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Foreword

This is a collection of papers based on the lectures of the international conference organized by the University of Szeged, Faculty of Economics and Business Administration on November 4-5 2011. Our faculty organizes a scientific conference every year, and this one was held to honour the 100th anniversary of Frederick Winslow Taylor's publication of "Principles of Scientific Management"

Taylor is regarded as the father of scientific management. He thought that by analysing work, the "One Best Way" to do it would be found. Since its introduction a hundred years ago Taylorism has generated heated debates and controversies with numerous supporters and critics. Taylor intended to use his scientific model for the benefit of all concerned parties. However, his famous line, that even an intelligent gorilla could be trained to do Schmidt's job, actually refers to the dehumanization of human work. A range of questions hence arises, such as: Why are Taylor's ideas coming up on the management agenda even today? What arguments are brought up by neo-Taylorism? Which of Taylor's contributions still stand scientifically, and which ones should be unlearned by today's researchers and practitioners? What are the new approaches that we need to focus on?

We believe that the questions raised by Taylorism would be worth reconsidering and answering from the perspective of management sciences today. So the aim of our conference was to rethink the ideas of "scientific management" from the point of view today's management sciences. As a result of the above mentioned aim our conference provided a wide range of topics to the participants, which were divided into the following three groups: organizations, cultural and behavioural issues and management practices.

During the conference these topics were discussed in lively debates by the participants in several sections. It was a great pleasure for us to review and edit the conference proceedings and make them available for interested readers via the internet.

We would like to kindly thank all the authors, the members of the Scientific and Reviewer Committee, the organizing team and our faculty for their valuable contribution to the conference.

Szeged, 30 September 2013

Éva Málovics
Chairperson of
Scientific and Reviewer Committee

Motivation of financial institutions' management to a crisis

ATTILA ÁCS

The recent financial and economic crisis highlighted the importance to better understand managers' motivation and decision making process at financial institutions. There is direct relation between liquidity developments and asset price movements and these market developments influence the decision makers' attitude and reaction. This interconnection can result in a vicious circle with devastating consequences for the financial system and real economy.

Nowadays market-based institutions overtook the dominant role in the supply of credit from commercial banks. These market-based financial institutions were deeply involved in securitisation and actively used capital and financial markets to satisfy their funding needs. This changing nature of finance is well reflected by the aggregate balance sheet of market-based financial intermediaries which in 2007 reached 17.000 trillion of dollars compared to commercial banks 13.000 trillion. This overwhelming role of broker-dealers, investment banks together with their risk and investment practices explains why the managerial decisions in this type of financial institutions have reaching consequences to the whole financial system and real economy.

Main goal is to shed light on this management behavioural phenomenon on which today's researchers and practitioners need to focus on to prevent the proliferation of overly risk taking.

Keywords: crisis, risk, compensation scheme, leverage

1. Introduction

The primary goal of this paper is not to put the blame on financial managers for the financial crisis but to shed light on their motivating factors. There is plenty of literature dealing with the causes of the current situation but little attention has been paid to psychological aspects.

Király et al (2008) provides an overview of the antecedents of the crisis emanating from the US sub-prime credit market. They conclude that the main drivers of the turmoil were a persistently low international interest rate environment and financial imbalances brought about by globalisation. The continuously rising house prices, the rapid increase of financial asset prices due to sub-prime mortgage credit securitisations (the originate-and-distribute model) and the crash of asset prices in the United States collectively were liable for the enormity of the economical distress.

But to a very important feature of the events little attention was paid to: the financial institution managers' and portfolio dealers' motivation. The recent financial and economic crisis highlighted the direct relation between liquidity developments and asset price movements. These market developments are important inputs in decision making process and contribute to the general attitude and influence reactions. This interconnection between market developments and investors feelings can result in a vicious circle with devastating consequences for the financial system and real economy.

First the financial landscape will be introduced as to understand the setting in which decision makers' manoeuvre. Only the very necessary technical aspects will be treated which are indispensable to our topic. After the regulatory issues the "this time is different" belief is treated as beliefs and ignorance are key to understand dynamics. Before ending this paper with conclusions the compensation practice at financial institutions is going to be discussed and its effect.

2. The financial landscape

To be aware of the financial landscape preceding the 2007-08 events is very helpful to understand financial managers' motivation and decision making process.

Classical financial institutions (commercial banks, saving houses, thrifts) make money by maturity transformation, that is they finance long term investments (house purchase) from short term sources (deposits). But from the 80's so called market-based financial institutions (broker-dealers, investment banks, hedge funds) overtook the dominant role in the supply of credit from commercial banks. These market-based financial institutions were deeply involved in securitisation and actively used capital and financial markets to satisfy their funding needs. This changing nature of finance is well reflected by the aggregate balance sheet of market-based financial intermediaries which in 2007 reached 17.000 trillion of dollars compared to commercial banks 13.000 trillion (*Adrian-Shin 2008*). This overwhelming role of broker-dealers, investment banks together with their risk and investment practices explains why the managerial decisions in this type of financial institutions have far reaching consequences to the whole financial system and real economy too.

Market-based financial institutions engage in very intense maturity transformation by buying long term assets on the capital markets (stocks, bonds, asset backed securities, credit default swaps, etc) and refinancing these assets from short term credits from the money markets. Money markets offer short term financing possibilities that is they lend money for one day or a couple of day. From this follows that investors have to refinance assets from time to time. Not surprisingly, refinancing conditions are vital to investors.

On money markets the primary form on lending is the repurchase agreement (repo). In a repo contract the borrower sells a security today for a price below the current market price and will buy it back in the future at a pre-agreed price. The difference between the current market price of the security and the price at which it is sold is called the "haircut". The variations of haircut largely determine the available funding to market participants, since the haircut determines the maximum potential leverage possible to borrowers. In case of 2% haircut, investors can borrow 98 dollars for 100 dollars worth of assets pledged, investing this way only 2 dollars of equity to hold 100 dollars worth of securities. Thus, in case of 2% repo haircut the greatest possible leverage (ratio of assets to equity) is 50 (*Adrian-Shin 2009*).

The evolution of factors influencing liquidity conditions shows pro-cyclicality which means that liquidity is plenty when markets are calm and prices of assets are rising. In these conditions lenders feel safe from losses as they keep the collateral. The value of collateral in favourable conditions, when optimism is reigning, usually is rising. Volatility is low as investors are calm. Several other factors have influence on short term liquidity conditions and implicitly on balance sheets of financial institutions. As portfolio managers react to every change in asset and money market conditions balance sheets reflect all this adjustment. As a consequence investment banks aggregated balance sheets is a good proxy for general liquidity conditions (*Adrian-Shin 2008*).

It is important to write about financial developments. Financial engineering created new highest qualified investment graded (AAA) assets which became eligible for repo. As the real value of these securities got questioned they lost their high level status and a haircut of 100% was applied to them. These papers became ineligible for refinancing in practice which put additional pressure on their prices.

3. Regulation

Investment companies, broker-dealers have to follow mark-to-market accounting rules to reflect the true and updated value of the balance sheets of financial institutions. It means that

these companies day-by-day have to update their balance sheet items. This methodology should allow investors and policy makers to better assess risk profiles and make corrective actions in financial regulations. Opponents of this accounting practice argue that mark-to-market accounting leads to excessive and artificial volatility of market prices and balance sheets. As a consequence, short-term fluctuations have serious effects on the value of the balance sheets of financial institutions. This way an accounting rule drives markets instead of the fundamentals and the value at maturity of assets and liabilities (*Allen–Carletti 2007*).

This mark-to-market accounting rule is exacerbated by value-at-risk (VaR) risk management. VaR is defined as a threshold value that the losses should not exceed in a given time period with a given confidence level. The main input in VaR values is the volatility of time series of daily equity returns. To put it simple, VaR is high when the market prices change with big amplitudes. In compliance with VaR risk management practice exposures are adjusted continuously to be matched with available capital, so to leave the probability of default constant. But market prices change in the same time for every financial investor which means that they have to de-leverage (sell assets) at the same time to contract their balance sheets. In other words, balance sheet must shrink or expand simultaneously to keep probability of solvency fixed over time. Thus, when after a shock the overall risks in the financial system increase, the intermediary must decrease its exposure in order to maintain the probability of default unchanged to additional arriving shocks. On the contrary, when the economic situation is more benevolent and anticipated risk declines, the financial companies will expand balance sheets by buying risky assets to keep the probability of default constant (*Adrian–Shin 2008*).

From the above mentioned follows that the assets to capital ratio moves hand-in-hand with VaR. Intermediaries are buying risky assets when the risk measured by VaR is low and selling assets when measured risk is elevated. To put it in different way leverage is pro-cyclical in the sense that leverage grows when balance sheets are expanding, and then contracts when balance sheets are shrinking (*Adrian–Shin 2008*). Figure 1 and figure 2 help to explain this relationship, between VaR, leverage and volatility, where the latter is represented by the VIX¹ index.

On Figure 1 the relationship between the equity of the 4 largest US investment bank, value of VaR (the '06 May value set to unity) and S&P500 stock prices can be seen. Equity is responding not only to stock prices but VaR too and that is the reason that the value of banks equity can diverge from the course of stock prices. Obviously the change of equity can overreact the change of stock prices in benign conditions when VIX declining.

On Figure 2 the countercyclical nature of connection of price volatility (VIX) and banks leverage ratio (lev) is visible. The effect of suddenly falling prices to leverage is dramatic in 2008. The explanation is that crashing prices wiping out bank equity (Figure 1) faster than banks can adjust leverage to new conditions. Liquidity² conditions were stressed from two main directions. First asset liquidity deteriorated on markets³. It means that when financial companies sell stock they want to exit the same door at the same time but simply enough buyers can be found only at markedly lower prices. The final consequence is devastating and demonstrated by leverage value. It has reached nearly 100 which imply that against equity of

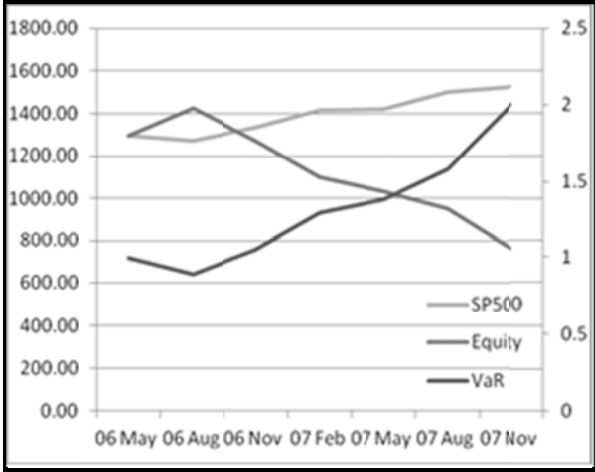
¹ The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility. <http://www.cboe.com/micro/VIX/vixintro.aspx>

² About likuidity effect see *Ács 2011*. http://www.bankszovetseg.hu/anyag/feltoltott/HSZ_0311_5.pdf

³ A market is liquid if transactions can take place rapidly and with little impact on price. So defined, market liquidity has several dimensions.²⁰ Tightness refers to the difference between buy and sell prices, for example the bid-ask spread in a quote-driven market. Depth relates to the size of the transactions that can be absorbed without affecting prices. Immediacy denotes the speed with which orders can be executed, and resiliency the ease with which prices return to “normal” after temporary order imbalances (*Borio 2000*).

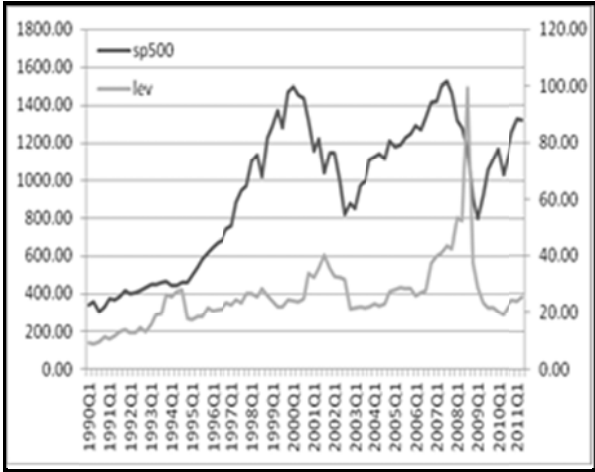
1 there were assets of 100; only an additional 1% decreases in value wiped out totally the remaining equity of banks resulting in€ bankruptcy.

Figure 1. Relationship between S&P500 stock prices (lhs), equity of banks (lhs), and VaR (rhs)



Note: Index comprised of Bear Stearns, Goldman Sacs, Lehman Brothers, and Morgan Stanley.
 Source: Shin et al (2008)

Figure 2. Relationship between S&P500 stock prices (lhs) and leverage ratio (rhs)



Source: Yahoo Finance

4. Beliefs and ignorance: this time is different

The roots of the problems stretch back to the preceding years of low interest rates and high world growth. The main driver of developments was the search for yield further down the credit quality curve. Stock prices were kept on rising and volatility was subdued simultaneously leading to overoptimistic assessments about the risks ahead. At the same time financial system developed new investment graded (AAA, that is the highest quality) financial instruments that seemed to offer higher risk-adjusted yields, but in reality their risk was understated due to lack of knowledge and negligence. In this environment prevailed by optimism market discipline failed (IMF 2009a). Not surprisingly “this time is different” attitude reigned across the financial system. The belief in financial innovations was unlimited blurring even the supervisors’ vision too in many cases. The decisive moment in the period before crisis was when the newly created investment graded securities appeared on the

markets and got refinanced in repo transactions at a much lower haircut than otherwise would have been reasonable.

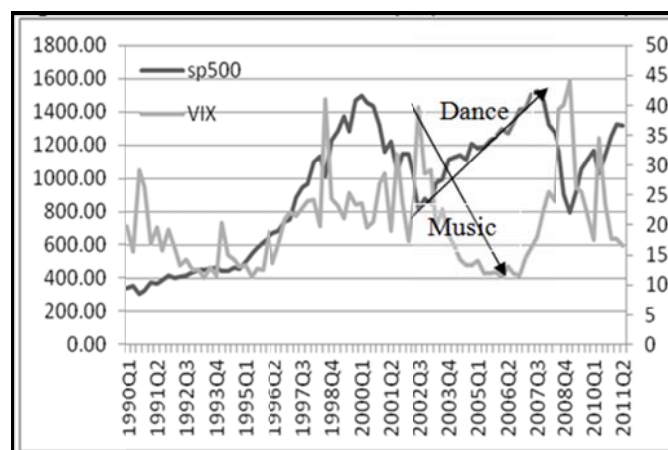
The US Office for the Comptroller of the Currency from 2004 through 2007 provided timely warning. Tried draw attention to a) imprudent credit decision practices fostered by ambitious growth goals, b) the need of better credit risk management practices, c) the liability of managers for both the quality and the quantity of their deals, d) “the worst of loans are made in the best of times”, e) changing risk selection practices and underwriting standards, and emerging concentrations of risks, f) unsustainable appreciation of house prices and overvalued markets, g) increasing credit risk due to weakening of underwriting standards (*IMF 2009b*).

Rajan (2009) is pointing to cyclical euphoria. It is not completely surprising that bad investments are done in good times. But what was astonishing was that the originators of securities with questionable values held in their own portfolios so many of them. At least the financial institutions should have understood the deterioration of the underlying quality of assets (mortgage backed securities, MBS). The justification has to be that somebody in these financial institutions considered these securities worth of investment. Buying mortgage backed securities seemed to be became part of an investment culture characterised by excessive risk-taking. To timely recognise this abnormality, it is extremely difficult, especially in the case of new products (*Rajan 2009*). As these assets were widely accepted in repo at a relatively low haircut indeed they were attractive.

Another issue is related to performance evaluation. To judge whether a financial manager is generating real risk adjusted excess returns or whether the current returns are simply compensation for an uncovered risk that can later materialize is a tough task. In addition head of financial companies are evaluated in part on the basis of the earnings they generate relative to their peers. This is a very competitive business and the pressure is always high to generate high returns. To managers of follower banks have no option but to engage in risky investments to improve various observable measures of performance. Even if they recognize the doubtfulness of this type of strategy, the temptation to increase their bank’s stock prices and their own reputation is a strong appeal. There is anecdotal evidence of this type of managerial attitude. The most frequently cited is the chief executive officer of Citigroup, Chuck Prince. In his infamous sentence gave explanation why Citigroup continued the same investment practice to buy assets from credit despite rising risks: “When the music stops, in terms of liquidity, things will be complicated. But, as long as the music is playing, you’ve got to get up and dance. We’re still dancing” (*Rajan 2009*).

This “dance” is highlighted on Figure 3, where the simultaneous development of S&P500 stock index and market volatility (VIX) is observable. Nicely discernible is a change in the relationship between S&P500 and VIX from 2002 onwards. Volatility was diminishing and stock prices were kept on rising. VIX reached its bottom in 2006q4 but stock prices were rising for an addition half year. Liquidity conditions changed in response to varying volatility and asset prices. When both were deteriorating liquidity conditions answered in accordance by rising haircuts and shrinking number of eligible assets. Then the stock index bottomed and volatility topped at the same time in 2009q1.

Figure 3. The S&P500 stock index (lhs) and VIX volatility index (rhs)



Source: Yahoo Finance

In every investment institution there is internal risk management. Risk managers repeatedly warned of risk building up in the financial system but that risk had not materialized in the upswing period. These so called tail-risks by their characteristic happen rarely and therefore hard to quantify with precision their occurrence. That is the reason why risk managers could not put a limit on the investment managers' activity. Investment managers were so profitable for an extended period of time that hardly any chairperson at investment banks were ready to bring to an end such profits. Keep in mind that top managers were pressured for profits by stockholders. So these warnings were left out of consideration and had little influence. To bet against the boom is a very risky strategy because, as Keynes said, the market can stay irrational longer than investors can stay solvent (*Rajan 2009*).

5. Compensation practice

There is competition even for traders. To get the best investment managers (traders) an attractive compensation scheme is essential. But the bulk of the compensation paid for short-term, risk-adjusted performance. In this setting to maximize long-term bank value is extremely difficult. As mentioned, to identify so called tail-risks in benign conditions is enormously complicated and this circumstance give traders an incentive to take risks that not fully recognized by the system and prices. By taking advantage from lack of knowledge superior income could be generated that appeared to stem from superior investment abilities, even though extra profits were in fact only market-risk premiums. The typical way to exploit this situation is to write insurance on rare events such as defaults, assuming what is termed "tail" risk. If insurance premium entirely recognised as income for portfolio managers' trading activity than part of this money can be paid off as bonuses. In reality the significant fraction of the generated income should be set aside as reserve for an eventual tail-risk event. For example at AIG's financial products division this became a general practice by investment managers to wrote out credit default swaps (CDS) and take the extra income as bonuses. Not bothering with the consequences no reserves were left for default and the company got to the brink of bankruptcy (*Rajan 2009*).

Another flawed widespread compensation practice based on the generation of annual profits with similar destroying effects. In the run-up to the crisis payouts to traders and managers were abundant. The source of extra yield was achieved by engaging in leveraged positions buying multiple quantities of risky assets from capital. But dealers did not face the losses in the downturn together with top management (*IMF 2009a*).

To bring to an this erroneous bonus system and far reaching consequences for the financial system IMF and Bank for International Settlements is developing principles for

sound compensation practices in large financial institutions (*IMF 2009c, Basel-BIS 2010*). Supervisors may have to include compensation schemes to their general review of risk-management and governance at financial companies. New so called best practices would be introduced at international level to make compensation structure more risk based and consistent with the long-term objective of maintaining the company as a going concern. The most logical first step is to stop paying bonuses from annual results and short-term indicators. In this sense deferred pay-outs should be introduced and enough time should be left for potential risk to realise. An alternative choice is to make compensation conditional on medium-term return on assets rather than equity price of the financial institution. This way the bias to create leverage when volatility is low and economical future looks bright could be dampened (*IMF 2009a*).

6. Conclusions

This writing intentionally took into consideration only the most relevant technical issues pertinent to our topic. The author's intention with this short paper is to shed light on soft issues like psychological factors and compensation schemes and their role in financial developments. The shortcomings of the financial system create incentives for investment managers and chairmen for crisis. Undoubtedly these people do not want to generate financial meltdown but there is the temptation. This temptation is incarnated in short-term measurement of success and fierce competition between investment companies. This structure is built on money but interestingly portfolio managers and decision makers rarely risk their own wealth. They play a win-win game and in worst case they do not get the year-end bonus but their unresponsive strategy brings about externalities in the real economy. The answer at first glimpse seems simple: stop concentrating only on short term performance measurement and have a longer term investment horizon. But unfortunately it has been proved several times that the creativity of the financial world is limitless and financial regulators lag behind markets.

Regulators and policy makers have to be ready to stifle affluent psychological factors. What really creates an explosive blend ("this time is different") of factors is their pro-cyclicality and co-movement. The source of the liquidity glut in the run-up to the crises was the "collateral bubble" originating from the pro-cyclicality of the financial world. In the years preceding the financial crisis security markets were characterised by inflated prices as the real value of the securities deviated away from fundamental values. Spreads narrowed, market uncertainty measured by volatility remained low, refinancing was cheap and plenty by repurchasing agreements. The range of assets eligible for collateral (warranty) in refinancing operations widened and these collaterals were refinanced close to 100 percent (*Gorton–Metrick 2010*). As broker-dealers' balances on paper remained strong maturity transformation intensified creating an inextricable relationship between different market participants.

In theory compensation deficiencies have been recognised and widely dealt with. Bank for International Settlements (BIS) formulated effective alignment of compensation with prudent risk-taking and effective supervisory oversight and engagement by stakeholders. Not only the firm's directors must actively oversee the compensation system's design and operation but relevant board members and employees must have independence and proficiency in risk management and compensation (*Basel-BIS 2010*). Hopefully these changes will be effective.

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Features of ‘talent-branding’ at the University of Pécs¹

GÁBOR BALOGH

This paper deals with the particular issues of nurturing of talent at the University of Pécs. Institutes, students and employers together are united in the sense that all three search for talented individuals, even if, in other respects, their motivation, goals and methods differ. In this study I analyse features of student ‘self-branding’. One necessary feature of a company is to act as a ‘talent-magnet’, and so companies should aim to attract skilled employees using the best marketing tools. The empirical study is based on questionnaires referring to experience in professional practice (2009-2011). The data apply to a total of 737 students. One of the most important features of the study was to emphasise regional characteristics, the result of which was that the most recent data focused strongly on Pécs and Budapest. Significant differences were found in students’ skills in the two cities, these being most visible as basic methodological skills, professional concepts, discipline and responsibility.

Keywords: talent, self-branding, talent-branding, nurturing and managing talent, territorial comparisons, professional practice, evaluation of skills.

1. Introduction

The first topic is the description of the situation of European higher education and that of the Hungarian system in this context. In an educational aspect I present the effects of the Bologna-process, strategy and competitiveness. Following I review the perspectives of student side and corporate side in details. These are the three partners or participants: the university, the student and the company. The students and the companies are connected in the concept of ‘talent-brand’. After the presentation of the theoretical results I show the empirical methodology of the research and the results of the survey carried out by a questionnaire. This survey was conducted at the University of Pécs (UoP), Faculty of Business and Economics within the frameworks of professional practices. At the end of the internship the three partners evaluate the students’ competencies and skills. Three clusters of students can be differentiated: balanced experts, average lonely men, problem-solving amateurs. The strengths of students at UoP are: teamwork, diligence, adaptability and responsibility. In the followings I specify these features.

2. Higher Education and students in Europe

The main aim of the so-called Bologna Process is the development of the European Higher Education Area (EHEA) and the related sub-objectives. These are: an easily understandable and comparable education system, a cascading training cycle, the setting up of a credit system, support for mobility, European cooperation in quality assurance and support for the European dimension of Higher Education (HE) (Szolár 2009, Polónyi 2010). In recent years Hungarian HE has been considerably transformed. This can be seen in the number of students involved in HE which has quadrupled over the last fourteen years, although this rise was partly caused by the developing economy. However, in the meantime the internal structure of the labour market is no longer sustainable and the received opinion is that currently there are too many graduates in the fields of economics, law and information technology (Mang 2004).

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The new education system appeared in Hungary in 2006 and, on the basis of the latest evaluations, the situation of Hungarian HE is more complex than average (*Hrubos* 2010). An important aim of the Bologna Process is to promote student mobility and to show the diversity and multicultural characteristics of Europe – so furthering the process of ‘getting to know each other’. However, one paradoxical effect can be seen in this respect: the introduction of the new system reduced the number of foreign visiting students. There are several reasons of this: the first being the decline of the novelty factor, whilst the second is that the period of education is shorter. The 3-year term of a Bachelor course and the 2-year duration of a Master course are simply too short to allow a student to plan a study period abroad. In addition, the lack of language skills and that of the labour market trends are deterrent, as it is a fact that students do not use foreign internship opportunities, even though the term ‘student mobility’ was intended to cover not only a visit for strictly ‘learning’ purposes, but also professional practice undertaken abroad.

Mass HE is the inevitable consequence of the Bologna Process (*Polónyi* 2010). In the two-level system the Bachelor (BA/BSc) courses provide students with a broad, but limited knowledge of their subject, and these graduates come into the labour market prepared to a generally modest level. A much smaller number moves on to Master level (MA/MSc). This also shows that the obligatory six-month work experience in the seventh semester of the BA course is important since it creates a clear distinction within the student body. This way students can differentiate themselves and can acquire practical knowledge in a specific field or sector.

A unified HE strategy was not developed in spite of Hungary’s accession to the EHEA in 1999. Later, the Higher Education Act of 2005 made reference to the EU and to the need for improving competitiveness. Hungarian HE continues to lack a comprehensive strategy and objectives and has been compared to sailing without a compass (*Barakonyi* 2009). “The competitiveness of higher education means the ability to compete on the international knowledge-market, long-term responsibility in respect of positions – characterised by successful competition for students in the education market (attracting domestic students, retaining domestic talent, attracting foreign students)” (*Barakonyi* 2009, p. 13). The competitive situation must be measured to the relation to ourselves, but it is also linked to the macro-regions, to Europe and the world, and also to the Bologna Process in terms of its influence on HE. In this competition Hungary’s primary interest is to maintain and develop the correct position of Higher Education with its institutions and personnel (*Krisztián* 2009). Competitiveness involves several significant factors (the capabilities of students, finance, the efficient use of resources, the quality of education, mobility, infrastructure, etc.). In this paper the most important factors are the knowledge behind the degree, skill development, the creative environment, practice-oriented education. In brief this means the issue of the students and the graduates who meet the labour market requirements of Hungary and Europe.

3. Talent-branding

The aim of the subsection is to present the marketing approach in individual career development and talent-management. In this perspective we can mention talent-brand from both the side of the employee and that of the employer. The ‘brand’ uses ‘seller’ to identify them. The employers wish to sell the company and the job to the best workers, whilst the more gifted personnel (human resources) sell their special abilities in the labour market. The essence of the brand concept is that the brand owner can be identified and thus can be distinguished from the competitors. Six levels can be differentiated: marks (which first come to mind), benefits (the marks of emotions translated into language), values, culture, personality, users (the brand suggests who the buyer is) (*Kotler–Keller* 2009). In the

followings we examine the factors affecting the processes of personal and corporate talent-marketing and analyse talent-branding from both student and corporate perspectives.

3.1. Trends affecting talent-branding

The spread of talent-branding today is strengthened by the trends observed. In recent years these have included mass Higher Education and, as a result of this, graduate unemployment and also the decline in young graduates' earnings (*Kertesi-Köllő*, 2006). Mass HE has led to sharpened competition among students of educational institutions (*Selmeczy* 2007) and, as a result, students have to stand out more and more from the crowd. We believe that this trend applies even more strongly in the Bologna system (the European Higher Education System). "In the continuously changing requirements of the labour market HE is unable to adapt to the desired educational and output requirements. This problem raises the need for continuous interaction between HE and the labour market" (*Farkasné et al* 2010, p. 33).

Another factor is that the professional structure of HE is inconsistent with the expectations of the labour market (*Tóthné* 2008). Unemployment and labour shortages occur at the same time in the labour market and HE is becoming less and less able to meet these expectations, and convey the appropriate expertise (*Kabai-Szabó* 2008). The consequences are the difficult situation of companies which must select from the crowd of the best appointees for a given job.

Generational issues are also involved. Today's young graduates are already known as members of Generation Y (born between 1970 and 2000). A significant proportion of them is the so-called experience-searchers who look for outstanding knowledge (*Törőcsik* 2011). All forms of digital gadgetry and technology such as computers, DVD players, SMS, remote control, e-mail, chat functions and the like are core to Generation Y as they have grown up in the ICT (Information and Communication Technology) age. These people receive messages via several channels and so can they learn to observe the brand which is the easiest way to sort and select. To them the brand generates value and the brand is the observed promise. It is very important that Generation-Y members are consumers of work experience, and this also defines the functions of corporate talent-management. The reason is that they simply need a brand name for the selection of a job or in their search for a career as an online purchase. The additional influencing factors of the development of talent-branding include the intensification of social media and social networking (such as Facebook, Twitter, YouTube, etc.) – which is not necessarily limited to the young generation (*Schumann-Sartain* 2009).

From the employer's point of view the members of Generation Y are not manageable or subservient, they have a rather autonomous personality and a job is just one of the many jobs for them which can be changed at any time. Generation-Y members do not want to stay at a place, where the company's expectations for loyalty are too high (*Tari* 2010).

We should also mention mobility, migration and virtuality among the trends, but in Hungary these are limited features. Most Hungarians do not want to leave their home country. A further factor is growing awareness in the European Union, which means that workers gather more information and so can formulate higher expectations – which means that we can talk about a general change in attitude (*Gandossy et al* 2007).

Overall, in the course of the development of talent-branding we should ensure that the brand contains those elements which the consumers of work experience wish to feel.

3.2. The student side

From the student's perspective there are many expressions referring to students or employees talent-branding (e.g. the me-brand, personal brand, self-branding, self-marketing, etc.). The main point of the concept is that the students establish an image of themselves in order to

distinguish themselves from other students, and this image makes them stand out in some capacity or personality feature unique to their area. Students can be differentiated in terms of being special, unique and diverse since talent and ability can also manifest themselves in many ways.

A personal brand is now becoming an increasingly important concept, since some jobs can be obtained only by appropriate self-branding (*Szalai-Burszán* 2010). However, in the domestic (Hungarian) literature little attention is given to the phenomenon of self-branding (*Palásti* 2011). Whoever focuses deliberately on the creation of his own image and builds his own personality-brand systematically can improve his effectiveness in the labour market (*Galli* 2010). The process comprises the steps of self-brand-building. Self-marketing means a regular, conscious activity; it creates an ideal and professional self-image, maintains that in the long-term (the negative factors are deliberately excluded), and communicates outwards in order to exchange resources. On the individual side, the obtaining of a gainful job (the spoils) means resource exchange, but a broader phrasing (formulation) needs to be used since self-marketing does not cease at starting working, but also continues along the career path. Conscious activity includes: the analysis of situation and position, introspection (personal SWOT analysis, competitor analysis), self-marketing objectives, creation of target marketing strategy (segmentation of labour market, development of information system, selection of target market), positioning, design, product development and deployment strategy and price policies (private payment-, training-, awards-related expectations), channel policy (relationship and network), communications policy, evaluation and control (*Shepherd* 2005, *Shuker* 2010, *Schwabel* 2009). Those who would like to find a job easily and quickly, they have to become a demanding 'product' or a marketable commodity. They must have an attractive design, valuable expertise, emotional skills, internal firmness, constructive communication to their environment (*Tari* 2010).

In the narrowing market of expertise it is the only way to gain significant competitive advantage if we take time and carefully study the science of personal branding. One first needs to know the principles and objectives that have to be clarified. The formulation of the 'self-brand' has to be started within the personality. The students work with 'brought materials', which means that in this process the first important step is the development of self-knowledge and the mapping of their own strengths and weaknesses. They need to answer basic questions, such as: "Which values are important to me? What are my goals? What am I good at? What do I like in myself? What do I like less? Basically: Who am I?" (*Mihalik* 2011). As a result, the students establish their own personality with self-knowledge into a credible, attractive 'product', and this product is recognised by the labour market. The task of the university can include training in lifestyle, which means style- and image-consulting, improving the external and internal self-concept, the formulation of a positive inner voice and increasing self-confidence and self-esteem (*Timár* 2011). Also included is the input of style-training carried out by our teachers or professors, whether consciously or unconsciously.

3.3. *The corporate side*

Companies fight for the optimal labour force, since for them the most qualified, talented students can represent the resource, human capital, which can generate success in the future of the company, and/or they can find the escape-route from the crisis (*Szabó* 2011). Therefore, organisations should develop a personal workplace culture, an organisational culture which takes into account talent needs and gives experience, whilst young graduates have opportunities to show their competence. So do companies have to construct their own talent-brand including work experience in order to attract highly qualified human resources. In this way companies can work as a real 'talent magnet'. Obviously, not every organisation can afford to pay for talent and provide the required conditions. A few best practice examples can

be found in Hungary. Where the conditions can be created and all managerial skills are available for talent-management, there the process can be refined to become a ‘talent magnet’. This comprises:

- Formulation of ‘value promise’: a description of the value of employee experience;
- Employer’s image: a brief explanation of the ‘value promise’ in order to make the workers understand, why it is worthwhile for them;
- Talent brand: promoting the ‘employer brand’ for future and current workers to become the ‘talent magnet’ (*Schumann–Sartain 2009*).

However, it is important to remember that there are potential barriers, as well: a low level of awareness, a lack of credibility and personality and an insufficiently memorable message. These factors must be kept in mind following brand-creation.

An important aspect of attracting talent is that the employers have to develop a personal relationship with the students as soon as possible. It is no longer enough to do simulation games, case study competitions, career expos or job fairs and standing wars. In respect of internship programme, it is possible to strengthen personal relationships (*Petrány 2009*). The first task of talent-management is the identification, finding and attracting of talent, and the second task is to retain the chosen ones, for which the motivation, the developing methods of the so-called X-factor (high capacity) and various management techniques provide a basis (*Ready et al 2007, 2010*). During the development the experiential learning process must be planned carefully since there are certified teachers who care the gifted staff (*Antalovits 2010*). Novel methodologies were developed also for the generational characteristics, such as reverse mentoring, in which a talented young staff member can teach the top-level executives how to use, for example, the Internet or the social networking portals (*Meister–Willyerd 2010*). A similar innovative method is a performance evaluation method named the Reverse Supply Chain. This technique defines the talent-management on the basis of the standards, systems, criteria and parameters, so does it build the competence map and draws up the tasks (*Farkas 2010*). Whilst managing talent a number of typical mistakes can be made, such as the presumption of commitment and sacrifice for the community, the projection of the current high performance into the future and fear for the talents from ‘deep water’, etc. (*Martin–Schmidt 2010*). Attention should be paid to when and how much talent the company ‘buys’ from outside or brings up inside. These are not alike due to the internal processes of motivation, and such people do not like to ‘sit on the bench’. If there are not enough challenging tasks, they can become demotivated and there is the risk that staff trained at high costs will leave the organisation (*Cappelli 2008*). These methods can be framed consistently by the so-called ‘talent-analytics’. This framework helps to review both objectives and instruments (*Davenport et al 2010*). As in the case of practices of HR Management, we can also imagine several versions of talent-management in the different regions (*Farkas et al 2008, Dobrai–Farkas 2009*). The key factor of the talent is the motivation: the employers must create such tasks and jobs that enable the talents to experience the so called ‘flow-feeling’. Flow is a mental state in which activities are in a feeling of energized focus, full involvement and success in the process of the activity. The main factors for reaching the flow-state: clear goals, concentrating, a loss of the feeling of self-consciousness, distorted sense of time, direct and immediate feedback, balance between ability level and challenge, a sense of personal control over situation, the activity is intrinsically rewarding, a lack of awareness of bodily needs and absorption into the activity (*Csikszentmihályi et al 2010*). This facts show that the creation of talent-brand cannot be stopped at the acquisition of highly qualified human capital on the corporate side. After ‘purchase’ it is important that the company nurtures them as internal stakeholders with broad management technique tools.

4. The connection of perspectives – the source of empirics

If an educational institution would like to obtain more experience of the relationship between students and companies, there are many ways to do it. As previously mentioned, work experience is one of the best methods to improve personal relationships between the two partners. On this subject the Faculty of Business and Economics at the University of Pécs (UP) has conducted a survey by questionnaires for six years. In this paper we offer the most recent data, which have emerged under the Bologna system – since, that is the entry of UP to the European Higher Education Area. The other track through which information can be obtained is the Graduate Follow-Up System (see also our previous researches: *Farkasné et al 2011*). The third option is personal interviews with talented students. The authors of this paper are conducting the coordination of the project SROP 4.1.1.-08/1 (Social Renewal Operational Programme) named “You are the best brain” at UP, Faculty of Business and Economics. With the support of the project a good deal of information can be utilised in the case of practices in international talent-management (scholarships in Austria, talent development programmes, etc.). We analysed, for example, the detailed professional report of a former GE Scholar who had participated in the above project. In the rest of the paper we describe the results of our survey on professional practice.

5. Research methodology

The first year’s intake of the Bologna Bachelor programme entered its seventh semester in 2009 which also means a minimum of 12-week period of professional practice in the following programmes of the Faculty: Business Administration (BA), Commerce and Marketing (CM) and Finance and Accounting (FA). Since 2009 a total of four semesters have also been completed (two autumn and two spring semesters) and a total of 737 students have gained work experience by June 2011. This gave us statistically meaningful results from the questionnaires. In the questionnaire the students and mentors (corporate representatives) detailed their opinion of the work done and of the necessary skills. The resultant database contains a tripartite classification. These are invariably based on a five-point scale, where ‘5’ means the best rating, and ‘1’ does the worst:

- Students’ self-assessment and opinion concerning the work;
- Evaluation of the mentor (representative of the corporate side who has completed an evaluation of the student). They are usually the immediate superior of the trainee;
- Rating of the tutor (the tutor represents the educational institution and evaluates the report made by the student).

It is important that the database includes the location (town or city) of the internship where the company is located. This allows an exploration of regional differences in the evaluations.

6. The characteristics of the sample and the basic information

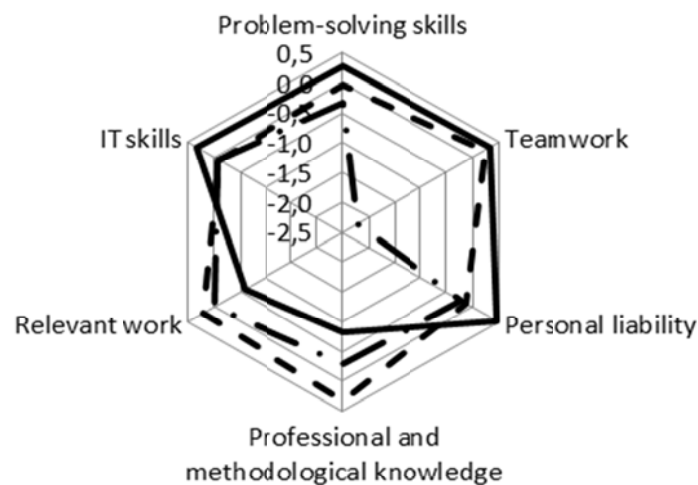
The survey has a sample size of 737 persons, of whom 67% are female and 33% male. The sample has 45% of students from the academic year 2009/2010, and 55% completed their professional practice in 2010/2011. 95% of respondents were trainees in an autumn semester. The percentages of the programmes were: BA correspondence (distance education) 6%, BA full-time 27%, BA in English 6%, CM full-time 19%, FA correspondence 21%, FA full-time 22%; 68% of students worked in the private sector, 25% in the public sector and 7% at other non-profit organisations. Many activities can be differentiated and the most significant sectors

are: administration, banks, government offices, universities (UP), electronics, energy companies, chambers of commerce. These are the biggest ‘student-receiver’ employers. An analysis of numbers regarding the regions shows that 52% of the students worked in Pécs (380), 10% in Budapest (70), and more than 10% was in the following towns: Kaposvár, Komló, Nagykanizsa, Szekszárd, Szigetvár, Zalaegerszeg. 92% of students worked in a town and 8% worked in a village. The latter were employed typically in a local government office.

7. Results

For the sake of simplicity and of transparency we have contracted the correlating mentor-variables by factor analysis, and so did we develop six factors (Figure 1). The factors are: *problem-solving skills* (communication, creativity, oral and written communication skills, problem-identification, problem-solving, initiative and contact-making skills); *teamwork* (teamwork, cooperation, integration, adaptability); *personal responsibility* (thoroughness, responsibility, discipline, hard work, identification with tasks); *professional and methodological knowledge* (knowledge of precise technical terminology, specific professional questions, basic methodology, knowledge of management and organisational principles of operation and methods, analytical skills and relationships, orientation throughout the organization); *relevant work* (suitable job opportunities, future work appropriate for the professional qualification, the opportunity for better understanding of the chosen field, independent working, the student’s contribution to the success of the company); *it skills* (computer knowledge, information and technology skills). The model shows a total of 63% of the cumulative variance.

Figure 1. Students’ clusters based on corporate (mentors’) assessment (2009-2011)



— — Balanced experts — • Average lonely man — Problem-solving amateurs

Note: The values of the Figure show the factor weights. If the value is positive, the mentor agrees with the statement, if it is negative they reject it. N=737 people.

Source: Authors’ research

The reduced number of variables made it possible to perform a cluster analysis in a simple structure. As a result we could isolate three clusters (defined as ‘homogeneous, independent groups’). The first cluster includes the “balanced experts”, and most students (456) are found in this group. They aimed to perform all six factors as well as possible. Their

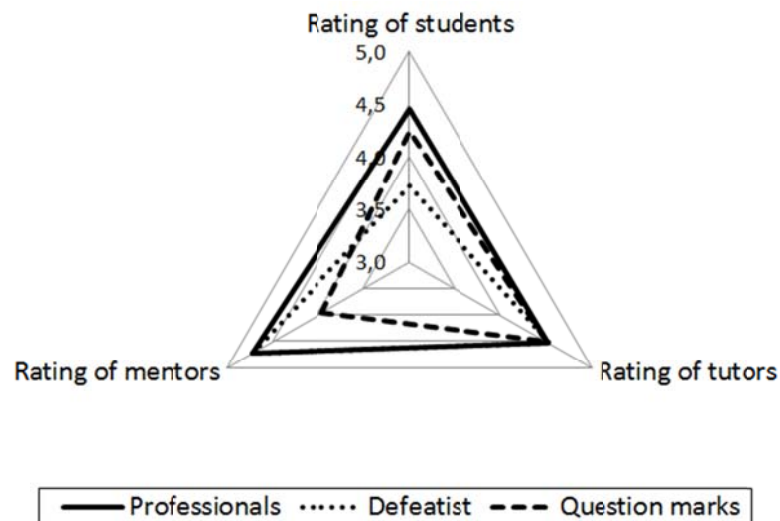
professional and methodological knowledge is the best and they actually managed to find a job that matched their skills and knowledge. In brief, the job was appropriate for them.

The second cluster is the “average lonely men”, which represented by 75 students, is the smallest group. They reject group work, prefer to work independently and stand alone. The other aspects are approximately similar to the cluster of balanced experts, but in the field of technical and methodological knowledge and problem-solving skills they are behind them.

The third cluster is the “problem-solving amateurs”, 156 in number. They have outstanding IT and problem-solving skills and mostly represent the model of the responsible human resource. By contrast, this group had the lowest evaluation of technical and methodological skills, but this may be closely linked to the fact that they had the least appropriate ‘fit’ to the work – as the company did not provide an opportunity to the students to use their skills and show their talent.

This ‘trinity’ (student, corporate and educational institutions) is visible throughout the paper, and we analysed this trinity simultaneously based on self-assessment, mentor and tutor evaluations (Figure 2).

Figure 2. Students’ groups of the tripartite evaluations (2010-2011)

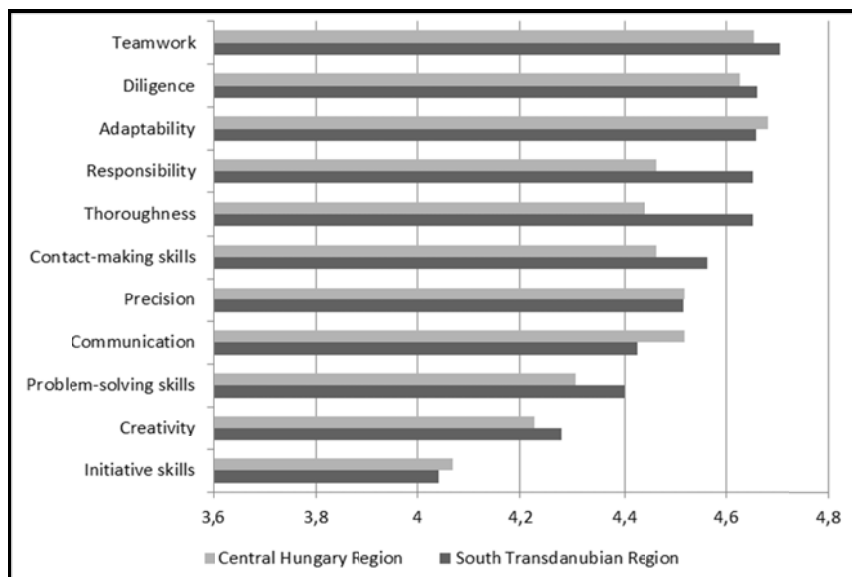


Note: The rating is measured on a five-point scale, where 1 = worst, 5= best. N=367 people.
Source: Authors’ research

The tripartite reviews formed also three clusters in the academic year of 2010-2011. The first was named “the professionals” (223), since mentors, tutors and students all gave high ratings. The second cluster we called “defeatist” (65). They were assessed highly by the corporate and academic sides, but they underestimated themselves significantly. The third cluster is the “question marks” (79) and they were given this name since questions arose which were needed to be examined: students and tutors gave good assessments, whilst the mentors disagreed. It is not certain whether the low evaluation was due to the student’s failure.

Our analysis of the differences between the South Transdanubian Region (75% of students) and the Central Hungarian Region (11%) provides the basis of the territorial factors in the evaluation of student competencies. Most students were from these two regions. The West Transdanubian Region is also significant (6%). The proportion of foreign trainees was below 1%.

Figure 3. Regional comparison of mentors' (corporate) evaluation (2009-2011)



Note: The rating is measured on a five-point scale, where 1 = worst, 5= best. N=737 people.
 Source: Authors' research

The most important result is, similar to last year's ratings, that the South Transdanubian students are evaluated again more highly according to most criteria. This is striking even if both regions had ratings exceeding 4 (= good). Figure 3 shows the evaluation of students' skills in the mentors' opinions.

In the light of the analysis it can be concluded that in Central Hungary (especially in Budapest) students from Pécs are considered less disciplined and responsible than those from the South Transdanubian Region. Also, their basic methodological knowledge (the difference in the evaluation is 0.26), their analytical skills (0.12) and their knowledge of technical terms are seen weaker. Overall, the mentors of both regions agree that Economics students in Pécs show good adaptability and outstanding teamwork skills (In most cases there was no need for foreign language use).

8. Conclusion

The development of 'talent branding' is very important for both the students and the companies. The company's talent brand strengthens their ability to attract the best students, while the students' self-branding makes it possible to integrate into the staff and to find a better-paid job more easily. Our empirical research results demonstrate territorial differences between the regions, which define the skills of talent branding (which must be developed). This feedback is a very important part of personal branding. The tripartite classification (company, educational institution, students' self-assessment) facilitates the creation of the necessary, real self-knowledge in self-branding. It is important to emphasise that the students who go to work to Budapest and its surroundings should study the results of our research.

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Graduate Follow-Up System at the University of Pécs¹

GÁBOR BALOGH – NORBERT SIPOS

Our aim is to present the experiences of professional practice and the ‘Graduate Follow-up Programme’ at the University of Pécs (UP). In this paper we examine the talent management and human capital management from two perspectives. The first is the connection between the management of an institution of Higher Education (HE) and the business world (e.g. via a career office) and the second relates to the transition from HE to the labour market (a particular phase in talent management). Our database, which we used in our practice-oriented, empirical research, consists of two main parts: the Graduate Follow-Up System (GFS) and the UP questionnaire regarding students’ professional practice. The multilateral approach helps us to achieve a realistic picture of which processes and peculiarities characterise a student’s (pre- and post-graduation) placement in the labour market. We draw conclusions and formulate recommendations based on criteria for the most significant factors relating to new recruits from both corporate and HE perspectives. The system of professional practice serves as a highly effective feedback, and this shows that removal of the conventional knowledge fetish. Secondly, there is a demand for bipolar system of knowledge and skill-application (that manifested in competence-principle).

Keywords: higher education, Graduate Follow-Up System, talent management, human capital, labour-market skills

1. Introduction

The study presents a research carried out among students of one of the most successful university faculties of Hungary: University of Pécs Faculty of Business and Economics (UP FBE or ‘Pécsi Közgáz’).

