequent resettlement or with the right for resettlement (on the second and the subsequent children)</td>
<td>334,4</td>
</tr>
<tr>
<td>The monthly grant is one disabled child more senior than 3 years</td>
<td>79,9</td>
</tr>
<tr>
<td>Monthly grant to other children in a family in the presence of the disabled child</td>
<td>57,0</td>
</tr>
<tr>
<td>Monthly grant on care of the disabled child aged till 18 years</td>
<td>114,1</td>
</tr>
<tr>
<td>Monthly birth grant aged till 18 years, the infected HIV</td>
<td>57,0</td>
</tr>
</tbody>
</table>

Source: own development.

Despite on continuous indexation of the size of pensions and grants, their purchasing power doesn't increase, first of all because of high inflation and growth of cost of housing-and-municipal services.

The dole (13–14 USD a month) does senseless registration in an employment service, as doesn't allow to estimate really a situation on a labor market. The average size of a monthly dole in Poland is considered one of the lowest in the European Union, but also it makes about 170 USD, that is more than ten times higher, than in Belarus. However, to live on a dole in Belarus as it is impossible, as well as on the budget of a living wage.

In Belarus unlike the European Union countries, Poland and Russia, the effective and adequate legal mechanism of medical insurance of the population still isn't created. Long-term functioning of free health care and conviction in its indisputable advantage complicate orientation of insurance medicine in health system.

In respect of reforming of this social institute transition from system of exclusively budgetary financing of medicine to the new budgetary and insurance model which is based on social insurance is necessary. Such system has to be financed by target insurance premiums of employers, social insurance funds, and also at the expense of budgetary funds. But deep internal reorganization of national health system needs to be done, keeping existing lines, that is providing free medical care, the general character, availability. In practice it has to look so: the person having the health insurance will receive a certain number of the medical services provided by the program. It is necessary to change and system of financing and activity of medical institutions. They have to find the status of independent managing subjects and receive money on the basis of the signed contracts for actually rendered services (for example, for everyone a past treatment of the patient). Introduction of obligatory medical
insurance as a part of a social tax – the most acceptable for conditions of Belarus the transition mechanism from budgetary to budgetary and insurance system of financing of branch.

15.2. Some conclusions

The domestic system social protection as a whole remained within the socialist principles of redistribution of resources and grants from the state which can function only in the conditions of favorable financial and economic growth. In the conditions of the slightest economic failures it can financially be not provided. Formation of effective institutes of social insurance – one of the major tasks which the Belarusian society needs to solve in the course of economic and social transformations. For formation of effective institutes of social insurance it is required both legislative registration of institutional base, and creation of conditions for effective functioning of financial mechanisms. Complexity of formation of social security in Republic of Belarus is connected and that its formation coincided on time with need of the answer to the new calls caused by cardinal changes in structure of employment of the population, reduction of its number, high rates of aging of the population.


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