We focus on the relationship between higher education institutions and labour market. We examined the transition of students in the labour market. Connecting to this there is the present of the talent management approach of UP FBE. The data used for empirical analysis are provided by the results of questionnaires which were filled by students and companies during professional practice and the results of the GFS.

The most important aspect is the way the skills of students are able to meet the needs of corporate and labour market. Our conclusion is that employers are not expected to focus on creativity. In employing of a new staff member is more important the fast integration, adaptation, diligent and precise work. On this basis it is formulated that the key to success for the students in the labour market is matching the needs of corporates. If the personality and competence of the entrant is similar to the characteristics of the optimal worker imagined by the employers they prefer to employ. We can imagine this relationship as a balance, where in one of the pans there are the business expectations and the other side the competencies of the job candidate. Cooperation will be successful if the two-pans are in balance: it is a mismatch if an entrant wants to find a job with too many powerful features and it is also not acceptable if they don’t have enough skills for that job.

The results of our research show that the employers want to apply primarily appropriate staff in the corporate culture (Nunes–Breene 2011). The UP FBE students have developed emotional intelligence (EQ), which facilitates better integration.

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The concept of EQ includes own thoughts, feelings and knowledge and its use to manage their own behavior (Neale et al 2010). The four components of EQ: emotional literacy (knowledge of their own emotions and functioning), physical fitness (endurance, flexibility), depth (intensity, emotion differentiation), and alchemy (the emotions of the creative use) (Cooper–Sawaf 1996).

Beside the Faculty's own research even the experience of the Graduate Follow-up System (GFS) under circumstances of acute competition among HE institutions are highly important, since the results are part of performance measurement. Competitiveness in HE is a complex and strategic concept (Barakonyi 2004, 2009), and we deal with one element, namely the consistency between the student output of HE institutions and labour market requirements. The information on graduates entering the labour market provides serious feedback for the training-provider institutions. If students from an institution consistently find jobs sooner than those from another, this means that the first institution is more competitive, and, probably, that its students are more likely to meet the needs of the labour market (Falusné 2001; Farkas et al 2010; Galasi 2004). The converse is not necessarily true, in the sense that the career opportunities for a student are not necessarily linked to the degree classification. The aim of the GFS research (Garai 2010; Kuráth et al 2011a, 2011b) is to measure information on the career, status, working conditions and income of new graduates, and to provide feedback for their institutions of education. In our study we discuss the methods and techniques used at the UP FBE to study and manage the career of talented students before turning to the latest data and analysing of the students of the Faculty to draw our conclusions.

2. Professional practice – The success of the students in the labour market

Faculty of Business and Economics considers the comprehensive understanding of the connections of students with the labour market an important task. Accordingly, it carried out researches of the characteristics of internship work during the professional practice, and it collects the experiences of the alumni organization, the social-senate, training, teaching (guest speakers), career days, business projects, case study competitions, student academic conferences, scholarships, too. It is very important, because we can draw a conclusion from the labour market and the integration of expectations of students and employers. It should be noted that many students after graduation were applied at the company, where they worked previously as trainee.

2.1. The practice of talent development at the UP FBE

The concept of talent management involves a broader perspective than basic professional practice. It can, in fact, be described as an inspirational concept at the UP FBE for MA (master's degree) students, as every tool is regarded as a talent management tool which seeks to develop talent. However, what should also be borne in mind is the mandatory nature of professional practice in respect of a number of majors – as laid down in Act. CXXXIX. of 2005: “in practice-oriented undergraduate courses it is obligatory to organise a one semester-long period of professional practice.” In other words, the mandatory nature of the scheme applies only to professional practice.

An examination of a student's career between Higher Education and the labour market should be approached with caution, and as a complex question, since feedback has a significant role to play in talent management and in professional practice. Utilising the information obtained will give us a more complete picture of the results of the Graduate Follow-Up System.

The talent does not break its way, so it is to assist in the talent-development. During the development of talent the higher expectations must be combined with the recognition, support and skills development (*Csikszentmihályi* 2010). It is very important aspect that the full-time students are in most cases the members of so called Generation Y. From the employer's point of view the members of Generation Y have some characteristics, they are not manageable or subservient, they have rather autonomous personality, and a job is just one of the many jobs for them, what can be changed at any time. Generation-Y-members don't want to stay in a place, where the company's expectations for loyalty are too high (*Tari* 2010).

Our analysis of the student-life and labour market-related section is supported by two systems at the Faculty – by feedback from questionnaires relating to the professional practice system, and by the Graduate Follow-Up System.

3. Methodology

The first methodological research field is based – due to considerable overlap in the above sample – on the professional practice surveys. One of the main tasks the Faculty was to offer professional practice opportunities to their students throughout the year to further strengthen the relationships between students, the institutions and the business sphere. The organisation, Total Quality Assurance and the documentation relating to professional practice were the responsibilities of different Faculty organisations (Relationships Directorate and the Careers Consulting Office (CCO)) (*Farkasné et al* 2011a).

In the 'old', undivided education system, with the approval of the Faculty Council, we launched in 2004 the Professional and Working Practice course to provide a credit- and grade-based evaluation system for professional practice, to come into effect from the autumn of the 2006/2007 academic year. This is a unique opportunity for FBE students, since they can have closer contact with players in the labour market in their two last years before graduation. To complete this course it is mandatory to complete the student and corporate surveys and so we have a 100% sample for drawing conclusions. From autumn 2005 until spring 2010 we received completed questionnaires from 463 students² from the integrated education system – in fact, three³ from each, which represents a total number of 1,389 questionnaires. To this we added 333 questionnaires relating to BA students' 3rd year mandatory practice. In our research we studied the reactions of both students and companies, and concluded that it would be profitable to continue to provide MA students with opportunities for professional practice throughout the year on a credit-based system, although it would also be necessary to employ a teacher and full-time administrator to handle this.

The second examined research field is based on the GFS (Graduate Follow-up System) survey. Every HE institution has to develop its own system which allows it to keep track of its graduates. GFS creates a bridge between the worlds of HE and labour. This means that the results should be comparable whilst, at the same time, they need to be useful in making strategic decisions related to improving educational structures and goals. To achieve this, each year we need to question those who graduated 1, 3 years earlier. It is accepted that the graduate labour-market situation does not change significantly in 1 or 3 years and should, rather, be examined only very 5 years, although in the start-up phase, important information can emerge. In the long term, maintaining continuous contact may well increase the willingness to complete the questionnaires.

The University of Pécs joined the GFS nationwide research programme in 2010. The researches carried out in 2010 and 2011 (*Kuráth et al* 2011a, 2011b) at the UP within the

² Since the sample comprises 4th and 5th year students from the earlier, integrated system, the sample is not affected by the mandatory professional practice of the Bologna system.

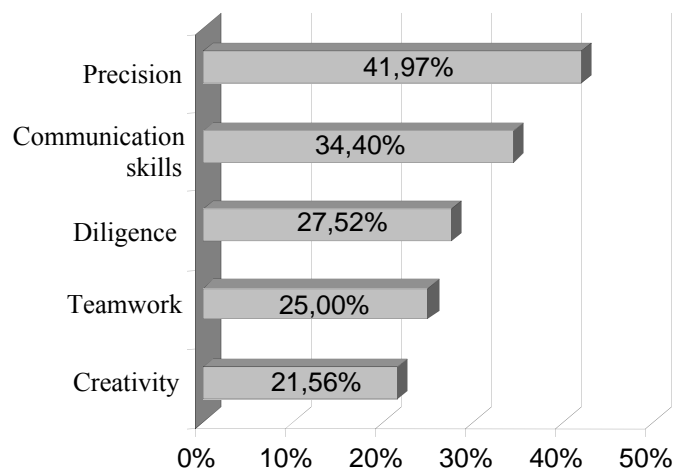
³ Student surveys before and after the practice and a corporate survey.

framework of Graduate Follow-Up System consist of the pre-degree students of 2007 and 2009 then of 2008 and 2010. From the UP FBE 1 714 graduates formed the database who had an e-mail contact. The access rate is above 90%, so the basic population inquiry is almost complete. In the sample there are 384 graduates, which is a good, 22.4% response rate. The response rate exceeded the initial expectations and so high quality estimates allow us to draw reliable conclusions from the sample and from the materials could be evaluated.

4. The experiences of the optional professional practice (related to the undivided education)

As a result of our research we surveyed the preferences of students and companies related to professional practice. By the exploration of students' prior expectations related to professional practice we establish that the students primarily think the precision as the basic competence for the successful internship, followed by communication skills, and third place in the nearly same level of teamwork, diligence and creativity as well. The following chart displays the details.

Figure 1. The most important skills for performance of the trainee's work according to the students before the internship (proportion of mentions, %, N=463)



Source: authors' research

After practice completed questionnaires show that students' previous expectations have proved true to a great extent, and the earlier fears were groundless. Most of the students had the opportunity to understand the organization, work processes and thus they came to know the specifics in the relevant area (for example financial, logistics, accounting specifics etc.).

The practical application of skills and knowledge is in the first place among the expectations. This characteristic achieved 40% rate in the mentions within the examined statistical population, and the conclusion is that the students are fully able to fit into the staff (integration). In addition, the students also experienced skill-development, and they could work together with colleagues very well.

From employers' perspective the students were characterized by accuracy in most cases, which reflects the students' appraisal of the competencies required for work before the internship. Diligence as a typical student property is the second on the list. Interest, confidence, good attitude, cooperation, creativity and communication skills among the criteria of the companies reached about the same level.

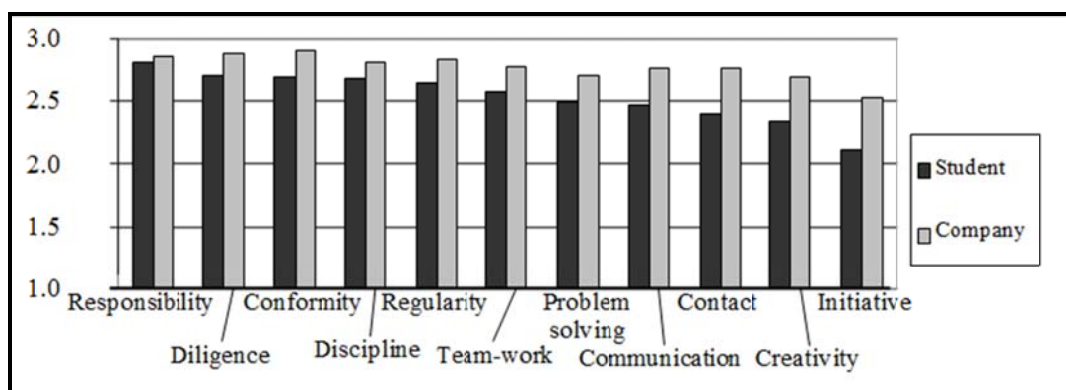
The opinions manifested by companies cover not only students but also the work done by students. Based on the context of our analysis we established that the 'Pécsi Közgáz'

students have the speciality: their emotional intelligence is better than average, namely they can be easily integrated into the community, are cooperative, and show empathy. Also they were reliable, worked usefully and they are characterized by diligence, independence, expertise.

The companies' feedback is clearly positive, according to them the students perform their tasks reliably and their work was really useful. Diligent work, integration, independent tasks and the good cooperation stand approximately on the same level. Negative opinions of the majority of cases are not framed in the corporate respondents, but rather praised the work of trainees.

The evaluation of students was completed by the companies on the basis of pre-defined skills, which the students also conducted their own self-assessment exercise. A comparison of two ranking presents in the following figure in descending order of the student-evaluation (Figure 2).

Figure 2. Comparison of student and corporate ratings (N=463)



Note: From 1 to 3 scale, where 1 = unsatisfactory, 2 = adequate, 3 = very good

Source: authors' research

From the figure it is clear that the students underestimated their each skill in relation to the companies' assessments. That shows the relationship of students' self-image to external evaluators' perceptions. The hierarchy set up by the two parties, i. e. the sequence of skills is similar. The responsibility, diligence and the adaptation has received the best assessment both on the students' and corporate side. Analyzing the relationship between the central region (including capital, Budapest) and the other regions an important question is raised: what methods can help to teach the students in Pécs for successful appearances, for the appreciative attention using the emotional intelligence and for self-presentation on the labour market.

5. The results of the Graduate Follow-Up System

In the GFS research, 384 students completed the questionnaire, of whom 64% are female and 36% male. After work placement, roughly the same proportions work in business (49%) and in the public sector (44%), while 7% found jobs in the civil sector. In terms of company size, 52% of graduates work for SMEs and 48% for large companies. Of the respondents, 21% are managers (almost two-third of whom took correspondence courses) while 79% are employees (of whom only one-fourth were correspondence course students). The quick change in technology and finance established new operating models and financial products with untraceable complexity (Bélyácz 2010).

Almost half of the graduates (49%) said that it was not difficult to find a job, one fifth (21%) thought it moderately difficult and 30% considered it difficult (22% reported a very difficult labour market integration). The graduates evaluated an average of 3.22 for the job

placement experience (on a 1-5 scale where 1 is very difficult and 5 is very easy) – in other words, a little easier than average. From the regional perspective, 22% of new entrants to the labour market migrated to the capital. In fact, only 2.6% of these lived there on a permanent basis at the age of 14 (71% in other towns or cities, 25% in villages and the rest abroad), and so ten times more went to Budapest as left. This trend clearly shows the talent migration from the provinces and the concentration of the skilled workforce in the capital, which greatly affects regional competitiveness (*Horváth 2001, Lengyel 2000*). One of the major reasons for the migration to Budapest is that a job is easier to find there – and also starting salaries are higher.

In the third quarter of 2010, average net earnings in Budapest was 161,869 HUF, while in South Transdanubia (in the same period) they were only 114,364 HUF (KSH 2011). In the approach and methodology used by the KSH – during the collection and categorisation of the data – the employment rate is the lowest in the South Transdanubia (46%) and in recent years incomes have also been lower than the national average.

In the sample, the average monthly net total income (main and ancillary activities together) is 175,000 HUF. Gender does not show a statistically significant difference. The graduates working abroad earn most (260,000 HUF), in Baranya county the monthly average net income is 162,000 HUF. We shall discuss later the relationship network's impact on incomes. These tendencies also confirmed by the research of AIESEC (*Nagy–Kunsay 2010*).

We also surveyed satisfaction with the current job and other factors, and results suggest that 79% were satisfied with the professional content of the job (39% absolutely), 15% moderately satisfied and only 6% dissatisfied, and so for the most part graduates are satisfied. This can be explained by two factors: they have a meaningful and interesting job (also professionally), or they assessed their abilities realistically and had no exaggerated expectations. Job content proved to be most satisfactory overall, which is evidenced by the fact that the 88% of the graduates think that their work is “largely” related to their qualification (45% opted for “very largely”).

We can see similar results applying to personal circumstances (73% satisfied, 12% moderately satisfied, 15% dissatisfied). With their physical environment 51%, professional prestige 50%, professional development and prestige 47% are satisfied, whilst they are less content with income and bonus levels. Here, 39% are “satisfied” (24% of whom are “fully satisfied”); the dissatisfied proportion is 35% (of whom 13% are “not satisfied at all”). There is, therefore a noticeable difference (40%) between their evaluation of the professional factor and that of their income in the case of the new entrants to the labour market. It is possible that they perceive themselves as under-valued in terms of remuneration due to excessive pre-expectations. Further analysis shows that women – even though they do not earn less – are less satisfied with their income than are men and the managers valued the satisfaction level of the content of the job - and the income – more highly than did the employee-level graduates. In regional terms, comparing workers in Pest and Baranya counties, the first are more satisfied with these factors. Interestingly, full-time students are more satisfied with their income than their correspondent colleagues. Using factor analysis we examined these characteristics and identified two different groups, the results being summarised in Table 1 (*Sajtos–Mitev 2007*).

The main statements of Herzberg's motivators and hygiene factors model are visible among the graduates. In essence, his theory declares that only motivators generate the satisfaction, whilst hygiene factors eliminate dissatisfaction but do not motivate workers to exert more effort (*Herzberg 2003*). Overall, based on the feedbacks, the graduates would not object to the job, but, nevertheless, they can become demotivated, due to the lower-than-expected income, and so their performance may be lower than their potential performance capacity.

Table 1. Herzberg 's motivators and hygiene factors within the Pécsi Közgáz graduates

FACTORS	THE JOB CHARACTERISTICS	FACTOR WEIGHTS
Motivators	The professional content of the job	0.844
	The professional development, career	0.833
	Professional prestige	0.842
Hygiene factors	Income, bonuses	0.626
	Personal circumstances	0.804
	Physical environment	0.879

Source: authors' research

In the relationship capital analysis we showed that graduates keep in touch first of all with course-mates (92%). By nature these are friendly (94% of the graduates chose this option), and, in addition, 30% also maintain professional relationships.

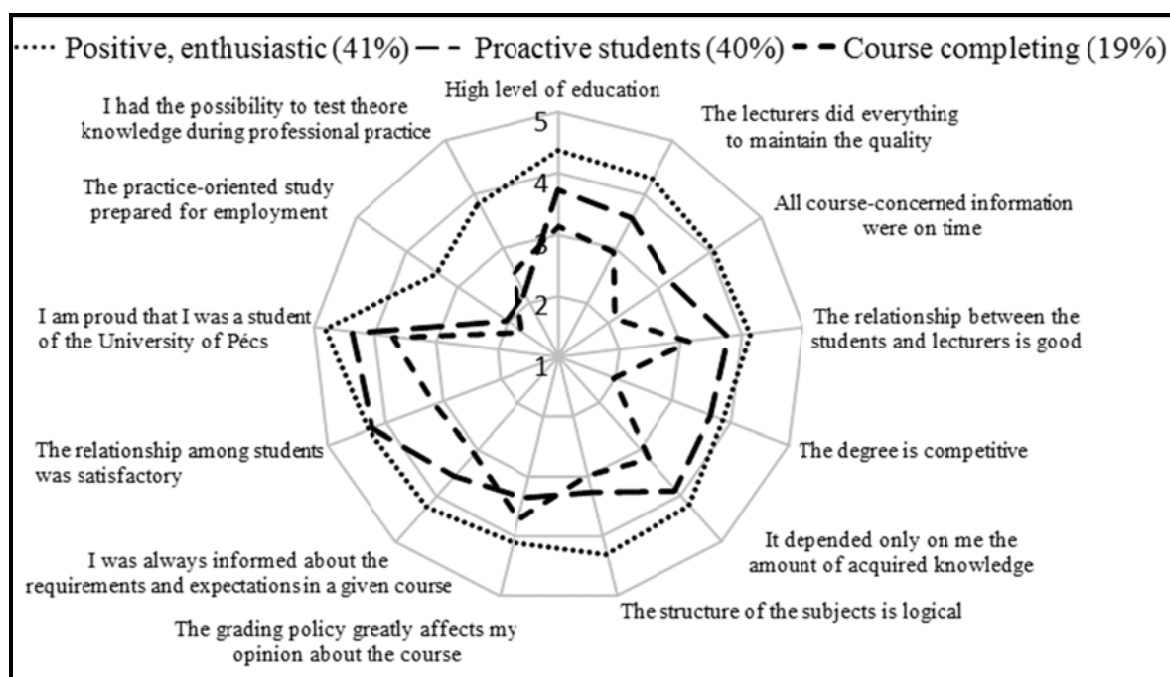
In addition, we observed professional relationships in respect of the CCO (64%) and teachers 59%). To determine the intensity of these, we formed two categories based on their existing number: the first group contains those who have a maximum of 2 connections and the second those who have 3 or more. We saw that the salaries of graduates with fewer relationships are statistically significantly lower (150,000 HUF on average) than those with 3 or more (180,000 HUF on average). The net wage gap of 30,000 HUF is relatively high and, further, it is interesting that the major part of the latter category works in the business sector.

It also emerges that language examinations were now given first priority. They had been well aware of this during their student years also, since language skills were ranked first in both cases. Professional practice is ranked second – in both instances – and so it is quite clear that, among 'Pécsi Közgáz' students, it is widely accepted that professional practice increases the chances of finding a satisfactory job, something which is even more highly evaluated by graduates than by undergraduates. Next in ranking come foreign scholarships, other employment, academic and student activities and individual participation in student organisations. Overall, it is totally clear that, apart from foreign scholarships, they ranked activities in the same order. Further, each was recommended to be undertaken even more intensively by future graduates, since, in their view, these can significantly facilitate the process of entering the labour market.

To explore issues of education and other related factors, we asked 14 x 5-grade Likert scale questions. Pride in having studied at the University is extremely high (4.5), and very close to 4 is the satisfactory level of relationships among students (4.1) and the perception of high-quality in the education provided (3.9). Graduates, therefore, have a very high opinion of UP and of the Faculty also. On the lower end of the scale, with values below 3.5, are the opportunities to test theoretical knowledge during professional practice (2.9) and the practice-oriented study as preparation for employment (2.6). These show that, based on their labour market experience, they think that their university years did not prepare them well enough for the world of work.

For a deeper examination we formed 3 homogeneous graduate groups by K-Means Cluster analysis.

Figure 3. The clusters based on the education's characteristics



Source: authors' research

The characteristics of the groups delineated are:

- Positive and enthusiastic: essentially agree with each issue, the perceived value of the practice-oriented education compared to the other two groups.
- Proactive students: they strive to acquire usable knowledge and want to receive all qualification-related information, although they do not think that their education is practice-oriented. In addition, environmental factors and good and positive relationships both with the lectures and the students are important.
- Degree-oriented: the least satisfied group, they gave a low evaluation to the questions in almost every area. Those completing the course-related questions which depend on individual performance are relatively high, but the objective values, especially course-related information are low. They do not want to achieve high skills, but only to complete the course and to take a degree.

We also looked for relationships between some of the groups and our previous results. We could not explain why the average wage (177,000 HUF) of those less satisfied with the University is 20,000 HUF more than that of the positive, enthusiastic group. For a complete picture we decomposed our results to full-time and correspondent students, and we found that there is an increasing difference among full-time students, but positive, enthusiastic correspondent students have a significantly higher average wage (235,000 HUF), probably due to the fact that they were already working before they started their theoretical training.

Matching the above clusters with the Herzberg factors, the proactive students correlate with the motivators and the course-completing and positive, enthusiastic students correlate with the hygiene factors. It is easy to understand if we consider the findings concerning the correspondent students, since graduating has a relationship with a higher wage.

When examining the competencies necessary for the job, we found that employers expect greater autonomy from graduates after their university careers, although these often face conflict situations and, due to their many responsibilities, they need a high working capacity. It is interesting that, among job skills, language knowledge ranks relatively low

compared to its value among the recommendations. It may be the case that a language certificate is required to enter most organisations although not used during everyday work.

These conclusions fully support the results of our faculty research concerning professional practice (Farkasné et al 2010, 2011a, 2011b), in which the dominant factors are the precise work, diligence, responsibility and cooperation skills, whilst creativity, knowledge of foreign languages and innovative skills are relegated to the background. Based on this it can be argued that, during professional practice, students were able to develop self-knowledge and to an understanding of labour market expectations. It is not by chance that 'Pécsi Közgáz' students are aware of the advantages of professional practice and its related benefits. We see from the general GFS report of the University's Faculty of Business and Economics that a high level of significance and importance was accorded to the CCO by the graduates of 2007, 2009. Whilst the other Faculties of the University (10 in total, including FBE) showed an average of 3.7% of contacts maintained with the CCO, at FBE this figure was 12.5%.

Universities have an important role in student 'well-being', and in this context in the achievement and maintenance of the student's commitment, satisfaction and motivation. The appropriate learning form for individuals and a practice-oriented knowledge creation process allow students to develop their potential, to become more motivated and satisfied. If they feel well – and in this context much of the responsibility is their own – they will be active, ready for different relations, willing to learn, and strongly success-oriented compared to graduates who are part of 'the herd'.

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Institutional isomorphism vs. the free market

DANA BENCIKOVA – DAVID COLE

A pure capitalist society is predicated on neoclassic theory. This theory is based on the rational expectation that people try to maximize their utility and firms try to maximize their profits while everybody does this based on the available information. In other words, people know what they want, they will try to do their best to achieve their desires with the minimum amount of effort, and at the same time companies will try to make the most amount of money from their customers. However, this theory ignores the influences of non-market institutions on society. People do make decisions that can be counter-productive to themselves, to society, and to future generation. The answer to what drives people to make those decisions lies in their social and cultural background and can be looked at from psychological point of view. In our research we are trying to find out what preferences young people have concerning their future careers and determine reasons for those choices. Based on a survey conducted among students of Faculty of Economics, our paper demonstrates how certain institutions become so strong that the entity itself becomes more important than the task the institution was originally purported to serve.

Keywords: embeddedness, Mathew effect, over-socialized conception of man

1. Introduction

In our hyper-competitive world we can assume that people are motivated by their self-interest. This self-interest is rooted in neo-classic theory which states that people have rational preferences among outcomes, individuals maximize utility and firms maximize profits and people act independently on the basis of full and relevant information (*Weintraub 2002*). If this situation was true, more people would be making decisions that would result in greater access to material gains. In other words, people would choose occupations and places to live that would give them more money, thus entitling that person to a greater stature based on income.

Economists and human beings in general desire predictability, i.e. ups and downs should follow the path of a near-perfect sine wave. Decisions should be made on rational outcomes. Unfortunately, this rarely happens. The following antidote illustrates the point.

One day, during a conference, a high level education official was extolling the values of higher education and its absolute necessity in life when a tenured university professor asked: “If that were true, then why does my plumber make so much more money than me?” One could ask: if plumbers were so highly paid, then why does nobody want to be one?

It needs to be noted that there is no such thing as a pure free market. Non-market influences need to be considered. These influences usually reside in the established institutions of a society, such as government, church, family, and culture. If the theoretical pure free market existed, people would make more rational choices based on Darwinist principles, i.e. survival of the fittest. In today’s society it is not only important to be successful; it is also important to be successful within the institution.

Our theoretical plumber may be making a lot of money. With this money he would be able to afford a higher living standard that could afford him the higher status. Unfortunately for him, the fact that he is a plumber keeps him in a lower ranking because of the perceived lower ranking in society. Money and material gains have only a limited effect on status.

In Slovakia, as in all other post-socialist countries under the influence of the former Soviet Union, the common worker was given a strategic place in society. Workers were given

top status. The collapse and utter abandonment of this model in 1989 was so extreme that a schism developed between old and new. The old way was bad and should be shunned while the new ways to success can be found in concepts from the west.

2. Embeddedness and post-transitional states

All individuals in a society have certain allegiance or cultural expectation to society. In former social, aka communist, times, the allegiance was often enforced by fiat or decree. This extreme form of socialism meant that society had a broad-based level of inclusiveness. In other words, most people were in the same boat together. Some extreme forms of free-market systems have a much looser alliance with the state as a whole. This leads to stratification in society where the members break down into exclusive groups. Each group feels less beholden to other groups in society. For example, those who live in gated communities have less sympathy for those outside of these communities.

This can be described as societal embeddedness. The concept of embeddedness, championed by Mark *Granovetter* (1985), states that we are embedded in our society and thus are compelled to do its bidding. He went on to describe a condition in which non-market societies are less embedded than the market oriented ones, e.g. members become embedded in the market-oriented society, not the social ones. Broad-based embeddedness has given way to a more focused, more limited embeddedness with stronger ties to the environment in which they belong. As society becomes more embedded into the market oriented structure, people become more sensitive to the views of others. Those outside of this embedded society are looked upon with disdain.

The sensitivity to others was addressed in Sociologist David *Wrong's* book *The Oversocialized Conception of Man* (1999). He stressed that people are “overwhelmingly sensitive to the opinions of others and thus are obedient to the norms and dictates of society” (*Wrong* 1999). This sensitivity leads us to achieve a perceived higher status, not necessarily money. Our theoretical plumber remains unloved even though he is successful and performs a necessary duty to society.

In the transitional economies of central Europe, a condition had risen where the actors in society are torn between two systems: one that promoted a broader concept of society and the other that promoted a tiered system based on higher status. This has led to the abuse of the institutions on the broader level in order to achieve a higher tier in the neo-classic sense; a classic utilitarian approach. This condition resembles the parable illustrated in *Garret Hardin's* *Tragedy of the Commons* (1968). In this story, ranchers all share a common plot of land upon which to graze or feed their livestock. Since no one controls access to this land, it is in everyone's self-interest to over-exploit this freely available resource without protecting its sustainability. In the end, the pasture is completely destroyed and thus benefiting no one.

The dual embeddedness creates a condition where institutions rooted in the former socialist system are exploited to the point of collapse by the new vanguards of the free market. Yet, this same social network is expected to be there anytime it is needed. Loyalty to established institutions is weak.

3. The weak links between citizenship and country

Nationalism is often associated with racial tendencies and xenophobic notions however there has been no good single definition as to what is “nationalism.” This term is often used to describe a range of negative attributes and often given to people who are considered, in one way or the other, lower class and in Europe, white. Because of Europe's torrid history of negative events that cumulated with World War II, it was seen that the path forward for a harmonious Europe was to greatly reduce the concept of individual nationhood. As political

scientist George Will (2010) noted, "... since WW II, European elites have been convinced that the continent's nearly fatal disease was nationalism, the cure for which must be the steady weakening of nationalities ...". On the other hand, the EU government has a dual purpose of both promoting national identity and European unity making it difficult to define what appropriate nationalism is. Is patriotism a good thing or is it only for the blindly ignorant?

The wide differences in pay between east and west compel citizens from the East to seek material gains in the west. The high tech economies of Western Europe need a supply of labor to perform menial task. Before the collapse of the iron curtain this labor force was grudgingly supplied by people from Islamic or African backgrounds. Then, in 1989, all of this changed within the blink of an eye as the iron curtain collapsed. So unexpected was this change that no one could imagine that this was even possible. Suddenly, a new source of labor could be obtained, a source that had three common factors: being white, European, and good looking. The latter of these factors cannot be dismissed as trivialness of aesthetic qualities, though hardly discussed, is one of the most important aspects to acceptance. Never before have immigrants been greeted with such open arms.

This acceptance of immigration along with its promotion by the EU governing body has in fact turned citizens of Central Europe into free agents. For the purpose of this paper we can define a free agent as a person who feels little to no loyalty to society either on a local, national, or even a family level. The free agents look to maximize their own utility for themselves and maybe for the immediate family. They have no qualms with receiving benefits from the public but feel no loyalty to give back to society unless, again, it is maximizing their utility. Consider the following conflicts in Slovakia:

Table 1. Free agent conflicts in Slovakia (text table)

Entitlement	Conflict
A person gets a free education from the state.	Yet, the person goes to another country to work and earn a higher wage than at home, denying the home nation the fruits of the education
A person working in another country does not pay into the social insurance in his home country.	Yet, it is expected that the grandparents still get a pension and people with special needs, i.e. the handicapped, get their care.
A person receives inherited property from parents or grandparent.	Yet, he feels no need to maintain the property and there is little incentive to divest the property
A person can work on special contracts where legally no social insurance is collected.	Yet, he fully expects a pension upon retirement
The capital city is expected to be the showcase of the nation and the seat of prestigious government jobs.	Yet, this showcasing causes a transfer of wealth from all parts of the nation to the capital city.

Source: own construction

4. The importance of status

With the change from socialism to capitalism came a change in the notion of status. The cold war was a contest of ideas especially in Europe. Communism did not die in a hail of bullets but through utter humiliation with the victors being the west, and thus the new paradigm for living is based on western concepts of success. This includes big cars, houses, typical family arrangements, and white collared or service oriented jobs.

With communist mentality, the images of success can be found in the factory. Tall chimneys and smokestacks dotted the country with symbols of production. Most of these symbols today lay in total ruin; a reminder to all in the local community of the failure of their mission. The pride of craftsman was replaced with the concept of cunning. There is a

perception that “dirt” is evil. With technology, the perception is that modern industrialized nations are built on “clean” jobs. Financial services surpass manufacturing. We began to lose our fascination with the way things were getting made and instead focused on the way things are getting bought (Rowe 2010). Thus the new institutions and high status are clean jobs which are mostly found in the big cities. The hallmark of success is a white shirt and a tie. In other words, selling, buying, and financing things is more important than creating and making things. A work bias has been created on the idea that desk jobs are superior to trades jobs. Status is not on what you create but how you finance it.

5. The isomorphic institutionalization of the desk job

The view of work today has become myopic with only one type of work being considered. With young adults in University training this work tends to focus on desk jobs and office work environments; the “desk jockey.” Thus the concept of work has changed into a form of institutional isomorphism; a process where one institution becomes so strong, all other institutions evolve and adopt the same strategy (*Dimaggio–Powell* 1983).

In all societies, there has always been tension between blue-collar and white-collar workers as which provides the better form of utility, i.e. which would provide the greatest form of satisfaction. The white-collar worker has always had the upper-hand through higher status and cleaner environments, but the unwritten rule was that white collar workers needed a certain higher cerebral finesse in order to succeed. In other words, the white-collar workers had to be smarter. As Eastern Europeans looked westward for insight, inspiration came in the form of the steel and glass churches of western culture; Wall Street and Canary Wharf for finance, Brussels for Government, Prague and Bratislava as gatekeeper cities to capital, i.e. money. So big were the opportunities that most anyone could find a starting point for climbing the ladder of success; or so it was thought.

As young people pursue career paths, they often seek the path of least resistance. The desk jobs in its many forms have appeal to the young as it is seen as the way to achieve the necessities in life. The paths forward to success all lead to the same desk job, thus morphing the status of success. The gleaming towers of the big city with many office workers become the ultimate status symbol. Thus an institutional morphing of work is fully entrenched into the desk job environment.

If this is not immediately achievable, then an alternative can be found through temporary immigration to another country for higher incomes. Not only can more money be obtained, but also language skills, especially in the form of English, can be used as a competitive advantage upon return. Unfortunately for most graduates, the jobs being offered by the host countries are lower skills, leading to a degradation of the skills learned in Universities. A period of “arrested development” occurs, leading to post-adolescent atrophy and indecisiveness at the very time that family planning should begin.

6. The imposition of the public sector

Neoclassic theory states that imbalances should be short lived. A rebalancing based on supply and demand will bring greater rewards to the things that are in short supply. For example: the plumber gets a higher wage for his rare abilities as the office worker’s compensation is deflated as too many workers seek that position, but not all work resides in the private sector. The non-profit motivation of the public sector, i.e. government bureaucracy in its many forms, helps to facilitate the white-collar environment. In other words, rules and regulations tend to beget more rules and regulation creating more white-collar work in gleaming glass towers. In Eastern Countries this creates a symbiotic and parasitic relationship between the capitalist and the government institutions. For example:

- Large corporations tend to locate themselves in capital cities (Bratislava, Prague, Budapest, etc.) in order to get access to the government (especially since the government may be one of the biggest clients).
- Government agencies tend to cluster around the capital since their clients (the large corporations) are also located there.
- The conditions of the big city require rules to help regulate the problems of such a large cluster. These rules are applied uniformly across the country even though they are only necessary in large metropolis. These same rules could be detrimental to smaller cities and rural areas, thus creating a condition where more people will move to the capital.

Bratislava, as a gateway to the rest of the country has become the center of this magnet. As a gateway to capital, it is like the New York City for the nation. As the seat of government, it is like Washington D.C. And as the center for car production, with Volkswagon and Peugeot located close to Bratislava and Kia just up the road in Žilina, it is like Detroit. For such a small country as Slovakia this is too much activity in one location. According to a survey by Mercer, an HR company, Bratislava is the 57th most expensive city in the world, down from the 37th most expensive city last year. Still, young people tend to flock to this area as it is seen as a stepping stone to a rising living standard.

7. The Research

In our research, we wanted to measure the current trend and mind set of young people who are planning their adult lives in the University System in Slovakia. We have conducted two preliminary tests at the Faculty of Economics, Matej Bel University in Banská Bystrica, Slovakia. A series of three studies were performed to measure the students' future intention of migration, family planning, and material acquisition. All tests were in the form of questionnaires, while the first test was a questionnaire that measured the responses to migrating to another country, the second test measured the response to job choices and spending habits in the crucial first few years after graduation and the final test was a measurement of visual responses to various factors in life including where to work, where to live, status, family, and material acquisition. Below we are providing the description of the outcomes in more detail.

7.1. Test 1. Questionnaire about emigration to another country

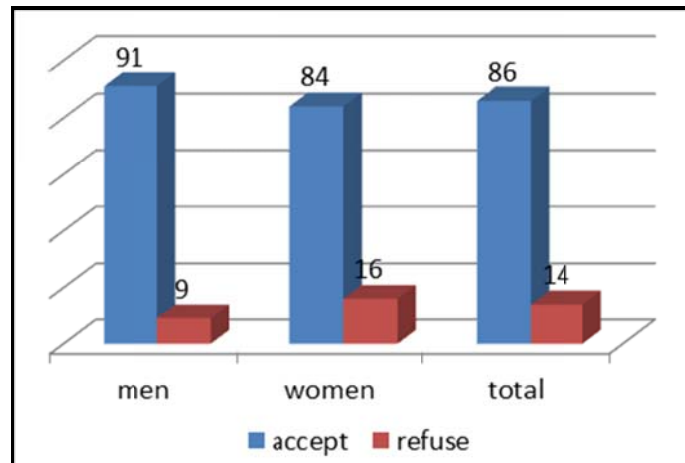
In this section, students were asked questions about immigrating to another country to obtain a favorable advantage over staying in Slovakia. The conditions for the new country became increasingly difficult with each new question. It needs to be noted that the country of choice tends to be both England and Ireland with their easy immigration policy and the use of English as the default language. The following is a report on the outcome. The results for each question are illustrated in the graphs.

Question 1. You have an opportunity for a job in a neighboring Member State of the EU with a higher salary.

- A) You accept it.
- B) You refuse it. You don't want to leave your home country other than for a holiday.

This question measured the likelihood of a student to go to a neighboring country in the EU to earn a higher salary. It had a predictable response since the Czech Republic is next door and the two countries used to be one.

Figure 1. Job in a neighboring country



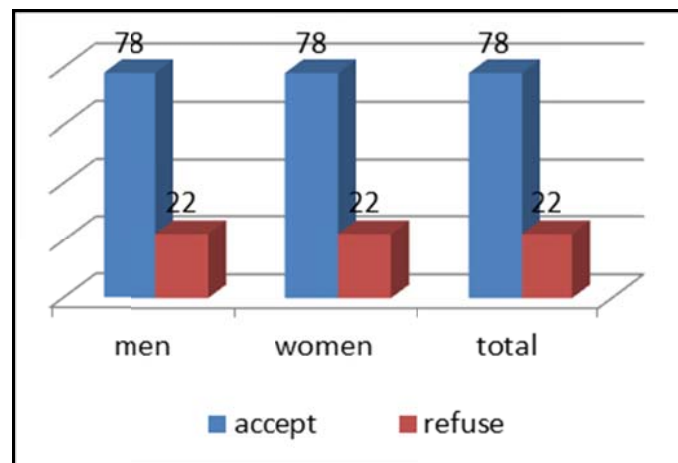
Source: own construction

Question 2. You get a job in your field of study in another Member State of the EU and the salary is higher.

- A) You accept it.
- B) You refuse it. You don't want to leave your home country other than for a holiday.

This question measured the likelihood to go to another country to earn better money than what is available in Slovakia. The high response to emigration indicates the historical institution of migration. Their predecessors were successful in the past; therefore, the new graduates will be successful now. It clearly indicates that moving to another country is perceived as an advantage.

Figure 2. Job in a Member State of the EU



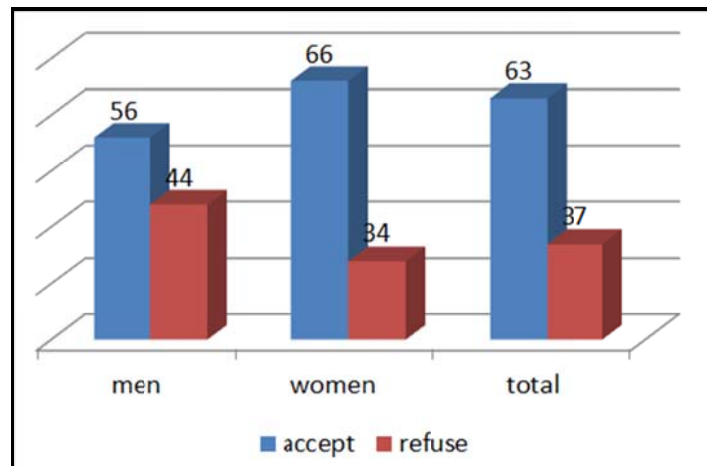
Source: own construction

Question 3. You go to another Member State in the EU and got a low level job that does not pay so well but has a potential for career advancement.

- A) You accept it.
- B) You refuse it. You don't want to leave your home country other than for a holiday.

In this question, the conditions for a job in the new country are not very favorable, but might have future benefits. Still the foreign country is seen to have a distinct advantage over Slovakia, thus 2/3 of the respondents indicated that they would move to the new country.

Figure 3. A low level job in a Member State of the EU



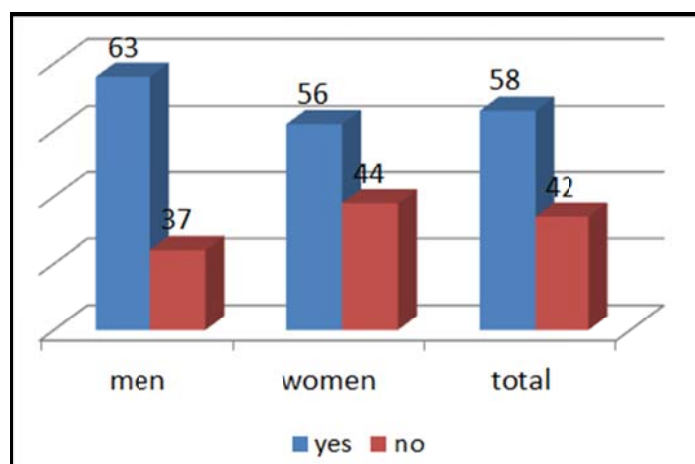
Source: own construction

Question 4. Would you do an entry level job (cleaner, waiter, farm work, au pair) in another country that you would not do in your own country?

- A) Yes, no one will know.
- B) No, I would have done the same job in my own country.

This question demonstrates the importance of status in society. Graduates of university feel that they must get a high level job in their own country. If this is not possible, the opportunity to “hide” in a new country is possible. It is perceived that working in a low-level job in a new country is not a problem especially since it can be used as a way to increase their language skills.

Figure 4. A low level job you would not do in home country



Source: own construction

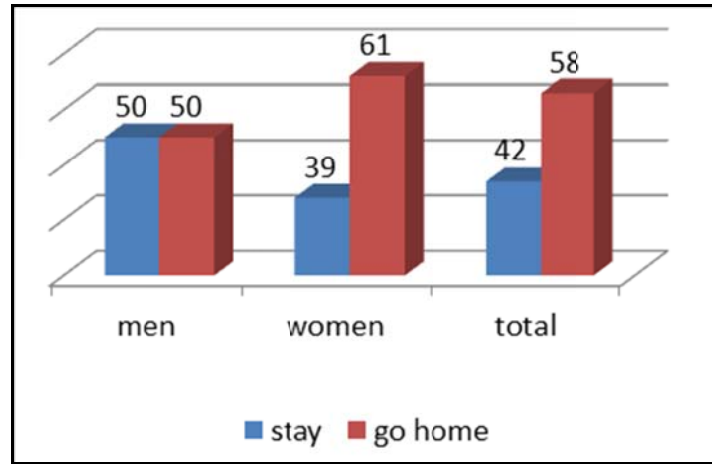
Question 5. After having accepted the job you realize that the costs of living are growing faster than your salary in your new country.

- A) You stay despite the high costs.

B) You go home.

Clearly the intent is to make money in the new country. Yet, still, half of the men would continue to stay in the new country.

Figure 5. High cost of living



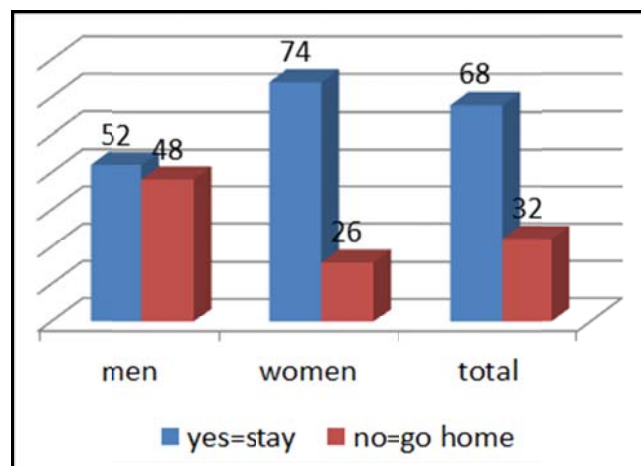
Source: own construction

Question 6. To save money, will you live with five other people in a two room flat?

- A) Yes.
- B) No, I'm going home.

This question demonstrates the willingness to accept less favorable living standards in a new country that would not be tolerated in Slovakia.

Figure 6. Sharing living space



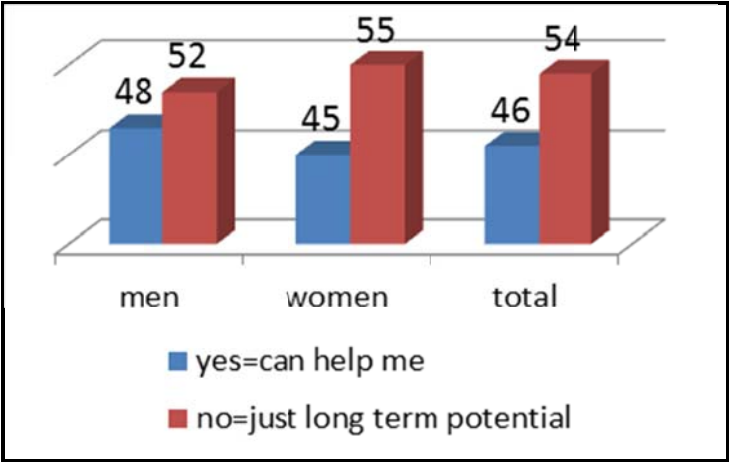
Source: own construction

Question 7. You know that the local opposite sex fancies you.

- A) You decide to have a relationship with a local (you know he/she can improve your position).
- B) You will only date people who have long term potential.

This is the most controversial question in the survey. It deals directly with the matter of physical appearance of being young and desired. It needs to be said that it is no secret that the relative attractiveness of Eastern Europeans is at a high level with both fair skin and low rates of obesity. This question does indicate that students know that relationships can be used to their advantage and that they are aware of the assets of physical attractiveness.

Figure 7. Relationship with a local



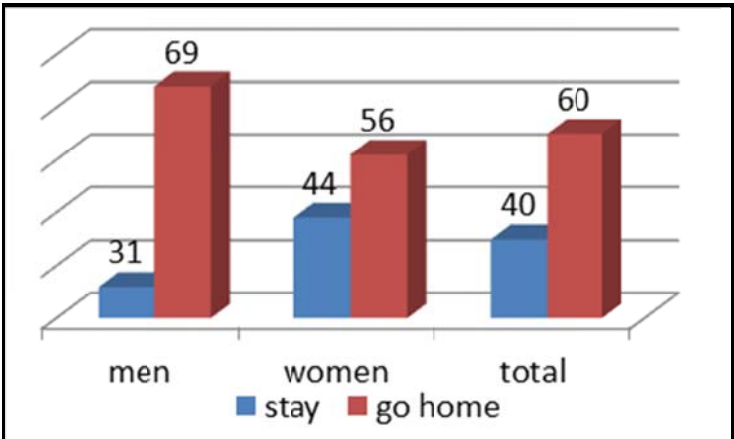
Source: own construction

Question 8. You are making money but you have been living and working like a dog for two years.

- A) You stay.
- B) No, you're going home.

This question brings to bear the notion of working abroad is a short term proposition, almost as if it was a rite of passage. It is a way to get a monetary boost before the more stable adulthood begins. For the students in this survey, many would return home after two years, but it means the start of adulthood in Slovakia has been delayed to an average age of 26-27.

Figure 8. Two years' hard work



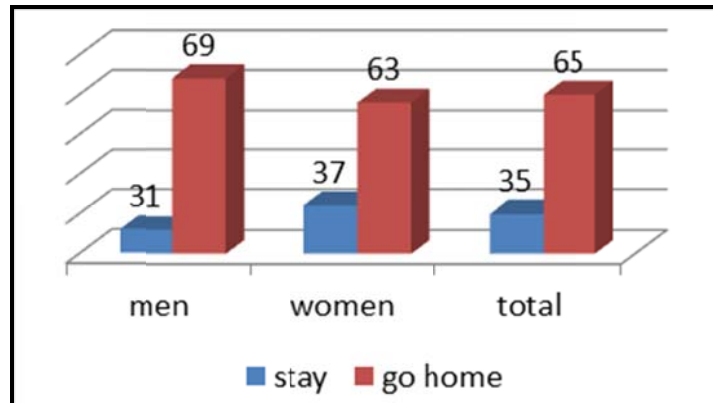
Source: own construction

Question 9. You are making money but you hardly have had time to sleep for four years.

- A) You stay.
- B) No, you're going home.

This question is the same as above, but measuring a four year response instead of two. We can see, that most forays into a foreign country is a short term proposition.

Figure 9. Four years' hard work



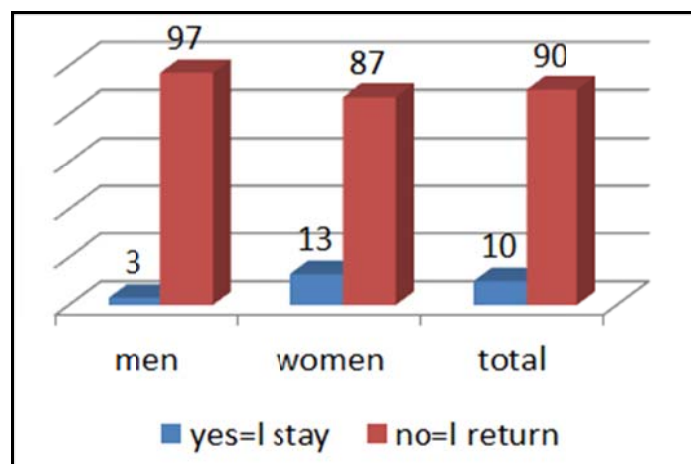
Source: own construction

Question 10. No matter how bad it gets, you are never going back to your own country to live.

- A) Yes.
- B) No.

Obviously, most people are not “gluttons for punishment” with 90% of the students wishing to return to Slovakia under the worst case scenario. However, 13% of the female correspondence indicated that they would stay in this situation. It indicates that some women might see that marriage can be an option for the alleviation of a negative situation. From Slovakia, 25% of all women who immigrated to another country did so for the purpose of contracting a marriage (Divinsky 2007).

Figure 10. Returning – bad conditions



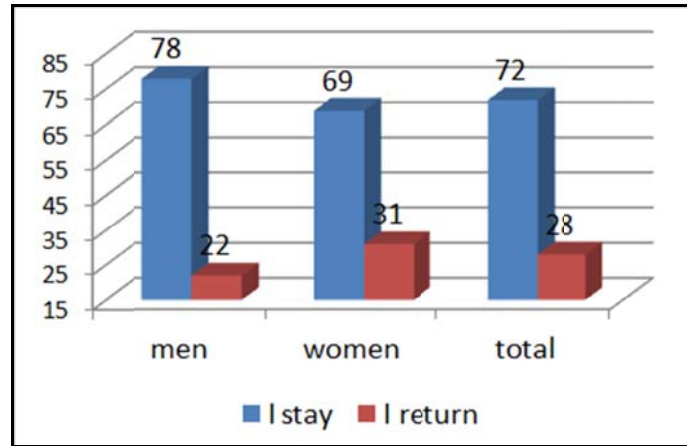
Source: own construction

Question 11. On the other hand, life and opportunities were good to you in your new country.

- A) So, you're staying.
- B) You will return to your home country no matter how good it is.

Under the best-case scenario 72% of the students stated that they would stay in their new country. Though at a young age, personal choices are subject to change over time. This still indicates that Eastern Europe will have a significant challenge with brain-drain in the new future.

Figure 11. Returning – bad conditions



Source: own construction

7.2. Test 2. Questionnaire about living and spending choices

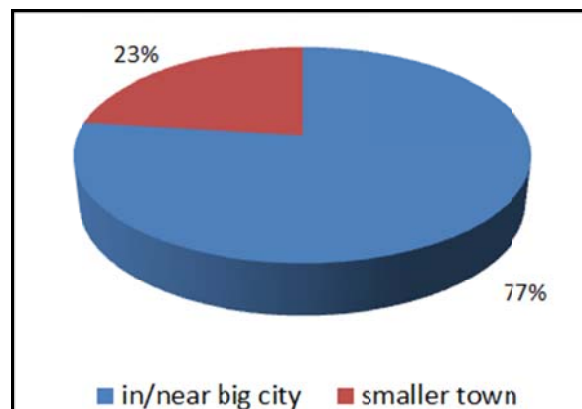
In this section of our questionnaire, students were asked questions about their future preferences. Each question had two possible responses to choose from. As in the previous section, the results are illustrated in the graphs.

Question 1. You have just graduated from the University. You have two options:

- A) Take a job in a big city in or close to Bratislava.
- B) Take a job in a small town/city that pays 25% less and is far away from the big city.

The response to this question was unsurprisingly overwhelming in favor of Bratislava. Again, status is the main reason as high powered jobs are located in the big city. Financially, the better response would be to move to a smaller town far away from the big city. Even at 25% less pay, the differences in the cost of living, especially housing, would result in higher disposable income. This question is predicated on the conditions that jobs are actually available in smaller towns and that people would actually what to do the work.

Figure 12. Location of the first job



Source: own construction

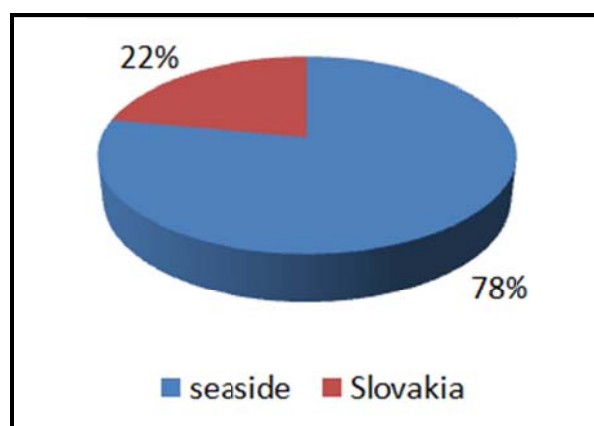
The next 4 questions were designed to measure the tendency to spend money (short termism) versus saving money (long-termism). Each scenario is a likely expense over a crucial time in people's lives; the first 4 to 5 years after graduation.

Question 2. You have been working for 1 year. You decide to take a holiday:

- A) You go on a holiday by the sea such as Croatia.
- B) You take a local holiday in Slovakia.

A first big expense is the holiday. A cheaper option would just be to stay home and enjoy the opportunities in Slovakia. Since it is a small country, many interesting destinations are just a few hours away. However, it can be seen, that the lure of the sea is so much more appealing even if it cost more.

Figure 13. Taking holiday after first year of work



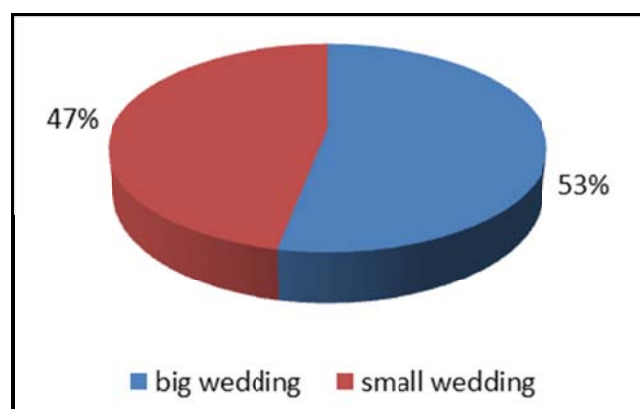
Source: own construction

Question 3. After two years you get married.

- A) You have a big church wedding with a big ceremony.
- B) You go to the court and have a small celebration with close friends.

Marriage often happens shortly after graduation, unless life is interrupted by alternative decisions (such as migrating to another country for work). In Slovakia, there is a significant tradition of large church weddings, no matter the cost. It is interesting to note that men also has a traditional view of marriage with as many men wanting the big ceremony as women.

Figure 14. Wedding ceremony



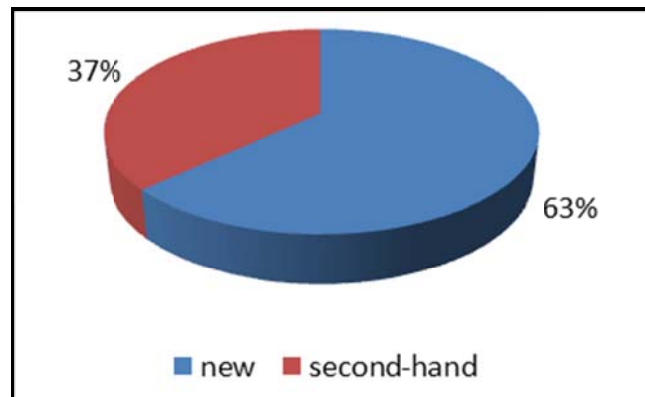
Source: own construction

Question 4. You have rented a flat and need furniture, electronics, and other things to outfit it.

- A) You buy all new things.
- B) You primarily rely on second hand items and donations from your family.

This question measured the tendency to spend disposable income as it is accumulated. Again, students want to make their own lives as soon as possible, putting family planning off to a later date.

Figure 15. Furniture in a rented flat



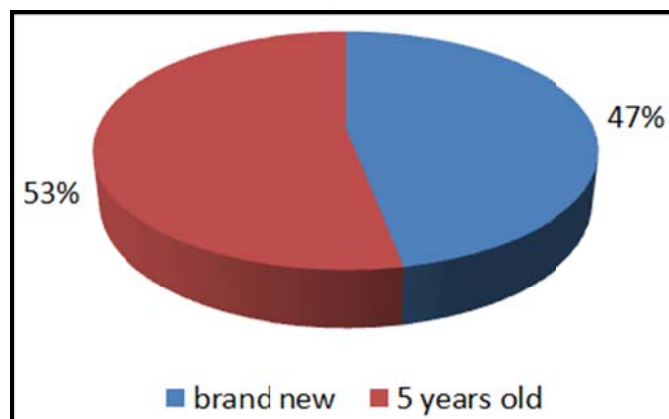
Source: own construction

Question 5. You decide to buy a car.

- A) You buy a mid-level new car.
- B) You buy a 5 year old car.

Obviously a used car is much cheaper than a new car. In this question students do realize that there is a cost disadvantage with buying something new especially with the added cost of insurance. It can be seen, when there is an extreme variation in the cost analysis of a product, students do choose wisely. It needs to be noted that in Eastern European countries, the cost of automobiles are much higher than in other countries.

Figure 16. Buying a car

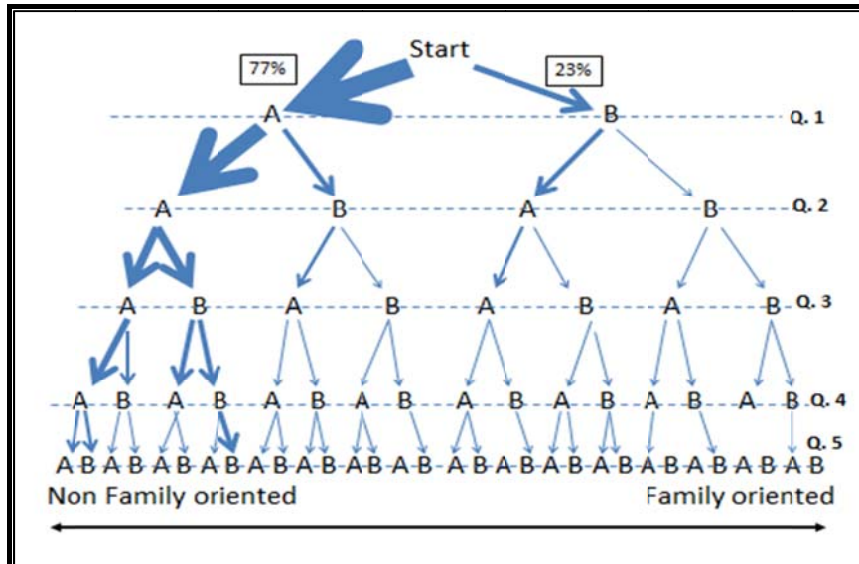


Source: own construction

Families are something that has to be planned. Since birth control has been well established, most people decide to have children when certain preset conditions have been met, especially in the area of material acquisition. The biggest prerequisite to families is the

obtainment of a home. With the cost of flats and houses so prohibitively expensive in Bratislava, it makes parenthood less likely. This is especially true if all purchases tend towards the more expensive option. In the following chart, all outcomes were plotted in a decision pyramid.

Figure 17. Life path pyramid

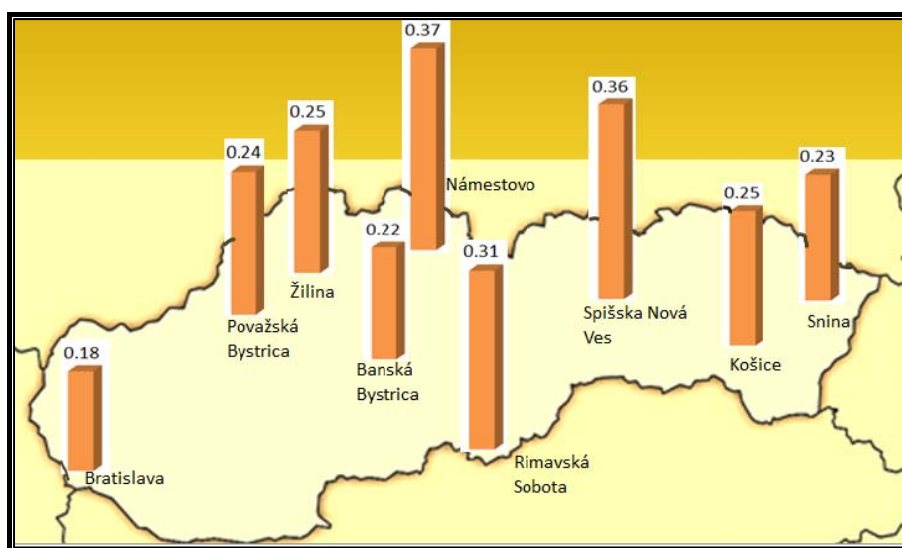


Source: own construction

The arrows indicate, by size, how many people chose short-term immediate gratification over long term saving which would lead to family possibilities. So few students made the choice for the smaller city, it brings into question the future viability of the country.

This notion is supported by demographics. The following bar graph through various locations in Slovakia is the ratio of children age 1–4 to women age 20–40 (how many women in each area have a child age 1–4 as expressed as a percentage). By far, the lowest birthrate is Bratislava with only 18% of productive age women have a child of this age. The highest rate, Namestovo (37%) is a region with relatively stable jobs and housing (Namestovo, is also a region with a relatively low Romany population who tend to have more children.)

Figure 18. Ratio of children



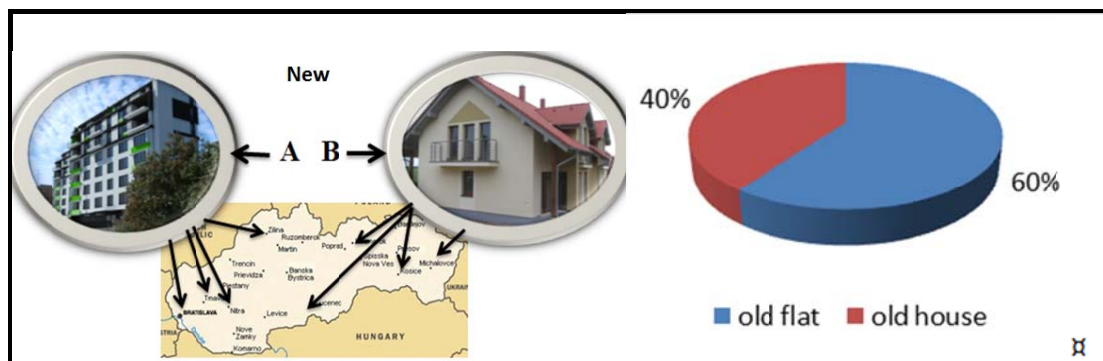
Source: Slovak Statistical Office

7.3. Test 3. Response to visual stimuli about issues relating to questions about where to live, family choices, and job preferences.

The last part of our questionnaire was presented to our respondents to gauge the response of visual stimuli about important matters relating to after graduation choices. If a student is asked where he should begin his career, the most likely outcome will be the dominant location. Visual stimulus could, however, demonstrate an alternative choice. The slides and their results are explained in the following section. Each figure shows the picture as the visual stimulus and the results of the survey in a graph.

First slide. This slide illustrates two choices: to live in East Slovakia in a new house or in a new flat in west Slovakia. The choices in West Slovakia are all growing areas with a booming economy. The choices in East Slovakia are mired in shrinking production and limited opportunities as the young are leaving for opportunities in the west. An added disadvantage is a sizeable Romany population who are mired in poverty. The score indicates that a new house would provide the status needed for living in a disadvantage area.

Figure 19. New flat or house

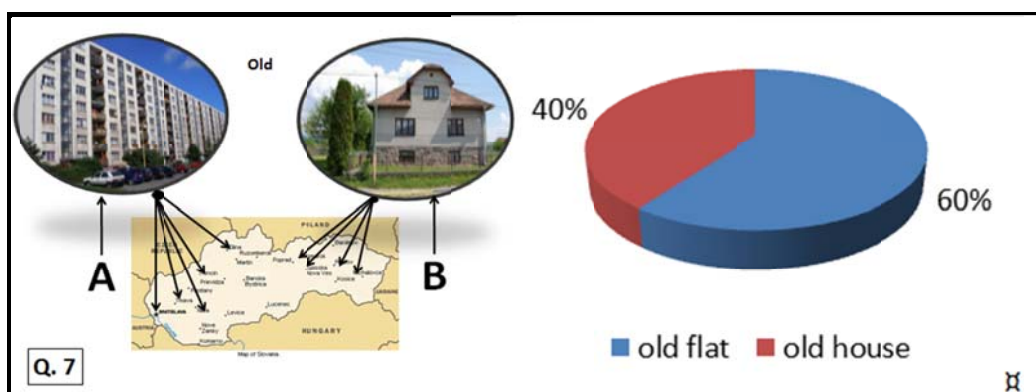


Source: Own source

Source: Own construction

Second slide. This question is the same as the previous one, but instead of new flats and houses, we have old ones. Interestingly, houses lose their status when they are old, yet old flats are considered viable. A shift of 14% from East to West is significant. This illustrates how difficult it will be to get people interested in the disadvantage part of the country.

Figure 20. Old flat or house

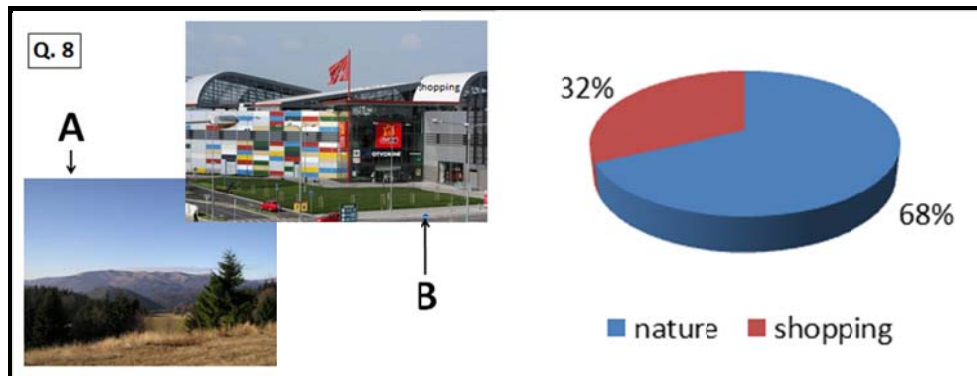


Source: own source

Source: own construction

Third slide. Even though growing metropolitan areas are viewed as a favorable place to work, there is still significant interest in natural settings with shopping taking a backseat to nature, as it is shown in the following graph.

Figure 21. Benefits of a city or nature

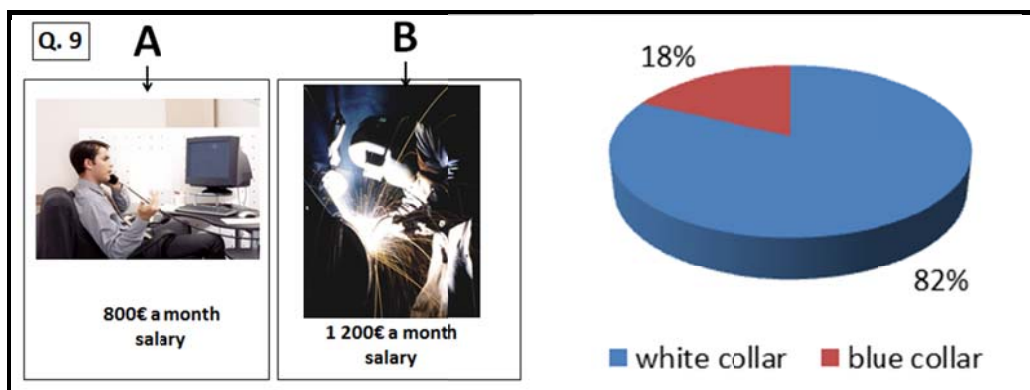


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The next slide was the most controversial in the whole group as 82% of the respondents chose the white collar job over the blue collar one even though there was a 50% pay difference. The women in the class were told to imagine these two men as potential husbands. 84% of the women chose the white-collar worker despite his lower income. The implication here is that there is a huge swath of man oriented jobs that are seen as a disadvantage no matter what the pay is. The status for the male worker is extremely important especially when considering partnerships.

Figure 22. White collar or blue collar – men

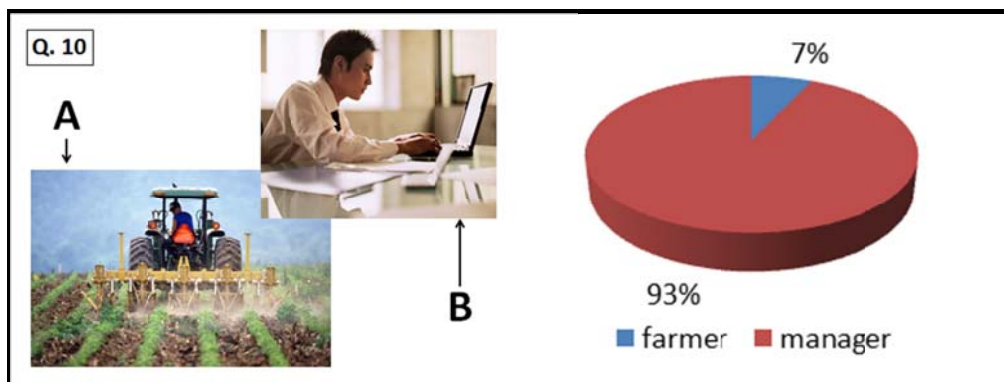


Source: own source

Source: own construction

In Eastern European culture, the lowest status awarded to any one group has to be the farmer. 96% of the women chose the manager job over the farmer. This is despite the fact that the importance of the farmer is greater than the nebulous office worker.

Figure 23. Primary or service sector

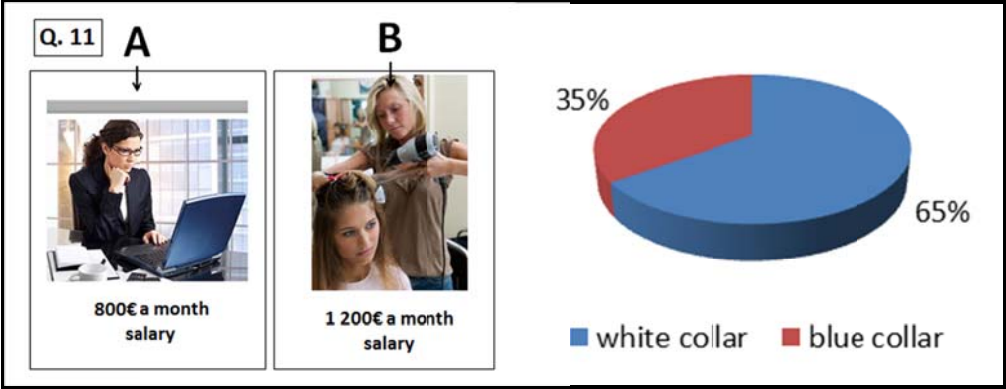


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Source: own construction

The next slide was reposed with female jobs and the concept of white collar vs. blue collar. Again most people chose the white collar work even though it paid 50% less. 52% of the men however, chose the blue-collar worker. For men, the status of a woman is less important and thus sees the benefit of the additional income.

Figure 24. White collar or blue collar – women



Source: own source

Source: own construction

From these last three queries, it can be seen that the male blue collar worker has an extreme disadvantage especially in the area of relationships. Economists like the safety of dealing strictly with numbers and figures and are reticent to tackle emotional questions of love and partnership. Women in general attempt to find a partner who has a higher level of status, but this is a losing game as not all men can be engaged in white-collar work. Men in general tend to look for other qualities in women, with aesthetics being at the top of the list. In the past, the quest for partnering was limited to what was available locally, especially under socialism when travel and migration was not permitted. Today, women are not limited by geography and can thus find a wider range of potential partners throughout the world. An example of this “female migration” can be found in Ukraine. Between 1990-2006, about 5 million people left Ukraine for living and working in other countries. The fact that 65% of them were women gave the term “the female face of migration” which has very dangerous consequences for any society such as fertility reduction and family break ups (Kyzyma 2009). As we are beginning to see through the world, that certain professions are also seen as a disadvantage with dangerous consequences for the future. Imagine a society without farmers.

In the next slide, the decision is for a more expensive car or a basic mid-level car plus cash. It is presumed that the two choices are equal in value. Half of the students would choose the higher cost car. It can be seen in Eastern European Countries, the extra status that comes with German luxury cars, black color in particular.

Figure 25. New car or older car and cash

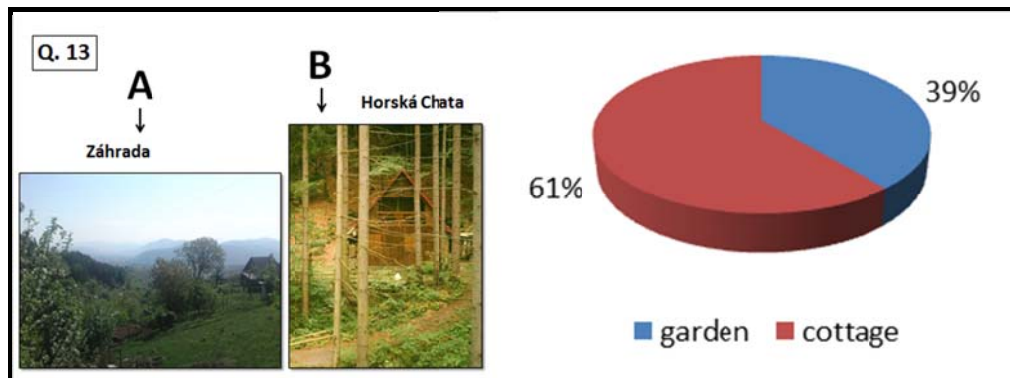


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Socialist society placed a high value on garden plots as they were often the only place that you could do what you wanted. The countryside is also dotted with mountain cottages, often structures that use to be connected with the various workplaces from the socialist system. This slide was design to gauge how much value is placed on property that has some sort of production value such as fruits and vegetables. We can see from the response that most people would prefer leisure time that requires less work.

Figure 26. Active leisure or relax

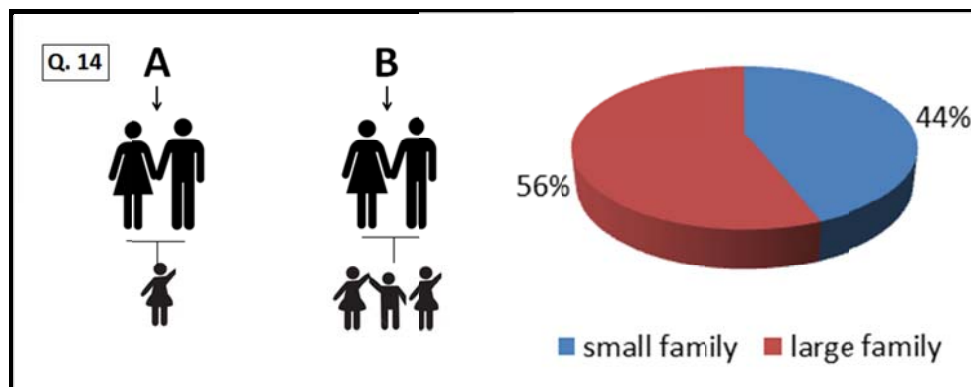


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With the two child option removed, the students were given a choice between one child or three children. It is a positive sign for Slovakia that young people are still family oriented. This is not necessarily the case for some European countries. Germany for example has a birthrate of 1.38 per woman¹. Thirty per cent of German women have not had children, according to European Union statistics from 2005, with the figure rising among female graduates to 40%².

Figure 27. Small or large family



Source: own source

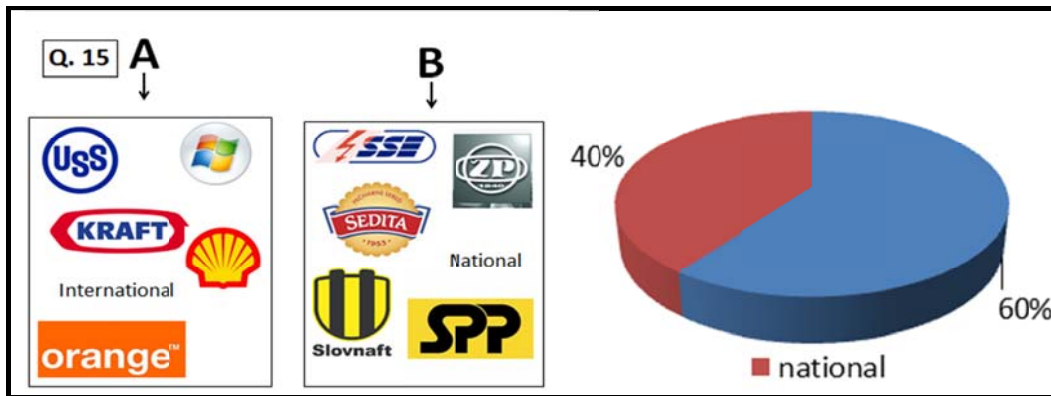
Source: own construction

International companies are preferred over national ones by a good margin. International companies are seen as having higher prestige and very often higher pay or at least the perception of higher pay.

¹ <http://www.spiegel.de/international/germany/0,1518,697085,00.html>

² <http://www.guardian.co.uk/world/2006/jan/27/germany.lukeharding>

Figure 28. International or national brands

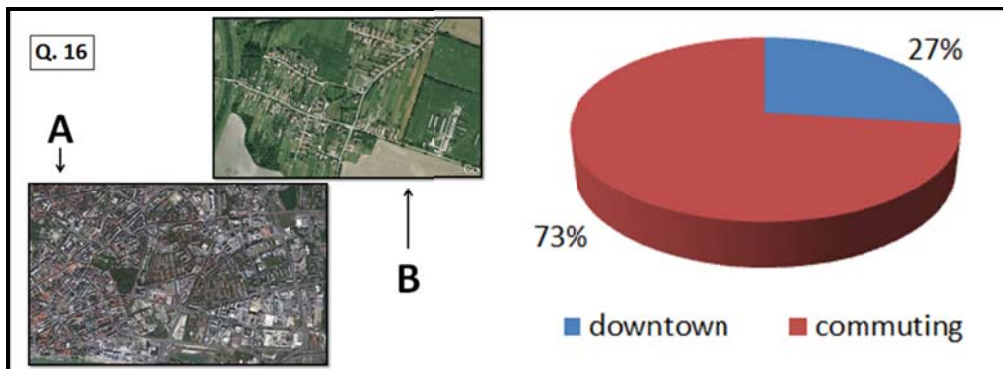


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Even though everyone wants to work in the big city few people want to live there. These two aerial photos illustrate the concept of the metropolis and a very small town. It does beg the question why few people like the farmer when presumably they would be living close to him in a small community, as the results show that 73% of the students pick the community that is surrounded by farm fields. Thus we can see a conflict between needed to go to the metropolitan area to gain employment and a desire for a smaller community. Thus this proves that all is not lost in the disadvantage areas.

Figure 29. Downtown or rural

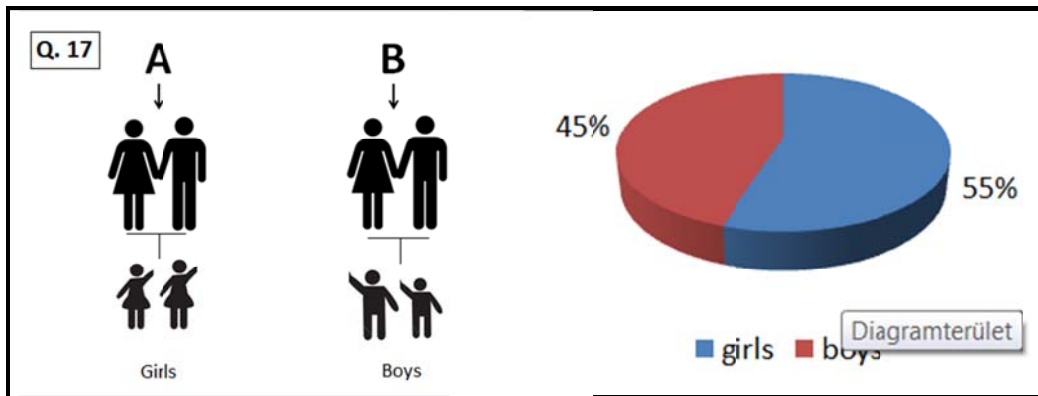


Source: own source

Source: own construction

The choice of wanted two girls or two boys fell along gender lines. Boys tended to want boys while girls tended to want girls. If we refer back to question 9 about blue-collar work, one has to wonder what we intend for our sons to do. As was seen blue-collar labor jobs were seen as lower class, even if it pays more. If, as it is seen, many prefer boys, then what is it we wish for them to do in the future? At least half of all work fall into the blue-collar domain, yet this is work seen as second class.

Figure 30. Girls or boys

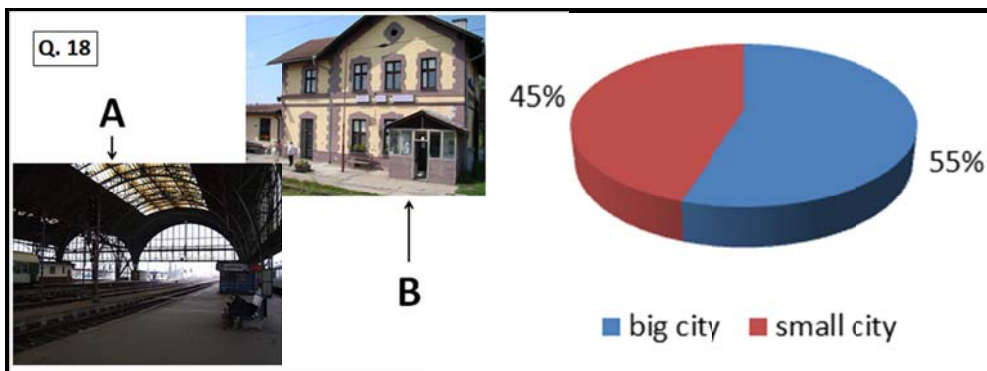


Source: own source

Source: own construction

The big city train station is preferred to the smaller one giving more credence to the idea that students would commute to work in the big city.

Figure 31. Big or small city concept – traveling

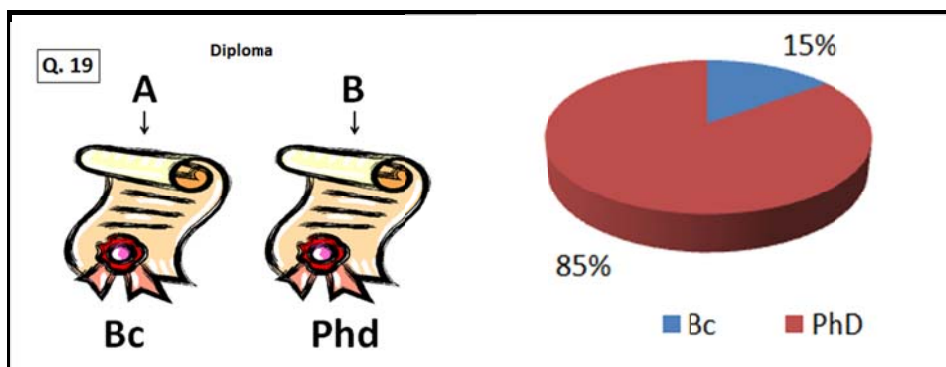


Source: own source

Source: own construction

Students see little value in a bachelor's education. With no option for a master's degree, students overwhelmingly feel that a PhD is necessary (few have any idea what a PhD entails). In the United States, a bit more than one third of students continue to get a Master's or higher degree after obtaining a Bachelor's degree³.

Figure 32. Bachelors or PhD



Source: own source

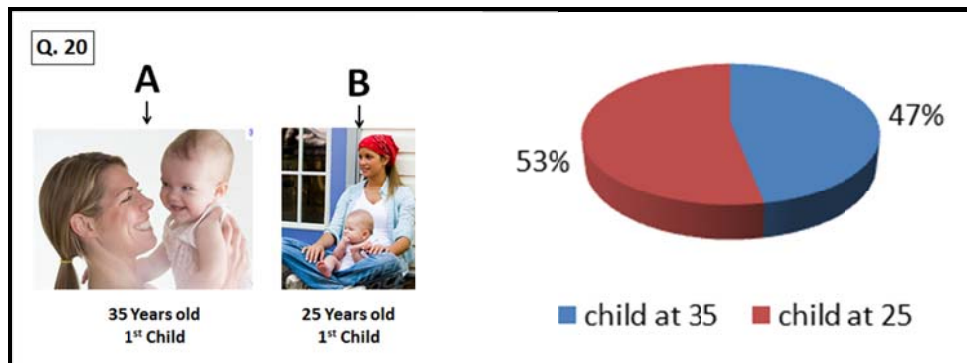
Source: own construction

The following slide indicated that students especially women were willing to have children at an earlier if the opportunity were available. It indicates that there is a willingness

³ US census bureau.

to “get on with life” if things like work and housing and a decent income was available earlier.

Figure 33. First child at 35 or at 25

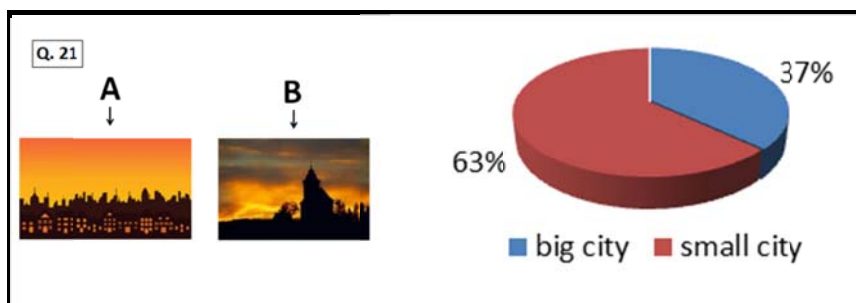


Source: own source

Source: own construction

The pictures in the following slide presented a rather abstract version of big or small city living. Both pictures are sunset silhouettes of structures at twilight. Again, the response reinforces the notion of not wanting to live in the big city.

Figure 34. Big or small city concept – skyline

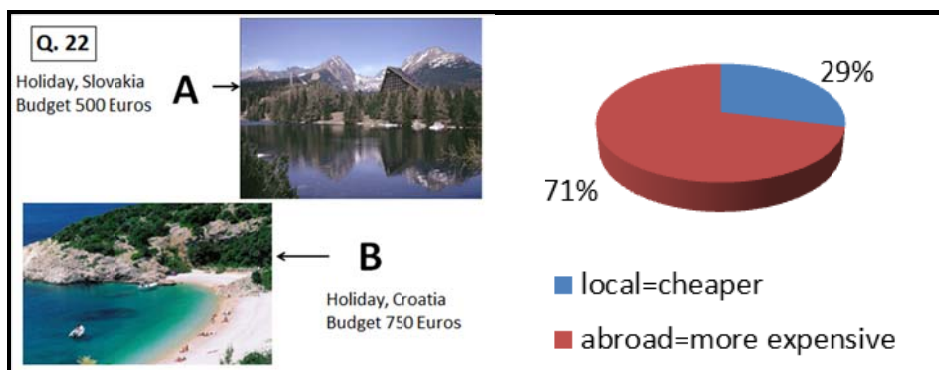


Source: own source

Source: own construction

Just like question one, this picture measured the responses to holidays but this time, it included a price tag. Even with the higher price for the Croatian holiday, it is still vastly preferred over a holiday in Slovakia.

Figure 35. Local holiday or holiday abroad

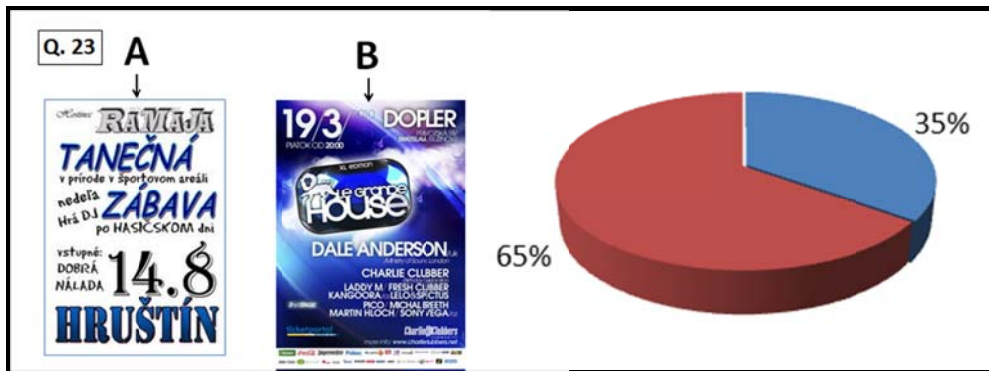


Source: own source

Source: own construction

The two posters in the following figure are advertisements for a dance or disco and they represent some sort of weekend communal entertainment. Picture A represents the small town dance, a dance hall, while picture B represents a big city rave. 65% of our respondents prefer the big city form of entertainment.

Figure 36. Village or city entertainment

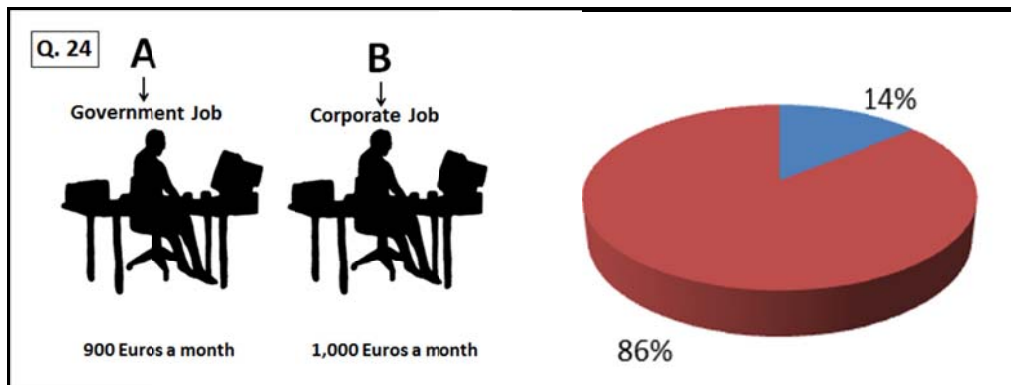


Source: own source

Source: own construction

In Slovakia the corporate job is still king with very few people considering government jobs. Government jobs represent security, but in Slovakia there is a reputation of mediocre pay. Still, in these days of austerity measures for government entities, this response is refreshing because it indicates that the private sector is very much alive in Slovakia.

Figure 37. Government or corporate job

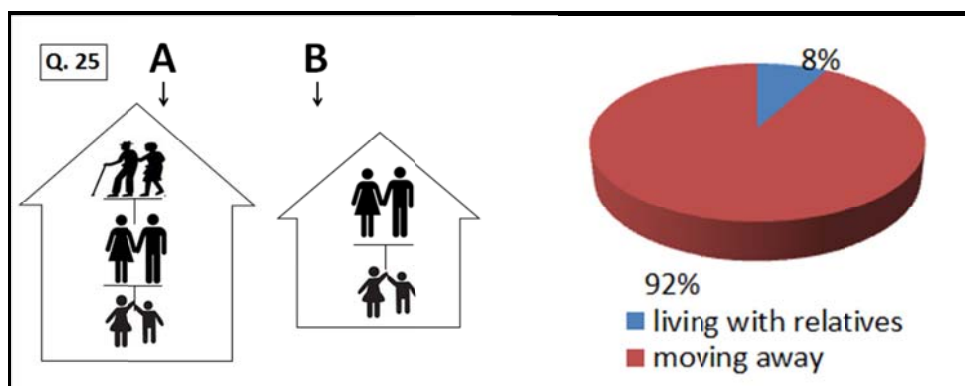


Source: own source

Source: own construction

In the last in the series of slides, the choices were between the generational family and the nuclear family. Just like in Western Europe, very few people would want the generational family. The large homes in the villages are thus an acronym from the past.

Figure 38. Large or immediate family



Source: own source

Source: own construction

8. Conclusion from the survey results

There are some profound indications from the results of this survey. Because this is just a preliminary survey that was conducted only at one faculty at one university (Economics), it is too soon to indicate a trend; more testing at different places needs to be performed. However, certain indicators of a trend have emerged. They are as follows:

- Adolescent life is being extended. The concept of successful adulthood has been rewritten in such a bounded way; the failure to obtain the “right job” gives the students a reason to hide in either higher education or in a foreign country until such a time that the coveted job appears. Thus students wait too long to move to the next stage in life.
- Students tend to be more speculative than pragmatic. Students will try to obtain jobs and their accompanying status even though these jobs are few and more and more less paid. There is a false notion of “knowledge work” as white collar work can be divided into two camps: Humanities based fields and STEM (science, technology, engineering, and medicine) based fields. Engineering students study the hardest while business students study the least (*Perez-Pena 2011*). There is no shortage of available jobs in STEM based fields, but these subjects require an intense training when compared to humanities based courses. Still, the notion of the lawyer, the banker, and the engineer are on the same level pedestal and the blue collared tradesman is not.
- People want to work in the big city, but they don’t want to live there. It is clear that students don’t want to live in the big city. In Slovakia there is a notion of home living as opposed to living in a flat. The big cities, especially Bratislava, are unable to provide these opportunities. The illusion is that there would be some sort of compromise as they would be able to live in a small town just outside of the big city. If this was to become reality, Bratislava as well as all other Central European capitals will become suburb-ringed metropolis linked by highways.
- People are much more motivated by status than material gains. This is especially true for women. Status is primary; money is secondary. In all societies, there has always been tension between blue-collar and white-collar workers as which provides the better form of utility (i.e. which would provide the greatest form of satisfaction). The white-collar worker has always had the upper-hand through higher status and cleaner environments, but the unwritten rule was that white collar workers needed a certain higher cerebral finesse in order to succeed. In other words, the white-collar workers had to be smarter. As Eastern Europeans looked westward for insight, inspiration came in the form of the steel and glass churches of western culture; Wall Street and Canary Wharf for finance, Brussels for Government, Prague and Bratislava as gatekeeper cities to capital (i.e. money). So big were the opportunities, most anyone could find a starting point for climbing the ladder of success; or so it is thought. It can be said that this concept is breaking down as the supply of white collar wannabes are outstripping the demand.
- Certain groups in society, especially blue-collared men, are socially disadvantaged. The extreme example of this case is the farmer, who has so little respect that few want to take of the profession. This prejudice against the blue-collared man is so strong, that it tears at the fabric of society.
- Students would have the more family oriented lifestyle if the possibilities were there. At least in Slovakia, family orientation still exist and the notion of “just getting on with life” is something students are willing to do, if opportunities were there to make this happen. These opportunities are rooted in obtainment abilities; the prerequisites that are needed for family. These prerequisites include cars, homes, and job security.

As of now the big city is provided job security whereas the small towns and villages can provide the material assets of life. One key to the future viability of the nation would to increase the job security and status for the small towns and disadvantage regions. It is not in the scope of this paper to address how this process should be undertaken, but it needs to be noted that it is not impossible. To illustrate that fact, we have provided the following example: Under the leadership of Sir Michael Lyons', England moved 20,000 civil service jobs out of the center of London to places around the country, starting in 2004. He stated "dispersal of civil servants would also aid the regeneration of some of the country's deprivation black spots and make government less London-centric"⁴.

The biggest threat to many nations in Europe is the lack of family as expressed through demographic statistics. The biggest threat to family is the inability for young people to secure adequate housing at the appropriate age in life.

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⁴ <http://network.civilservicelive.com/pg/pages/view/263318/>

Management social responsibility of croatian agricultural enterprises

MARIO BOGDANOVIĆ – KRISTINA SVRŽNJAK

The goal of this study was to research the management social responsibility of Croatian agricultural enterprises according to the stakeholder model of responsibility.

For this purpose questionnaires for strengthening the understanding of social responsible business in small and middle enterprises were used, as an initiative of the European Commission Directorate-General for Enterprise, with 30 questions on the scale with 11 degrees. In the mentioned questionnaire the managements of 83 different agricultural enterprises in the Republic of Croatia were included, in the two-year-time period of year 2008 and 2009. According to the Law of Agriculture in the Republic of Croatia (Official Gazette 149/2009) in agricultural enterprises there are included the family farms (FF); agricultural crafts (AC), agricultural cooperatives (ACOO) and agricultural companies (ACO). The study researched the managers of agricultural enterprises of various sizes which can be sorted according to the Croatian nomenclature in small enterprises (size from 2 to 49 employees – the great amount of FF-s and AC-s), middle size enterprises (size from 50 to 249 employees – the great amount of ACOO-s and ACO-s) and large enterprises (with 250 and more employees).

For the analysis the model of responsibility is used according to which an agricultural enterprise has not only one goal of maximizing the profit, but also serves to protect the environment and the total society in the context of their different stakeholders. In such context as stakeholders the employees, the suppliers, the customers, the competitors and the local community are analysed.

Research results indicate that agricultural enterprises in Croatia are the lowest responsible in the area of environmental responsibility. On the other hand, the best results are obtained for the organizational culture of agricultural enterprises. Between small, medium and large agricultural enterprise there were no statistically significant differences regarding social responsibility.

Based on the different measured aspects of management social responsibility, incentive measures can be suggested for improvements in the environmental and economic responsibility, and the responsibility of stakeholders in Croatian agricultural enterprises.

Keywords: social responsibility, environmental responsibility, economic responsibility, stakeholder model, organizational culture, agricultural enterprises

1. Introduction

From the management point of view, social responsibility is treated as a part of ethics which deals with the regulation of a relationship between an enterprise and its environment. The foundation of that relationship includes organization values, which are part of an organizational culture of an enterprise. Organizational values and organizational culture are the basis for deciding the socially responsible behavior of an enterprise regarding its environment (internal and external), or in other words, towards its stakeholders. The social responsibility is a clear ethical category which differentiates right from wrong. There are two main models of the responsibility (Buble 2006, p. 100.):

- a) Stockholder model where an enterprise is privately owned and has the exclusive goal of maximizing profits, while being responsible towards different interest groups such as employees, clients, suppliers, etc., in terms of fair marketplace transactions.
- b) Stakeholder or socioeconomic model, which is based on the premise that an enterprise does not have one, but many goals, which should be aimed at serving the society as a whole, and that an enterprise is socially responsible if it takes into account the interests of different stakeholders (stockholders, employees, suppliers – in the narrow sense – and of public interest groups such as protest groups, local associations, government organizations, trade associations, competitors, unions, the press, etc.).

According to the modern classification of a good/ethical enterprise (*Pupavac 2006, p. 106.*), an enterprise should face the demands of ethical responsibility, thus, the following of them is needed for ethical enterprise business operations:

- a) Ethical organizational culture (organizational culture that encourages responsible behavior);
- b) Ethical autonomy of the enterprise's employees (employees are given the freedom to make ethical decisions, in accordance with an ethical imperative on issues regarding the enterprise's operations).

Therefore, an enterprise, according to the socioeconomic model of social responsibility, has its own responsibility hierarchy so we can classify several types (levels) of social responsibility (*Buble 2006, p. 102.*):

- a) Economic responsibility – an enterprise should be profitable, its basic mission is the growth of profits within fair business rules. This responsibility has been brought to extreme levels, which is called profit-maximizing view, and it is supported by neoliberal economists, such as a Nobel laureate, Milton Friedman.
- b) Legal responsibility – an enterprise is expected to fulfill its business goals by respecting the laws adopted by government bodies.
- c) Ethical responsibility – it signifies the higher level of responsibility because, aside from obeying laws, an enterprise should respect fairness, justice, honesty, but also respect the rights of different interest groups and individuals, and act on their behalf, not at their expense.
- d) Discretionary responsibility is a voluntary, philanthropic contribution which does not offer a return to an enterprise, nor is expected to. It is the highest criterion of social responsibility which exceeds the social expectations of a community.

Therefore, enterprises, apart from their business responsibility (ensuring dividends for their stockholders, good jobs for their employees, ensuring that they do not damage the external environment), develop responsibility (ethics) towards a wider community, but also reliable products for their customers (*Pupavac 2006, p. 107.*).

In accordance with this model, an American list of 100 top enterprises is based on respecting multiple criteria in several categories: overall income, product, human rights, environment, employees, differences, management and community. Thus, for example, in the business responsibility category, the success of an enterprise is regarded through its stockholders, based on a three-year revenue average (increased capital + dividends). In the environmental category, the success an enterprise is assessed through pollution prevention, using clean energy, using recycled materials, the production of useful products, waste management, the destruction of the environment and its contribution to climate changes. In

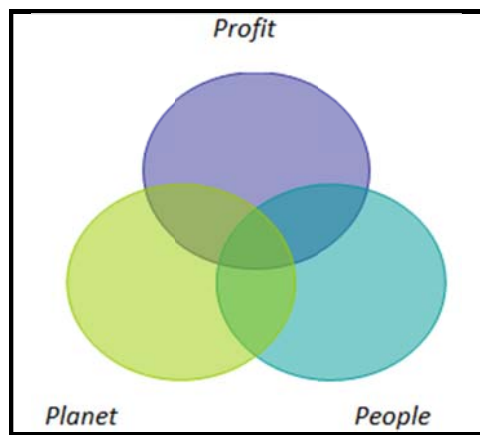
the employees category the following is assessed: the participation of employees in profit-sharing and decision-making, retirement benefits, relationship with a union. In community category what is assessed is as follows: charity contributions larger than 1,5% annually, innovative contributions (innovative changes), household support, education support and volunteer programs, the community concern regarding credit rates, negative economic performance and other issues. In the management category: a political contribution and effective social reporting, inappropriate management salaries and accounting controversies. However, the research of nineteen European enterprises, regarding the amount and types of published information connected to nonfinancial disclosure of socially responsible behavior, showed that the disclosure is limited only to a few topics: operative efficiency, maximum security, protection of environment, quality and innovations, open dialog, the development of skills and responsible civil behavior (Perinni 2005).

In the European Union, the year of 2005 was proclaimed “the year of socially responsible entrepreneurship” as a concept in which enterprises incorporated the care for social interests and the interests of protecting the environment in their business strategies. The concept was called *Triple bottom line*, first developed by Elkington (2004) and is often shortened as 3P: people, planet, profit (Figure 1). Letica (2010) says that it was not the idea of triple bottom line which was the novelty, but the tendency of users to measure that efficiency and take it into account. Norman and MacDonald (2004) emphasized the concern that the social and environmental effects cannot be compared, measured or expressed as well as business effects. Therefore, the concept of the triple bottom line only became accepted with admissible measures of the mentioned ideas, and it is based on a well-known management theoretician Peter Drucker’s popular phrase of corporate management theory: “*If you cannot measure it, you cannot manage it*”.

Lewicka–Strzalecka (2006) claimed that for Poland, as it was true for most of new EU members, serious obstacles for the development of socially responsible behavior are: negative business image, dysfunctional legal background, corruption, difficult economic situation in many enterprises, the lack of ethics and ethical standards as well as a difficult situation on the labor market. Besides, Lay (2003) considers that long-term considerations bring no immediate political and financial profits so the socially responsible business operations are not the main concern. The corporate social responsibility in Croatia is only in its early stages, but lately the interest for that kind of information has increased (Vitezić 2008). This is supported by the fact that the Croatian Chamber of Economy and the Croatian Business Council for Sustainable Development started a project for the development of Index CSR (corporate social responsibility) in 2008. A questionnaire was sent to 1364 enterprises – 152 enterprises opened it and only 32 enterprises successfully filled it in¹.

¹ Among the 32 enterprises, 11 are large enterprises, 12 medium-size and 9 small ones. (www.hrpsor.hr/upload/GIO_16_wer.pdf)

Figure 1. Corporate social responsibility



Source: edited by Elkington (2004)

It is visible from this short review that social responsibility is in the focus of the interest of the most successful enterprises, so it was important to determine the state of social responsibility in enterprises in Croatia. According to OECD² criteria, 91,6% of Croatia is classified as rural area, and agriculture is the basic activity in rural areas. Agriculture is one of the three main parts of Croatian economy, with tourism and industry. Therefore, the research analyzes agricultural enterprises in Croatia.

The goal of the research was to determine the social responsibility of management according to the stakeholder model of responsibility. In accordance with that goal, the following questions were set:

1. What is the responsibility of the agricultural enterprises' management towards their own staff?
2. What is the environmental responsibility of the agricultural enterprises' management?
3. What is the responsibility of the agricultural enterprises' management towards clients, suppliers and competitors on the market?
4. What is the responsibility of the agricultural enterprises' management towards the local community?
5. What is the organizational culture of agricultural enterprises, or their identity within the community?
6. What is the overall responsibility of the agricultural enterprises?
7. Is there a statistically significant difference regarding social responsibility among managers in small, medium or large agricultural enterprises according to all the above mentioned categories?

By answering the questions and after having analyzed them, interesting results of different aspects of social responsibility of the management of agricultural enterprises in Croatia were achieved and measures for improvement based on the answers were proposed.

² OECD criterion is 150 inhabitants per km².

2. Research of social responsibility of the management of agricultural enterprises in Croatia

2.1. Research method

The starting point of the research was the premise that the social responsibility of agricultural enterprises can be measured by an understandable questionnaire. The research used the European Commission's questionnaire on increasing the corporate social responsibility in small and medium enterprises. It had 30 particles on the scale of 11 intensity degrees³. Grade 0 meant that the question is not applicable for the enterprise in question. Grades 1–10 marked the intensity degrees from minimum to maximum regarding a particular particle/question. The interpretation of the results was defined as follows: grades 8,50–10,00 marked a high level of social responsibility, 7,00–8,49 average, and lower than 6,99 below-average level of social responsibility. The questionnaire is a guide for self-assessment used by enterprises in the European Union, in order to assess their position within the scope of corporate social responsibility⁴. The questionnaire consisted five parts:

1. enterprise policy towards its employees;
2. enterprise policy towards the protection of environment;
3. enterprise policy towards the market;
4. enterprise policy towards local community; and
5. the manner of transferring enterprise's values.

The questionnaire measured and determined elements of the current social responsibility in the agricultural enterprises. By implementing a statistical process of ANOVA (variance analysis), statistical differences overall and "individual" managerial social responsibilities were determined, according to the size of an agricultural enterprise. Furthermore, characteristics of samples (enterprises) were collected and classified, the size of an enterprise, the type of an enterprise.

2.2. Research process and subjects (samples of enterprises)

Questionnaires were directly sent or forwarded to managements of target agricultural enterprises by email and once filled in, they were returned to researchers. Questionnaires were filled in by owners of family agricultural enterprises or trades, as well as managers or employees in charge of sustainable development departments within larger agricultural – food enterprises and agricultural associations.

The data collection covered the years of 2008 and 2009. The total number of participants was 83 different agricultural enterprises (considering their profile, size and location in one of the counties in Croatia).

The research of social responsibility of agricultural enterprises in Croatia represented most counties (N=15 out of 20). The only counties not included were: Istarska, Požeško-slavonska, Zadarska and Vukovarsko-srijemska, while the Zagrebačka County included the city of Zagreb, so we can say the research encompassed samples of agricultural enterprises from almost the entire Croatia. The sample structure regarding the location of an enterprise is shown in Table 1.

³ The original EC questionnaire had only YES/NO questions, so these research questions were changed according to the 11 intensity degrees scale in order to get more specific answers, not only dichotomous nuances of different degrees of social responsibility.

⁴ Business portal "Are you a socially responsible enterprise?", Questionnaire on raising awareness, Osijek, (PR.: what does 'Osijek' refer to?) available at: http://www.poduzetnistvo.org/zanimljivosti.php?show_cat=4&select=zanimljivosti.

Table 1. The sample structure of agricultural enterprises regarding the location of counties

Counties	Frequency	Percentage (%)
Bjelovarsko-bilogorska	15	18,1
Brodsko posavska	2	2,4
Dubrovačko-neretvanska	2	2,4
Karlovačka	2	2,4
Koprivničko-križevačka	16	19,3
Krapinsko-zagorska	1	1,2
Ličko-senjska	3	3,6
Međimurska	10	12
Osječko-baranjska	1	1,2
Primorsko-goranska	1	1,2
Sisačko-moslavačka	1	1,2
Splitsko-dalmatinska	1	1,2
Varaždinska	2	2,4
Virovitičko-podravska	9	10,8
Zagrebačka*	17	20,5
TOTAL N=15 COUNTIES*	83	100

*Note:**Croatia has a total of 20 counties plus the city of Zagreb, which is therefore included in the Zagrebačka county.

Source: Research results

The sample structure regarding the different organizational types is shown in Table 2. The researched agricultural enterprises are classified in four existing organizational types, according to the Agricultural Law (Official Gazette 149/2009) in Croatia: family farm (FF); agricultural craft (AC); agricultural cooperative (ACOO) and agricultural company (ACO).

Table 2. The sample structure of agricultural enterprises regarding the different organizational types

Type of agricultural enterprises	Frequency	Percentage (%)
ACO	16	19,3
AC	37	44,6
FF	21	25,3
ACOO	9	10,8
TOTAL	83	100

Source: Research results

The enterprises were also classified by size, or the number of employees. Table 3 shows that the sample mostly includes small and medium agricultural enterprises with the incidence of 91,6%, towards which the EC original questionnaire is aimed because the basis of corporate entrepreneurship is indeed small and medium enterprises. According to the data of the Ministry of Agriculture in Croatia 177.003 agricultural enterprises were registered and 98,7% of them belongs to small enterprises.

Table 3. The sample structure of agricultural enterprises regarding the size

Size of agricultural enterprises	Frequency	Percentage (%)
2–49 employees (small)	53	63,9
51–249 employees (medium)	23	27,7
=>250 employees (large)	7	8,4
TOTAL	83	100

Source: Research results

According to the collected sample it can be concluded that this sample was an occasional, not representative sample for all agricultural enterprises in the Republic of Croatia. So the conclusion which can be made on this sample can be treated as a conclusion from a pilot study.

3. Results and discussion of the empirical research

3.1. The responsibility of the management of the agricultural enterprises towards their own staff

The first set questions of ‘What is the responsibility of the management of the agricultural enterprises towards their own staff?’ and ‘Is there a statistically significant difference regarding social responsibility among managers in small, medium or large agricultural enterprises?’ was twofold.

Step one included giving basic descriptive information (Table 4), and Step two tested the importance of differences in the mentioned responsibility among small, medium and large agricultural enterprises.

Table 4. Mean, standard deviation of responsibility of management towards employees by particle and overall

Variables of management responsibility towards employees	Mean (M)	Standard deviation (S)
Management counseling with employees on important issues	8,31	2,1
Work safety, health safety and welfare of the employees	8,05	2,29
Development of skills and careers	7,6	2,52
Anti-discrimination process in the workplace	7,55	3,04
Techniques on improving work life balance (flexible working hours, working from home, etc.)	6	3,5
OVERALL MANAGEMENT RESPONSIBILITY TOWARDS EMPLOYEES	7,49	1,6

Source: Research results

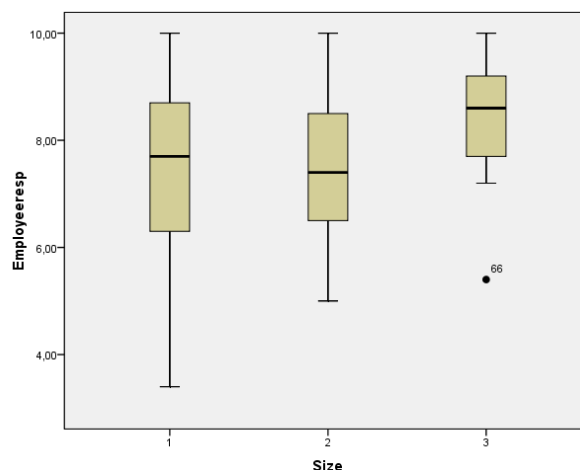
The highest result in management responsibility towards employees (human resources policy elements) is regarding the inclusion of employees in important business process (M=8,31; s=2,10). The employees’ participation is regularly treated as an important managerial tool for improving business (Bahtijarević-Šiber 1999). Therefore, the high results in this scale would imply the inclusion of employees in decision-making processes, which is a kind of participation or self-management. However, an important distinction must be made: inclusion in operative issues of production and business process, in other words, issues of operative co-management, and especially issues of strategic co-decision making regarding the enterprise (investment policy, distribution, responsibility, recruitment, dismissals, etc.) were not included in the questionnaire.

The lowest score in the management responsibility towards employees was regarding the techniques on improving work life balance (M=6,00; S=3,50) which, on a scale of 10 degrees (maximum), means that the management may be regarded as indifferent (M=5,00) according to the mentioned techniques, which generally does not support the scale of responsibility toward their own employees. Generally speaking (for all enterprises), if we assume that the management role is to make people productive at their work place (Cohen et al 2002), instead of only gaining control over them, then the results of this particle may be interpreted that it leaves room for improvement in management responsibility towards their own employees by using different techniques (flexible working time, working from home where possible, job rotation, job enrichment, well-balanced day-offs, as motivational method, rewarding knowledge and creative solutions in the enterprise, etc.). High standard deviation of this particle (S=3,50) shows considerable differences among the managers of different agricultural enterprises regarding the implementation of improvement techniques for employees' work life balance.

Other social responsibility scales are in the M=7,55–8,05 range which is a medium value as for room for improvement. The above mentioned can also be concluded for the whole scale of management's responsibility towards their own employees when it is treated as linear variable of all its elements (M=7,49; S=1,60). Therefore, if the goal is not only ethical advantage but also competitive advantage of agricultural enterprises with their human resources policies, or management's responsibilities towards their own employees (not only for humane reasons, but also for the increase in productivity), then there is room for improvement in this element of social responsibility of agricultural enterprises.

Regarding the answers to the statistical differences of social responsibility among managers of small, medium and large agricultural enterprises by implementing ANOVA, there was no statistically significant difference between the size of an enterprise and the level of social responsibility F=0,878; P=0,420. Figure 2 shows this data for clarification.

Figure 2. The image of mean and dissipation of the 3 sizes of agricultural enterprises (1–small; 2–medium; 3–large) regarding the level of managements' social responsibility towards their employees



Source: Research results

It is clear according to the means of the managements' social responsibility towards their employees that the large agricultural enterprises (>250 employees) somewhat vary from other types of enterprises, but because of the small sample number of large enterprises (N=7), one large enterprise differs on the level of social responsibility towards employees (marked as enterprise number 66 – more specifically *Agricultural – Food Concern Valpovo*) in a different

direction (lower management's responsibility towards their own employees). It brings the means of large enterprises closer to medium and small enterprises, which in turn results in a statistical fact that there were no statistical differences among them.

3.2. Environmental responsibility of the management of agricultural enterprises

The second set of questions of 'What is the environmental responsibility of the management agricultural enterprises and 'Is there a statistically significant difference regarding social responsibility among managers in small, medium or large agricultural enterprises?' was dealt with in a similar manner as the first one. In other words, descriptive information was given in Table 5, and then the importance of differences in the mentioned responsibility among small, medium and large agricultural enterprises was tested.

Customers consider the information whether an enterprise does business in an environmentally friendly way important, it creates trust and customer loyalty, especially at a local level. Surveys conducted in Croatia so far have shown that while choosing a product, customers take into consideration the fact that an enterprise has a well-developed environmental policy⁵. Also, Rašić research (2010) confirmed that the image of an enterprise can be improved mostly by environmentally friendly products. Therefore, this part of the research wanted to show what is being done by agricultural enterprises and what can be further done within the socially responsible entrepreneurship regarding environmental sustainability.

Table 5. Mean, standard deviation of environmental responsibility of the management by particle and overall

Variables of environmental responsibility of the management	Mean (M)	Standard deviation (S)
Lowering impact on the environment:		
– Minimizing waste and recycling	7,82	2,51
– Protection of natural environment	7,75	2,56
– Pollution prevention	7,46	2,64
– Energy savings	7,34	2,76
– Sustainable transport	6,39	3,12
Environmental information for interested parties	7,07	3,32
Environmental competitive advantage	6,9	3,35
Savings by reducing impact on the environment	6,8	3,08
Environmental impact during new product development	6,33	3,54
OVERALL ENVIRONMENTAL MANAGERIAL RESPONSIBILITY	7,07	1,88

Source: Research results

In the first part of the questionnaire on environmental sustainability, there is a question whether the enterprises have tried to reduce their impact on the environment regarding sustainable transport, energy savings, pollution prevention, the protection of natural environment and minimizing waste and recycling. The research results show that the

⁵ Research Holcim (Croatia); The influence of socially responsible behavior on customer behavior is available on: http://www.holcim.com/gc/HR/uploads/Holcim_i_Puls_istrazivanje.pdf. Research on the influence of socially responsible behavior and on customer behavior show that 83% of customers would pay more for a product of similar characteristics if they knew that the enterprise helps to protect the environment.

agricultural enterprises mostly reduce their impact on the environment through minimizing waste and recycling⁶ (M=7,82; S=2,51). On the other hand, their efforts to reduce their impact on the environment are the least expressed in applying sustainable transport options (M=6,39; S=3,12), because those options are either not available or the enterprises do not use special types of transport, and the sustainability is done through the increase of amounts per delivery or decreasing idleness, frequent in agriculture.

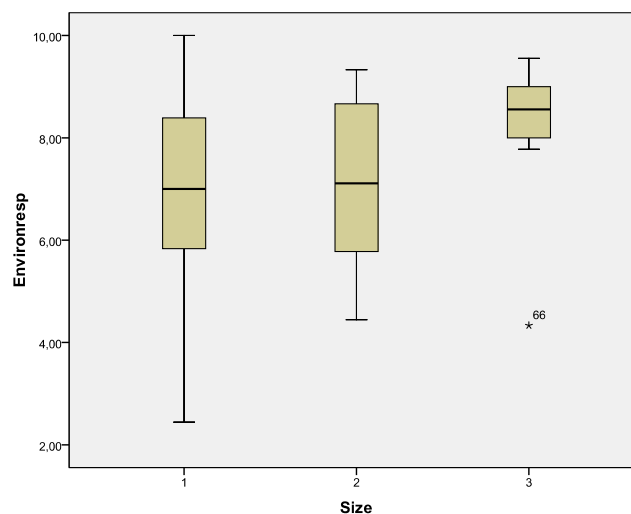
The second part of the questionnaire on environmental sustainability of an enterprise answers the questions: whether the enterprises can save money by reducing their impact on the environment; whether the potential impacts of the environment are taken into consideration when developing new products or services; whether the precise environmental information are given on their products; whether there is a way of using the sustainability of their products and services in order to achieve a competitive advantage over their competitors. In the case of so called “soft impact” (through informing stakeholders) on the environment, the highest marked variable (though not generally highly marked) was the environmental informing of interested parties through clear and precise environmental information on their products, services, activities with their customers, suppliers, local community, etc., which represents transparent operations of the researched enterprises (M=7,07; s=3,32). This result is at the low average level with considerable variation among the researched enterprises. The question whether the researched enterprises take into consideration potential environmental effects during the development of new products and services (for example grading the energy costs, recycling or pollution generation) is the “most critical” variable of corporate social responsibility regarding the environmental dimension (M=6,33; s=3,54). Namely, Croatia has the so called “traditional agriculture” which is not prone to changes regarding the development of new products and services. It is interesting to analyze the answers to the question how agricultural enterprises can use the sustainability of products and services in achieving a competitive advantage (i.e. recycling possibilities, energy efficiency of the products, etc.) and the participants of this research recognized a competitive advantage in focusing on ecological production – “the traditional way”.

From the point of the overall environmental responsibility of management, it can be said that agricultural enterprises in Croatia meet the ecological standards of sustainable development (M=7,07; s=1,88) although the grade is at the lowest level of an average score and it should be better if the agricultural enterprises wish to improve. Most small enterprises consider that they still cannot fully satisfy the social responsibility concept without increasing their operating costs considerably and that they have a limited potential to decrease the negative effect on the environment.

Regarding the answers to the statistical differences of environmental responsibility of management of small, medium and large agricultural enterprises by implementing ANOVA, there was no statistically significant difference between the size of an enterprise and the level of social responsibility $F=1,162$; $p=0,318$. Also, similar research done on Croatian enterprises of various ownership structures (Rašić 2010) show that there are no differences in most variables connected to the protection of the environment. The greatest obstacles in achieving better results are: no incentive from the government, high supply costs of new “clean” technology, inadequate legal regulations and increased production (operative) costs of the “clean” technology.

⁶ Mostly paper, plastics and glass separation, and their disposal in special containers.

Figure 3. The image of mean and dissipation of the 3 sizes of agricultural enterprises (1–small; 2–medium; 3–large) regarding the level of the managements’ environmental responsibility



Source: Research results

3.3. The responsibility of the agricultural enterprises’ management towards clients, suppliers and competitors on the market (market responsibility)

The third set of questions was: *What is the managerial responsibility of the agricultural enterprises’ management towards clients, suppliers and competitors on the market (market responsibility) and is there a statistically significant difference regarding social responsibility among managers in small, medium or large agricultural enterprises?* Table 6 shows descriptive information, followed by the tests of the importance of differences in the mentioned responsibility among small, medium and large agricultural enterprises.

Regarding the market responsibility of management, it was not surprising to see that the weakest variable was on paying the suppliers on time ($M=6,40$; $s=3,61$), considering the fact that the set payment regulations are unfortunately not obeyed in Croatia. The basis of corporate social responsibility, and therefore the market responsibility of management, is a long-term consideration, or a long-term problem-solving on the market. *Martinović* (2007, pp. 387–393.) mentioned a few basic issues:

- a) Issues regarding products (i.e. products are not of appropriate quality or services have not been adequately provided);
- b) Issues regarding prices (i.e. retrospective pricing, deceitful pricing, secret arrangements between competitors regarding the division of markets and prices, false advertising of discounts or sale, etc.);
- c) Issues regarding distribution – (i.e. if a producer prefers one middleman, he sets better prices for them, better conditions, etc.);
- d) Issues regarding communication (untrue or confusing ads and commercials, withholding important information, vague or ambiguous claims, publishing false facts, etc.).

According to the results of this research it can be concluded that the researched agricultural enterprises have long-term plans regarding the best variables of marketplace responsibility of their management. Namely, in agricultural enterprises the highest mark, though not the maximum ($M>8,50$) was given to policies ensuring honesty and quality in business and advertising ($M=7,67$; $s=2,94$), offering clear and true information on products

and service labeling (M=7,42; s=3,35), while the overall management responsibility got average marks (M=7,22; s=2,33). This indicates the perceived importance of ethical business operations as the basis for a good enterprise image, although there is room for improvement with the market responsibility of the management in Croatian agricultural enterprises.

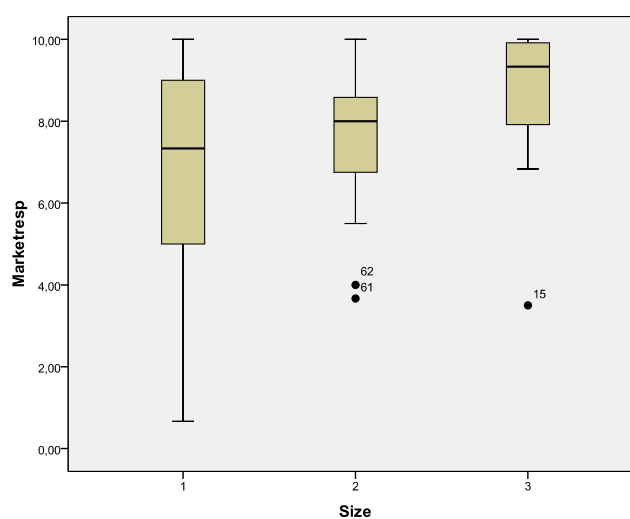
Table 6. Mean, standard deviation of marketplace management responsibility by particle and overall

Variables of market management responsibility	Mean (M)	Standard deviation (s)
Honesty and quality in business	7,67	2,94
True product labeling	7,42	3,35
Effective informing of buyers, suppliers, partners	7,31	3,19
Effective dealing with complaints	7,20	3,41
Responsible entrepreneurship together with other enterprises	7,06	3,24
Paying suppliers on time	6,40	3,61
OVERALL MARKET MANAGEMENT RESPONSIBILITY	7,22	2,33

Source: Research results

Regarding the answers to the statistical differences of marketplace responsibility of small, medium and large agricultural enterprises' management by implementing ANOVA, there was no statistically significant difference between the size of an enterprise and the level of social responsibility (F=1,622; p=0,204).

Figure 4. The image of mean and dissipation of 3 sizes of agricultural enterprises (1–small; 2–medium; 3–large) regarding the level of market management responsibility



Source: Research results

3.4. Responsibility of the management of the agricultural enterprises towards the local community

The fourth question in this research was: *What is the responsibility of the management of the agricultural enterprises towards the local community and is there a statistically significant difference regarding social responsibility among managers in small, medium or large agricultural enterprises?*

Table 7. Mean, standard deviation of management responsibility towards local community by particle and overall

Variables of management responsibility towards local community	Mean (M)	Standard deviation (s)
Financial aid to local community	8,30	2,34
The possibility of educating the community	8,19	2,76
Local supply	8,10	2,72
Dialogue with local community on controversial issues	7,58	3,02
Incenting employees to participate in activities within the local community	7,08	3,03
OVERALL MANAGEMENT RESPONSIBILITY TOWARDS LOCAL COMMUNITY	7,58	1,84

Source: Research results

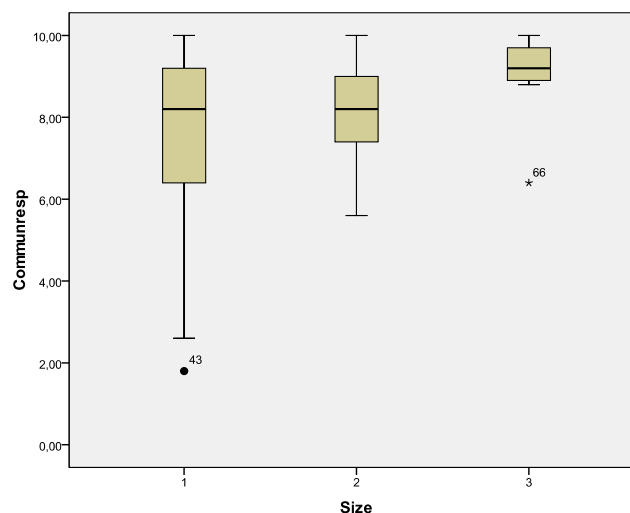
Enterprises strive to create positive changes by involving the community and offering support for its welfare. Thus, an enterprise is a subject interested in the well-being of the community and it gains recognition, respect and a positive image from its costumers, which in turn effects the improvement of the reputation of the enterprise, increases cooperation, partnership relationships or networking with other local enterprises. *Kotler and Lee (2009, pp. 33–35.)* mention six ways an enterprise can do good:

- a) Support the growth of care and awareness for the situations in the community – (corporate cause promotion) – an enterprise ensures financial means, contributions in kind or other corporate resources in order to develop the awareness of a certain social goal, or an interest in it, or to gather financial means or ensure participation, or volunteering.
- b) Marketing campaigns aimed at changing the behavior in society (social marketing) – the enterprise supports the development and /or the implementation of a campaign in order to change behaviors regarding the health, safety, environment or well-being of a community.
- c) Donations dependent on sales volume (cause-related marketing) – an enterprise commits to donate a certain percentage of its sales income towards a specific social goals.
- d) Charity towards others in the community (corporate philanthropy) – an enterprise makes direct contributions to a charity or social actions, mostly as cash donation and /or donation in kind.
- e) Community service/employees – volunteers (employee volunteerism) – an enterprise supports and encourages employees to help community organizations and actions through volunteering.
- f) Socially responsible business practices/regular business operations based on the increased social responsibility (socially responsible business practices) – an enterprise, at its own discretion, adopts and implements a business practice that supports a social goal which should improve the community life and protect the community, i.e. invest in such a cause.

Reporting on corporate social responsibility in Croatian is mostly done with large successful enterprises present on international markets. Media coverage research⁷ of corporate social responsibility in the Croatian press shows that sponsorships and donations have the greatest media representation (73%), texts on direct investment into environmental protection have the least coverage (2%), and in 5% of analyzed texts the corporate social responsibility is used as a marketing tool and for brand strengthening. Therefore, *Vitezić* (2008, p. 24.) warns that attention needs to be drawn regarding the often misunderstood point of the social responsibility and its identification with philanthropy and donations because sponsorships and donations are only partially helping society. Furthermore, it is emphasized that social investments are often expressed through different programs – educational, health, cultural, sport, charitable, etc., whose primary goal is to create a safe and secure environment for employees, enable further education, human and labor rights, freedoms, while preventing injustice and illegality in labor relationships, discrimination, immoral behavior, etc. Research of management responsibility towards their own community within agricultural enterprises also shows that the best marked variable is the one where enterprises regularly finance activities and projects within the local community through donations or sponsorships (M=8,30; s=2,34). On the other hand, the lowest graded variable was connected to encourage employees to participate in local community activities⁸ (M=7,08; s=3,03).

Regarding the answers to the statistical differences of market social responsibility of small, medium and large agricultural enterprises' management by implementing ANOVA, there was no statistically significant difference between the size of an enterprise and the level of social responsibility (F=1,995; p=0,143).

Figure 5. The image of mean and dissipation of 3 sizes of agricultural enterprises (1-small; 2-medium; 3-large) regarding the level of management responsibility towards local community



Source: Research results

3.5. Organizational culture of agricultural enterprises

Organizational or corporate culture of an enterprise is considered an important element of ethical systems and structures (*Daft* 2008, p. 158.), because culture creates motivation for

⁷ Overview of corporate social responsibility in Croatia, 2nd edition, Academy for Educational Development & Prince of Wales International Business Leaders Forum, MAP Savjetovanja d.o.o. Zagreb, 2006 –Research was done in 2003 on 95 newspaper articles.

⁸ For example: donating their time and expertise, or other types of practical help.

socially responsible behavior. Specifically, culture turns values and beliefs into effort-worthy ideals and this creates expectations on management behavior, on how to deal with hierarchical decisions as well as what the right motivation and behavior is in an enterprise (Noe et al 2006, p. 537., p. 539.). Culture is reflected in an enterprise's behavior by defining its image, and the area of social responsibility can range from complete rejection of socially responsible behavior (an idea that this is not the enterprise's goal) to fully embracing the idea that an enterprise is responsible for the long term preservation of the welfare of all enterprise's stakeholders.

The fifth question was: *What is the organizational culture of the agricultural enterprises and its identity in the community, and is there a statistically significant difference regarding culture among managers in small, medium or large agricultural enterprises?.* Table 8 shows descriptive information of specific particles of this issue.

Table 8. Mean, standard deviation of organizational culture variable in Croatian agricultural enterprises by particle and overall

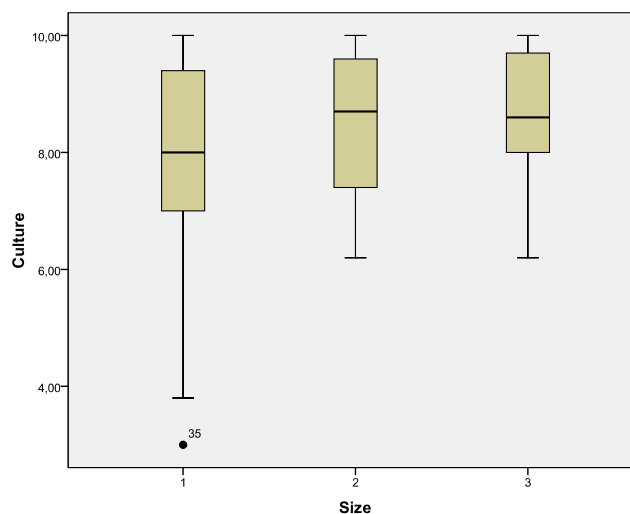
Variables of management organizational responsibility	Mean (M)	Standard deviation (s)
Employees' awareness of enterprise's values	8,49	1,88
Transfer of enterprise's values on stakeholders	8,29	2,52
Defined rules of behavior and values in an enterprise	8,27	2,32
Customers' awareness of enterprise's values	7,82	2,32
Education on values and rules of an enterprise	7,33	2,54
OVERALL LEVEL OF ORGANIZATIONAL CULTURE OF AGRICULTURAL ENTERPRISES	8,11	1,54

Source: Research results

The explored measures of transferring values considered to be essential by the management of an agricultural enterprise, show that the score of an overall organizational culture on a medium level (M=8,11; s=1,54), and that the mentioned activities of the internalization of socially responsible values could be expressed more strongly in order to strengthen organizational cultures and images of agricultural enterprises. Specifically, a strong organizational culture is the key to behavior support (motivation) so in that sense the explored variables might be strengthened by:

- a) more clear transfer of the values of enterprise on customers, which would achieve customer awareness on corporate social responsibility (excellence);
- b) educating the employees on enterprise values-which can be achieved through group shared experiences, learning by observing (a manager and/or very successful individuals) as well as understanding and (un)accepting the consequences of socially responsible and irresponsible behavior (Pastuović 1999).

Figure 6. The image of mean and dissipation of 3 sizes of agricultural enterprises (1–small; 2–medium; 3–large) regarding the level of organizational culture of agricultural enterprises



Source: Research results

Regarding the answers to the statistical differences in organizational differences of small, medium and large agricultural enterprises by implementing ANOVA, there was no statistically significant difference between the size of an enterprise and the organizational culture ($F=1,381$; $p=0,257$).

Brammer and Pavelin (2004) showed a relationship between a reputation and the social effect on a sample of 227 UK enterprises, and showed that larger enterprises have a considerably better reputation than smaller enterprises. Also, there were considerable and significant differences by the sectors in connection with reputation (good image), and especially with social impact⁹, and the general tendency is that the sectors (as greater or microstructures) show above-average reputation and below-average social impact and vice versa. This is consistent with the well-known findings that the size of an enterprise is an important factor in choosing the enterprise's strategy, as well as the organizational structure which is used to achieve the mentioned strategy (Buble 2006). Therefore, the size of the enterprise (usually expressed by the number of employees) can have a similar influence on the level of social responsibility.

3.6. Overall managerial social responsibilities in agricultural enterprises

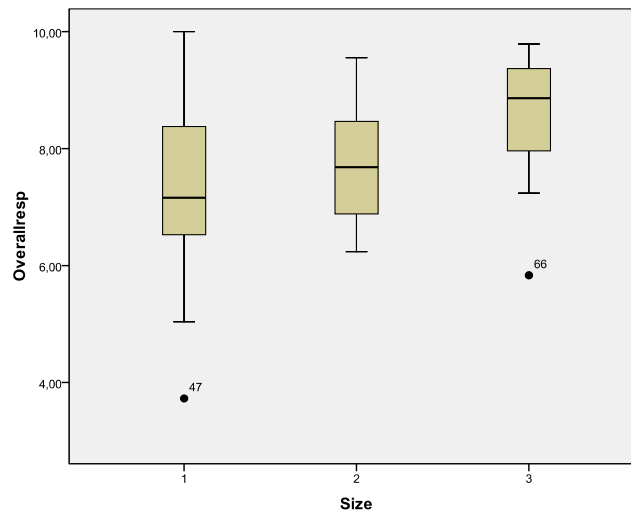
Overall managerial social responsibility of the surveyed agricultural enterprises in Croatia was also established in this survey, as a linear combination of all measured variables¹⁰ and it was at a level $M=7,56$; $s=1,30$. By testing significance of overall differences in the social responsibility of the enterprises, it was found that there is little significant difference¹¹ ($F=2,508$; $0,10 > p=0,088 > 0,05$).

⁹ Authors analyzed 12 sectors: retail, business services, engineering, finances, utilities, chemicals and consumer products. (PR.: only 6 are listed).

¹⁰ Linear combination of variables included all measured types of social responsibilities (responsibility towards their own staff; environmental responsibility; responsibility towards clients, suppliers and competitors; responsibility towards local community and company identity within the community). This aggregation was made in SPSS program with the option to compute new variables as a linear combination of all mentioned variables of social responsibility in order to gain a measure of total social responsibility of Croatian agricultural enterprises.

¹¹ As the level of significance depends on the chosen criterion which in social research is usually set at the risk level of $p < 0,05$, an insignificantly small difference is a term used here for minor excess, as a significantly difference might be for

Figure 7. The image of mean and dissipation of 3 sizes of agricultural enterprises (1–small; 2–medium; 3–large) regarding the level of overall managerial social responsibilities in agricultural enterprises



Source: Research results

It is directed toward large agricultural enterprises (\Rightarrow 250 employees) which is in accordance with the previously mentioned findings of *Brammer* and *Pavelin* (2004). Specifically, the greater reputation which larger enterprises had can be attributed to the differences in social responsibility which is statistically significant (albeit at the risk level of 8,80%, i.e. slightly or marginally significant) higher in large agricultural enterprises.

The methodological problem of this research is that the self-reporting questionnaires applied on the managerial population can show social desirable answers, because there can be doubt in the given answers. Namely, why managers would confess e.g. that they are socially irresponsible? This can be the problem of validity of measurement and can be, for example resolved by means of control lie scale, which is normally applied scale in personality questionnaires. The social desirable answers can be also corrected by means of real social responsible behaviour of companies, but this procedure needs additional methodological approach, this means the additional measure of real social responsible behaviour (e.g. from different stakeholders: employers, clients, suppliers, competitors, local community, etc.) each included enterprise in the study.

4. Conclusion

Corporate social responsibility is a complex concept that can be researched and treated through the following components:

- a) social responsibility towards its own employees;
- b) social responsibility towards the environment;
- c) social responsibility towards the marketplace;
- d) social responsibility towards the local community;
- e) organizational culture which supports the socially responsible values and behaviors.

example $p < 0,075$ or even $p = 0,10$. Although some norms need to be obeyed, the term insignificantly small difference actually is a difference which in fact has a slightly greater risk of making wrong conclusions for the entire specter based on a single sample, and it is almost subsumed under being significantly different differences.

- a) A good relationship with stakeholders cannot be expected without a good relationship with its own employees. Therefore, for this component of social responsibility, a policy towards the human resources of the enterprise is extremely important, and that is what a special human resources discipline deals with, in order to achieve competitive advantage. In Croatian agricultural enterprises it is set at a medium level ($M=7,49$; $s=1,360$) and can certainly improve. Particularly deficient techniques of improving work life balance have been identified ($M=6,00$; $s=3,50$) (flexible working time, job rotation, working from home, etc.) which are some of the motivational techniques for improving working conditions, along with greater variations among different enterprises.
- b) All enterprises, whether they are small, medium or large, and regardless of their branch, effect positively or negatively on people and the environment through their business operations. Negative effects result from energy and resources consumption, creating waste and polluting as well as destroying natural habitats. Although the potential to reduce negative effects on the environment in small enterprises can be limited, every enterprise can contribute to energy savings and the quantity of waste, recycling, using environmentally friendly processes and technology, and rational use of nonrenewable resources. Activities enterprises do in order to protect the environment contribute to their identity, create free ads, marketing and an enterprise is recognized as a welcomed subject which cares for the local community. Furthermore, enterprises which create products and services with a higher level of environmental protection than their competitors have an increased competitive advantage. Environmental dimension of sustainable development includes clean air, water and soil quality, recycling, effective use and reuse of natural resources and energy (preserving the resources for future generations) and enterprises should, apart from costs and problems, recognize where they can make savings and using marketplace opportunities. Even though the researched agricultural enterprises in Croatia do satisfy the environmental dimension of sustainable development ($M=7,07$; $s=1,88$), it is a result at the lower average level.
- c) Responsibility for the market players (market corporate social responsibility) is an important component of an authenticity of an enterprise (harmony of proclaimed values and actual behavior on the market). Overall, it is at the average level ($M=7,22$; $s=2,33$). It was found that not paying suppliers on time is problematic ($M=6,40$; $s=3,61$). It can be concluded that responsible entrepreneurship with agricultural and similar enterprises in Croatia is at risk due to considerable pressure of economic crisis and the focus on survival. Specifically, since the short-term application of socially responsible behavior can create additional costs for an enterprise and temporarily decrease competitiveness on the marketplace, survival can depend on less responsible or even irresponsible behavior, so behavioral tendencies which do not support socially responsible behavior on the marketplace are likely to occur.
- d) Social responsibility is defined as a responsibility towards a local community and is an important element of the coexistence of business and non-business sectors of the community. In agricultural enterprises in Croatia it is at an average level ($M=7,58$; $s=1,84$) and it is the lowest regarding as for the involvement and the incentives to help the local community (volunteer) ($M=7,08$; $s=3,03$), which is a lower average level result. This finding can be a result of a diminished motivation of employees to volunteer in the local community, primarily due to the concern for personal economic benefits.

- e) Organizational culture as an important motivational factor of socially responsible behavior is set at a medium level ($M=8,11$; $s=1,54$). In this sense it can be recommended to internalize clearly and more intensively the values of social responsibility and the rules of business enterprises that promote social responsibility.

Among small, medium and large agricultural enterprises there were no statistically significant differences regarding social responsibility, because overall social responsibility as a linear combination of all its components was borderline or insignificant ($F=2,507$; $P=0,088$). If we took about the direction of the measurement different, we can conclude that a greater social responsibility is found at large agricultural enterprises (Figure 7), although this difference was not statistically significant, and it speaks in favor of a greater reputation (better image) of large agricultural enterprises.

Given the imminent accession of Croatia into the European Union, and the fact that Croatia generally has a small number of agricultural holdings, which in all segments of their business implement guidelines of sustainable development and socially responsible behavior, the state should incent enterprises with their programs in order to make it easier for them to act socially responsible. Also, implementing benchmarking with comparable competitors who have high levels of socially responsible behavior would ensure a stronger position of agricultural enterprises in Europe and the world.

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University impact and impress on student growth

ZSÓFIA BRAXMAIR – ERZSÉBET HETESI

The aim of this paper is to find out how the institution of higher education helps the growth of students participating in the service process, what quality means in higher education, and in what dimensions the quality can be measured. We consider higher education as a long-term service process which results in student growth considered in many aspects from their point of view by the time of finishing their studies. We make an attempt to frame a model which contains the relationship between the quality factors, together with the description of the value added in this context. The planned complex model assumes that the institution and the student interpret quality in different ways and it is also assumed that the value added is a result of a double investment: the institution contributes to it in the same way as the students themselves. Finally, we make an attempt to feature who benefits the most of this investment: only the student or both the student and the institution. Is this measurable, and if so, how?

Keywords: quality of higher education, assessment of student outcomes, student growth, value added in higher education

1. Introduction

Remarkable structural and quality changes have taken place in higher education, both inside each institution and in the frames that defined their everyday operation. In this changing and intensively competing higher education environment, the following questions emerge: How can we apprehend and write down the quality of the institutions of higher education? How can we express their impact on the students, namely what does the student receive from the institution? How and in what extent will the students be better by studying at the given institution? The basis of this impact is a complex coherence-system, and both the level of education and the infrastructural background, the available services, or the inspirational intellectual and physical environment, together with the encouraging possibilities for social citizenship make an important role in it. It is also a big question whether the main goals of the Bologna process are achievable, and whether it is a realistic aim to create a student and employee mobility? What is the expected quality and result from the students and from the employees of the institutions of higher education? In what extent and why do the stakeholders put trust in the institutions of higher education taking into consideration the efficiency of the education process? How should the institution of higher education convince the internal and external, the actual and potential, and the domestic and foreign target groups about the quality eligibility of the achievable services? At all, who are those who make the value assessment on quality?

Whenever we would like to come round the quality of the tasks of higher education, we have to face with numerous evaluators. In the case of an institution of higher education, quality can have several expressional forms. One might ask whether the history of the university, the honour of the institution means quality in itself? Or quality means how graduates can come through the labour market? Or does the institution become qualitative by accomplishing the different target values, which come from the controlling environment? May the employee and student satisfaction become an adequate index? Do the higher education hierarchies actually express quality? By any chance, does quality come from the excesses that the student receives all through the years of university or college? There is no unitary standpoint with the questions above; many people give many answers to them.

It is obvious that quality actions in higher education are adjudicated by many people and in many different ways. If we want to evaluate an institution's efficiency, first we have to identify those people who judge performance and whose opinion is important for the market success of the organization.

2. Who are the stakeholders?

The primary problem of measuring the educational service is the definition of the consumer group in higher education, because the identification of consumer in higher education is more complicated than in business. There is no agreement either among the researchers, who deal with higher education, or among the different teams in the service offering institutions, on who should be considered as a consumer. While some consider only the students as consumers, in another perspective, the consumer group appears in a more differentiated way: for example, moreover the actual students, the institutional employees, the parents, the graduated students and the potential future students, the institutions which send the students, the employers, the local communities and in a broader perspective the society are listed here. At the same time it can be seen that the groups listed above are rather stakeholders than direct consumers (*Sirvanci 2004*), although there is an overlap between the two groups.

According to the above mentioned, we can measure the success of education of the institutions of higher education in several segments, the value added can be defined in a really wide scale from the moment of enrollment until the appearance in the labour market, and the satisfaction allocates longterm advantages for the institution (*Aldridge–Rowley 1998, Oldfield–Baron 2000, Kelsey–Bond 2001, Arambewela et al 2005*).

As a result of the indicated investigational approach, we narrow down the quality assessment into the student target group, on the other hand, we intend to analyze rather the question of value added in present essay.

3. Difficulties in the definition and main interpretation of quality in higher education

In connection with education, quality can be apprehended from different perspectives. According to one, the quality of the education is nothing more than the ability to educate highly-trained labour force continuously which is committed to permanent studying and self-instruction. In this approach quality means the congruity with the previously set requirements and the permanent updated information flow towards the stakeholders (students, associated-professions, labour market, etc.). From another approach the quality of the education ensures the training that is adequate to student expectations, including high-quality classrooms and physical environment where the appropriate timing and the encouraging cooperative classes associate with the possibility to improve knowledge and abilities (*Brocato–Potocki 1996*).

In connection with the quality of higher education, we have preferred a broader understanding which is defined in the essay of Tam, M: according to the author, we have to handle the student growth, the value added, in a holistic connotation, where we have to pay attention to the social, emotional and cultural development, not only to the intellectual development (*Tam 2002*). Our conviction is that the “student being” is a long period in one's life, where one does not only learn instructional knowledge, but participates in events, is part of processes where one uniquely socializes and builds up an advantageous social-network that will follow him all through life.

In case of the educational service, the fluctuant quality is more likely to appear, as standardization is not practical here, and on the other hand, the parties' subjectivity affects the assessment of quality more powerfully, because of the complexity of the service-dimensions.

Education is a service process, where both parties remain in the “system” for a long time, and because of that the importance of the process is outstanding for the consumer assessment of the service-quality. Long since, the participation in the process means also that the student gets involved in the service process very intensely. This is why the adequacy for consumer expectations cannot be interpreted for two reasons: the first one is that the expectations are so much differentiated, the students’ expectations can barely be segmented, they are rather unique; the second one is that the function is bifold in this service process. Here, it is not just the receiver, who evaluates, but rather the service provider. The function of the teacher and the trainer is valorized in the process, and an entirely different context evolves in the “consumer - service provider” relationship than in the case of other services, where the receiver is entitled to call the service provider to be accounted for the quality. In education, and especially in higher education, this relationship is fairly peculiar; here it is rather the teacher, the service provider, who is entitled to call the student to be accounted for. The students – despite their longterm interests – try to find the line of least resistance, while the teacher tries to get the best out of them. Then this bifold game results in the quality of the service, and this game is very fragile. Even the time spent in the process can affect the quality: the ratio of the bifold efforts and their dynamics are ever-changing and it is common that the student’s value added evolves on account of big amplitudes.

4. Value added student growth: a quality measure?

It is a common feature of most of the definitions used for higher education value added, that it is considered as an excess gained by a student who attends higher education. This excess can be knowledge itself, acquired abilities, skills, or any other factors. (*Pascarella–Terenzini* 2005, *Harvey–Green* 1993). In the interpretation of *Bennett* (2001) the value added of higher education is the ability or knowledge of the student that have been developed during their studies in the given institution. If we wanted to measure it, we would measure the performance of the student during the time of enrollment and after graduation. Value added is nothing more than the difference between the two performance indicators.

Numerous models have proceeded that institutions of higher education affect their students, and because of that they need to ensure such useful environment which support them in studying and growing. We do not mean only the infrastructural environment in a physical way, but that intellectual and ceriferous agent which surrounds the students, inspires and encourages them to develop and learn. Beside the environment, we have to emphasize the importance of student engagement to learning and higher education as a service. In this aspect the more engaged the students become and the more they participate in the institution’s daily life, the more they make profit of all through their higher education studies, and the value added, generated by the institution, will be greater (*Pace* 1984, *Astin* 1993).

Out of these theories that fit into this notion-system, we would highlight Ernest Pascarella’s College Impact Model and Robert C. Pace’s College Impress Model.

Pascarella builds on Vincent Tintio’s theory, the Student Attrition Model, who thinks that if a student wants to finish his studies successfully, it is inevitable to get engaged with the institution, to be part of the community, to interact continuously with the teachers and students, and to accept the common values and cultures. The student’s basic individual and social characteristics play an important role in all these. Pascarella further developed this and highlighted five varying-groups, which affect the conformation of the relation between the given institution and the student: student background and precollege traits, structural and organisational characteristics of the institution, institutional environment, nature and frequency of interactions with the faculty, their peers and other socialising agents, and the quality of student effort (*Pascarella–Terenzini* 2005).

Beside the impacts of the institutional environment, Robert C. Pace also emphasizes the responsible behaviour of the students, the intensity and the quality of their efforts during their studies. This is essential so that the student can apply all what the institution can offer. It is important to create a bilateral relationship between the institution and the student, so from one side the student has to invest time and effort into certain actions, and from the other side, the institution has to take responsibility to ensure the most favourable conditions and circumstances. Pace has developed the College Student Experience Questionnaire for measuring the quality of this bilateral relationship. With the help of the questionnaire, one can measure the student's growth, the quality of the student experiences, concentrating on the efforts made during university activities. According to Pace it is also important to know what characteristics, features do students have in the time of enrollment, but it is even more important to know what efforts they have made during their studies, what else they have done and how active their time have been (*Tam 2002*).

Compared to the above mentioned models, Rodgers interprets the notion of value added differently, mainly from an economic point of view. According to his definition, the value added is nothing more than an economic value added in a relative connotation which comes from the difference of the expected wage at the time of enrollment and the actual wage five years after graduation. He categorizes the students on the basis of the expected value of the degree and associates them with an expected wage after graduation according to a degree-category. He confronts the expected wage with the actual wage within five years after graduation, because he assumes that there is a connection between the quality of the degree and the wage in the first five years. This way he defines the groups' relative value added. First and last, the difference between the expected and the real wage will define the value added of the institution (*Rodgers 2007*).

The theories, which analyze the impact exerted by the institution of higher education and the created value added, concurrently emphasize the significant role of the value added in measuring the quality of higher education, but also note the difficulties of measuring. It makes measuring even more difficult that the excess given by the institution can only be seen as time passes, and the institutions are different, they have various aims, mission, and they hand over distinct values during their activities. Moreover, none of the institutions aim at improving only one skill of a student, but a combination of a set of skills. Accordingly, the measuring of the value added also has to act on the combination of these skills (*Bennett 2001*).

5. The conceptual model of the value added at a higher education institution

It can be seen, from the above mentioned overview, that the definitions are not unambiguous regarding the quality of higher education, and there is also no agreement on what the result of higher education is, and what the growth of value added is which could be expressed as an accomplishment for the service process participants. In the following paragraph, we try to unify the quality and efficiency of higher education activities, and the common outcome of the collective efforts of the students and the institution into one model; it will overcome those models that describe quality with a satisfaction dimension.

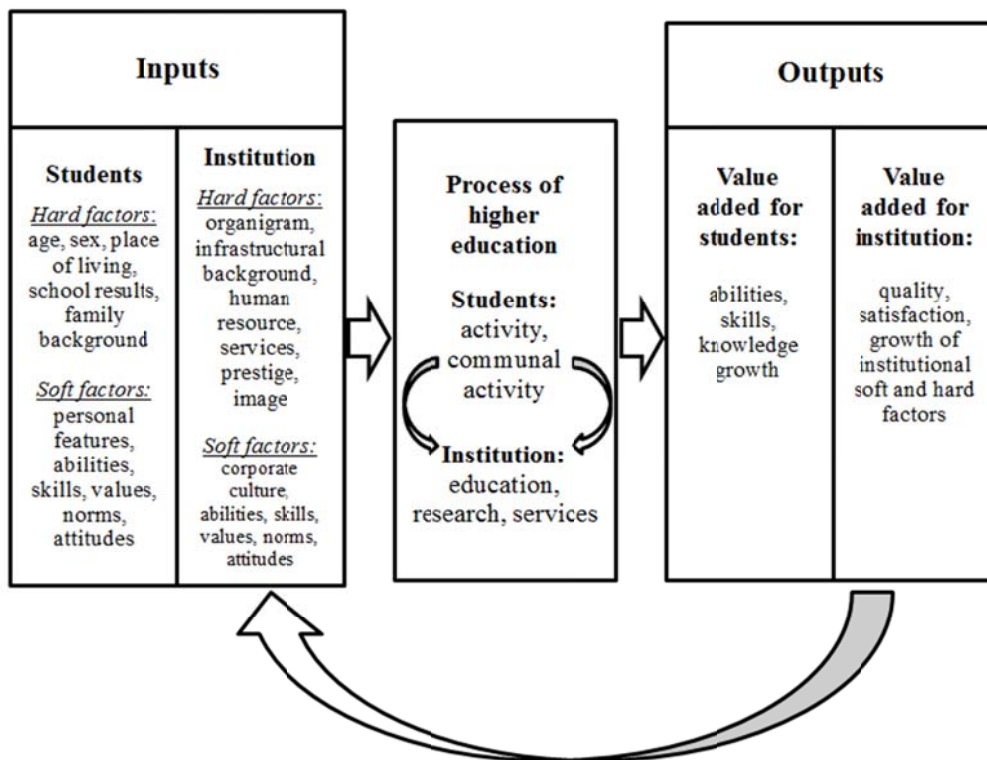
We define the following starting points for our model-creation:

1. The service activities of the higher education institutions lead to student growth, which value growth has to be approached from a holistic point of view.
2. On the basis of this holistic approach, value growth does not only mean knowledge growth, but requires a complex, multidimensional approach: it means also fields of socialization, as active participation in learning and community life, resorting cultural and other service opportunities, establishing social networks, forming values and norms to-be-followed.

3. The efficiency of higher education depends on both the individual and social features that describe the students and the characteristics of the institution.
4. The value added is the result of the two performers', the student's and the institution's collective activity. The basis of both parties' growth is a process during which the characteristics, quality, intensity and length of the interactions between the students and the institution have accentuated importance. The more fields the institution can offer as a possibility to develop and the greater the cooperative readiness is between the student and the institution, the bigger the value added will be.
5. The bigger the investment from both parties is, the bigger the return of investment will be for both.
6. During the long service process, the quality is significantly fluctuant and both parties often define it differently.
7. The quality outcome of the efforts can only be defined in the long term.
8. The assessment of the value added reacts to the input side of the service process.

Our model can be summarized as below:

Figure 1. Model of value added of higher education as service



Source: own construction

In our approach we assume that higher education is a service where result depends on the collective effort of both parties, similar to other services, although on account of the long time spent in the “system”, together with the occasional counter-interest, and because of the intensive quality-fluctuation, the outcome (the value added) needs to be handled very differently. Our model reflects an input-outcome apprehension and its essence is that both parties give in their extant means, and then their conflict-cooperation usage results in a certain payback for both of them. On the input side we differentiate soft and hard factors between the

characteristics of the students and also the institution on the basis of their measurability. From the aspect of higher education as a service, basic characteristics such as age, sex, previous studies, family background, just as the more elusive social characteristics, abilities, skills, admitted and followed values have significant role from the students' side. From the institution's side, beside the extant physical infrastructure and human resources, the educational, research, service activities, the structural culture that influences the operation, the value- and norm-system, the history, or the percept image have important roles.

In the point of higher education as a service, we put emphasis on the process of the interference of these input factors, their intensity and counter- and back-interests. During this long process, parties interact with each other, which impact continuously influences the assessment of its efficiency, effectiveness and quality. In certain moments, this action-reaction is adjusted, sometimes it shifts towards one of the parties and that permanently changes the percept quality and satisfaction.

The result of the process is an excess, or value added, that can be detected through several factors from both the student's and the institution's side. The students' values added are their abilities, skills, knowledge, values, and approach during growth, while the institution's value added is its quality assessment and satisfaction level. If the institution is willing to offer developmental possibilities in numerous fields and the cooperational skill is big between the student and the institution, the value added will be greater. The bigger the investment is from both parties, the greater the payback will be for both of them.

The value added that comes into being as a result of the higher education process does not only affect the personal growth of the student, but also affects his position in the labour market, his assessment by the employers and also his ability to fit into society. Although, from the institutional side, it inspires continuous growth and attention that is a feedback on the institutional factors described above.

6. Research plan

The first step of the testing of the model will take place at one of the biggest universities of Hungary, by analyzing both input and outcome sides, together with the process that creates the bond between the two. We rely on the secondary data in all three segments, and deliberately on the primary data that have been created for the model testing.

We are going to analyze those secondary data from both the student and institutional input side that can be found in the various database of the university, together with former research data (institutional image researches, results of internal employee researches). Regarding the hard factors on the student side we are going to analyze the enrollment questionnaire researches, while we intend to use qualitative methods for analyzing the soft factors: we plan to transact deep interviews and focus-group talks for revealing attitudes, and then make questionnaire researches on the basis of the results.

In connection with the audit of the process, we rely on the results of the former student researches, but we plan to give out questionnaires to two parties (students, institution) which we will analyze the factors in the model with.

In connection with the output side, we also have some analyzable secondary resources (longitudinal alumni audits), which will be amended with the data regained during our questionnaires. In the long term, our aim is to map the feedbacks of the labour market regarding this segment.

We are aware of the fact that we can only get reliable results with longitudinal analyses regarding value added, and this is why we plan to make further researches as a confirmation for the first results. Our aim is to amend the results of satisfaction monitorings that have been made in the institution regularly, with a value added dimension that describes the performance of higher education as a service.

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The science behind Taylor's 'principles of scientific management'

CECILIA M. DEAN

The concept of Taylor's scientific management dominated during the middle of the twentieth century, in spite of early and strong criticism about the dehumanizing effect of its mechanistic approach to work on the workforce. While not wanting to join in the pro- and con-debates, this paper analyses where Taylor's propositions are still valid, albeit updated, by exploring the 'science' and the 'management' of his theory.

Taylor maintained that scientific management is generic and applicable to all levels and to all groups. The challenge was to determine what is meant by a science or sciences of human society; how do the underlying laws, rules and principles of the different sciences apply to different groups of society; and how relevant are Taylor's concepts today, are they still around, where and to what effect?

Results from this evaluation indicate that, as alluded to by Taylor, scientific management is not a single science, but a combination of different natural sciences, including mechanical and life sciences, and therefore subject to different natural laws. It is furthermore not a generic theory, not applicable to all groups, but versions of the mechanistic application are still very much alive and valid in certain identifiable organizational sectors and functions.

A century after the publication of Taylor's theory of scientific management, the challenges, already partially acknowledged by academics and organizations, should be to accept that earlier concepts by theorists like Taylor are still valid today within different types of science, supported by different laws and applicable to different groups, yet interrelated. Accepting the importance of scientific perspective the focus of research can move on from debating the differences, to addressing questions of whether the continued insistence of processual improvements can be sustained and who are the real winners and losers of scientific management.

Keywords: scientific management, mechanical science, life science, production, manufacturing, services

1. Introduction

In 1911 Frederick Winslow Taylor presented a paper to the American Society of Mechanical Engineers (ASME) in which he argued for the general acceptance of his principles of scientific management to improve the productivity of organizations, and subsequently the economic welfare of the nation (Taylor 1911). The underlying concepts, benefits and limitations of Taylor's principles have been well researched and documented over the past century, resulting in theoretical schools of thought either accepting and improving on, or rejecting some of the theories of scientific management (Morgan 2006, Shenhav 1999, Djelic 1998, Kanigel 1997, Pruijt 1997, Wood 1993). Instead of siding with one or the other of these movements, the objective of this paper is to explore the principles of scientific management as presented in 1911 in more detail by looking at the circumstances surrounding the theories; the science behind the principles; and the validity of the claims made by Taylor at the time of his propositions and a century later.

The paper is presented in three parts. The first section addresses what is meant by a science or sciences of human society and organizations. It explores some of the various interpretations of the term science and proposes to use a framework suggested by Radcliffe-Brown (1957, p. 9.) to be used in the evaluation of Taylor's principles of science.

In the following section Taylor's principles of scientific management are introduced and analyzed separately as the 'mechanisms of management' and 'essence of management'. Taylor used these terms to separate his principles applicable to task improvement as opposed to his principles applicable to the people management within organizations. The principles and their underlying sciences are viewed in 1911 and one century later in order to establish reasons for the introduction, change over time and their validity today.

The final concluding section summarizes the findings and identifies impacts and areas for further research.

2. Defining science

2.1. Radcliffe-Brown's single science for the study of human society

Science is a wide concept that is generally interpreted differently by various audiences. The Oxford definition of science states that it is "the systematic study of the structure and behavior of the physical and natural world through observation and experiment" (*Oxford English Dictionary* 2007, p. 295.). This definition focuses on the ability to substantiate the study findings of the natural and physical world, therefore seemingly excluding philosophy and theory about aspects of the natural world which are, as yet, not observable. It is also interpreted differently within different specialist subject areas such as engineering in which most of the physical world is viewed and studied as an exact science (*Peaucelle* 2000); and economics in which probability and uncertainty are regarded as integral to simulation models (*Wagner-Tsukamoto* 2007).

I would, however, like to revisit a comprehensive definition of science presented by Radcliffe-Brown in his proposal for a single branch of science for the study of human society (*Radcliffe-Brown* 1957). Radcliffe-Brown, an anthropologist, introduced his theses at a University of Chicago conference in 1937. He maintained that this single branch of science should consist of four types of science covering abstract, natural, applied sciences and the arts (*Radcliffe-Brown* 1957, p. 9.).

According to Radcliffe-Brown and widely accepted today (*Radcliffe-Brown* 1957, Plotnitsky in *Gaffney* 2010, p. 298.), abstract sciences are based on logical thinking, either within known natural laws, or by proposing natural laws, concepts and theories in fields where phenomenal observation is either not possible or not yet feasible and include philosophy, theoretical mathematics, theoretical physics and theoretical psychology. Natural science, based on known natural laws, has as its objective the testing of theories and propositions developed by the abstract or theoretical sciences through observation, experimentation, measurement and validation, thereby allowing knowledge to be accepted as epistemologically real. Radcliffe-Brown included sciences such as the exact science of mechanics and chemistry, and the life science of physiology and psychology in this category.

Applied sciences, as implied in the title, build on the knowledge obtained from natural scientific studies to develop solutions to problems or to enhance the development of practical applications, and include engineering and medicine as examples. Arts as the fourth proposed type of science, is concerned with the sensual representation of the knowledge derived from the other fields, thus allowing the knowledge to be spread, understood, and appreciated by a wider audience (*Morgan* 2006, p. 174.).

Radcliffe-Brown accepted that abstract sciences of philosophy and theory, and applied sciences of economics, engineering, law and politics already existed at the time of his theses. He was, however, concerned about the absence of natural sciences about the actual functioning of societies and organizations resulting in 'trial and error' application of theories and beliefs (*Radcliffe-Brown* 1957). Taylor's principles in 1911 can be presented as an

example of abstract propositions which were trialed in some organizations with mixed results, but not yet fully explored and tested through natural scientific means of research.

An analysis of Taylor's principles of scientific management will consider the principles in the light of the prevalent different types of science in which abstract science and applied science are referred to. However the focus is on the natural sciences and their underlying laws of nature and how Taylor's principles of scientific management can be interpreted within these sciences.

2.2. Natural sciences 1911 to 2011

The natural sciences which were dominant at the time of Taylor's propositions were exact science of mechanics and life science (*Silver* 1998, pp. 226–227.; *Radcliffe-Brown* 1957, p. 9.) and these have since been enhanced by the subsequent evolving sciences of uncertainty and chaos during the twentieth century (*Gleick* 1995).

The fundamental assumptions of classical physics and mechanics at the start of twentieth century were predominantly based on the laws of Newton (1642–1727) around a body's position based on its mass, acceleration and force. The universe, for instance, was regarded as a giant machine set in a framework of absolute time and space in which complicated movement could be understood as a simple movement of the machine's inner parts, even if these parts could not be visualized (*Kibble-Berkshire* 2004, pp. 1–15.). The Newtonian laws were based on the concepts of cause and effect, and of determinism. If a body exhibited motion, one could always figure out what was producing the motion, while the concept of determinism stated that a future position of motion could be determined from its current known state by changing the observer's probing and extent of adjustments. It was this belief in the laws of mechanics and the ability to rely on cause and effect to predict the outcome of changes to processes that encouraged Taylor and other classic organizational theorists to propose the transfer of these laws to organizations through the systemization of functions and processes (*Morgan* 2006, pp. 16–17.; *Burrell-Morgan* 1979, p. 128.).

Even during the time of Taylor's theses, physicists and mathematicians moved on from the exact Newtonian laws to include theories of uncertainty, such as the theories of relativity and chaos (*Silver* 1998, *Gleick* 1995). An element of uncertainty and unpredictability was introduced by stating that outcomes cannot always be predicted and that there are systems in which the outcome of a series of events is very sensitive to conditions and for which outcomes are better presented as patterns rather than linear predictions. The theories, based on mathematical models, are generally used in modeling various economic, populations and group trends and behaviors (*Gleick* 1995, pp. 9–32, 57–118). The sciences of uncertainty were still at a philosophical and theoretical stage of development at the time of Taylor's principles of scientific management.

Life science, regarding an organization or society as a living entity, was already promoted by theorists at the time of Taylor's principles of scientific management. Theorists like Spencer, Taylor and Fayol viewed societies and organizations as living bodies focusing on essential functions required for its survival (*Ritzer-Goodman*, 2004a, pp. 106–127.; *Morgan* 2006). However, organizations were viewed with a mechanistic slant in which processes were regarded as important and workers merely as passive and responsive participants (*Burrell-Morgan* 1979, p. 127.). Subsequent organizational theorists in the metaphor of organizations as organisms such as Burns and Stalker, Woodward and Parsons continued to focus on essential management functions to ensure the continued survival of organizations, but this time within its environment as open systems (*Morgan* 2006, pp. 33–70.). However, Radcliffe-Brown and organismic theorists like Maturana and Varela viewed organizations as living entities to be studied by exploring the interrelationships among individuals and functions required for the self-maintenance of the organization (*Burrell-*

Morgan 1979, p. 52.; *Maturana–Varela* 1980, p. 88.; *Silver* 1998, pp. 321–322.; *Parsons in Ritzer–Goodman* 2004a). These structural interrelationships were interpreted as mutual ‘contracts’ between the individuals and the organizations.

The Hawthorne studies of Mayo during the late 1920s raised awareness for the needs of the individuals in organizations, resulting in psychologists such as Mayo, Maslow, Herzberg and McGregor to focus on their needs and aspirations not only with respect to fairness and equality at work, but to promote job enrichment and the self-realization of the employee (*Morgan* 2006, pp. 35–37.). The introduction of psychology of the individual within organizations developed into another life science to be considered within the single branch of science for human society.

We therefore have different dimensions of sciences and mathematics impacting on Taylor’s propositions. In 1911 both the exact science of mechanics and the life science relied on cause and effect and determinism to guide action and predictions. While the science of mechanics is still valid in the physical world, elements of uncertainty based on patterns and interrelationships were added during the twentieth century, especially when the focus moved from the physical inanimate world to include individuals within society and organizations. The life sciences as applied to organizations by theorists during the twentieth century accepted organizations as independent entities, but tended to focus on structure and environment, thereby reducing the original emphasis of functions of the classical management theorists. The role of the individual within organizations gained prominence in theories of agency versus structure (*Morgan* 2006, *Ritzer–Goodman* 2004b).

3. Taylor’s principles of scientific management

3.1. Introduction to Taylor's principles

It was within this context of the accepted abstract, natural and applied sciences of mechanics that Taylor presented his principles of scientific management at an engineering conference in 1911.

Forerunners of the concept of a systematic or scientific model of management in Europe can be traced back to its introduction in the army by Frederick the Great of Prussia in the eighteenth century in which he used a modified Roman model to instill discipline and effectiveness in the ‘unruly mob’ he inherited as an army. This approach was further developed by Adam Smith, a Scottish economist, and promoted in 1776 in his book ‘The Wealth of Nations’. The objective was to improve the efficiency of organizations during the Industrial Revolution (*Morgan* 2006, p. 16.) by reducing the discretion of workers, introducing task specialization and standardizing parts and material.

Unlike the European model of classical management theories, the American model for management and productivity grew out of engineering practices in major manufacturing firms during the late nineteenth century (*Shenhav* 1999, *Djelic* 1998). As early as the 1880’s members of the American Society of Mechanical Engineers (ASME) started an industry-wide movement to standardize and systemize the technical and operational environment, especially in the manufacturing industry (*Shenhav in Tsoukas–Knudsen* 2003, p. 187.). As an engineer Taylor was part of the movement to introduce systemized and scientific management in companies to increase their production. These concepts were regarded as objective and advantageous not only to the organizations, but throughout the country, as stated by Miller and O’Leary:

“Systems were perceived as a safeguard for the morality of organizations, of managers and of employees. They bind individuals in mutual relations of responsibility and accountability, depersonalized these relationships, and thus

eliminated favoritism and nepotism. In systems the trajectory of progress can be charted both for individuals and for the organization as a whole, since authority is no longer derived from privileged social positions but is grounded in facts and techniques needed to perform and coordinate interdependent tasks” (*Miller–O’Leary 1989*).

In his presentation on the principles of scientific management at an engineering conference in 1911, Taylor asserted that he offered his theories as a remedy for the loss suffered in the United States as a result of the general inefficiency in the daily life and operations of the population and organizations. Even at this early stage of introducing scientific management, Taylor, however, warned about potential pitfalls in the implementation of the theory in practice, and warned that there is a distinct difference between what he called the ‘mechanisms’ and ‘essence’ of management. He acknowledged the difference between his proposed use of science in management techniques to improve processes and the importance of the effect on staff through his essence of management. This aspect of his principles of management focused on the organization as a living entity and the fact that the individuals within this entity may not be as compliant as inanimate physical objects or machines. He therefore asserted that successful implementation of his mechanisms of management can only be successfully achieved through harmony and cooperation.

How successful these principles and the claims actually were will be explored by analyzing his mechanisms and essence of management concepts separately, both at the time of their introduction in 1911, and as surviving today in 2011.

3.2. *Taylor’s mechanisms of management*

Taylor’s mechanisms of management concepts were very much based on the improvement of processes to benefit the organization, society and subsequently the individual. In line with the reductionist and determinist view that process improvement can improve the overall position, he proposed ”the golden rule of scientific management...: ‘Get the situation right, and the appropriate human behavior and organizational performance will follow’” (*Burrell–Morgan 1979*, p.128.).

The mechanisms of management proposed by *Taylor (1911)* specifically addressed the use of systematic scientific techniques to obtain optimum productivity and efficiency, in other words, a focus on the processual improvement of tasks. He proposed that by focusing on task specification through time and motion studies; continuous improvement of techniques such as routing systems; the use of exact measurements and calculations with the aid of slide-rules (today it will be electronic devices); the standardization of tools, material and implements; and by emphasizing maximum in place of restricted output, the production output and financial position of the organization can be improved. Taylor also proposed that it may be beneficial to study the operational methods applied by skillful external individuals or organizations and select the best elements of their methods in order to develop a preferred process for your own application.

Taylor presented evidence of the application and perceived successes of his techniques in different organizational situations and claimed that his principles can be applied to all different groups, such as individual families, farms, religious institutions, charitable organizations, universities, governmental departments, in addition to the large industrial organizations which he referred to in his case studies (*Taylor 1911*).

3.2.1. Mechanisms of management: concerns

Concerns about the validity of the strict application of systemization based on the laws of mechanics in organizations were already identified and recognized by Taylor in his

presentation in 1911. He referred to two main types of concerns, namely concerns about the actual mechanistic and systematic method to identify and improve the processes and concerns affecting the people involved in the changes.

Taylor warned that continued increase in output can lead to reduced performance and reduced quality by stating that “one of the dangers to be guarded against, when the pay of the man or woman is made in any way to depend on the quantity of work done, is that in the effort to increase the quantity the quality is apt to deteriorate” (*Taylor 1911*, p. 32.). He also maintained that the impact of improvements should be considered within a wider context including its impact on customers or society. Taylor realized that the exact laws of mechanics may not always apply when introduced to improve the operations of organizations, or for all groups in society.

On the human element Taylor re-emphasized his distinction between mechanisms and essence of management by stating: “The mechanisms of management must not be mistaken for its essence... Precisely the same mechanism will in one case produce disastrous results and in another the most beneficent... will lead to failure and disaster if accompanied by the wrong spirit in those who are using it” (*Taylor 1911*). Morgan in his *Images of Organization* summarized the criticisms raised by subsequent organizational theorists on the limitations of the classical, scientific and bureaucratic management theories as: the possibility that it can create organizations that have difficulty to adapt to change; result in the inefficiency of mindless and unquestioning bureaucracy; and have a dehumanizing effect on employees (*Morgan 2006*, p. 28.).

The standardization of tools and, to a certain extent tasks, assisted in the general improvement of operations. However, workers could not be expected to be compliant, predictable and as efficient as machines or robots. The mechanistic laws of cause and effect may be applicable to routine functioning and operating of production line machinery and equipment, or even routine processes where repetition and consistency of output are important. However, unlike Taylor’s claim that his principles of the mechanisms of management are universally applicable to all groups, the subsequent development of mathematical sciences of uncertainty and chaos were found to be more acceptable for the analysis of non-routine group behavior or non-routine tasks.

3.2.2. Mechanisms of management: 2011

Taylor’s principles of the mechanism of management focused on systematic identification and specialization of tasks; standardization; and the scientific improvement of the processes to benefit production, the organization, the individual and the customer.

The evidence from a scientific point of view is that these principles of cause and effect and determinism based on the exact laws of mechanics are still applicable to certain types of organizations and routine processual tasks and therefore as valid today as in 1911, albeit updated with the latest techniques and technology. Supporters of post-Taylorism and Neo-Fordism accept revisions to the original mechanisms of management and identify techniques such as just-in-time (JIT) production and business process re-engineering (BPR) to achieve objectives of efficiency, short delivery times, quality, diversity, flexibility and increased output (*Peaucelle 2000*, *Wood 1993*) as summarized by Peaucelle:

“Taylorism is well known, for the organizational techniques that it implements. Post-Taylorism innovates with new ways of working but its initiatives, in many ways, resemble its predecessor. One may argue that these organizational techniques are inconsistent with corporate objectives. Over and above the simple aim of maximising profit, the Taylorian enterprise works to produce more goods at low cost. In the post-Taylorism enterprise, the objective of efficiency is complemented by those of short delivery times, quality, diversity and flexibility.

In order to attain these new objectives, and still remain coherent with previous ones, enterprises have developed new techniques: just-in-time production, business process re-engineering, call centres, simultaneous engineering, and asynchronous teamwork across networks. According to the hypotheses put forward, post-Taylorism adds new objectives to Taylorism. The strength of today's reorganizations lies in attaining these objectives simultaneously. The consequences for people, however, in terms of their relationships with work, do not necessarily change" (Peaucelle 2000, p. 452.).

Similar to Taylor, Peaucelle believes in the validity of exact science of mechanics underlying the application of scientific management in the operations of various organizations. He referred to the wider impact of the introduction of Taylor's mechanisms of management, not only on the profitability of the organizations, but also on the wider customer market through the production of more and therefore cheaper products. However, Peaucelle also warns against the danger of ignoring the impact of these principles on people, in other words, the essence of management.

Various case studies can be identified supporting the implementation and operation of the mechanistic principles underlying Taylor's scientific management, not always successful. *Bayo-Moriones et al (2008)* researched the factors influencing a successful implementation of just-in-time (JIT) systems and found that it can be applied in any production context, although "more concretely, non-metallic mineral products, paper and textile industries present a lower level of adoption of some JIT practices. This is consistent with the reluctance to the introduction of organizational innovation found for these sectors... (*Bayo-Moriones et al 2008, pp. 1059–1060.*) Like Taylor, they found a positive and significant relationship between work organization and the implementation of JIT practices in certain sectors in conjunction with the importance of employee participation and involvement to ensure successful introduction of new methods and techniques in production organizations.

In addition, successful implementation of the principles of systematic and mechanistic management can be found in service organizations such as fast-food outlets or call centers. This model is today referred to as 'McDonaldization' and is accepted as an efficient and standard model followed by some organizations in which a standard level of routine service is important. Tasks are systemized, employees selected and trained for specific tasks and the level of service closely monitored and controlled. Although regarded by some theorists as dehumanizing to the affected employees, the customers and management can rely on consistency in the level and standard of service (*Royle 2006, pp. 757–779.; Morgan 2006*).

Taylor (1911) recommended that an organization's processes can be scientifically improved by exploring the methods employed by skillful experts in the process and then by selecting and improving on their best approaches. This method can be detected in current rationalization projects especially to improve customer services. In their research into the development of a 'well-being' model for the Canadian health service, *Chreim et al (2007)* highlighted the importance of external research into similar success models before deciding on a suitable model for the Canadian health service.

The exact science of mechanics which underwrote Taylor's mechanisms of management are therefore mainly found to be effective in manufacturing and production organizations where production line equipment is used, or in certain service industries, where the tasks can be broken down into routine steps that can be rationalized and offered as a standard service to the customer as well as the organization. Innovative organizations, group demonstrations or local communities are modeled mathematically through algorithms based on uncertainty and self-referencing. Tasks are too flexible to mechanize and the underlying rules and patterns proposed in chaos theories are therefore more applicable to the performance of these groups (*Gleick 1995*). Exact science accepted as the dominant scientific basis for prediction and

understanding in 1911 changed to include uncertainty as one of the natural sciences to be accepted in certain circumstances.

3.3. Taylor's essence of management

The second aspect of Taylor's principles of scientific management moves the focus from the task and the ability to determine and forecast outcomes of improvements, to the human element from the perspective of the workers. It has to be acknowledged that the concepts and practices of management and workers were very different in 1911 from the current accepted norms. Many organizations during the latter part of the nineteenth century were family owned. Wealthy owners searched for the best talent within the industry and then allowed workers and supervisors to determine their own methods of executing the tasks required for maximum profitability (*Taylor 1911, Ritzer–Goodman 2004a*).

Two elements were identified by Taylor as unacceptable, both from the point of view of employment, but also for the benefit of the organization. His first concern was the trend in industry to search for ideal leaders and managers of the organization, i.e. the 'ready-made competent man' to perform the task, trained by someone else, and at a high price. He regarded this as ineffective and proposed that it be replaced by scientific management in which case the balance between tasks performed by management and workers could be scientifically analyzed and improved. This led to the second concern raised by Taylor in which he said that the general approach to work by the workers were to 'soldier along'. Without even-handed fairness in employment and hands-on control, workers were found to do the minimum work possible and preferred not to increase the work-pace as it would have been to the detriment and injustice of their trade (*Taylor 1911*).

The essence of management as perceived by Taylor focused on recommendations to address both concerns. Tasks should be reorganized and managers should take on their fair share including the tasks of planning, directing, training and control. Workers and managers should be carefully selected to ensure the right potential for the right position and then trained to their full capacity. Workers should be adequately recognized and fairly compensated for the work performed and not paid the minimum wages that the management can get away with. Managers should take time to win over the confidence of the workers for the successful implementation of changes to their work practices.

In this way Taylor proposed that it can lead to increased output for the benefit of the employees and organization, while the lower prices resulting from this increased output can also benefit the consumers, therefore resulting in an overall win-win situation.

3.3.1. Essence of management: concerns

Concerns about Taylor's essence of management and other classical management theories focused on various aspects. The first concern was with respect to fairness to all workers, a concern raised by Taylor himself. Taylor's concern of fairness to workers, although predominantly motivated by productivity and therefore profit, acknowledged the unbalanced status of management domination and pay inequality during the period of the Industrial Revolution.

Criticism identified by *Morgan* (2006, p. 27.) include the dehumanization of workers by stating that workers were reduced to automatons. The major criticism was against the task specialization and the separation of planning and work execution. Workers were employed as cheap labor instead of being thinkers, thus becoming impersonal objects. Even at the time of Taylor's theses he encountered opposition, especially with respect to treating workers as machines, and he was called to give testimony before a congressional inquiry into the impact of scientific management on workers in 1912 (*Linstead et al 2009, p. 542.*). The outcome of

the inquiry was in Taylor's favor, but resistance was still pursued by organizational psychologists like Maslow in their proposed hierarchies of needs for employees instead of passive treatment as compliant machines (*Morgan 2006*, pp. 35–37.).

Building on the individual needs and rights within organizations, concerns were also expressed about Taylor's plea for harmony and cooperation. Theorists like Burns, Whyte and Starkey (*Morgan 2006*, pp. 163–166.) incorporated conflict in the politics of organizations and regarded it as an integral part of managing organizations. This debate, however, raised the question of conflicting interests between individual and organization, in other words whether the science of psychology of the individual should take preference to the science underlying the study of the physiology of the organization as proposed by Radcliffe-Brown and Maturana and Varela. The study of the physiology of organizations focuses on essential functions required for life and the interrelationships of contractual cooperation between worker and organization towards the continued persistency of the organization as an independent entity (*Silver 1998*, *Dean 2011*, *Radcliffe-Brown 1957*, *Maturana–Varela 1980*). It accepts functional specialization and separation in organizations and at the same time regards fairness as an underlying necessity for success. Interrelationships accept conflict and compromise where and when required.

3.3.2. Essence of management: 2011

Taylor initially resisted the involvement of trade unions within organizations but then accepted their roles as part of a collective bargaining process on behalf of the workers thus advancing the subsequent development of the human resources school of thought (*Linstead et al 2009*, p. 542.; *Nelson 1992*, p. 15.; *Hannagan in Smith 2007*, p. 263.). The concepts contained in the currently recognized function of human resource management date back to influential theorists and individuals, including Taylor; organizational owners such as Robert Owen in Scotland; the German theorist Hugo Munsterberg; and American theorists such as Chester Barnard and Mary Parker Follett who offered practical solutions to address the concerns about worker conditions, over-specialization of tasks and the impact on the individuals (*Smith 2007*, pp. 41–42.). Contemporary human resource management responsibilities are to focus on the working conditions of staff within the organization and include tasks such as job design; pay scale equality; staff selection; training and development, all of which formed part of Taylor's essence of scientific management. The implementation of a fair set of ethics and deal for employees did not proceed without resistance, and even today requires an external pressure on organizational governance and ethics in some organizations (*Banarjee 2007*). This part of Taylor's principles of management has become embedded as standard practice within organizations.

The general development and acceptance of organizational and industrial psychology to assist individuals within their work environments changed the criticism of the dehumanizing effect of scientific management principles on workers during the past century. Individuals are no longer accepted as passive tools within organizations and the concept of conflict within organizations is accepted as normal instead of being a pathological situation which should be eliminated in favor of the harmony and cooperation promoted by Taylor (*Morgan 2006*, p. 157.).

Taylor proposed a fair separation of functions, especially between management and workers. This separation has been accepted by organismic theorists and the emphasis moved to role rather than individual in organizations (*Morgan 2006*, *Radcliffe-Brown 1957*, *Hannagan 2005*). However Taylor's claims that mechanistic improvement to all functions can lead to organizational improvements cannot be substantiated. The mechanistic approach relies on the tasks to be routine and therefore able to be improved mechanistically. Internal functions were found to be volume driven rather than routine, essential for existence,

supportive of other functions and operating at arms-length from senior management. Cash flow concerns, as an example, can lead to the demise of an organization but not necessarily due to ineffective or inefficient accounting practices.

An example is the research into the collapse of the Icelandic Bank by *Sigurjonsson* (2010, pp. 33–45.) in which he found the main reasons for the collapse to be a lax attitude towards corporate governance and inadequate risk management from within the organization, the government and society, although the actual collapse was due to inadequate liquidity to underwrite reckless loans and investments. Improving the productivity and specialization in the accounts department would not have prevented the collapse since the reasons were multiple, depended on interrelationships among different functions and eventually a lack of cash. Another example is the research into high absence rates in a call center which applied the principles of scientific management, namely: task specialization, separation of planning and execution of tasks, and relentless controls and performance management to ensure high output and quality. *Taylor et al* (2003) found that it is not only the pressure of targets and monitoring that caused the absence rates to be high, but a seemingly unrelated malfunctioning in the air conditioning system. Management improved the air conditioning system and the general workplace environment, and although they did not change the target and monitoring systems, the absence rates dropped. Workplace maintenance as a survival function was important, and had to be subject to regular checking and servicing, but must also be able to adapt to emergency incidences when required.

Taylor (1911) referred to various organizations and operations as evidence of successful implementation of scientific management. These examples included companies manufacturing shoes and machines; the handling of supplies, such as pig iron in steelworks; machine shop processing in the steelwork industry; the quality inspections in the manufacturing of industrial goods, and bricklaying. All of these functions within the organizations were routine functions in the category of operations, and especially the operations within the sectors of production and manufacturing organizations. Many support functions and functions such as the non-routine design of new innovative products cannot be routinized and mechanistically improved.

4. Conclusion

Radcliffe-Brown offered his theses for a single branch of science for the study of human societies and organizations and raised a concern that natural science as the link between abstract theories and the practical implementation of these theories in the applied sciences has not been established at the time of his propositions. The natural sciences based on the exact laws of mechanics; the mathematical laws underlying uncertainty of relativity and chaos; the life science of organizations as living organisms; and the life science of the psychology of the individual provided a framework to evaluate Taylor's principles of scientific management as presented in 1911 and changed during the past century. By analyzing Taylor's theories from a scientific point of view, the following conclusions could be made towards a better understanding of scientific management.

In 1911 Taylor's principles of scientific management were still theories within abstract sciences, trialed as applications within industrial organizations. As a natural science his principles also did not refer to only one type of science, but at least to the exact science of mechanics as well as the life sciences of physiology and psychology underlying organizational functioning.

In 2011 Taylor's mechanisms of management are, however, still valid in organizations and operations involving routine production-line manufacturing or service tasks. Scientific methods to determine the best processes and improve these tasks for success are still pursued within the industry. Taylor's mechanisms of management were, however, not found to be

generic and not applicable to all groups, as supported by the advances made in the physical and mathematical sciences. His mechanisms of management exclude groups such as unstructured or unrelated social groups that are more prone to uncertainty, although operating within determinable patterns supported by chaos theories.

Taylor's essence of management, focusing on fairness; the separation of tasks and a more balanced systemization of organizations, became part of the evolution of organizations in order to adapt to the different structures required after the Industrial Revolution. The different functions and tasks are now accepted as the norm in organizations. Within organizations, Taylor's plea for improved worker conditions in his essence of management became part of the human resource management function and progressed to include fairness, equality and the introduction of ethical governance in organizations. However, harmony and cooperation were found to be not a pre-requisite for organizational success. Conflict and diverse interests have become accepted as healthy within organizations.

What are the benefits of considering the science behind Taylor's principles of scientific management? In addition to be able to explain the changes in the acceptance or rejection of his principles over the past century due to the new developments in the sciences of uncertainty, chaos and life, the knowledge can guide further research in two major areas:

When and where can the principles be applied in organizations and societies? By identifying the natural science underlying the field of study, it can influence the abstract theorizing around this science, as well as the guiding the implementation of the concepts towards the relevant applied sciences.

What is the real impact of the mechanisms of management on society and the wider environment? Taylor's mechanisms of management proposed a continuous improvement in efficiency, productivity and therefore financial growth of organizations, nations and individuals. This resulted in more and sophisticated equipment to replace individuals; political focus on efficiency drives especially to reduce costs; and an ever-increasing need for higher output to boost the growth of the economy.

Research focus could be extended to include questions such as: What happens to the people that are being replaced by the more efficient machines and operations – can they really effectively keep on providing an unlimited growing consumer market if there are fewer jobs – is it really a win-win situation and who are the real losers? Is there a limit to increased efficiency in order to produce savings and improve productivity and profit, or has this become a false economy by just moving the functions being 'cut' for efficiency to other areas in the organization?

Especially in the current world economic situation, it may be prudent to move the focus forward from whether Taylor's principles of management are valid, to what is the real potential and impact of their continued refinements.

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Influence of quality management system ISO 9001 at hotel business practice in Croatia¹

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The International Organization for Standardization has set up standard ISO 9001 as international standard for Quality Management System. The aim of this paper is to determine the influence of ISO 9001 on marketing and operational performances, just as well as on human resources management, in hotel business practice in the Republic of Croatia. Empirical research has been carried out for this purpose including a post inquiry on the sample of 350 hotels in the Republic of Croatia and interviews with the managers in 25 hotels which have implemented ISO 9001 in their business practice. We have used descriptive and inferential statistics including Chi-square testing to analyze the used data. The results of the research carried out in Croatia show the positive influence of Quality Management System ISO 9001 on marketing, operations and human resources management in the hotel business practice in Croatia.

Keywords: hotels, Croatia, ISO 9001, implementation, practice

1. Introduction

Lead in cost control applied out of necessity (due to undeveloped market) by the Croatian hotels in the 1990's brought short-term increased profitability (i.e. reduced losses). However, exclusive application of this strategy is not sustainable long-term because of its negative implications in terms of degeneration of hotel product. Focusing solely on the strict control of operational expenses leads to the reduced quality of hotel products (most visible in the field of service quality, i.e. reduced number of the employees and in the food and beverage department, supply of cheap victuals regardless of their quality) which reflects, in terms of development, the lack of innovations. Consequently, there is a lack of development of new products and significant reduction or complete absence of caring about advancing the quality of a product. The most important problem of hotel industry in Croatia is how to find the way of offering high value and differentiated product (Čižmar 2007, pp. 153–154.) as well as new investment (Čižmar et al 2010, p. 1.).

The fact is reinforced by low competitiveness in the Croatian hotel industry which significantly lags behind when compared to the hotel industry of Spain, Italy or France, i.e. it has poorer performance than the competitors in the above tourist destinations. Given the conditions of Croatian hotel industry and their low competitiveness level, the need for changing low cost strategy by more efficient approaches arises, as well as the need for proactive business approach based on the increased quality of hotel product in the Republic of Croatia, which will improve the indicators of business success of Croatian hotel industry. The increase of tourist satisfaction with the Croatian hotel products, which are compatible with their preferences and expectations, will result in the increase of their loyalty to the Croatian hotels. ISO 9001 is the standard for Quality Management System maintained by ISO, the International Organization for Standardization. ISO 9001 is applied by numerous enterprises in the industrial and the service sector in the world.

The research carried out in Croatia shows that the largest share of quality certificate in 2000 and 2001 (Drljaca 2003) was in the field of electric machine and appliance production,

¹ This study is part of a doctoral dissertation. Thanks to the support of Croatian hotel managers without whom it would not have been possible to carry it out.

non-metal products, shipyards, food and beverage production and maritime transport, i.e. among the companies exposed to the high competitiveness levels of international markets. Analyzing the success of 400 big companies, *Drljaca* (2004) concludes that there is a correlation between company success and ISO 9001 implementation; however, there is not a single hotel among the most successful companies. Likewise, not a single hotel company has implemented Quality Managing System 9001. In the research conducted on the sample of 550 companies there were 36 hotel companies and restaurants (7%). *Dumicic* (2004, pp. 53–56.) concludes that only 2% of the hotels have the quality certificate ISO 9001, while 11% of the hotels take consulting services when implementing Quality Management System ISO 9001.

For the purpose of this paper we have come up with the following hypothesis:

H1: International Standard ISO 9001 is not widely implemented in Croatian hotel industry;

H2: Implementation of Quality Management System ISO 9001 improves marketing performances in Croatian hotel industry;

H3: Implementation of Quality Management System ISO 9001 improves operational performances in Croatian hotel industry;

H4: Implementation of Quality Management System ISO 9001 improves human resource management performances in Croatian hotel industry.

We have used descriptive and inferential statistics including Chi-square testing to analyze the used data. Empirical research has been carried out for this purpose including a post inquiry on the sample of 350 hotels in the Republic of Croatia, secondary data from the Internet, and interviews with the hotel managers of the hotels possessing the certificate ISO 9001. The study focuses on the experience of 16 hotels that have implemented Standard ISO 9001. The measure we have used in our research is a five-point Likert scale.

2. Advantages of companies that have implemented quality managing system ISO 9001

The certificate ISO 9001 proves that the company possessing it respects all the international and national quality standards, and regularly surveys the quality system that has been incorporated in its business practice. According to the Quality Standard ISO 9001, a correctly implemented and completed quality system brings certain internal and external advantages to the company (*Injac* 2002, pp. 134–142.). However, it is necessary to emphasize that the benefit amount is directly proportionate to the success of implementation and commitment of all employees (*Lazibat* 2005, p.150.). Beside the need to emphasize the advantages and benefits arising from the implementation of Quality Management System ISO 9001, we need to be aware of its downsides, as well, which are the same in the hotel industry as in other industries. According to the research results, the implementation of Quality Management System ISO 9001 in hotel enterprises increases paperwork; it is time demanding, causes additional costs. The process is also somewhat difficult for the hotel staff to accept (*Pavlic–Dragicevic* 2008).

The researches undertaken by *Rayner–Porter* (1991, pp.16–18.) state that one of the advantages of ISO standard implementation is improved marketing performance. In the research involving 29 companies in the US, *Adanur–Allen* (1995) state that the main advantages of ISO 9000 implementation are improved business efficacy, higher consumer satisfaction and increased competitiveness. In the research including 150 textile companies, *Atwater–Discenza* (1993) found out that the implementation of ISO 9001 influences higher employee commitment, reduces production costs, reduces the sales of low and inferior quality products. *Calisir et al* (2005) report in their research, including 43 ISO certified companies in

Turkish textile industry, that the main advantages relating to increased product quality, reduced mistakes in production and increased market share. *Urbonavicius* (2005) points to the advantages of ISO standard implementation in the business practice of small and medium enterprises in the EU, which are reflected on some marketing and management benefits.

The researches carried out in the field of service industry have proved the positive effects of Standard ISO 9001 implementation (*Augustyn–Pheby* 2000, *Wang et al* 2001, *Levett* 2005, *McAdam–Fulton* 2002, *Feinberg et al* 2003, *Calisir* 2007). The hotels that have implemented ISO 9000 have reduced labour turnover and losses, and improved publicity (*Callan* 1992) *Walker–Salameh* (1996) report on the positive changes reflected on some operational aspects and in staff turnover, enthusiasm, cooperation, communication and employee satisfaction. *Nield–Kozak* (1999) come to the conclusion that the implementation of ISO 9001 brings numerous advantages in terms of operations, i.e. improved operation systems and reduced costs; marketing, i.e. increased consumer satisfaction, increased competitiveness, higher nation-wide recognition; human resources management, i.e. decreased staff turnover and increased employee satisfaction. *Ingram–Daskalakis* (1999) and *Costa* (2004) state that quality has become the key factor in hotel business practice due to increased competitiveness.

3. Results of research carried out in croatian hotel industry and discussion

3.1. Level of ISO 9001 implementation in Croatian hotel industry

For the purpose of this research a hotel company is being defined as an elementary unit for the sample. The final set of units consists of target population, or in other words the basic set which is to be examined as a set of small, medium-size and large hotel companies registered in Croatia. The implementation data were collected by post inquiry using the sample of 350 hotels chosen by the generators of random numbers selected from the basic group of 650 hotels. We have also used secondary data from the Internet to complete the list of hotels possessing ISO 9001 certificate and carried out the interviews in the hotels that have implemented ISO 9001. For the purpose of this research, we have used the data referring to the status of ISO 9001 in a hotel and features of those hotels that have implemented the Standards, as well as of those only aiming to implement it. We will also show the number of hotels per county in Croatia depending on the status of ISO 9001 implementation, hotel category, ownership status, number of employees.

According to the research results, Quality Management System has been implemented in 25 hotels in Croatia. However, we have received feedback information from only 21 hotels. The research results show that the largest number of hotels that have implemented ISO 9001 (33 %) are located in Istria County, followed by the Dubrovačko-Neretvanska County (29%) and (23%) in Primorsko-Goranska County. Only 5% of the hotels are in Krapinsko-Goranska County, Sisačko-Moslavačka and Zagreb County. The majority of hotels planning to implement Quality Standard ISO 9001 are located in Dubrovnik-Neretva County (50%) and in Primorsko-Goranska County (25%). According to the research results, it arises that the awareness level regarding quality improvement is the highest in Istria, followed by Dubrovnik-Neretva County and Primorsko-Goranska County. It also arises that the number of certificates in Dubrovnik- Neretva County will significantly increase in near future.

Having analyzed the type of ownership of the hotels that have implemented ISO 9001, we have concluded that the majority, i.e. 70% is in private ownership. The majority (75%) of those planning to implement ISO 9001 are privately owned hotels, as well. A smaller share of hotels (30%) is state-owned. We can conclude that there is a correlation between the ownership and implementation of Quality Management System ISO 9001 and that ISO 9001 is mostly implemented in privately owned hotels. It also arises that private hotel managers

pay more attention to product quality and have higher level of quality awareness than the managers in state-owned hotels. There is a need for improving education and awareness level of hotel managers in state-owned hotels. The low level of awareness concerning the importance of quality is the consequence of non-market way of thinking and common misperception according to which the quality of service and guest satisfaction are less important.

The largest number of hotels that have implemented ISO 9001 are three-star hotels, while four-star hotels represent a significant share of 29%. The implementation of Quality Management System ISO 9001 in two-star hotels (19%) shows that hotel managers apply this quality system in low quality hotels, as well. The system has also been implemented in high quality hotels, i.e. in five-star-hotels, representing the share of 9%. The largest number of the hotels planning to implement ISO 9001 is three-star-hotels, which is not unusual given the structure of hotel offer. It is also indicating the increased awareness level of the three-star hotel managers when it is about the quality. The encouraging fact is that some managers plan to introduce the quality system in two star hotels given that the implementation of ISO 9001 is not limited by the hotel size or category. The share of high category class with four or five stars is significant since some 36% of them plan to implement Quality Management System ISO 9001.

Analyzing the data related to the number of employees in the Croatian hotels which have implemented ISO 9001, it arises that the majority employs between 140 and 170 employees (40%). The share of hotels employing more than 200 people is represented by the significant figure of 20%. Likewise, the analysis of data concerning the hotels planning to implement ISO 9001 indicates that the largest number, i.e. 25% of hotels have up to 20 employees, 38% of hotels have 51 to 110 employees, while nearly 12% of hotels have 20 to 50, 141 to 170, and 201 to 230 employees. The implementation of ISO 9001 is being planned in small as well as in medium and big hotels. It arises that hotel managers in Croatia understand that the implementation is possible and desirable in both small and medium size hotels.

3.2. Influence of Standard ISO 9001 on business success of Croatian hotel industry

3.2.1. Research methodology

We have studied the experience of all Croatian hotels that have implemented Quality Management System ISO 9001 using the method of structural interview. It included 25 hotels in Croatia. The focus of the empirical research was on top managers. Unfortunately, only 16 hotel managers were willing to take part in the interview. The first group of questions in the structural interview with the managers of hotels that have implemented ISO 9001 concerned demographic information on the hotel managers themselves. The second group of questions concerned marketing benefits, the third group of questions concerned operational benefits and the last group of questions concerned human resources benefits. The method of measuring used in our research was a five-point Likert scale. Number one signifies the lowest and number five the highest level of influence of Quality Management System ISO 9001. We have used the inferential statistics methods of Chi-square testing to analyze the data.

3.2.2. Managers' characteristics

All the managers participating in the research concerning the hotels hold a university degree. Therefore, we can conclude that there is a correlation between the education level of hotel managers and ISO 9001 implementation. The data referring to the age of managers show that 64% of managers are older than 50, only 5% are between 31 and 35 and 31% of managers are between 21 and 25. Analyzing the length of service of managers it arises that the majority,

64% has longer work experience, i.e. 31-35 years of service, 5% of managers have between 10 and 15 years of service and 31% have up to five years of experience. According to the research results we conclude that the length of service is an important factor influencing the implementation of ISO 9001. The experience of managers has enabled them to realize the importance of continuous improvement of the quality of hotel product.

3.2.3. Influence of ISO 9001 implementation on marketing performance of Croatian hotels

Possessing the certificate ISO 9001 represents an advertising tool by itself, and it may contribute to the increased visibility of hotels on international markets (Niela-Kozak 1999, p. 43.). We have asked hotel managers to assess national visibility of Croatian hotels that have implemented ISO 9001. Sixteen hotel managers assessed the national visibility in the hotels before and after the implementation of Standard ISO 9001, as shown in Table 1. Given the empirical value $\chi^2 = 19,194$ ($\alpha = 0,05$), the applied χ^2 test of independence of variable shows that there is a correlation between the implementation of ISO 9001 and improved visibility of the Croatian hotels possessing the certificate on international markets. Given the research results, we may conclude that hotel companies in Croatia have improved visibility on international markets after the implementation of the Quality Management System ISO 9001 as hotels are recognized as quality operators. Creating brands leads to increasing customers and partners' sensitivity towards certificated hotels.

Table 1. Assessment of visibility of Croatian hotels before and after ISO 9001 implementation

Period	1-very low	2-low	3-medium	4-satisfactory	5-very satisfactory	Total
Before ISO 9001 Implementation	–	–	6	10	–	16
After ISO 9001 Implementation	–	–	–	16	–	16

Source: own construction

According to the results of the research carried out in Croatian hotels shown in Table 2, sixteen managers assessed the influence of international standard ISO 9001 on advertising of the hotels. Given the calculated empirical value $\chi^2=10$ ($\alpha =0,05$), the applied test of independence of variable shows that there is correlation between the implementation of ISO 9001 and the possibility for advertising using certificate ISO 9001 itself. It is possible also to improve the promotion of certified hotels in cooperation with Tour Operators, given that the Tour Operators already cooperate with the certified hotels and sell and advertise Croatian tourist products on tourist markets. Tour Operators fill nearly 70% of the hotel capacities in the Republic of Croatia (Čižmar 2007). The hotels do not sufficiently use the advertising possibilities using certificate itself, especially using Internet that can further improve advertising.

Table 2. Assessment of ISO 9001 influence on advertising

Period	1-very low	2-low	3-medium	4-satisfactory	5-very satisfactory	Total
Before ISO 9001 Implementation	–	1	11	4	–	16
After ISO 9001 Implementation	–	–	7	9	–	16

Source: own construction

According to the results of the research carried out in Croatian hotels presented in Table 3, sixteen managers assessed the position of the hotels before and after ISO 9001 implementation. Based on the empirical value $\chi^2 = 32$ ($\alpha = 0,05$) and by the means of χ^2 test of independence of variable, we have established that there is a correlation between the implementation of the Quality Management System ISO 9001 and positioning of Croatian hotels in relation to competitors. The results of the research conducted in the hotels that confirm that the implementation is the foundation for ensuring high quality service which contributes to better positioning of Croatian hotels in relation to competitors. This is important since the market position of Croatian hotels is not satisfactory.

Table 3. Assessment of positioning of Croatian hotels in relation to competitors before and after ISO 9001 implementation

Period	1-very low	2-low	3-medium	4-satisfactory	5-very satisfactory	Total
Before ISO 9001 Implementation	–	1	15	–	–	16
After ISO 9001 Implementation	–	–	–	11	5	16

Source: own construction

Sixteen managers participating in the interview, assessed the image of Croatian hotels before and after the implementation of Standard ISO 9001 as per Table 4. Given the empirical value $\chi^2 = 22$ ($\alpha = 0,05$), the applied χ^2 test of independence of variable shows that there is a correlation between the implementation of ISO 9001 and better image of the hotels. Considering the fact that Croatian hotels have worse image than their foreign competitors, the implementation of ISO 9001 may contribute to the improved perception of Croatian hotels on international markets. The improved image is one of the factors that may contribute to better positioning of hotels on international markets and improved cooperation with business partners, especially reputable mass Tour Operators and specialist Tour Operators covering important emitting tourist markets.

Table 4. Assessment of the image of Croatian hotels before and after ISO 9001 implementation

Period	1-very low	2-low	3-medium	4-satisfactory	5-very satisfactory	Total
Before ISO 9001 Implementation	–	1	9	6	–	16
After ISO 9001 Implementation	–	–	–	4	12	16

Source: own construction

3.2.4. Influence of ISO 9001 implementation on operational performance of Croatian hotel industry

The results of empirical research show that out of sixteen managers participating in the interview, nine managers rated introduction of new technologies in the Croatian hotel business practice before the implementation of ISO 9001 as medium, six managers think that it is satisfactory while one manager rated it as low. When assessing the introduction of new technologies in business practice of the Croatian hotels after the implementation of Standard ISO 9001, twelve managers rated it as very satisfactory and four interviewees rated it as satisfactory. Based on the calculated empirical value $\chi^2 = 22$ ($\alpha = 0,05$), the applied χ^2 test of independence of variable shows that there is a correlation between the implementation and the

introduction of new technologies in the hotel business. The current state of the Croatian hotel industry requires introduction of new technologies and replacement of existing technologies by the new ones.

The results of the research carried out show that nine managers assessing business process control in the hotels before the implementation of ISO 9001 rated it as medium, and seven managers rated it as low. Assessing business process control in the hotels in the after the implementation of Standard ISO 9001, ten managers rated it as satisfactory, while six interviewees rated it as very satisfactory. Given the empirical value $\chi^2 = 32$ ($\alpha = 0,059$), the applied χ^2 test of independence of variable shows that there is a correlation between the implementation of Standard ISO 9001 and better business process control in the hotels in. Given the unsatisfactory structure of hotel workforce, especially in the hotels operating seasonally, a strengthened business process control would enable the avoidance of failures and the reduction of mistakes. Similarly, waiters, cooks and receptionists, i.e. the staff representing a significant share of Croatian hotel workforce is very much lacking professional training.

More precise job descriptions would enhance the daily performance of the duties. Fifteen hotel managers assessing the preciseness of job descriptions in hotels before the implementation of Standard ISO 9001 rated it as medium and one manager rated it as low. Assessing the preciseness of job descriptions after the implementation, eleven managers rated it as satisfactory and five managers rated it as very satisfactory. Given the empirical value $\chi^2 = 32$ ($\alpha = 0,05$), we may conclude that the applied χ^2 test of independence of variable shows that there is a correlation between the implementation of Standard ISO 9001 and more precise job descriptions in the hotels. Better organization of work processes and more precise responsibility of job descriptions may increase productivity and client satisfaction in the hotels of Croatia.

3.2.5. Influence of ISO 9001 implementation on human resources management in Croatian hotel industry

Implementation of Quality Management System ISO 9001 leads to the increased employee satisfaction of hotel staff (*Nield-Kozak* 1999, p. 43.). According to the opinion of sixteen hotel managers, employee satisfaction in the Croatian hotels before the implementation of Quality Standard ISO 9001 is medium satisfactory. Rating the employee satisfaction after the implementation, five managers rated it as very satisfactory and four managers rated it as medium satisfactory. Given the empirical value $\chi^2 = 19,2$ ($\alpha = 0,05$), the applied χ^2 test of independence of variable shows that there is a correlation between the implementation of the International Standard ISO 9001 and increased employee satisfaction. The study findings suggest that employees play significant role regarding customer satisfaction and that there is a relationship between employee satisfaction and financial performance (*Chi et al* 2009).

The communication between different hotel departments influences the quality of integral hotel products. Regardless of the methods used to facilitate the communication, managerial responsiveness to employee concerns represents an important element for the relationship of managers and superviseds. Employee morale can actually decrease with raised expectations (*Testa* 2001). In the research carried out in the Croatian hotels that have implemented ISO 9001, the hotel managers evaluate employee communication. Sixteen interviewees assessing the improvement in communication among the employees before the implementation of Standard, rated it as medium satisfactory. Assessing this factor in the hotels after the implementation of ISO 9001, six managers rated it as very satisfactory and four managers as medium satisfactory. Given the empirical value $\chi^2 = 19,2$ ($\alpha = 0,05$), shows that there is a correlation between the implementation of ISO 9001 and improved communication among the employees in Croatian hotels.

When managers are “not in touch“ with other employees, they make poor decisions, while the employees show high number of absent, low commitment and they cause conflicts (*Yammarino–Atwater* 1997). No less than 15 interviewed managers, when assessing employee participation in decision making in the hotels before the implementation rated it as medium satisfactory, while 1 hotel manager rated the current situation as low. Assessing employee participation in decision making, after the implementation, all the hotel managers participating in the research rated it as satisfactory. Given the empirical value $\chi^2=32$ ($\alpha=0,05$), it is obvious that the implementation of the Standard improves staff participation in decision making in Croatian hotels. Improvement in communication prevents mistakes and reduces the probability of repetition (*Chattopadhyay* 2001, p. 38.).

Professional development in hospitality industry aims at constant upgrading of knowledge and professional skills (*Christou* 1999). Guest perception of service quality is dependent on the skills of hospitality employees, i.e. knowing how to meet customer needs (*Hallin–Marnburg* 2008, p. 379.). Fifteen interviewees assessing professional skills and knowledge development in the Croatian hotels before the implementation of Standard ISO 9001 rated it as medium satisfactory, while one manager rated the current status as low. Assessing professional skills development after the implementation seven managers rated this factor as very satisfactory and nine as satisfactory. Given the calculated empirical value for the above data $\chi^2 =32$ ($\alpha =0,05$), the applied χ^2 test of independence of variable shows that there is a correlation between the implementation of Standard ISO 9001 and improved professional skills and knowledge development in Croatian hotels.

4. Conclusion

This study examined the level of Quality Managing System ISO 9001 implementation in the Croatian hotel industry and the influence of ISO 9001 on the Croatian hotel business performances. The findings of the study show the lack of strategic orientation towards quality management. Although there are some positive movements, the current state of ISO certificates in Croatian hospitality is shown to be unsatisfactory. That is the consequence of long existing non-market business practice which kept neglecting the quality of hotel products. The study also shows that there is a correlation between ISO 9001 implementation and education level of hotel managers and therefore, continuous upgrading of education levels and awareness raising among hotel managers and initiating the implementation in all the hotel categories is necessary, especially in the state-owned hotels.

The study shows that there is a correlation between the implementation of Quality Management System ISO 9001 and the international visibility of Croatian hotels, as hotels are recognized as quality operators. Creating brands leads to increasing customers and partners' sensitivity towards certificated hotels. The results of the research also show that the implementation of ISO 9001 influences the advertising of hotels in the Republic of Croatia. Croatian hotels could also use the possibilities of self-promotion better, by highlighting the possession of quality certificate, which is a useful advertising tool by itself. The study also shows that ISO 9001 influence a better image and hotel positioning in relation to competitors, which is particularly important, knowing that Croatian hotels have worse image and are worse positioned on international markets than their foreign competitors.

The implementation of Quality Managing System ISO 9001 influences better introducing of new technologies in the hotel business practice in Croatia. The current state of Croatian hotel industry requires the introduction of new technologies and the replacement of the existing ones by modern technological solutions, so as to become more competitive on international tourist markets. The results of research also show that there is a correlation between the implementation of ISO 9001 and better business process control and more precise job descriptions.

According to the results of the study the implementation of Quality Management System ISO 9001 increased employee satisfaction, such as it improved employee communication in hotels in the Republic of Croatia. The increased level of employee satisfaction is extremely important since it is reflected on the quality of hotel service and client satisfaction. Better communication of the employees in a hotel advances the quality of hotel products and strengthens the linkages among the accommodation department, the reception, the food and beverage department and all the other hotel departments. The implementation of Standard ISO 9001 implies that all the employees contribute to the increased quality of hotel products and the better linkages between hotel departments. The study also shows that ISO 9001 influence the increased employee participation in decision making in hotels in the Republic of Croatia. Furthermore, the results of the research show that there is also a correlation between the implementation of Standard ISO 9001 and improved professional skills and knowledge development in Croatian hotels. The latter is important considering the low level of education of the staff in Croatian hotels, including the hotel managers (Avelini-Holjevac 2002, p. 430.; Brajdic 2000). Seasonal workforce often lacks competence for performing specific jobs. Continuous professional formation and the level of training are still lagging behind in Croatia.

Unfortunately, the research is limited by the lack of analysis of the influence of Quality Management System ISO 9001 on the investment policy indicators, such as share profit (EPS), dividend per share (DPS), dividend payout ratio (DPR), price and earnings ratio (P/E), total share profitability, dividend profitability of shares and financial policy indicators, all missing due to the lack of data. This sets a direction for a future research in this field. Based on the data at disposal and research results, all the above hypothesis proved acceptable and we may conclude that there is a correlation between Quality Management System ISO 9001 implementation and business success of hotel companies which have been implemented Standard ISO 9001 in the Republic of Croatia. The results of this research may be used for scientific purposes, and may give impetus to the hotel managers for the implementation of Quality Management System ISO 9001 in a larger number of hotels which would bring numerous benefits not only to the hotels but to entire community.

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Risk management – a strategic advisor for a sound management of a leasing business¹

ELENA ANDREI DRAGOMIR – ION DOBRE

Organizations face a very wide range of risks that can impact the outcome of their operations. The constantly increasing risk in nowadays global financial markets emphasizes the importance of correctly estimating future losses, therefore, the management of the leasing company needs to find a good trade-off between business risk, performance risk and financial risk and to have a good strategy to maintain and/or improve the profitability. Although leasing may not be the subject to Basel II. Capital Accord regulatory requirements, in many respects it represents best practices, reflecting a combination of the views of sophisticated lenders represented on the Committee as well as those of the major regulators. Consequently, lenders in the leasing industry frequently look to Basel for benchmarking and insights. This paper aims to illustrate the importance of risk management holistic approach in assessing the risks of a leasing company and we intend to expound that the implementation of an effective risk management process is a key requirement for a modern leasing company that has as priority the need to align profitability, risk profile and asset quality. Also, we will draw attention to the regulatory environment and recent regulatory and supervisory developments with respect to risk management practice.

Keywords: enterprise risk management, framework, risk assessment, quantification, probability, impact

1. Introduction

A recent trend in corporate governance has been the development of an integrated, enterprise-wide approach to assessing the business risks that can impact an organization's ability to achieve its business objectives and to develop programs for managing those risks (Miccolis et al 2001). Risk can be defined as the likelihood that the outcome from a process will not meet expectations (Knechel 2002). Business risks represent threats to the ability of an enterprise to execute business processes effectively and to create customer value in accordance with strategic objectives (Bell et al 1997).

Enterprise Risk Management (ERM) is the most recent development in the evolution of risk management. Like all modern ideas, it builds upon a foundation that started in the industrial age and moved into the knowledge age. We aim to review the risk management concepts and events that contributed to our ability to scan the horizon, identify risks broadly, and use technology to share exposures with risk owners (Hampton 2009).

ERM is clearly a relatively new area of academic research, since the first academic study on ERM was published in 1999, although James Lam created the term "enterprise risk management" in the mid-1990s. Academic research to date on ERM includes studies that focus on various determinants of ERM and, more recently, research has investigated the potential value associated with ERM adoption.

Early empirical work on ERM investigated why companies adopted ERM and most studies utilized survey data. The first study by Colquitt et al (1999) investigated the characteristics and extent of integrated risk management by surveying 397 risk managers.

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They found that political risk, exchange rate risk, and interest rate risk were the three most common non-operational risks handled by the risk management department. Another study *Kleffner et al (2003b)* surveyed Canadian Risk and Insurance Management Society members about ERM adoption. They found that 31 percent had adopted ERM and that the primary reasons for adoption were risk manager influence, board encouragement, and stock exchange guidelines.

Other early work on ERM included a focus on the determinants of ERM. One of the first papers in this area, *Liebenberg and Hoyt (2003)*, compared firms that appointed a chief risk officer to a matched sample. They found that firms that appoint a chief risk officer are more likely to be financially leveraged. They concluded that further research is necessary to understand ERM determinants. A related but more recent investigation was done by *Pagach and Warr (2007)* where they studied the announcements of senior risk officer appointments and found that such appointments are positively associated with size, leverage, volatility, and the number of business segments.

Another paper related to ERM determinants was done by *Beasley et al (2005a)* where they surveyed internal auditors and their views on factors associated with ERM implementation. They found that ERM implementation is positively associated with board independence, requests from the CEO or CFO to have internal audit involved, the presence of a CRO, the company's auditor being a Big Four audit firm, size, and industry group (banking, education, and insurance). It is interesting to note that they also found U.S.-based companies are not as advanced in ERM implementation. By the time of this study and the following study (*Beasley et al 2005b*), there had been a rising interest in ERM and added interest in ERM by many internal auditors. The data used in both of these studies was funded by the IIA Research Foundation to examine internal auditing's involvement in ERM.

2. Modern risk management perspective

As shown in the introductory chapter, despite the growing interest of practitioners in enterprise risk management (ERM) and numerous surveys by providers of ERM "solutions" (such as governance, risk, and compliance software), we may state that not enough academic research has been conducted to provide a better understanding of ERM. As an example, researchers study topics such as what ERM is (or is not), practical measurement of the degree to which ERM is implemented within different industries, factors determining ERM's implementation (or lack thereof), the effect of ERM implementation on business market values, and the interaction of ERM with overall business objectives.

Many companies have completed surveys of the risks they face, and have adopted systems to control some of the risks they have found. The breadth of this analysis has varied from one company to another, depending on local factors of which we would mention the assessment by the management team and board members of the benefits that may be obtained from the risk-management approach. However, many regulators, stock exchanges, and professional bodies have encouraged companies to improve the quality of their risk measurement, and have issued guidance, so there is considerable institutional conformance pressure (e.g., *COSO 2004, Australia Standards 2004*).

Some insights can be gained from the COSO definition of enterprise risk management, which reads as:

Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (COSO 2004).

Most risks have limited impact. For example, they may be limited by the value of the asset whose loss they represent; others can have a large impact, but with a correspondingly small probability. The extreme value parts of such risks tend to be risk-management blind spots and are often ignored because they might occur, say, once in 200 years or less. However, most companies will have a number of such risks, so that in aggregate they can be important, as many cases demonstrate. The problem in analyzing such risks revolves around the lack of data because there may have been no occurrences of the risk in living memory. However, a body of theoretical work has been done to analyze these situations statistically. This work was pioneered by Emil Gumbel, who in the 1950s showed that you can construct a statistical distribution (the Gumbel distribution) to represent the extreme-value “tail” of many risks (*Gumbel* 1935, 1958). This was later generalized to include more risks by the introduction of the Generalized Extreme Value (GEV) distribution. This surprising result that all tails have similar shapes, and the intrinsic importance of the topic, has resulted in a body of research that is too mathematical to be covered here. A good introductory text in this area, giving many examples, is *Reiss and Thomas* (2001). Other references are *Embrechts et al* (1997) and *Coles* (2001).

Traditional risk management has changed into a new concept with a broader role. Modern risk management covers four areas:

1. *Hazard risk management*. Risk managers follow a five-step process to assess hazard risks. First, they seek to identify exposures. Then they assess the frequency and severity of the exposures. Step three is to identify alternatives. Step four is to choose an option and implement it. The final step is to monitor the implementation and make adjustments as needed. This process sets up both preventive and crisis risk management.
2. *Internal control*. Companies have processes, called internal controls, to provide reasonable assurance that policies are being followed. Internal control processes seek to improve effectiveness and efficiency, increase the reliability of financial reporting, and ensure conformity with laws and regulations. Elaborate systems of internal control are common in organizations, particularly in industries that are highly regulated by government agencies.
3. *Internal audit*. Internal auditors pursue assurance that internal controls are working. This is not risk management. Rather, it focuses on the cost, efficiency, and effectiveness of processes, including risk management. From a risk management perspective, internal audit focuses specifically on whether a risk is actually being avoided, reduced, or transferred. The internal audit team examines operating activities, the consistency of procedures, and compliance with directives. Then the internal auditor prepares a report for management that identifies weaknesses and failures to follow policies.
4. *Regulatory compliance*. This refers to efforts to ensure conformity with official requirements imposed by statutes, public agencies, or the courts. Examples are rules governing plant safety, the environment, reliable financial reporting, and compliance with social and economic mandates. Many organizations have a single compliance unit or officer who interprets directives, laws, and regulations, offers education and training, and recommends processes to conform to regulations (*Hampton* 2009).

3. Conceptual taxonomy of erm types

This section conceptualises ERM as an assembly of practices, which can be grouped in four ideal types with reference to their institutional origins, techniques and ambitions. Normative and technical texts are suggestive of four ideal types of risk management, all of which qualify as enterprise-wide, but vary in terms of their focus and purpose.

3.1. Type I. Risk silo management

Over the past decade there have been significant advances in the risk measurement capabilities of financial institutions (Garside–Nakada 1999, Marrison 2002). At the heart of the practitioner literature's most salient risk management ideal type is risk quantification, the rendering of an increasing number of risk types susceptible to quantification, measurement and control. The following commonly quoted definitions apply for the main risk categories (Drzik et al 2004).

Market risk arises from changes in the value of financial assets and liabilities due to volatility in market prices (interest rates, currencies, equities, commodities).

Credit risk arises from changes in the value of assets and off-balance sheet exposures due to volatility in default rates or credit qualities.

Banc-assurance firms and insurers add the additional category of insurance risk, which arises from volatility of insurance claims around the expected level of claims.

Operational risk has long been defined as a residual category, one that captures all of the risks not covered in the first three categories.

3.2. Type II. Integrated risk management

Risk aggregation has been a challenge to risk practitioners for a long time. This was largely due to the variety of risk measures applied to the different risk silos, and the correlations that exist between risks. The recent development of a common denominator measure for market, credit and operational risks enables firms to aggregate their quantifiable risks into a total risk estimate. The emerging common denominator of quantifiable risks is called *economic capital*. Economic capital (also known as *economic risk capital*) is a statistically estimated amount of capital that could be used to cover all liabilities in a severe loss event (given a specific confidence level), such as an unexpected market, credit, operational and/or insurance loss. The conceptual appeal of economic capital methods, as recognised recently by the regulator, is that „they can provide a single metric along which all types of risks can be measured” (BIS 2003).

Economic capital, as the common denominator for the measurable risk types, creates a consistent and comprehensive framework, or at least the appearance of it, in which risks can be compared and aggregated, enterprise-wide. Further, economic capital can be set to constrain the risk capacity of business initiatives and profit centres, serving as a tool for limit setting and control.

The economic capital framework gives rise to a new risk management ideal type, *integrated risk management*. It is defined here as a risk management approach that applies the economic capital framework for the measurement, comparison, aggregation and control of risks.

Although leasing may not be the subject to Basel Capital Accord regulatory requirements, in many respects it represents best practices, reflecting a combination of the views of sophisticated lenders represented on the Committee as well as those of the major regulators. Consequently, lenders in the leasing industry frequently look to Basel for benchmarking and insights.

3.3. Type III. Risk-based management

Relatively recent works in the risk management literature support the idea of using risk-based internal capital allocations for performance measurement and control. The possibility of introducing risk-based *performance measurement* in banks and leasing companies has emerged as a result of developments in risk quantification and risk aggregation. It also

appears to coincide with the rise of the shareholder value concept in corporate writing (*Arnold–Davies* 2000).

The type of risk management that is able to feed these ambitions has gone well beyond the original sphere of risk silo management or even that of integrated risk management. It is put forward as the third risk management ideal type, *risk-based management*, its characteristic aspect being a strong shareholder value rhetoric.

3.4. Type IV. Holistic risk management

We have seen how the ascent of the shareholder value concept gave rise to a specific ideal type of risk management, risk-based management. This section focuses on the impact of another powerful notion, proclaimed by corporate governance advocates, that of risk-based internal control. The Treadway Commission (*COSO* 2004) advocates ERM as a framework for capturing risks that are material from the point of view of the achievement of the strategic objectives of the enterprise. Apart from the measurable risk silos, this conception of ERM encompasses risks that cannot be readily quantified or aggregated. These non-quantifiable risks include, for example, the risks of strategic failure, environmental risks, reputational risks and operational risks that materialise only rarely. Recent developments in corporate governance have emphasised the importance of monitoring and managing these risks.

4. ERM framework and risk universe

4.1. ERM framework

The importance of risk management is recognized by the publication in 2009 of an International Standards guide, ISO 31000 Risk Management - Principles and Guidelines, developed by a work group of international experts from more than 30 countries.

The ISO framework is current best practice for risk management frameworks. It incorporates best practice from COSO, PMI (Project Management Institute), the Australian and New Zealand Standard (AS/NZS 4360:2004) and other leading international risk management standards.

ERM framework has seven components:

1. Mandate and commitment to the ERM framework.
 - a) Agreement in principle to proceed with ERM.
 - b) Gap analysis.
 - c) Context for framework.
 - d) Design of framework.
 - e) Implementation plan.
2. Risk management policy
 - a) Policies for the ERM framework, its processes and procedures.
 - b) Policies for risk management decisions:
 - Risk appetite.
 - Risk criteria.
 - Internal risk reporting.
3. Integration of ERM in the organization.
4. Risk Management Process (RMP).
 - a) Context.
 - b) Risk assessment (identification, analysis, and evaluation).
 - c) Risk treatment.
 - d) Monitoring, review, and actions.

- e) Communications and consultation.
5. Communications and reporting.
6. Accountability.
 - a) Risk ownership and risk register.
 - b) Managers' performance evaluation.
7. Monitoring, review, and continuous improvement.
 - a) Responsibility for maintaining and improving ERM framework.
 - b) Approach to risk maturity and continuous improvement of ERM framework.

Figure 1 illustrates a typical framework for an organization to implement ERM according to ISO 31000. It shows in addition to the main components of an ERM framework, other processes and functions necessary for implementation and continuous improvement. It is expected that each organization will customize the ISO framework to suit their organization's structure, roles, and responsibilities, with a view to making integration of risk management easier and more effective.

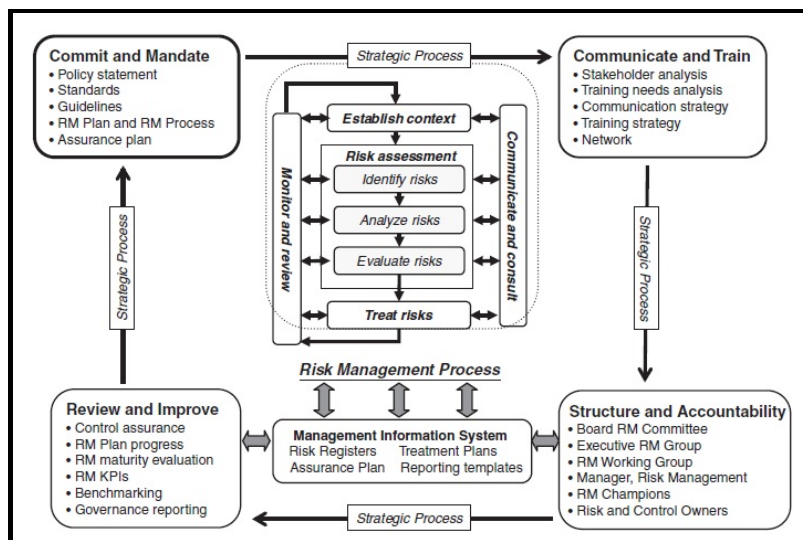
Figure 1 illustrates the traditional set of risk management tasks to support and assist decision making by any manager anywhere in the organization.

Context sets the stage for the decision or activity requiring risk management; *risk assessment* identifies, analyzes, and evaluates the risks; *risk treatment* enhances the likelihood of positive consequences and reduces the likelihood of negative consequences to acceptable or tolerable levels; *monitoring and review* keeps close watch over the risk and the controls implemented to modify the risk; and *communication and consultation* is continuous to ensure that the stakeholders are engaged and contribute to the management of risks.

The Risk Management Process (RMP) is the first framework component presented because it is used for all decisions in the organization. RMP is a method to modify risks to create value. The ERM framework exists primarily to facilitate application of the RMP everywhere in the organization.

The RMP in Figure 1 is not a flow chart but a relational diagram that must be tailored to the individual organization before implementation as a process flow chart. The tailored implementation ensures that risk management is both practical and aligned with the organization's structures, processes, and objectives *Shortreed* (2010).

Figure 1. An ISO 31000 Compatible Framework for Implementing ERM Including the Risk Management Process



Source: *Shortreed* (2010) taken from Broadleaf Capital International Pty Ltd., 2008, www.Broadleaf.com.au.

4.2. Risk universe

Before taking further steps into detailing methods for measuring and predicting the risk faced by financial institution we consider that it would be useful to identify and classify the risks.

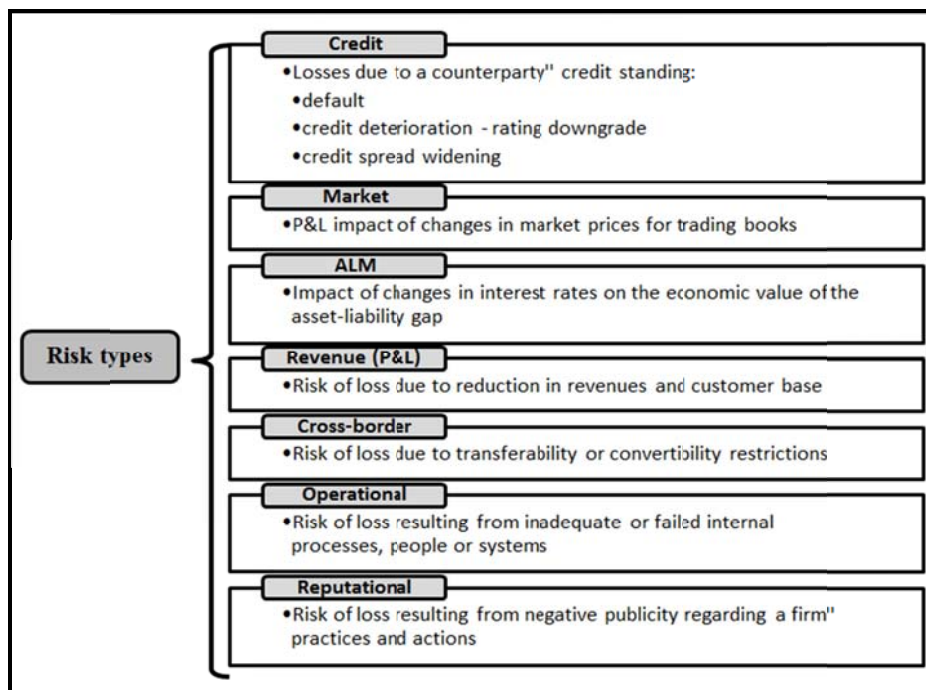
Risk can be defined as the likelihood and severity of events that lead to loss of capital and/or less-than expected returns. How an institution interprets this definition helps to determine what the strategic goals of risk management are.

Risk can be idiosyncratic or systemic. *Idiosyncratic risk* is the risk of price change (or default on debt) due to the unique circumstances of a specific security (obligor), as opposed to the overall market. In terms of unexpected loss, this risk may be virtually eliminated from a portfolio through diversification, as losses converge on their expected value. In this case, it is called *diversifiable risk*. In contrast, *systemic risk* affects an entire financial market or system, and not just specific participants or obligors (for example, the exposure to credit cycles or industry downturns). In practice, financial institutions may be unable to completely eliminate systemic risk through diversification, making it a *non-diversifiable risk*.

In the case of credit risk, for example, diversification (across asset classes as well as obligor names, regions, sectors, and so on) can lower the variance of expected losses, but diversification cannot eliminate idiosyncratic risk in the same way as it does for market risk. First, because of the asymmetry of returns associated with most types of bank lending and debt issuance, improving credits cannot precisely offset losses on idiosyncratic defaults. Second, the concept itself is not an accurate analogy to the market risk case because the idea that a particular firm is forced to default because of changes in aggregate credit risk (and for no other reason) is debatable.

For operational and reputation risks, the situation may even be reversed, in that risks may compound as business activities expand in scope. Clearly, one of the primary problems in quantitative risk management is that of classifying the various types of risks faced by the institution, and establishing a consistent set of metrics for each. Regulators, financial institutions, and rating agencies usually group risks in a handful of broad types, which are detailed underneath the Figure below.

Figure 2. Main types of risks currently faced by financial institutions



Source: own construction

a) Credit risk

Credit risk encompasses both the possibility that a borrower will default by failing to repay principal and interest in a timely manner, and the possibility that the credit quality of the obligor will deteriorate, leading to an economic loss. Sometimes the risk faced by an institution is not related to the instrument itself but to a third party responsible for some aspect of the transaction. The risk that this party will prevent the settlement of the obligation for full value, either when due or at any other time thereafter, is called counterparty risk.

Statistical models for assessing credit risk at the facility, obligor, and portfolio level have been available for decades. However, only recently financial institutions and vendors of risk management solutions have been able to collect and process sufficiently rich and timely flows of data to make model implementation feasible for supporting quantitative capital management and allocation strategies. Whether obligor risk measures are based on commercial models, internally developed models, or other methodologies, institutions will still need to perform model validation and data reliability tests to verify the benefits and limitations of the different approaches and the impact on their businesses. Thus, quantitative expertise and the ability to implement and validate mathematical modeling tools are now major concerns for most institutions.

b) Market risk

Market risk results from the possibility that the price of an asset may decline or the value of obligations (such as swap exposures, options, or futures contracts) may grow over a given time period simply because of economic changes or other events that impact the market price of securities, commodities, and interest rates. Market risk is somewhat unique in that it can be largely hedged using an array of market products designed specifically for this purpose, including options, futures, and other derivatives.

Because assets are acquired with a specific purpose in mind, market risk is often associated more with "potential" loss as opposed to "expected" loss, in that day-to-day fluctuations in asset prices create losses only when those assets must be liquidated on a day-to-day basis. Buy-and-hold investors can ignore short-term price movements except insofar as a crisis situation may force assets to be sold on short notice. Therefore, institutions must make sensible links between how they interpret standard market risk measures, and how they characterize "normal" versus "stress" scenarios in their broader risk management and capital allocation practice.

c) Asset-liability management risk, also called in other papers Liquidity risk

ALM risk is the risk that a mismatch between assets and liabilities will cause a liquidity shortfall, or necessitate loss-generating balance sheet adjustments to avoid a liquidity shortfall. For most firms, ALM risk is dominated by the risk that changes in the level of interest rates or their term structure will negatively affect the asset/liabilities balance, leading to a shortage of cash to meet current obligations. However, the tenor and structural cash flow relationships between assets and liabilities can become unbalanced due to inattention, failed speculation, and operational risks. Banks and other financial institutions are sensitive to all of these ALM risks due to the particular nature of their business (often borrowing short term from depositors and lending long-term loans to borrowers).

d) P&L (Revenue) risk

Here the risk is not that the tenor or expected cash flows from assets will not match with those required by liabilities, but that unexpected volatility in revenues may precipitate such a mismatch, especially in businesses with significant fixed costs. For banks and other financial

institutions, most shocks to revenue are the result of changes in market conditions; for example, falling interest rates combined with sluggish economic growth.

Other disturbances to revenues may result from political and reputation crises that can result in loss of customer confidence, customer volume, or market share. As a result, there is considerable overlap between P&L risk and other classes of risk that are already being measured and managed by the firm. Nevertheless, revenue volatility can be reduced by careful management of the products and services being offered.

e) Cross-Border Risk

Cross-border risk is the risk of loss due to transferability or convertibility restrictions in different countries. This type of risk affects primarily institutions that do businesses in multiple markets and countries.

f) Operational Risk

Generally speaking, operational risk is the risk of loss resulting from inadequate or failed processes (internal or external), people, and systems or from external events (that is, a potential failure in a business). Classic examples of operational failures include massive losses due to unauthorized "rogue" trading, internal and external fraud, and criminal mismanagement and corporate theft. However, failures to the physical plant and equipment of the firm also present significant operational risks.

If electronic trading, clearing, or wire transfer systems fail, trading and legal liability losses can be substantial. Declining profitability may also increase risk when management places heavy burdens on business heads to meet aggressive or unrealistic profit targets. Here, quality controls may be ignored in an environment myopically focused on short-term performance. Regulatory compliance requires that banks track and categorize operational risk "events," so the raw data for more quantitative research will continue to accumulate going forward.

g) Reputational risk

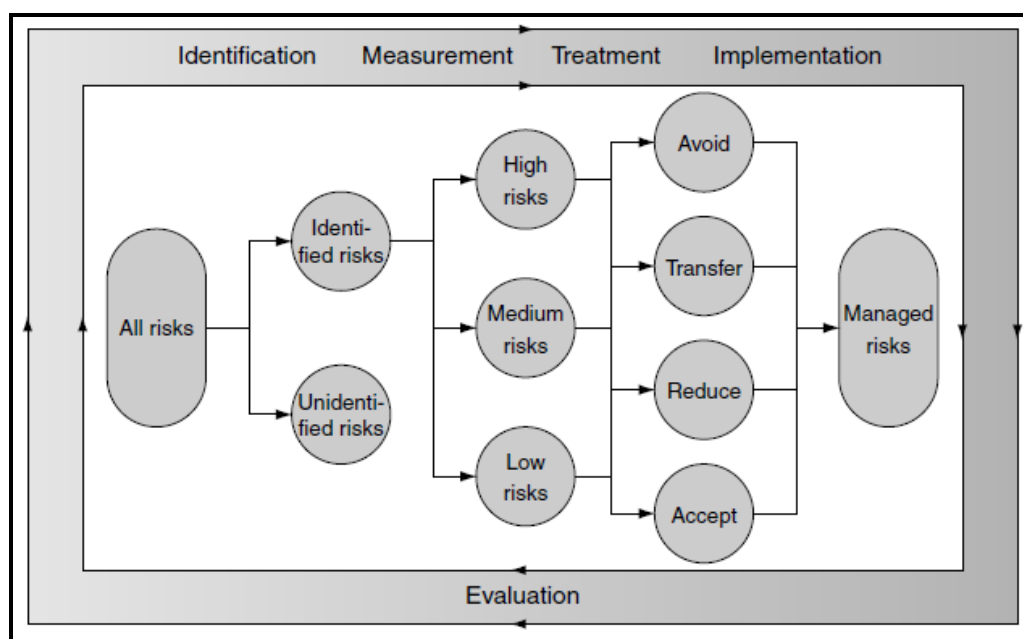
Reputation risk is the potential that negative publicity regarding a firm's practices and actions will cause a decline in the customer base, costly litigation, revenue reduction, liquidity constraints, or significant depreciation in market capitalization. Reputation is one of the most valuable assets a company can have, and one of the most difficult to protect.

Certainly, the avoidance of events that may damage a firm's reputation lies properly in the sphere of operational risk. However, most large firms engage in reputation enhancing efforts that are effectively hedges against future damage, and these hedges can be evaluated on a cost benefit basis. Moreover, the firm's response to actual reputation damage can be organized and rational, and could potentially make use of a formal modelling approach. The crucial components required to support an active reputation risk management regime include the identification and ranking of constituents, in terms of the benefits of remediation, and an identification and ranking of information flows available for remediation in terms of cost and efficacy. Despite its importance to a firm's survival, the quantification of reputation risk is still in its infancy.

5. Risk management process

The main steps in a risk management process are presented in Figure 3 and described below.

Figure 3. Steps of continuous risk management process



Source: Van Gestel–Baesens (2009)

a) Identification

Within a defined perimeter and scope of the risk management process, one identifies all potential risks. The identification can start by analyzing sources of potential risk (e.g., lower housing prices may result in lower recoveries and higher losses on a mortgage loan) or identifying threats (e.g., which factors would result in higher losses on a mortgage loan). The identification of all the risks requires a good knowledge of the financial products. A main risk is the lack of identification ability in the organization, e.g., due to insufficient competencies.

b) Measurement

Given the identified sources of risk, one needs to quantify the risk. For credit risk, this means, e.g., that one needs to determine the actual default probability and how much a change of the risk drivers (e.g., profitability of a firm) impacts the default probability. How much will the loss given default increase if housing prices reduce by 10%? Risk measurement requires thorough statistical analysis of past events. When in case past events are only available to a limited extent, one applies theoretical models and expert knowledge to quantify the risk.

c) Treatment

Risk can be treated via one of the following four ways (Dorfmann 1997):

Risk avoidance: A simple way to treat risk is to avoid risk. This implies that one does not invest in products that are too risky or for which the risk is not well enough understood. Avoidance does not mean that one avoids all risk, a strategy may consist of selecting the good counterparts and not investing in counterparts with too high default, loss or exposure risk. Alternatively, one may decide to invest only small proportions in such counterparts; one limits the exposure on risky investments. This reduces the concentration risk.

Risk reduction: Risk reduction or mitigation implies that one takes a part of the risk, but not the full part of it. For high-risk counterparts, one may require collateral that the bank can sell in the case of a default. The value of the sold collateral reduces the actual and hence the risk for the bank. One may also ask guarantees from a family. Risk reduction may not always be feasible.

Risk acceptance: One accepts or retains the risk that one has to take as part of the business strategy. Risk acceptance is typically applied for low-risk assets. Risk is more easily accepted when it is well diversified: investments are made in various sectors and countries, where it is unlikely that high losses will occur simultaneously in all sectors and in all countries.

Risk transfer: One transfers the risk to another bank, insurance or company. Insurance companies, called financial guarantors, exist that provide guarantees to credit risk. A specific type of credit derivatives, a.o., credit default swaps are a type of option contract in which the buyer of the contract is reimbursed in the case of the default of the underlying counterpart.

d) Risk management strategies

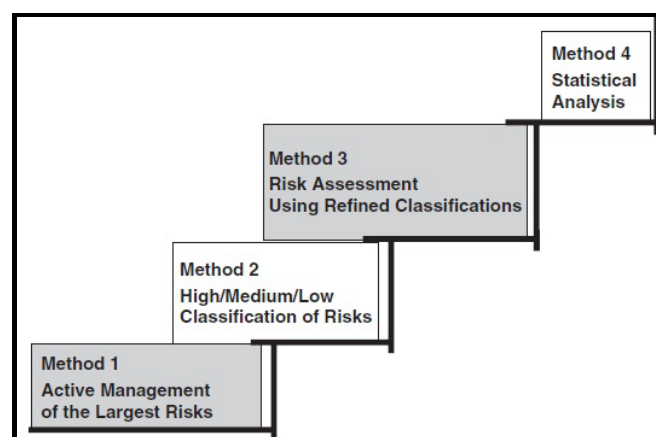
Implementation: Once the risk management strategy has been defined, it is implemented. People, statistical models and IT infrastructure evaluate the risk of existing and new investments. Guidelines for the risk treatment define in which counterparties one invests and in which one does not; which exposure limits are used for the most risky products; whether collateral for specific loans is mandatory or whether one buys protection from a financial guarantor. The risks of the bank are continuously reported and monitored. The implementation is supervised by senior management.

Evaluation: The effectiveness of the risk management strategy is evaluated frequently. One verifies whether the resulting risk taking remains in line with the strategy and applies corrections where necessary. This involves evaluation of the relevant risk drivers, the measurement process is evaluated, in back-testing procedures, the result of the risk treatment plans and the actual implementation.

6. Alternative approaches of risk assessment

When deciding the most appropriate method of evaluating an organization's risks, there is a choice between several broad alternative approaches, that are illustrated in Figure 4. The appropriate choice between them depends on cultural and environmental considerations, and on the industry concerned. In this paper, we consider mainly strategic risks and managerial situations where financial risks are not dominant. It is worthwhile to examine the four main alternative methods for the assessment of strategic risks, and to consider issues that contribute to the choice between them.

Figure 4. Methods of quantifying risk



Source: Hargreaves (2010, p. 223.)

6.1. Active management of the largest risks

Companies' executives will often claim that they are already aware of the main risks that their organizations face. Thus, they would argue that the most important risk-management task is to manage these risks well. This attitude is justified by the fact that about 80 percent of the total risk facing an organization is usually concentrated in the top dozen risks.

In organizations that are beginning the implementation of risk management, and in those going through crisis situations, the resources available to control risk may be limited. In such circumstances it may be best to concentrate initially on the effective management of key risks. This avoids spreading the management effort too thinly and less effectively.

There are large differences in risk probabilities. Some risks occur rarely and others happen quite frequently. Nevertheless, to uncover the top dozen risks with confidence it is usually necessary to consider at least twice that number of risks. This analysis often reveals a couple of large risks that have been underestimated by management.

It is sensible to take advantage of the effect of large differences in risk impact and probability through the adoption of an "Active" style of risk management (Table 1.). It is certainly better to actively manage the top 12 risks than to make a long list of risks and do little about any of them!

Table 1. The necessity to tackle top risks first

Probability	Impact	Action
High	High	Immediate
High	Low	Consider steps to take
Low	High	Consider steps to take and produce a contingency plan
Low	Low	Keep under review

Source: Hargreaves (2010, p. 223.)

The idea of concentrating on the top risks is good as a first approach to risk evaluation. Often it is also appropriate in a transitory situation where an organization is going through a process of rapid change. However, it is not an adequate basis for confident risk management in the medium term.

Active management of the top risks suffers from the drawback that it is not comprehensive. The business world is littered with examples of infrequently occurring risks that have led to the downfall of organizations. Sector regulators seek to ensure that companies do not overlook any risks that may have significant adverse impacts, but recent experience tells us that this is difficult to achieve in practice. However, favourable experience of the savings or risk reductions made by good management of the important risks indicates the benefits of extending management attention to the less significant risks as well.

6.2. The two-dimensional risk map: "High/Medium/Low" classification of risks

A more complete coverage of risks may be obtained by using the two-dimensional risk map approach illustrated in Table 2. Following this approach, a detailed list of risks is drawn together that, as far as possible, covers all the company's activities. For each risk, estimates of the probability of the risk occurring and the impact of the risk are made. These estimates are expressed in terms of High/Medium/Low categories (for example) and plotted on a risk map to illustrate graphically the relative rankings of their respective probabilities and impacts (*Risk Management Standard* 2002).

It is common in this sort of approach to use traffic-light colour highlights (i.e., red, orange, and green), in reports to distinguish high, medium, and low risks. Noncritical risks

that are being managed satisfactorily are signified by a “Green Light” signal, and conversely high-risk situations that are causing concern are indicated by a “Red Light” signal.

Table 2. Example of a two-dimensional risk map

		Impact		
		Limited	Some	Significant
Likelihood / Probability	High	M	H	H
	Medium	L	M	H
	Low	L	L	M

Source: Hargreaves (2010, p. 224.)

The High/Medium/Low approach can work quite well if the risk analysis is done mainly by one person. However, if the risks are to be tackled at all levels of the organization, a number of people will need to be involved and there will be different views of specific risks. The High/Medium/Low classification suffers from the deficiency that it is a crude gauge. It does not register graduations of risk other than within the three-fold classification. So, if management expends effort to reduce a particular risk, it may well continue to register as “high.” Thus, a system with only three graduations may be difficult to use for control purposes and at lower levels of the organization most risks would be classified as low. Thus, although this methodology meets the needs of some standards and regulators, we do not recommend it since, for a relatively small additional effort, a slightly more sophisticated methodology on the lines of Method 3 described below will be much more effective.

6.3. Risk assessment using refined classifications

A possible solution to a simple but more effective risk management methodology is to employ a more refined classification of probabilities and impacts. For example, the graduations may be increased to five classifications such as Very High, High, Medium, Low, and Very Low, as recommended in the Australian and New Zealand Standards (*Australian Standards* 2004).

If we have more scale graduations, it is more important to define exactly what we mean by each one. In order to achieve uniformity, numeric bands are established both for impact and probability. Thus, for a medium-sized company we might define a very high financial impact to mean an impact of more than say \$1 million. Managers may not initially feel confident in making quantified probability estimates. However, in practice they are usually happy to estimate a probability using the probability scale as shown in Table 3. In this scale, there is an approximate tripling of probability between one level and the next this level of accuracy works well for many risk-management purposes, except for the most important risks that may need to be examined in detail.

Table 3. An example of a probability scale

Probability Score	Description	Range
5	Very High	More than 90%
4	High	31% to 90%
3	Medium	11% to 30%
2	Low	3% to 10%
1	Very Low	Less than 3%

Source: Hargreaves (2010, p. 226.)

In a situation where a risk is present with an associated set of controls, the question arises as to which probabilities we should assess. In particular, we normally assume that the existing controls are in place, and assess the probability that the risk will occur either in the following year or over the course of a short planning period. Some practitioners, in particular those with an internal audit background, try to estimate also the probability that the risk would occur without the controls in place. This provides information on the value of the existing controls.

6.4. Statistical Analysis

So far this paper has examined the use of bands or single “best guess” estimates of the impact and probability of each risk to represent its importance. However, this is a simplification of reality because in practice we may be uncertain of the probability estimates and the possible impact of the risk may vary continuously from almost zero to a high figure.

Sometimes we may want to examine the impact of a number of risks together, for example, because their incidence is strongly interconnected. In such cases one might be able to make some progress by examining a set of “what if” scenarios, making a range of assumptions for each risk. However, there may be too large a set of possibilities for this to be practical, in which case a more exact model can be created using Monte Carlo simulation techniques. The Monte Carlo approach is similar to the “what if” scenario method because it generates possible scenarios, but the number of scenarios examined is large and the variables used to generate the scenarios are weighted by the probability of their occurrence. Thus, each risk can be represented by a probability distribution rather than as a single value. The objective of the simulation model is to calculate the combined impact of the various uncertainties to obtain a probability distribution of the total outcome, perhaps at total-organization level. In practice this is easier to accomplish than one would think, because all the relevant technical aids are available in a spreadsheet-based form that is not difficult to use (*Hargreaves 2010*).

6.5. Aggregating probabilities and impacts

An example is shown below to demonstrate the logic of risk aggregation using two risks. In the example, the two risks lead to only four possible combined outcomes. In practice there will be a number of risks and each will have range of outcomes. Combining these together cannot be done manually, but cheap spreadsheet-based models are commercially available and these are not difficult to use.

Risks do not “add up” in a straightforward manner, but can be aggregated using statistical techniques. This may be illustrated by the below two-risk example. The example assumes two maintenance risks in a housing association’s content. The two risks happen independently of one another.

Risk A. As a consequence of a lack of quality maintenance contractors there is a risk that maintenance may not be of suitable quality due to allocation of work to an incompetent contractor. The risk has an assessed probability of 25% per annum and impact of €30,000.

Risk B. There is a risk that taking legal proceedings against a maintenance contractor to achieve agreed performance may be disproportionately expensive due to slow court procedures. The risk has an assessed probability of 50% per annum and impact of €20,000.

In this way the average cost (often called the “expected loss”) of each risk can be easily calculated. They can be simply added up to get the average cost for the whole organization.

In order to calculate what might happen in a particular year we need to enumerate the combinations of possibilities. The table gives the distribution of combined impacts for the year. For example, there is a 12.5% probability of a combined loss of €50,000, but on the

other hand a 37.5% probability of no loss at all. This illustrates that in practice it is more important to know the distribution of out-turns than it is to know the average cost of the risks.

Example 1a. Adding expected losses

Then the average cost of Risk A over a number of years will be
 25% of €30,000 per year or €7,500 per year

and the average cost of Risk B over a number of years will be
 50% of €20,000 per year or €10,000 per year

So the average cost of both risks together over a number of
 years will be €17,500 per year

Source: own construction

Example 1b. Calculating the distribution of combined impacts

RISK A			RISK B			Combined risks A & B	
It occurs?	Probability (%)	Impact (€)	It occurs?	Probability (%)	Impact (€)	Probability (%)	Impact (€)
Yes	25	30,000	Yes	50	20,000	12.5	50,000
Yes	25	30,000	No	50	–	12.5	30,000
No	75	–	Yes	50	20,000	37.5	20,000
No	75	–	No	50	–	37.5	–

Source: own construction

7. Conclusions

Modern risk management builds upon a sound foundation of traditional risk management and gives organizations a number of tools to use when addressing enterprise risk. These practices continue to be essential in the areas of hazard risk, internal controls, and regulatory compliance but are finding increasing applications for dealing with the broader exposures confronting profit, non-profit, and governmental bodies.

ERM can work in organizations of all sizes. The mega corporation can use it in a structured hierarchical system with risk owners and sub-risk owners. A single business unit in such an entity can use it as part of the parent system or even in isolation. A smaller organization can seek an understanding of the challenges it faces as it seeks to grow and prosper.

This is the closing message of ERM. Managing risk is not about hundreds or thousands of unorganized exposures. It is about getting value from an effort to understand the impact of risks and interrelationships of risk and opportunity. With new technology and the impact of the 2008 financial crisis, we can expect a renewed interest in getting it right with enterprise risk management.

Enterprise risk management (ERM) is being adopted by an increasing number of firms and is viewed as a paramount topic for business enterprises desiring to survive and succeed in the future. As *Fraser, Schoening-Thiessen, and Simkins (2008)* state: “ERM is not a fad – it is here to stay and is the natural evolution of risk management to view risk at the enterprise-wide level. New external drivers are pushing risk executives to find out more about ERM and the level of interest in this topic is increasing with time.”

Unfortunately, the pace of academic research does not seem to be keeping pace with corporate interest in the topic. A primary hindrance to research of ERM is a lack of well-defined variables that measure either company-level implementation of ERM or the degree of implementation.

This paper discusses the four alternative approaches of an organization's quantification of risk and presents a method for quantifying the total amount of risk in an organization's business plan. However, we believe that the choice depends on the organization's circumstances and capabilities. The members of the board need to feel that they have adequately assessed the risk and that the residual risk, after reduction measures and controls, is acceptable. It follows that a company's risk management strategy should be closely related to and consistent with its overall strategy. In particular, there is a great deal of agreement that the overall strategy should not conflict with the risk appetite of the organization. The risk appetite might be set in the risk management strategy statement as limiting the total amount of risk taken so that it does not exceed agreed-upon quantified limits.

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Risk factors in the elaboration and implementation of projects within the Hungary – Romania Cross Border Cooperation Programme 2007–2013

GEORGIA DUMITRESCU

In this paper we will present the risk factors in the elaboration and implementation of projects within the Hungary – Romania Cross Border Cooperation Programme 2007 – 2013 (HU-RO CBC). We will analyze the risk that may occur both in the realization of the financing dossier as in the implementation of a cross-border project. After a brief presentation of the HU-RO CBC Programme 2007 – 2013 in terms of beneficiaries, priority axes, financial allocation, we will try to find answers to the following questions: What is a risk?, Which are the risks that a project manager will have to face in order to elaborate and implement a cross border project?, What is the probability that this risk may appear?, How this risks may affect the success of the project?, Which are the actions/strategies for the mitigation of the effects caused by the potential risks?

The HU-RO CBC Programme covers the eligible border area from the South-Eastern and the Eastern part of Hungary and the North-Western and the Western part of Romania: four counties in Hungary (Békés, Csongrád, Hajdú-Bihar, Szabolcs-Szatmár-Bereg) and four counties in Romania (Arad, Bihor, Hunedoara, Timis). The applicants should act in partnership with their cross-border partner organisations, involving at least one Hungarian and one Romanian partner for the eligible programme area. The purpose is to improve the competitiveness and attractiveness of the border area and to cultivate all the opportunities offered by the cross border cooperation. This general objective will be accomplished through two priority axis and a large number of key areas of interventions. The two priority axes are: to improve the key conditions of joint, sustainable development of the cooperation area (cross-border transport, communication and environmental protection) and to strengthen social and economic cohesion of the border area (cooperation in the fields of business, research technology and development, education, health care and risk management).

Considering both the importance of the cross border area development as the total available community funding of 51 million EUR for the present call (August 29, 2011 – January 31, 2012) we have to encourage and sustain any initiative to access this funds. For this reason and in order to have successful projects it is relevant to consider risk management as an integral part of project management.

Keywords: HU-RO Cross Border Cooperation Programme 2007–2013, projects with european financing, project management, risk, project risk management

1. Introduction

The purpose of this paper is to understand which the risk factors and the major strategies are to counteract the occurrence of risks in the different stages of a cross border project. Projects are unique and uniqueness means entering unknown fields. For this reason and in order to have successful cross border projects it is relevant to consider risk management as an integral part of project management.

In the second paragraph of the Project Management within Hungary – Romania Cross border cooperation Programme 2007–2013 we first make a brief presentation of the evolution of the Cross Border Cooperation Programme from its beginning in 1996 until the actual programming period of 2007–2013. We highlighted the major differences between this programming period and the previous ones. In this paragraph we give the definition of

“project” and “project management”, and we also tried to analyse the main stages of the Project Life Cycle in the cross border projects.

The second paragraph ends with the project management constraints in order to open the next paragraph of the Project Risk Management within Cross border projects. The third paragraph starts with the definition of risks and their classification. We presented the definition for project risk management and the steps of risk management planning. The paragraph ends with the analyse of risk factors and risk responses in the two main stages of a cross border project development: Project Preparation Stage and Project Implementation Stage. The hypothetical assumptions proposed in this paper are the premises for further research. We intent to elaborate a questionnaire with the main risk factors that can appear during the project preparation and the implementation, like the ones identified in this paper. On the basis of the questionnaire responses we will develop a study regarding the suitable actions to counteract the appearance of risk factors and the best practice in cross border projects risk assessment.

2. Project management within the Hungary – Romania cross border cooperation programme 2007–2013

2.1. Evolution of the Cross border Cooperation Programme

Poland and Hungary Aid for the Reconstruction of Economy Programme – PHARE was created in 1989 to help the national economic reconstructions of Poland and Hungary. Since 1990 this Programme was extended to other countries of Central and Eastern Europe, in order to sustain their efforts in becoming European Union member states. The Hungary – Romania PHARE Cross Border Cooperation Programme – HU-RO PHARE CBC is part of the PHARE Programme.

HU-RO PHARE CBC started in 1996 with the purpose of extending the cooperation between two candidate countries in a border region. In the period of 1996–2003, from EU Phare CBC fund, 34 million EUR have been allocated for CBC projects to be implemented on the Hungarian side of the border and 28 million EUR for the Romanian side¹.

The next step in the cross border co-operation was the implementation of the Cross-border Co-operation Programme 2004–2006; the programme had a budget of nearly 32 million EUR for Hungary (INTERREG, and nearly 20 million EUR for Romania (PHARE CBC), including national co-financing².

The actions encouraged were in the fields of entrepreneurship, improving joint management of natural resources, supporting links between urban and rural areas, improving access to transport and communication networks, developing joint use of infrastructure, administrative cooperation and capacity building, employment, community interaction, cultural and social affairs.

In the actual programming period of 2007–2013, in order to accomplish the main purpose of the Cross Border Cooperation and the improvement of competitiveness and attractiveness of the border area, we have two priority axes:

- To improve the key conditions of joint, sustainable development of the cooperation area (improvement of cross-border transport, communication and environmental protection),
- to strengthen the social and the economic cohesion of the border area (cooperation in the fields of business, research technology and development, education, health care and risk management).

¹ <http://huro-cbc.eu/en/overview> [Accessed 29 October 2011]

² <http://huro-cbc.eu/en/overview> [Accessed 29 October 2011]

2.2. Actual Programming Period of HU-RO CBC 2007–2013

The Hungarian-Romanian border region clearly manifests the development gaps between the two countries. While Hungary had the GDP of 9,700 Euros per capita, the figure for Romania was approximately 5,500 Euros³ in 2010. The eligible area of the Programme is the border area from the South-Eastern and the Eastern part of Hungary and the North-Western and Western part of Romania: four counties in Hungary (Békés, Csongrád, Hajdú-Bihar, Szabolcs-Szatmár-Bereg) and four counties in Romania (Arad, Bihor, Hunedoara, Timis).

Figure 1. Cross border eligible area



Source: HU-RO CBC 2007–2013 website: www.huro-cbc.eu

The number of inhabitants exceeds 4 million, half of which lives on the Romanian side, the other half on the Hungarian side. The eight NUTS-3 level counties exhibit fairly similar economic and social situation in general⁴. The total length of the state border is 448 km, out of which 415,8 km is terrestrial and 32,2 km is fluvial border (on the Mures-, the Cris- and the Somes rivers).

The main issues of this area are:

- weak development of the Small and Medium Enterprises sector,
- limited level of the research and development activity,
- road infrastructure with problems from the point of view of the accessibility of small rural settlements, especially in the immediate proximity of the state borders,
- public utilities with serious problems in Romania, while in Hungary most of the utilities are up to modern standards,
- lack of broadband Internet access is a problem in the small settlements on both sides of the border,
- unemployment causes problems in the society, primarily in the rural areas.

The programme is financed from the European Regional Development Fund (ERDF), completed by the state co-financing of the two Member States taking part in the programme, i.e. Hungary and Romania⁵.

³ http://en.wikipedia.org/wiki/Economy_of_the_European_Union, [Accessed 29 October 2011]

⁴ Hungary – Romania Cross-border Co-operation Programme 2007-2013: 03 March 2008, http://www.mdrl.ro/_documente/coop_teritoriala/granite_interne/hu_ro/doc/programareeng.pdf

⁵ <http://huro-cbc.eu/en/funding>, [Accessed 29 October 2011]

For the Hungarian partners, the volume of the grant will be the maximum 95% of the total eligible costs and 98% in the case of the Romanian applicants, totalling both the ERDF and the state co-financing. The Hungarian applicants are requested to bring a minimum of 5% as their own contribution, and the Romanian applicants to bring the minimum of 2% as their own contribution from the total eligible costs of the project⁶. The overall allocation of the programme is approximately 248 million EUR, allocated between the two priorities of the programme.

Applicants must act in partnership with their cross-border partner organisations, involving at least one Hungarian and one Romanian partner for the eligible programme area. All partnerships, as a minimum, must comprise a Lead Partner organisation/institution and a Cross-Border Partner organisation/institution. Each Project Partner has to meet individually the eligibility criteria. Only non-profit legal persons can apply for financing and become Lead Partners or Partners.

Two types of projects are financed by the Programme using two different application procedures:

- For small projects the “One-step procedure” will be applied; the calls for proposals are launched and open for a given period of time. Applicants will submit their detailed Application Form (AF) with all listed annexes and supporting documents attached. Full applications are evaluated against the selection criteria published with the specific Call for Proposals and presented to the Joint Steering Committee to take its decision about the co-financing. Rejected applications can be submitted only in the framework of a new Call for Proposals.
- For large-scale investment projects, where the administrative and financial efforts needed for developing a project are much higher, the “Two-step procedure” will be applied. It consists of two separate steps: the submission of Concept Notes (applicants describe the concept of their project idea in the given format) and the submission of full applications (only the applicants whose Concept Notes were selected are asked to prepare the detailed project).

From previous programming periods in HU-RO CBC 2007–2013, new elements were introduced:

- Joint projects,
- Lead Partner principle,
- Partners’ responsibility.

Joint projects means development and elaboration of joint projects; Mirror and individual projects were removed, Joint budget of the project, Joint implementation, Joint project management, Joint financing.

The second element introduced was the Lead Partner principle. The Lead Partner is delegated by the partners and the signs of the Community funding subsidy contract.

The Lead Partner is responsible for the:

- overall project coordination and its efficient implementation,
- preparation of the Project Progress Reports (technical and financial report) and the preparation of the application for ERDF reimbursement,
- reception of the ERDF amount and its transfer towards the partners,

⁶ <http://huro-cbc.eu/en/funding>, [Accessed 29 October 2011]

Partners' responsibility means that each partner is responsible for:

- assuring the implementation of the assumed activities in accordance with the approved timeframe and quality;
- efficient cooperation with the Lead Partner and other Partners;
- signature of the Partnership Agreement and that of the State Co-financing Contract and respecting the obligations that follow from these;
- preparation of the Partner Progress Reports;
- supporting the activity of the Lead Partner.

2.3. Project management

The word "project" comes from Latin *proiectum* - "to throw something up." In English project is "something that comes before anything is done". A project, by definition, is a temporary activity with a starting date, specific goals and conditions, defined responsibilities, a budget, a planning, a fixed end date and multiple parties involved.

Project Life Cycle serves to define the beginning and the end of a project. In this case, in the cross border projects, we can identify three stages of the project life cycle:

- Project preparation stage: identifying the problems, establishing the project objectives (that must be compatible with the main purpose of the programme or the objective of the priority axes); verification of eligibility conditions, cross-border partner finding (which in turn must meet eligibility criteria); preparation and submission of the financing application; processing the financing application (administrative compliance and eligibility check, content and quality assessment, final stage of the assessment and decision-making); signing of financing contract to be the Lead Partner (community funding subsidy contract);
- Project implementation stage: organizing the project team in order to start the project activities; monthly meetings with the mixed project team in order to monitor the activities which fall within the responsibility of each partner; carrying out project activities; submission of the Project Progress Reports (technical and financial reports) and the application for ERDF reimbursement;
- Project post-implementation stage: evaluation - the systematic assessment of the degree of fulfilment: the objectives, the effectiveness of funds used, the utility, the impact of the project; follow up of the project results following project closure.

For the large-scale investment projects where the two-step procedure is applied, we have an additional step, the preparation of the Conceptual Note.

Project management is the discipline of planning, organizing and managing resources to achieve specific goals⁷. The complexity of a project is given by the number of tasks assumed to be met, the number and the intensity of constraints arising during its deployment.

Traditionally these constraints have been listed as "scope", "time" and "cost"⁸. These are also referred to as the "project management triangle" where each side represents a constraint. One side of the triangle cannot be changed without affecting the others. Scope is the project purpose that has to fit within the HU-RO CBC objective. Time is the duration that is needed to complete all the associated project work (calendar days, months, and years). Cost includes all the resources required to carry out the project – the people and the equipment that does the

⁷ http://en.wikipedia.org/wiki/Project_management [Accessed 29 October 2011]

⁸ <http://office.microsoft.com/en-us/project-help/a-short-course-in-project-management-HA010235482.aspx> [Accessed 30 October 2011]

work, the materials they use and all of the other events and issues that require money or someone's attention in a project.

This traditional "project management triangle" was replaced by the latest version of the Project Management Body of Knowledge (PMBOK) of the Project Management Institute (PMI) with an infinite number of constraints. PMBOK (4th Edition) offered an evolved model based on the triple constraint with 6 factors to be monitored and managed: schedule, scope, budget, risk, resources and quality.

For this reasons, in order to manage projects successfully it is necessary to have integrated project management based on processes in nine knowledge areas⁹:

- Project Integration Management
- Project Scope Management
- Project Time Management
- Project Cost Management
- Project Quality Management
- Project Human Resource Management
- Project Communications Management
- Project Risk Management
- Project Procurement Management

In the following we will analyse the Project Risk Management within the cross border projects.

3. Project risk management mithin cross border cooperation projects

3.1. Definition and risk classification

The Webster's Dictionary define the risk as the possibility that something bad or unpleasant (such as an injury or a loss) will happen. The risk is an event that is uncertain but possible, its origin stands in uncertainty, it is harmful and its effects cannot be removed. From all the definitions two are the common elements of the risk concept: uncertainty and loss.

The first classification of risks is based on their size, degree of knowledge and inherence:

- more or less known,
- more or less serious,
- easier or harder to avoid.

In another words we can classify risks in¹⁰:

- known-unknown ones – something we know that exists but we do not know when it will happen and how severe the consequences will be;
- unknown-unknown ones – something which has never happened before and thus cannot be anticipated, neither qualitatively nor quantitatively.

The second classification is based on their mode of occurrence (*Walewski–Gibson* 2003):

- pure – the consequences of accidental events that cannot be predicted (hurricanes, earthquakes, fires, floods, wars, attacks, etc.);

⁹ Project Management Institute 2008:A guide to the Project Management, Body of Knowledge (PMBOK GUIDE) Fourth Edition.

¹⁰ http://consultingforum.becota.org/?page_id=192, [Accessed 27 October 2011]

- speculative – that are related to decisions being taken within a company or investment in a project, events with a high probability of occurrence and relying heavily on a number of external factors that influence these processes.

Risk is a combination of probability of a negative event and its consequences and impact.

The probability of materialization of the risk is the possibility or eventuality that risks will materialize. It represents a measure of the possibility that a risk may appear, that it will be determined qualitatively or quantitatively when the nature of the risk and the available information will permit such a calculation. Impact is the consequences of the results (objectives), if the risk would materialize. If the risk is a threat, the consequences of the results are negative and if the risk is an opportunity, the consequences of the results are positive.

Risk is present in all projects whatever the nature of their tasks is, the technology on which they are based is, or the environment in which they are undertaken is. As a project is larger and involves construction works (road infrastructure works, etc.) we will have even more risks. For most of the large scale investment projects, different participants are responsible for and control the various stages of the project life cycle. In many cases, the project owner is largely responsible for program analysis, a third party is often hired to manage and control design and engineering to meet the initial constraints set by the owner, and a contractor is hired to construct the project, who turns the results over to the owner for operations or production.

In each stage of the project life cycle risks could emerge. So we could assign the risks in three broad categories:

- risks in the preparation of the financing application stage,
- risks in project implementation, from the signing of the community funding subsidy contract until it has submitted the last request for reimbursement,
- post-implementation risks.

A myriad of risk and risk-related definitions are applied in cross border projects, and no standard definitions or procedures exist for what constitutes a risk assessment. On the next pages we will identify and analyse the cross border project risks. Understanding the relationships between risk management and project stages can be a difficult task.

3.2. Risk Factors and Risk Management Plan

All projects involve risks. Project Risk Management includes the processes of project conducting risk management planning, identification, analysis, response planning and control on a project¹¹. This process includes the maximizing of the probability and the consequences of positive events, and the minimizing of the probability of adverse events to projects objectives.

We can highlight four steps of the risk management planning:

- Risk identification – which risks will affect the project,
- Risk analysis (qualitative and quantitative) – has the purpose of performing a qualitative analysis of the risks in order to make a prioritisation of the effects on project objectives and also to measure the probability and the consequences of risks and estimating the implications for project objectives,
- Risk Response Planning – helps to find the procedure and the actions to reduce threats to the project objectives,

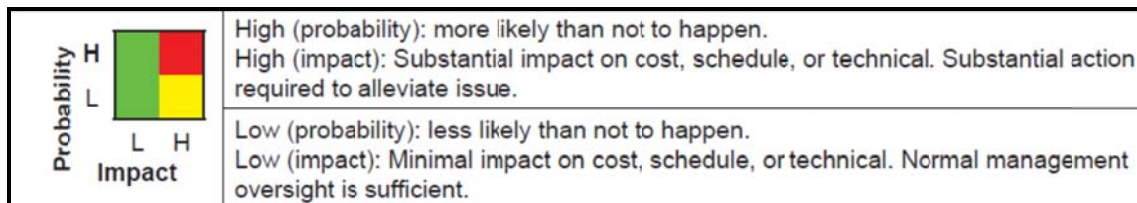
¹¹ Project Management Institute 2008: A guide to the Project Management, Body of Knowledge (PMBOK GUIDE) Fourth Edition.

- Risk Monitoring and Control – tracks the identified risks, monitors the residual risks and identifies the new risks – ensuring the execution of risk plans and evaluating their effectiveness in reducing risk; it is an ongoing process for the life of the project.

Risk identification – In this stage we have to identify and name the risks. The best way to find all the possible risks are project team brainstormings, the elaboration of questionnaires, surveys with list of standard risks, workshops and risk meetings, the examination of similar projects in the past. Risk identification occurs in each stage of the lifecycle of the project, as we will see later in this article.

Risk Analysis – Risk Analysis is qualitative and quantitative. Qualitative Risk Analysis assesses the impact and the likelihood of the identified risks and develops prioritized lists of these risks for further analysis or direct mitigation¹². Qualitative Risk Analysis is an initial review of the risks and it fits perfect for smaller projects. Due to the fact that we need to quantify the risks, we need to determine their two dimensions: probability and impact. It is very useful to use a matrix, like the one in the Figure 2 that will make a prioritizations of the risks.

Figure 2. Qualitative Risk Analysis



Source: Project Management Online Guide, www.wsdot.wa.gov/projects/projectMgmt/Process

As we can see in Figure 2, the probability that a risk will occur is represented on one axis of the chart – and the impact of the risk, if it occurs, on the other. This will give us the clear view of the priority that we have to give each risk.

The corners of the chart have these characteristics:

- in the bottom left corner with Low impact/Low probability – Risks with low level and you can often ignore them;
- in the top left corner with Low impact/High probability – Moderate risk importance – if these things happen, you can cope with them and move on. However, you should try to reduce the likelihood that they will occur;
- in the bottom right corner with High impact/Low probability (“Black swans”) – Risks of high importance if they do occur, but they are very unlikely to happen. For these, however, you should do what you can to reduce the impact they will have if they do occur, and you should have contingency plans in place just in case they do;
- in the top right corner with High impact/High probability – Risks are of critical importance. These are your top priorities and are the risks that you must pay close attention to.

Quantitative Risk Analysis measures the probability and the consequences of risks and estimates the implications for project objectives. “The project team must examine each critical item and predict its possible extreme values considering all risks, including compounding effects. It is important to understand that the range, as considered in this method, is not the expected accuracy of each item. This is a key issue. Risk analysis is not an analysis of

¹² Project Risk Management 2010: Guidance for WSDOT Projects, Washington State Department of Transportation, July <http://www.wsdot.wa.gov/publications/fulltext/cevp/ProjectRiskManagement.pdf>. [Accessed 29 October 2011]

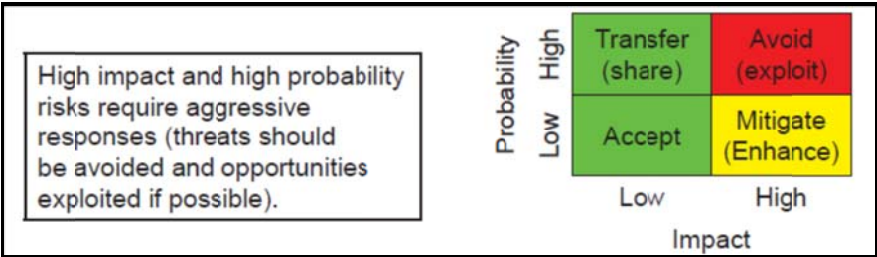
estimate accuracy. Accuracy is dependent upon estimate deliverables and estimate maturity.” (AACE International – The Authority for Total Cost Management)¹³:

Risk Response Planning – is the procedure that takes action in response to identified risks. According to their priority, for every type of risk we have different strategies that we can embrace:

- Accept the risk with low impact and low probability. The risk might be so small the effort to do anything is not worthwhile.
- Transfer the risk with low impact and high probability. Make someone else responsible. Perhaps a subcontractor can be made responsible for a particularly risky part of the project.
- Mitigate the risk with high impact and low probability. Risk mitigation implies a reduction in the probability and/or impact of an adverse risk event to an acceptable threshold¹⁴.
- Avoid the risk with high impact and high probability. Change project management plan to eliminate a threat, to isolate project objectives from the impact of the risk, or to relax the project objective that is in jeopardy, such as extending schedule or reducing scope¹⁵.

If the risk represents an opportunity and not a threat, the strategies to put in action are: exploit, share and enhance.

Figure 3. Risk Response Planning



Source: Project Risk Management, Guidance for WSDOT Projects, Washington State Department of Transportation, July 2010

Risk Monitoring and Control – final step. After we have implemented response actions, we must track and continually monitor risks to identify any change in their status. We have to record the effectiveness of our actions and any changes to the project risk profile.

3.3. Risk factors and Risks Assessment in cross border project stages

In the next tables we present the hypothetical risk factors in the 2 major stages of a cross border project development: Project Preparation Stage and Project Implementation Stage. The Steps in Risk Assessment are: Risk Identification, Risk Qualitative Analysis and Risk Response. This assumptions are based on my seven years experience in European Union funding project implementation.

¹³ AACE International 2008: The Authority for Total Cost Management. Recommended Practice No. 41R-08, Risk Analysis and Contingency Determination Using Range Estimating TCM Framework: 7.6 – Risk Management June 25.

¹⁴ Project Management Institute 2008: A guide to the Project Management, Body of Knowledge (PMBOK GUIDE) Fourth Edition.

¹⁵ Project Management Institute 2008: A guide to the Project Management, Body of Knowledge (PMBOK GUIDE) Fourth Edition.

Table 1. Risks Assessment in cross border project's preparation stage (Steps of Risk Management Planning)

Risks Factors in the project preparation stage	Risk Identification	Risk Analysis (impact / probability)	Risk Response Actions to counteract the appearance of risk factors
Eligibility risks	The Lead Partner and the partner institutions are not eligible under the program/action (e.g. The lead partner or the partners do not have their seats or a regional/local branch registered in the eligible area of the programme)	High impact/low probability	Risk mitigation Carefully reading the documentation available at the launch of each call for proposals. The Lead partner may address the Joint Technical Secretariat or the Info Points guidance and confront/compare the information on the conformity of their project idea with the Programme objective Participation at events designed for helping the potential applicants to better understand the programme and work efficiently for developing their projects, like, info days, workshops, Partner search and Lead Partner/Lead Applicant forums. Consultation with the programme website.
	Project objectives are not compatible with those of the HU-RO CBC.	High impact/low probability	
	Lack of a partner on the other side of the border.	High impact/medium probability	
	The criteria required for cross-border projects: cross border character, cross border impact are not observed.	High impact/low probability	
	The project did not respect at least two of the four joint criteria listed as joint development, joint staffing, financing and implementation.	High impact/low probability	
	The target group is not eligible for cross-border program.	High impact/low probability	
	Activities under the project are spread over a period greater than that provided in the Guidelines for Applicants.	High impact/low probability	
Financial Risks	<ul style="list-style-type: none"> - The budget does not fall within the limits set by the Program; - Underestimation of the budget, due to the omission of activities; - non-observance of the eligible categories of costs; 	High impact/medium probability	Risk mitigation Carefully reading the documentation available at the launch of each call for proposals.
Risks related to project preparation team	Joint preparation project team has communication problems.	Critical risk – high impact/ high probability of occurrence	Avoid the risk Meetings with the joint project team.
	Issues related to insufficient qualification of project team members.	High impact/low probability	Risk mitigation Selection of project team members based on skills and knowledge; Capacity building;
	Poor knowledge of English; it is given that the application form must be prepared in English.	High impact/low probability	Risk mitigation Selection of project team members based on English knowledge;
	Failure to comply with duties established by the project manager for each of the partner institutions.	High impact/low probability	Risk mitigation Establish a plan to achieve file work on funding, and responsibilities of each team member; (PR.: What does 'file work on ...' refer to?
	The project team has a low degree of homogeneity, generating conflicts that are difficult to manage.	High impact/low probability	Risk mitigation Conflict resolution management; Team building;
Risks due to mismanagement	The project manager has insufficient skills to manage the elaboration of the financing application.	High impact/low probability	Risk mitigation Proper selection of project manager;
Risks due to corruption	Imposing the project manager or the members of the project teams according to their political or social connections instead of their expertise.	High impact/medium probability of occurrence	Risk mitigation Respect of high standards of professional, social and management ethics. This factor certainly leads to project failure.

Source: own construction

Table 2. Risks Assessment in cross border project's implementation stage (Steps of Risk Management Planning)

Risks Factors in project's implementation stage	Risk Identification	Risk Analysis (impact / probability)	Risk Response Actions to counteract the appearance of risk factors
Technical Risks	<ul style="list-style-type: none"> - Low interest among the target groups (PR.: or within the target group) for the project results; -Low impact of the communication activities among the target groups; -Delays in carrying out activities of one or more partners in the Partnership; - Failure to comply with its obligations under the Partnership; 	High impact/low probability	<p>Risk mitigation</p> <p>Elaboration of promotional materials in order to increase interest among the target group.</p> <p>Project team will initiate notification to reorganize activities calendar.</p> <p>Approval of the Managing Authority</p>
Financial Risks	<ul style="list-style-type: none"> - Project financing is not assured; - Budget changes; - Delays in receiving the Reimbursement funds, due to long bureaucratic procedures; 	Critical risk High impact/high probability	<p>Avoid the risk</p> <p>Risk that can be avoided by providing necessary funds in the budgets of the two partners.</p> <p>The costs must be estimated using existing data in the market at the time of writing the application, in Euros, taking into account the estimates of exchange rate</p>
Risks generated by the project implementation team	<ul style="list-style-type: none"> - Inefficient communication and problems during the information exchange; - Inefficient information or lack of information regarding the project implementation; - Change of personnel in the implementation team; 	Critical risk – high impact/high probability of occurrence	<p>Avoid the risk</p> <p>The risks are under control thanks to a good organizational framework that is established at the first meeting of the implementation team.</p> <p>Project team meetings on a regular basis;</p>
Risks due to mismanagement	<ul style="list-style-type: none"> - The project manager is unable to effectively manage the conflicts in the Partnership or the crisis occurred within the project. - Delay in the submission of the Project Progress Reports and the applications for Reimbursement; 	Critical risk – high impact/high probability of occurrence	<p>Avoid the risk</p> <p>This risk will not influence the results of the project if we have a proper selection of project manager in the project preparation stage.</p>
Risk due to public procurement procedures	<ul style="list-style-type: none"> - Delay in the public procurement procedures; - Bad quality of services/ equipment offered; - Subcontractors do not meet the set deadlines; 	High impact/medium probability	<p>Risk mitigation</p> <p>Risks are kept under control due to terms of references that specifies exactly the desired quality of service or desired quality of the equipment.</p> <p>Project team will initiate notification to reorganize activities calendar.</p>
Risk due to corruption	Corruption related to the Public Procurement Procedure, award of public procurement contracts based on preferential criteria and not on the basis of quality and efficiency;	High impact/medium probability	<p>Risk mitigation</p> <p>This factor will lead to project failure, due to bad quality of services offered by the subcontractors, the equipment or achievement of poor quality work.</p> <p>Transparency in organizing the Public Procurement Procedure;</p>

Source: own construction

4. Conclusions

"A man who travels a lot was concerned about the possibility of a bomb on board his plane. He determined the probability of this, found it to be low, but not low enough for him; so now, he always travels with a bomb in his suitcase. He reasons that the probability of two bombs being on board would be infinitesimal" (Paulos 1988).

The conclusions of this paper are that risk management is an important project management process. A myriad of risk and risk-related definitions are applied to cross border projects, and no standard definitions or procedures exist for what constitutes a risk assessment.

Understanding the relationships between risk management and project stages is a very difficult task. In this paper we launched some assumptions regarding the connection between risk factors that may occur in the project development and the projects stages. This analysis was elaborated strictly in the cross border projects, but it can be extended to all the international projects, whether the project is implemented by a public institution or by a private one.

We illustrate the risks that may emerge during the project preparation, classified in: eligibility risks, financial risks, risks related to project preparation team, risks due to mismanagement, risks due to corruption.

During the implementation stage the risks that may occur are: technical risks, financial risks, risks generated by the project implementation team, risks due to mismanagement, risk due to public procurement procedures, risks due to corruption. Once risks have been identified, followed by their qualitative analysis and ending the risk assessment with the risk response proposition.

The paper will have a further development because the hypothetical assumptions proposed in this paper are the premises for further research. We intent to elaborate a questionnaire with the main risk factors that can appear during the project initiation and implementation, like the ones in Table 1. and 2. This questionnaire will be presented to several experts and consultants that have implemented international projects with the main purpose to develop a study regarding the suitable actions to counteract the appearance of risk factors and the best practice in risk assessment.

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Management of family businesses

GERGELY FARKAS

The study reviews three main models of the familiness after defining family business and estimating the economical power of this kind of businesses. The familiness is a specific factor of the family-controlled businesses which allows family businesses to achieve a competitive advantage over non-family-controlled businesses. The first model attempts to define the factors of the familiness within the framework of the theory of social capital. The second model provides a quantitative comparison between companies interpreting the familiness as continual dimension. The third emphasizes the possible advantages and disadvantages of the familiness on the strength of analysing interviews. The three models have been developed by different methodology. Understanding the advantages and disadvantages of these three models we got closer to make the complex system of the cooperation of the family and the business allowing more control over family business to their leaders.

Keywords: business, family, resource-based view, competitiveness, familiness

1. Introduction

The Act I. of 1988 about economical corporations opened the doors to free enterprises again in Hungary. Most of these businesses are family businesses as opposed to non-family businesses. In order to compare family versus non-family businesses, the clear differentiation between these two types of businesses ought to be clearly established. These two types with specific features can only be compared to each other, if the differentiation is well-established. In several countries at least the half of the agricultural companies are family businesses. However, experts and entrepreneurs do not construe the family businesses in the same way in all cases (*Chua et al 1999*). In the first chapter, omitting the profounder historical survey, I demonstrate the latest, widely accepted definitions related to the concept of the family business, then the estimate concerning the economical importance of these kind of businesses. After this I state the several approaches of the concept of familiness, which is considered by the experts as a factor that affects the family businesses and their competitiveness exclusively (*Habbershon–Williams 1999, Irava–Moore 2010*).

2. The concept of the family business

In order to define family business it is important to understand the concepts of family and entrepreneurship, because several researchers use different definitions by operationalization, and take qualitative and quantitative factors into account in different measures (*Klein 2000*). This is why the concept of the family business is not self-evident specially in Hungary, where only a few published attempts were made at its survey (*Filep–Szirmai 2006, Soltész 1997*). Furthermore, the multiple generation family businesses are missing almost completely for historical reasons. Even the definitions of family are not uniform in different studies (*Bañcerowski 2007*). Determining the academic definition in this paper is the definition is used innational censuses. According to the Hungarian censuses the concept of the family and the household has undergone several changes. At the end of the 20th century we define the family as people among whom the closest ties of blood can be found and single-parental as well as common-law marriage based family. The concept of household has played more and more important part in the surveys, which means the people who live together in a household and bear the expenses of it (*Szűcs 2006*). On the basis of the last national census the

Hungarian Central Statistical Office used the following definition, which regards every descendant as a child, until they settle down:

„The family is the narrowest bounds of those who live in marriage or common-law marriage, or are in ties of blood. The family can be:

- married couple
- married couple with an unmarried child or without
- common-law marriage with unmarried child or without
- or single-parent (father or mother) with unmarried child.”(Szűcs 2006)

Business can be defined as a legal, tax category. However, innovation and risk-taking are usually emphasized by capturing the substance of the business (Drucker 1993, Schumpeter 1976). The definition used by European Commission is: „Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation.”(Green Paper-Entrepreneurship in Europe 2003, p. 6.).

The European Commission examined the situation of the family companies in the member states of the EU, in EU Candidate Countries and those which are related to the European Economic Area (EEA) in 2008. A large number of definitions and estimations can be found in the documentation of this project from the examined countries. The research report announces those elements by each country, what the experts use by defining „the family business” in some countries. The European Commission suggested the following definition:

„[...] a firm, of any size, is a *family business*, if:

1. The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children’s direct heirs.
2. The majority of decision-making rights are indirect or direct.
3. At least one representative of the family or kin is formally involved in the governance of the firm.
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital” (EC 2009).

From the foregoing it is clear that it is not uncommon to find hardly classified examples besides definitions and situations that are considered official, but opinions are divided about them. Therefore it is necessary to set the further research framework to accommodate for similar definitions as above. Since the research results are difficult to compare due to the different definitions, we review some of the research that estimates the economical importance of the family businesses in the next chapter.

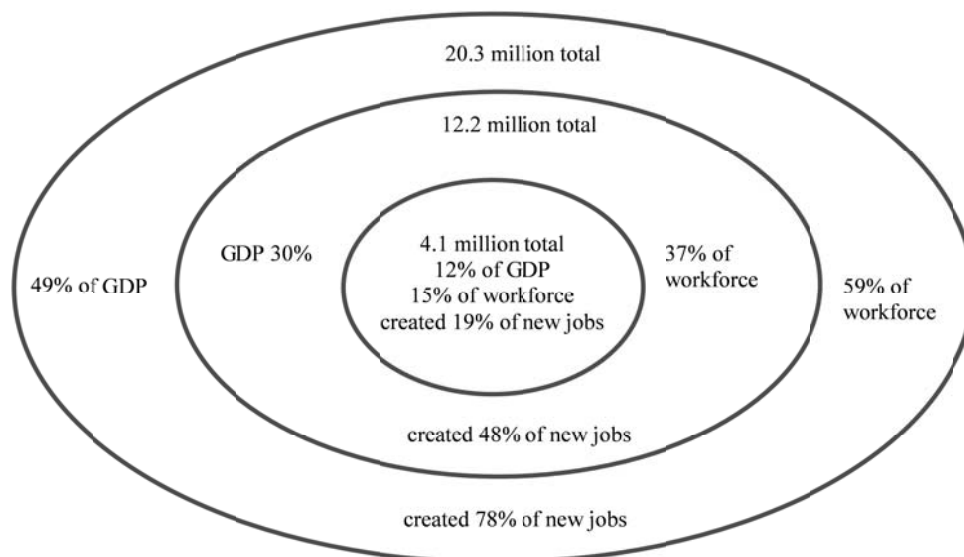
3. The proportion of the family businesses in the economy

Since National Bureau of Statistics of the USA and the Member-States of the EU create statistical categories only based on the size of the companies (defined by the income, the number of the employees, and so on) in the present, we can refer only to non-official estimates by each country in connection with how big the impact of the family business is on the economy. These estimates have not been obtained by the unified methodology.

In the USA they tried to get rid of the untraceable belief first in the nineties, that more than 90% of the companies are family business, which give at least half of the GDP and the employment (*Shanker–Astrachan 1996*). According to these secondary estimates the result is a value depending on the severity of the definition what led to a result which is lower by the oral tradition, but closer to the estimated value in several westerly-type economies. Following research was classified by this definition model in order to make the estimates more comparable (*Klein 2000*).

Shanker and Astrachan (1996) define the family business on three levels based on the importance of the family’s role. In accordance with the wide definition, a basic requirements for a family business is that the family is a strategic leader and strives to keep the family leadership of the business. More narrow definition requires the founder or its inheritor to lead the company formally and to have the critical majority of votes in the case of shared power. The most restricted definition says that only those companies can be considered as family business that are at least the second generation, the family is the immediate leader and owner and the other members of the family participate in the operative management. These three definitions have been used in order to estimate the measure and contribution of family firms in the USA. The Bull’s Eye modell, shows the result of the estimation using both the wide definition on its exterior part, and the restricted definition on its middle part (Figure 1).

Figure 1. Family business bull’s eye



Source: *Shanker–Astrachan (1996, p. 116.)*

It is clear, so far that the proportion of the family businesses are smaller than previously thought, but still significant to deserve attention. Despite of the wide reserach on family businesses we can find only a few estimates made by academic methodology beyond the oral tradition (*The PwC Family Business Survey 2010/11, 2011*). Many data can be found in several countries that what kind of owner structure the bigger companies function with. This datas can be misleading for the whole proportion of the family businesses, because the middle- and big businesses usually account for less than 10 % of the economy in each country. In a research like this not only the owner structure of the top 110 stock companies, but their long-spaced outputs were compared, as well. The estimates of the family character underlay that which stock businesses are those, where the majority of the shares are in possession of one, or a few investors, which means the quarter-third of the votes depending on the different regulation in each country (*Kirchmaier–Grant 2005*).

Great-Britain where the family business, as an owner structure in big stock companies, is estimated under 10 % is an exception. However, in all the other four examined countries mostly those kind of businesses can be found. In Spain and Germany these kind of companies perform better than the stock companies, that weren't related to a closer owner group (Kirchmaier–Grant 2005).

There is research that using the above mentioned definitions (Shanker–Astrachan 1996) attempt to define the entire proportion of the family business in the economy of countries. It can be seen (Table 1.) that in several European countries even more narrow definition is applied, more than the half of the businesses are family businesses. However, the numbers often differ from those which are spread through the oral tradition, and the difference can be seen clearly in Germany that the estimate how much influenced is by the used definition.

Table 1. Comparison of the percentage of family businesses in european countries

Country	Definition	Based on	Percent
Germany	broad definition	turnover	58%
Spain	middle definition	turnover	71%
Germany	middle definition	turnover	49%
Great britain	middle definition	turnover	76%
Germany	middle definition	employes	49%
Dutch	middle definition	employes	74%

Source: Klein (2000, p. 160.)

In Hungary we can rely on the research conducted by European Commission according to which the proportion of the family businesses is about 72 % with 55% of the overall workforce happens in this kind of businesses. Moreover, the authors state that the proportion of family businesses is higher in the area of retail, wholesale trade, hotels and restaurants, transport, public health and social work (EC 2009). It is hard to verify the exact numbers as long as there is no unified method for measuring, but it is certain that the significant number of Hungarian people are fully aware of their family character, and are members of international council of family businesses in many cases. However, most of the firms do not know how to manage those advantages and disadvantages that come from the nature of the family businesses. The technical literature tries to capture this difference, still not widely known in this country, through the concept of familiness.

4. The function of familiness

Many definitions have been created in connection with family businesses and it has been proved in many cases that family businesses are capable of better business performance, have lower expenses, are more flexible and pull through a crisis more easily. However, it does not follow from the definitions that the competitiveness of family businesses is different, and the research biased towards succesful family businesses. The researchers didn't manage to convert the results into practical knowledge, because they couldn't determine the reason of the competitive advantage beyond the assumption of the family nature. Therefore Habbershon and Williams (1999) used the resource-based approach as one of the models of the strategic management to determine which inner features of the family business ensure advantages in contradiction to others.

According to the resource-based approach the businesses are in possession of resource systems which may be used to lead to sustainable competitive advantages. Not all the resources are suitable for this, because the resources are similar or can be mobilized easily, this is why they have no long-term advantage (Porter 1998). To use a resource to achieve the

competitive advantage, four conditions have to be prevailed. The resource has to be valuable, in order to be suitable for increasing the advantage or reducing the disadvantage compared to the competitors. The transaction costs of this, of course, must not exceed the expected benefit. This is relevant by using any resources which were mentioned above. Besides ensuring the sustainable competitive advantage a valuable resource has to be rare, inimitable and irreplaceable. If the competitors are not or rarely in possession of the same resource and are not able to buy in the market, nor imitate perfectly, they can try to replace with something that comes to similar result. If it is not possible, the resource can result competitive advantage to the business (*Barney 1991*).

Demonstrating the resource-based approach *Barney (1991)* uses the physical capital, the human capital and the organizational capital allocation in which areas the business can achieve advantage. Later *Makadok (2001)* used the abilities phrase by describing those special resources which were embedded in a firm, can't be transferred and their purpose is to increase the efficiency of the firm by making the most of the other resources. The distinction of abilities and resources was used in the literature of familiness later (*Chrisman et al 2003*). Of course, there have been many supporters and opposers of this theory (*Kraaijenbrink et al 2009*), but its framework is useful in order to examine a complex system, what the collaboration of business and family causes.

Habbershon and Williams (1999) suggest four types of resources which define the familiness: „physical capital resources (plant, raw materials, location, cash, access to capital, intellectual property), human capital resources (skills, knowledge, training, relationships), organizational capital resources (competencies, controls, policies, culture, information, technology), and process capital resources (knowledge, skills, disposition, and commitment to communication, leadership, and the team)” (*Habbershon–Williams 1999, p. 11.*). These resource have been examined by many reserches separately, thus organized within clear compasses.

The familiness is defined as „the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business”. (*Habbershon–Williams 1999, p. 11.*). Familiness does not mean competitive advantage in all cases. In fact it can be a burden in some cases, but because of those resources, developed over a long period, as the common values of the business and the family, or the reputation of the family and the business is the company able to use such a strategy what ensures competitive advantage.

Familiness can't be regarded as black box if the competitiveness of the family and non-family businesses is compared. Despite the fact that even the managers are not often familiar with these resources, and their exact function, efforts should be made to discover and integrate them in the business strategy and reconsider them sometimes. Only this ensures that the competitive advantage of familiness do not disappear from businesses in which, for instance, a generation change or entry of an external investor happened.

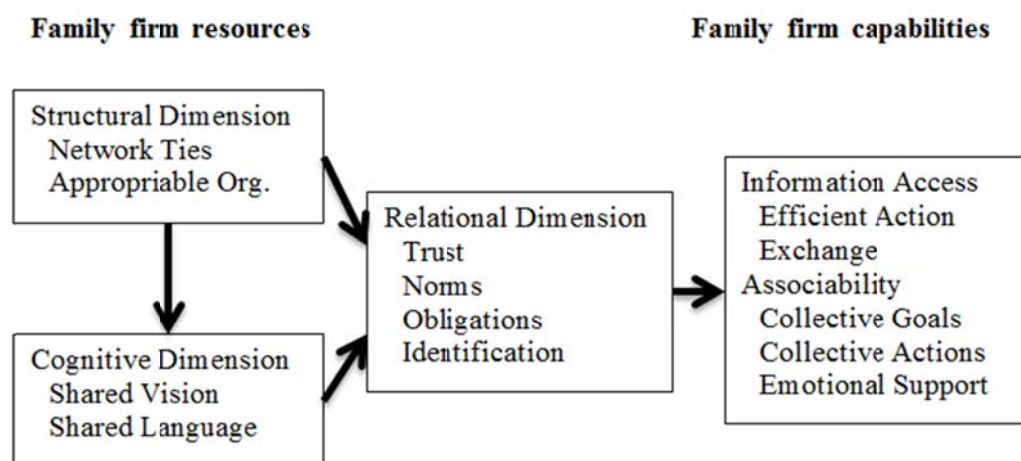
In connection with this I demonstrate three models which define the familiness via observation of its components. The first tries to eliminate the deficiency of resource-based approach within the framework of the theory of social capital (*Pearson et al 2008*). The second is based on the quantitative comparison between companies interpreting the familiness as a continual dimension. The third possible advantages and disadvantages of the familiness on the strength of analysing interviews (*Irava–Moores 2010*).

According to *Pearson and his associates* familiness is a tacit factor, which comes from the synergy of the family and the business and includes those resources and abilities, which mean the social capital of the family business. In the regard of the social capital they concentrate only on the internal business relations within the company. The structural,

cognitive and relational resource dimensions result the idiosyncratic combination of the abilities related to the familiness (Pearson et al 2008).

The net of the family relations is an attaching, communicational network. This communicational network, which is used by the family members within the business, what can have beneficial effects, because these kind of relations do not develop in a non-family business. This relation system is based on common visions, culture, language, historicity. This cognitive dimension is usually rooted deeply in the family's history. The relation dimension creates trust, norms, obligations, and identification with the family. Thus the business is built up on these two dimensions. While trust is usually fragile in non-family businesses, because it is based on written contracts, regulations, trust is stable between family members, because it is the base of the family's connections. Norms and obligations can also have an effect on the life of the business, because they correspond with the family values in many cases, and provide powerful motivation. While the workplace is variable in the case of non-family business, the family can not be replaced in the case of family businesses. This close relationship of the family and business leads to identification, which contributes the family to be insistent, and to give its name to the business (Pearson et al 2008).

Figure 2. A social capital perspective of familiness: family firm resources and capabilities



Source: Pearson et al (2008, p. 956.)

The cooperation of structural, cognitive and relational dimensions creates the possibility of effective information flow and successful joint work, which provides more social capital for family businesses. According to the models four factors contribute to the development of the social capital which is considerably typical in family businesses. The first is a temporal stability, which comes from the slowly changing structure of the family and from the historicity of the family. The second factor is the closeness between the family members, which results from the interweavement of the family and business. The third is mutual dependence, which is based on their common purposes. The fourth is interaction, which does not stop after working hours in family businesses (Pearson et al 2008).

This model tries to find out the determinative factors of familiness only theoretically, but it is a progress in some way as it opens „the black box” of familiness and propose a motion what empirical research should cover. The model, however, does not provide answers to questions such as how the number of generations of family businesses effects the familiness, or the impact of new family types. Furthermore it does not examine the cases where familiness can have both positive and negative effects. Besides it does not contain the retroactive, cyclical relations between variables and its scope is limited to account only for the

changes within the business. The authors consider a creation of a measuring tool as a necessity, which could help to examine the familiness in its details (*Pearson et al 2008*).

The F-PEC scale (Figure 3) is a previous attempt at the quantitative measurement of familiness, which measures the family involvement in the business through three dimension (*Astrachan et al 2002*). Its question were created by the experts and the leader of the family business, and were examined using the method of focus group survey and pre-test check firstly. The questionnaire has been developed after extensive statistical analysis made by principal component analysis, factoranalysis, and SEM method. It is not the purpose of this tool to create a final dichotomy between family and non-family businesses, but makes any business measurable taking the extent of the impact the family has in the business as a baseline.

The questionnaire has three subscales. The subscale of power measures the family share in the property, the management and the leading corporation separately. In Hungary the same person can serve more than one function but the German law, for instance does not allow the same person to be a member of the management and also a member of the leading corporation. The experience scale examines which generation is activ in the business. The experts agree that many values accumulate as more and more generations pass, moreover there are definitions which state that family business are only exist where generation change happened at least once. The third subscale examines the cultural connection of the family and the business through the common values and commitment (*Astrachan et al 2002*).

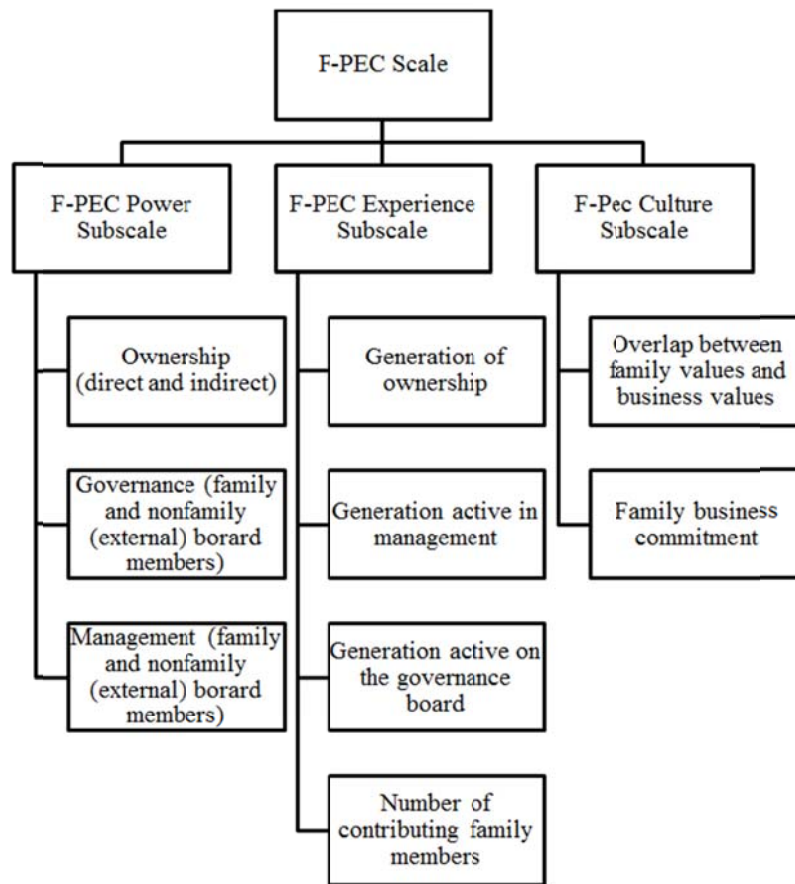
Later the validiting on a greater sample was conducted in Germany (*Klein et al 2005*). After that more publications were about the validation and reliability of the F-PEC scale with wide statistical toolbar besides exploratory studies. (e.g.: *Rutherford et al 2008*, *Holt et al 2009*). According to *Chrisman* and his associates (2005) the scale is capable to measure the extent of the family's involment, but competitive advantage does not ensue from this interweavement and can not capture the substance of the family nature. It is worth noting that culture and commitment is not necessarily tacit that much that it should show up in models that are based on reports (*Irava–Moores 2010*). Last we review one of these models.

The exploration of familiness was conducted with qualitative methodology. *Irava* and *Moores* (2010) examined four family businesses, each of these businesses was entirely owned by Australian families 100 percently more generations ago, and each of these businesses defines themselves as a family business.

Beyond written information and observation they analyzed open, half structured depth interviews adapted from the STEP project (Successful Transgenerational Entrepreneurship Practices). All in all, after 16 interviews the researches recorded 30,6 hours of conversation with leaders, amongh whom were owners, managers, and outside the family, but in the business VIPs.

After the data was collected six resources have been identified which could be found in each of them. These can be classified equally in three broad categories, and all of them had both positive and negative presence. The authors presented these positive and negative ways on the list of features, but I demonstrate only the most typical resources (*Irava–Moores 2010*). The model is shown below, which displays the familiness on multiple leveles, but does not examine the assumed connections and effects between the resources.

Figure 3. The F-Pec Scale

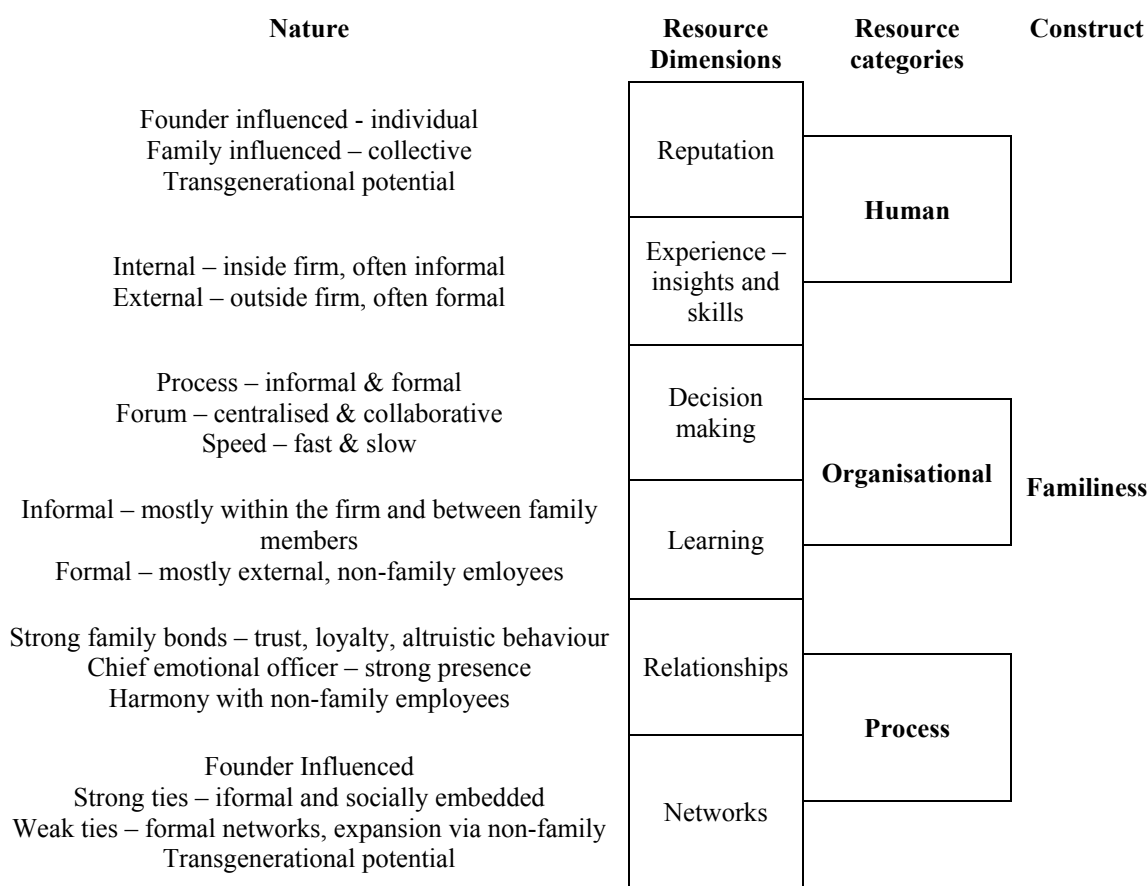


Source: Astrachan et al (2002, p. 52.)

Reputation can help to get new relations and provides advantage through generations against other, less well-known businesses, but the impact of the previous generation's charismatic leader can prevent new leaders from getting their own appreciation. Outside experience might be useful in the development of the business, but might cause conflicts with the traditions of the company. According to the research quick, centralized decision-making is typical in the family business, which makes the business flexible, but might lead to losses easily if risks were assessed wrong. Informal learning can strengthen the norms and values, but might also maintain harmful behavioral patterns. The tight and complicated system of the family and business relations can also stimulate or hinder the business process, also. Contacts out of the company can create new opportunities, but it can't be left out of account the less loyalty of these kind of relations. These examples do not show any cases and do not inform how to strengthen the positive side of the resources or handle the negative consequences. As the nature of the resources is dual, or so-called paradox, the existence of these resources does not mean competitive advantage definitely, but a combination is possible which may provide advantage with the criterions of the resource-based approach.

Despite drawing a parallel between Pearson's model (2008) and several resources, the result of the research can't be generalized without restraint. The results based on relatively small number of interviews and the inquiry of only successful, several generational, Australian family businesses, which raises the question whether the results would be the same in an other culture, with more inquiries or in the case of first-generation businesses (Irava-Moores 2010).

Figure 4. The familiness resource model



Source: Irava–Moores (2010, p. 138.)

5. Discussion

New theories have been coming up often in various topics in the research of family businesses so far, but it is not certain at all that they endure (Reay–Whetten 2011). The above mentioned theories, which connects the subject of familiness and competitive advantage, do not provide answer to several questions. There are no research investigating how the increase of the generations’s number changes the role of familiness. The culture of the family based on equality or authority might also be an influencing factor. There are a lot of things to do in the subject of the quantitative measure of the factors of familiness, too.

The most important is to separate the familiness as resource and its possible advantages by family businesses (e.g.: family friendly workplaces, friendly garage startups) from empirical practice. Since these are non-family businesses by the definition, and the arising competencies, depending on the the seize of the company and the structure apparently, can be also copied by non-family businesses in any case. It is worth constricting the research of familiness to factors, which do not exist without family contacts or eliminate with its end (Widmer 2006). The three above-mentioned theories came into existence in three different ways. On the ground of literary research, professional operationalization, and qualitative reports. If we are able to totalize the advantages of these methods and capture the familiness in a progress model, we might be able to give a knowledge to family businesses which can help them in gaining competitive advantages.

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Not all that glitters is gold – not all foreign currency is what it seems? – a perspective of financial institutions

ÉVA GULYÁS

The financial recession started in Hungary in the fall of 2008, resulting in the deterioration of the financial market due to hectic exchange rates and higher loan payments in consequence of the weak Hungarian Hungarian Forint. The majority of loans in Swiss Frank and Japanese Yen diminished, the conditions of applying for loans in foreign currency (exclusively the Euro) became strict, and the existing portfolios also decayed. Therefore the booked provisions increased and the loss derived from the above became higher due to the new regulations introduced in year 2010 and 2011 in order to make relief for households indebted in foreign currency.

The article introduces different definitions of foreign currency items included in accounting rules and other books, and shows that these definitions are not standardized/unified.

It is proven that the same handling of foreign currency and foreign currency-based transactions do not distort the true and fair picture. However, the direct application of it in the determination of the foreign currency position of an enterprise could be misleading – regarding the impairment of foreign currency-based transactions.

The article introduces the impact of “home safety package” on FX-positions and outlines some technical problems to overcome.

Keywords: accounting, foreign currency position, impairment, banks, loan loss allowances

1. Introduction

The financial recession started in Hungary in the fall of 2008 resulting in the deterioration of the financial market due to hectic exchange rates and higher loan payments in consequence of the weak Hungarian Hungarian Forint. The majority of loans in Swiss Frank and Japanese Yen diminished, the conditions of applying for loans in foreign currency (exclusively the Euro) became strict and the existing portfolios also decayed. Therefore, the booked provisions increased and the loss derived from the above became higher due to new regulations introduced in year 2010 and 2011 in order to make relief for households indebted in foreign currency. It means that there is a limited choice of applicable FX-rates for financial institutes when they convert receivables from or to a foreign currency¹, and also there is the possibility of paying installments at a maximized FX-rates for a limited period of time, and the possibility of paying the whole sum of the outstanding obligation at a maximized rate².

According to the accounting approach, there is no difference between foreign currency and foreign currency-based transactions, meaning that regulations are the same regarding activation and evaluation. The same stands for loan loss allowances calculated through evaluation and qualification processes. In the essay, I present the magnitude of this problem through statistical data, introduce the definitions found in different related acts and other rules, (e.g. the accounting act and government decrees for accounting rules and capital requirements of financial institutions). In this section I highlight inconsistencies found in

¹ 2010. XCVI. Act „Egyes pénzügyi tárgyú törvényeknek a nehéz helyzetbe került lakáscélú hitelt felvevő fogyasztók megsegítése érdekében szükséges módosításáról (A hitelintézetekről és a pénzügyi vállalkozásokról szóló 1996. évi CXII. törvény módosítása).

² 2011. CXXI. Act “az otthonvédelemmel összefüggő egyes törvények módosításáról (A hitelintézetekről és a pénzügyi vállalkozásokról szóló 1996. évi CXII. törvény módosítása)”.

these prescriptions and show the importance of the above by describing the most common contractual framework of FX-denominated deals in Hungary.

The importance of impairment resulting from foreign currency or foreign currency-based assets is significant and raises numerous questions, which I explain by a quantitative presentation of two different solutions. In this matter, I emphasize the order of different tasks to be fulfilled during the annual report preparation and the effects on business' earnings based on the differences of provisions in foreign currency or foreign currency-based transactions, including foreign currency position and its impact on the profit disclosed.

Finally, I shortly describe the impact of the new acts on the FX-position and on the comprehensive income statement.

2. The importance of foreign currency loans in the light of statistical data

There is basically no heading in balance sheets that would not contain any foreign currency or foreign currency-based assets. The most frequent ones are foreign currency deposits, liquid assets, foreign currency claims and liabilities, especially loan debts and marketable securities. Foreign currency evaluation problems could also arise in Provisions, accrued incomes and expenses, and in the Tied-up provision within the Equity Capital's unit, as well. The most significant is undoubtedly the foreign currency credit so next we present its order.

The balance sheet asset value of credit institutions, operating as public limited companies, increased by 35% from 21,944 billion HUF to 27,520 billion HUF between December 31 of 2006 and December 31 of 2010. The amount of the outstanding loans for the same period increased by 32% from 14,419 billion to 18,983 billion, meaning that the weight of outstanding loans slightly decreased.

The amount of loans in Hungarian Hungarian Forint decreased by 5%, while the amount in the case of foreign currencies, including foreign currency-based loans grew by 84 %, reflecting the increased ratio of foreign currency loans.

The fact that the ratio of foreign currency loans made up 41% of the total amount of the outstanding loans in 2006 and 57% at the end of 2010 corresponds with the above-mentioned. Obviously/Without any questions/Undoubtedly this change is greatly influenced by the increase in exchange rates along with the growth calculated in foreign currencies, which enhances the dynamics and ratio of foreign currency loans calculated in Hungarian Hungarian Forint.

The chart above reflects the distribution of FX and FX-denominated loans in currencies in the last 4 years, and it shows that – although the ratio of loans in Euro are important – the amount of loans provided in CHF are much higher.³

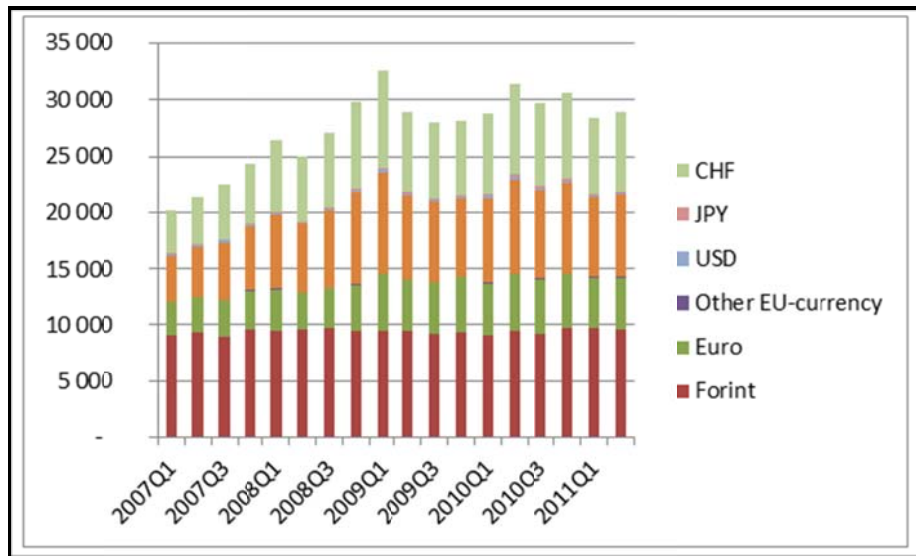
The sum expressed in Euro of the Euro and the Euro-based loans increased by 42% between 2006 and 2010, while the FX-rate grew by 5 % resulting in 50% increase in the Hungarian Hungarian Forint sum of these loans.

The increase of Swiss Frank-based loan portfolio calculated in the original currency was 33% in the same period, parallel with 40% increase in the FX-rates, hence the Hungarian Hungarian Forint amount of these loans grew by 86%.

In the case of the Euro and the Euro based loans, the above-mentioned analysis shows that while the amount of the Euro loans denominated in Euro increased by 10% between Dec 31 of 2006 and Dec 31 of 2010, the currency rate increased by 39%, which raised the Hungarian Forint amount of Euro loans by 54%.

³ <http://www.mnb.hu/Statisztika/statisztikai-adatok-informaciok/adatok-idosorok>

Figure 1. Loans provided to domestic clients in original currency; billion HUF

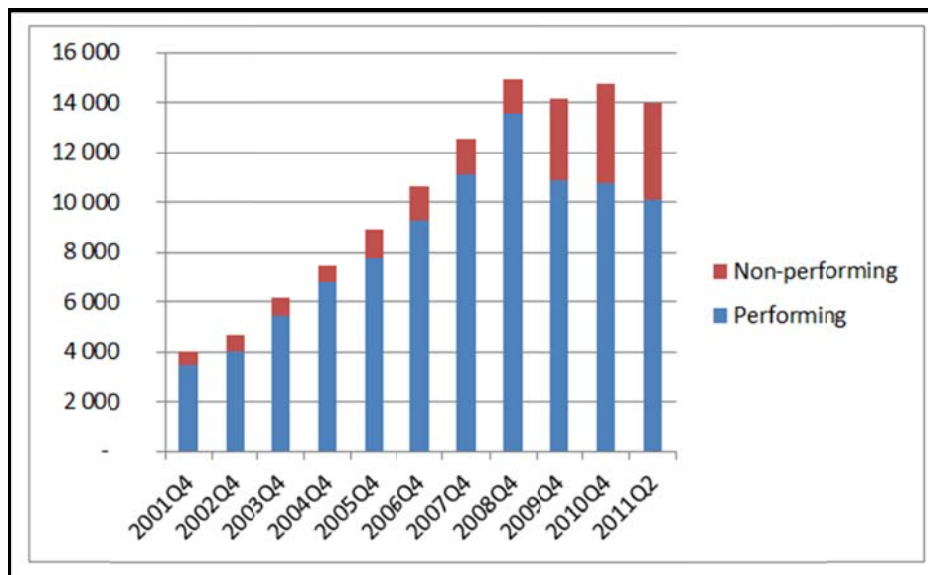


Source: own construction based on mnb.hu⁴

It can be clearly stated that it would be necessary to analyze foreign currency amounts to demonstrate the significance of foreign currency loans, but since most of the debtors can only pay in Hungarian Forint, the change to Hungarian Forint is also relevant⁵.

The quality of foreign currency and foreign currency-based loans worsened due to the recession.

Figure 2. Assets to be classified of credit institutions working as public companies; billion HUF



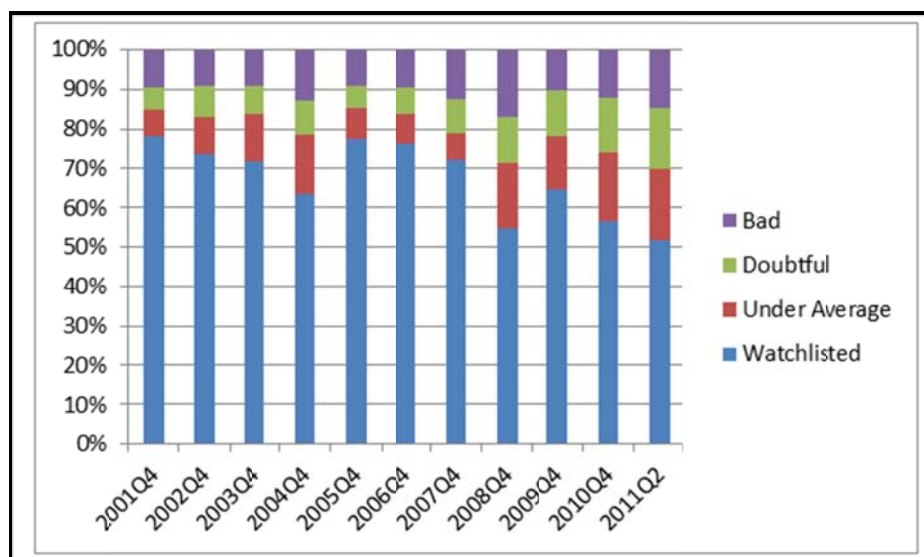
Source: own construction based on PSZAF time lines of credit institutions

Figure 2 shows that the rate of non-performing loans has been continuously increasing in the last 10 years, while these loans added up to only 14 % of the total loan portfolio in 2001, those rate went up to 28% by June 2011.

⁴ http://www.mnb.hu/Kiadvanyok/mnbhu_stabil/mnbhu-stab-jel-201111

⁵ http://www.pszaf.hu/bal_menu/jelentesek_statisztikak/statisztikak/hiteladat_bev.html

Figure 3. The distribution of the problematic portfolios of corporate credit institutions



Source: own construction based on PSZÁF time lines of credit institutions⁶

The ratio of the watchlisted, least wrong loans among the non-performing portfolios decreased from 78% to 52% during the same period, while the distribution among other categories was changing, but Figure 3 above unambiguously indicates the worsening/declining of the portfolios.

The above facts are reflected in the amount and the rate of the provision booked and summarized in the next Table.

Table 1. Loan loss allowances at credit institutions working as public companies; million HUF

Description/Year	2005	2006	2007	2008	2009	2010
Provision booked (loss)	-35 392	-75 016	-104 093	-148 250	-459 900	-418 570
Average loan portfolio	11.022.413	13.238.759	15.744.979	18.890.832	19.923.361	19.059.250
Average provision % on loan portfolio	-0.32%	-0.57%	-0.66%	-0.78%	-2.31%	-2.20%
Average total asset	17.109.563	20.225.572	23.704.602	27.972.558	30.459.661	30.026.678
Average provision % on total asset	-0.21%	-0.37%	-0.44%	-0.53%	-1.51%	-1.39%

Source: own construction based on PSZÁF Golden books, 2004-2010⁷

We can only have an approximate picture of the quality of the portfolio of financial institutes working as public companies, but the trends and the magnitude of changes shown by those are true⁸. Provisions booked were almost irrelevant in 2005, but increased gradually in the observed period. The major change happened in 2009 when the rate of provision booked tripled and this level did not change in 2010.

⁶ http://www.pszaf.hu/bal_menu/jelentesek_statistikak/statistikak/pszaf_idosorok/idosorok

⁷ http://www.pszaf.hu/bal_menu/jelentesek_statistikak/statistikak/aranykonyv_cikk.html

⁸ Although the table contains changes in the total amount of provisions booked each year as the exact amount of the base of provisioning, I took into account both the total loans and the total asset value in order to calculate ratios.

All these data/figures clearly show the significance of a proper economical handling of foreign currency assets and sources.

3. Definition of items in foreign currency

In this chapter I. introduce and compare the most important definitions of foreign currency items, collected from relevant laws/acts, other regulations and related professional items, in order to draw the attention to the contradictions embedded in these definitions, however, I do not make suggestions for their dissolution.

According to Jozsef Roth (*Adorján et al 2010*) “those items can be treated as foreign currency ones, where there is a need for booking also in a foreign currency in the analytics. It is needed because these items will be changed to a foreign currency in the future, going hand in hand with FX-risk.”

The first part of the definition would not give a clue to grasp the substance, but the second part gives an important factor according to which the key is the future change in the amount of the foreign currency, which can result either in profit or in loss due to changes in FX-rates.

These definitions are in line with the government decree on definitions of capital requirements (244./2000.). However, the same conclusion can be drawn not from the given definition of foreign currency but from the prescribed method of calculation of FX-position.

According to the 2.§ 6. of the above mentioned government decree, “foreign currency: receivables for foreign currency and gold.” Literally this would mean that only those receivables could be treated as foreign currency receivables whose related cash inflow is expected also in foreign currency. Hence, cash in hands and foreign currency based receivables and liabilities – where cash inflow is expected in Hungarian Forint, even if they are FX-denominated – would not be foreign currency ones.

The intention of the lawmakers was probably different, which can be traced from the 40.§ 1.a): “ net balance sheet position (total asset booked in the given foreign currency decreased by the total liabilities in the same currency)”.

While calculating the FX-position, not only the amount of assets, but also the liabilities should be taken into account when they are registered in foreign currency.

The government decree I refer to above deals with the foreign currency definition in the 8. § (1) sentence also as part of the valuation of FX-positions: “Net positions of financial items denominated in other currencies than Hungarian Forint should be valued at the official rate of the National Bank of Hungary (NBH).”

Based on this we can conclude that all assets and liabilities should be treated as foreign currency ones, whose amount is defined not in Hungarian Forint but in any other foreign currency, notwithstanding the currency of expected cash inflow.

In the minority of the cases it means that the amount of the receivable or that of the liabilities is denominated in a foreign currency together with cash settlement which is expected in the same foreign currency. These kinds of contracts are irrelevant to loans provided to domestic households, in the case of these loan types, the clients are usually companies (FX-loans).

Household debts are mainly denominated in a foreign currency, but their installments are due in Hungarian Forints. These FX-denominated loans are treated differently by banks:

- a) in the majority of the cases – loans provided usually by commercial banks – the debt is registered in foreign currency until it is paid in. There is no translation/conversion to Forint before this point, even in the case of late payment.

- b) in other cases – some loans, but almost all financial leasing contracts – debt is registered in foreign currency by the lender until the due date. At that point the due foreign currency amount will be automatically translated/converted to Hungarian Forint, hence, a part of the debt will be still denominated in foreign currency – due in the future -, but the previously due part of it will be expressed in Hungarian Forint.

Financial institutions should take into account both of the above mentioned loan types, but in the case the latter one (b), only the part which is still registered in foreign currency.

Act C, 2000 on accounting lays down in its §60 (7) that “if the law allows for domestic foreign currency users to define considerations and their installment on the basis of foreign currency in their contracts, then according these contracts, paragraphs (1)–(6) have to be applied in registration and at the year-end evaluation”.

All in all we can conclude that Act C on accounting and the government decree on calculation of capital requirement basically apply the same definition for foreign currency items.

In the case of financial institutions, there is one more government decree to be observed (250./2000.) ruling the speciality of financial statements of these institutions.

According to 2.§ 5. of this decree, from the valuation point of view, “foreign currency bank accounts, securities and shares of foreign currency and receivables, where the offset is foreign currency”, are foreign currency assets.

Point 7. within the same paragraph defines foreign currency liabilities, whereas Point 10 defines the off-balance sheet foreign currency receivables along the same logic. Their result is the fact that the prescription of the accounting government decree equals to the “narrower” definition described in the capital requirement decree. However, while the (last one) capital requirement decree generalizes the definition, the accounting decree remains at this level, hence it does not reflect reality. Since the accounting decree is only a supplementary regulation of the accounting act, we can conclude that they both define foreign currency and foreign currency-denominated items as foreign currency ones.

All items where the amount is defined in foreign currency should be treated as foreign currency ones, notwithstanding whether cash offset are expected in Hungarian Hungarian Forint or in any other foreign currency.

4. Foreign currency or foreign currency - based?

The law does not distinguish the valuation of exclusive foreign currency or foreign currency-based transactions in the financial statement. In this section, I analyze how strong/accurate/distinct this approach is, how the report prepared accordingly could show a true and fair picture of the enterprise which made it.

In the case of foreign currency-based deals, liabilities of a company are denominated in foreign currency in spite of the fact that the creditor expects the payments in Hungarian Forint not in a foreign currency. At this point, the enterprise has foreign currency receivables but it is not able to pay its foreign currency-based liabilities directly after conversion to Hungarian Forint. This is a double burden for the enterprise: the conversion to Hungarian Forint is on buying rate and the payment is on selling rate, so the created difference is clearly the burden of the enterprise. It means that the enterprises had to and still have to make responsible decisions about the foreign currency type of their financial liabilities in their calculations and payments. In case they have actual foreign currency income, it is recommended to apply for real foreign currency loan, which is calculated in foreign currency and requests the payment in Hungarian Forint the same currency. If they do not follow this, they will have open position in both cases of receivables and liabilities of the same amount denominated in the same

foreign currency. consequently they could have even exchange earnings. I explain this through the next example:

Based on the consideration above, foreign currency and foreign currency-based items should be separated when calculating the accounting FX-position, as in the latter case the goal is not the zero position but a slight surplus on the asset side in order to reach economic zero position.

The question is how we can calculate the amount of a necessary surplus, whether it can be calculated at all. As the example shows, we can define the liabilities which can be settled off as the result of the conversion of foreign currency receivables using the actual buying and selling rates ($250/260 \times 100 \text{ euro} = 96.15 \text{ euro}$), hence, we can calculate the amount of loss, as well.

This calculation cannot be made so easily since the maturity break down of receivables and liabilities are not the same, the relation between selling and buying rates are not constant, hence, there is an inherent uncertainty in the calculation above.

We can also meet the opposite of the above described case: in the case of foreign currency- based receivables and purely foreign currency liabilities, the difference between FX-rates used for the conversion of receivables to Hungarian Forint and the rates applied by the bank results in FX-risk.

The avoidance of this risk usually happens not with accounting, but with contractual methods – it is worth applying for the same FX-rate of the bank in the contract of the receivables.

Example 1. Problems with foreign currency-based receivables

An enterprise has 100 EUR receivables from a client who will balance it in Hungarian Forint. It will finance it from a loan, which has to be paid off in a foreign currency.

At both the asset and the liability sides of the balance sheet, the enterprise has 100 EUR so according to the rules there is no exchange earning expected.

According to the contract, the client is obligated to balance the liabilities on buying rate of the financing bank, which is 250 HUF/EUR. The enterprise converts this incoming 25,000 HUF ($=100 \text{ EUR} \times 250$) to foreign currency on selling rate (260 HUF/EUR) of the financing bank and it will become 96.16 EUR which does not cover the settlement of the foreign currency debt.

To settle the whole amount to the creditor the enterprise needs $100 \text{ Euro} \times 260 \text{ HUF/EUR} = 26.000 \text{ HUF}$, which could be available if the payable Hungarian Forint amount is assigned by the application of foreign currency selling rate in the contract⁹.

Notice that there is no exchange risk in Example 1, not even when the refinancing liability is exclusively in a foreign currency. This way the proper amount of foreign currency for payment could be obtained from the Hungarian Forint amount on selling rate for the liabilities.

In the previous chapter, enterprises with open foreign currency positions, according to their balance sheet, were analyzed, typically having surplus at the side of the liability, meanwhile having continuous foreign currency income in the future according to their contracts.

⁹ These types of contracts are signed typically by those financial enterprises that finance their outsourcings not from their own incoming Cash Flow – since they do not have the right for cash collection – but from the refinancing loans they received from commercial banks. Since the effective financing and installment happens in Hungarian Forint, even if they are foreign currency based, the financial enterprise applies for the same loan from the financing bank.

In this chapter, we analyze the same situation with the difference of having future income not in foreign currency, but on foreign currency basis, in Hungarian Forint¹⁰.

The possible solution of realizing the certain amount of expected exchange gain in advance described in the previous chapter is also applicable here, with the restriction that this solution assumes the definition of income conversion on selling rate in the contract, as well.

5. Annual report and impairment

Connected to the foreign currency liabilities, beyond usual questions regarding loss in value, the exchange rate to apply and the priority of annual foreign currency evaluation have to be defined in the annual evaluation.

According to the accepted, widely taught and published view¹¹, the first step is to determine the loss in value in foreign currency in the case of foreign currency liabilities, which is followed by registration on book rate. The last step is the revaluation of foreign currency amounts including both the original receivables and the registered impairment.

These are analyzed in the following example:

Example 2. Problems with foreign currency based receivables – Solution#1

An enterprise has 100 EUR receivables from a client who will balance it in foreign currency. The receivable was registered in the books in the current year on 250 HUF/EUR book rate. At the year-end evaluation the applied rate is 255 HUF/EUR, but there is no 10% return from the receivable.

According to the recommended solution, 10 EUR impairment has to be registered on book rate, so 2,500 HUF (=10 EUR×250 HUF/EUR) appears under other operating expenses. Following this the net bookvalue of receivable will be 90 EUR, the revaluation difference will be 450 HUF (=90×(255-250)), which appears under another income from financial transactions, if the summarized exchange rate result is a gain. Although, under other expenses the summarized exchange rate can result as a loss.

In the next year the value of receivables in foreign currency does not change, therefore the booking of 50% impairment is necessary and the rate is 260 HUF/EUR at the end of the year.

Consequently the sum of additional impairment: 10,200 HUF (+40×255 HUF/EUR, so we define increment in EUR on book rate, in this case the one used at revaluation at the end of previous year). Next step is the revaluation of the remaining net foreign currency receivable (50 EUR) resulting in the appearance of additional 250 HUF exchange gain.

To sum up the above:

Table 2. Summary of result on Example 2 – Solution #1

Category	1 st year	2 nd year
Impairment (other expense)	-2,500	-10,200
Exchange gain	450	250
Summarized effect on profit and loss	-2,050	-9,950

Source: own calculation

¹⁰ These enterprises are typically e.g. the office buildings, which can pay their installment of foreign currency-based loans taken for the construction, from their future Euro based rental incomes.

¹¹ This opinion appears in the 1.4 Chapter of Chamber of Hungarian Auditors accounting educational publication, as well. Author: Jozsef Roth Dr.

The method considers impairment as a foreign currency item, just like the receivable itself that is impaired.

In my opinion, this consideration is well established from the side of financial reality, as well: when the payment of a receivable becomes doubtful/indefinite/uncertain/unsure, we “waive” - not legally - the estimated unpaid part by booking impairment, so we realize it as a loss. In conclusion is also means, that in the future we do not wish to have further losses concerning this impairment - in the example concerning 10 and additional 40 Euros. Exchange rate change would cause such a loss, that we would like to exclude this, so we take into calculation this impairment at the asset side of the balance sheet decreasing the position.

The solution above only partially reflects the latter way of thinking. On the one hand, it is according to the principle since only the net receivable is revalued after registering the impairment, so additional exchange earning does not appear in the books.

On the other hand, impairment is booked according to a previous book value, which contradicts the principle of true and fair view: the impairment loss is born on the day it is registered - at least based on the financial thinking - so according to this, the registration of it should not be at a past rather at a present rate.

At the same time, I have to point out that applying past exchange rate absolutely suits the principle of going concern as the basis of the Act on Accounting. The evaluation on cost value of assets is the consequence of this principle and as result, we register assets on their original value until canceling. This approach is overruled at several points by the law even in the case of enterprises not applying fair value measurement. On one hand, it allows to “appreciate” assets by value correction, on the other hand, it makes booking of impairment obligatory not only in the case of receivables but that of the tangible assets and inventories, as well, if their book value permanently and significantly exceeds their market value.

However, the law makes an exception in the case of the foreign currency asset parts because of their nature, the volatility of exchange rates and the handling method of risks in them. It prefers the principle of true and fair views meaning the application of due date rate.

Since marking impairment is a duty related to the periodical closing, the cost value should be the due date exchange rate. The analysis of the effect of recommended method through the above mentioned Example 3. follows:

Example 3. Problems with foreign currency based receivables – Solution#2

According to the proposed solution, first the gross receivable has to be revalued, as a result of a revaluated difference of 500 HUF ($=100 \times (2550 - 2500)$) appears in the earnings of the financial transactions. After this the 10 EUR impairment could be accounted, now on due date rate, so that 2,550 HUF ($=100 \text{ EUR} \times 255 \text{ HUF/EUR}$) appears under other expenses.

In the next year the value of receivable in foreign currency does not change, because of that the accounting of 50% impairment is necessary, and the rate is 260 HUF/EUR at the end of the year.

As result, in the new annual revaluation there is an additional 450 HUF ($=90 \times (260 - 255)$) exchange gain marked, and the sum of impairment to mark is 10,400 HUF ($+40 \text{ EUR} \times 260 \text{ HUF/EUR}$).

To sum up the above:

Table 3. Summary of result on Example 2 – Solution #2

Category	1 st year	2 nd year
Impairment (other expense)	-2,550	-10,400
Exchange gain	500	450
Summarized effect on profit and loss	-2,050	-9,950

Source: own calculation

It is clearly pointed out, that although certain factors of the result changed, the solution above leads to the same conclusion as the commonly accepted method.

In my view, the second solution reflects the situation better and it is more consistent since according to it the impairment is always booked at daily exchange rate, while in the first case either at original rate or at any balance sheet rate dated later, if the receivable is still in the books for more than a year¹².

Reserve due to the uncertainty of receivables has to be booked as negatively signed item – impairment – on the asset side of the balance sheet. This method has not always been followed, even in the history of the Act on Accounting. There was a solution that required not the reduction on the asset side, but the appearance of a new item, called provision, on the liability and equity side of the balance sheet. In this case, the exchange rate of creating a provision was obvious since it was about booking a new passive, which had to be registered not at the exchange rate of an already existing asset, but at the actual daily rate.

Impairment booked at foreign currency receivables is also in the same currency, hence, it is taken into consideration at the determination of foreign currency positions – this way the creation of impairment affects the position, which also reflects in the books.

The question is that whether this point of view should be applied also in the case of the foreign currency-based transactions.

There are foreign currency-based transactions where the applicable exchange rate is laid down in the contract, but the due date of the conversion is not registered, so it could not be determined in advance at what exchange rate should the installment be converted to Hungarian Forint. It means that the particular amount of foreign currency is indeed a foreign currency until it is being paid. The evaluation of this type of foreign currency-based transactions, including the description at the accounting of the impairment, is the same as it is settled at exclusively foreign currency transactions.

During another type of foreign currency-based transactions – as I claimed before – the contract could possibly contain the day when the debtor is obliged to pay the converted Hungarian Forint amount at the given exchange rate. In the case of such foreign currency-based transactions, the Hungarian Forint receivable is to be paid at the exchange rate of the due date, typically on selling rate. This solution results that such receivables are not actually foreign currency ones, at due date or at the end of their term, but rather they are determined to be receivables in Hungarian Forint. Consequently, from their conversion time their impairment is also not in foreign currency but in Hungarian Forint. To prove my statement, here is the following example:

Example 4. Loss in value of foreign currency based receivables

An enterprise gave a 1,000 EUR foreign currency loan to one of its partners. Half of the loan is due October 30, and the other half is due April 30, next year, in Hungarian Forint. The cost value rate is 250 HUF/EUR, the selling rate at the due date in October is 260 HUF/EUR, during the annual evaluation it is 265 HUF/EUR, and at the final due date it is 254 HUF/EUR. The enterprise refinances the transaction from a foreign currency loan, with the same dates as the dates of items on the asset side. The enterprise creates a 20% impairment of 500 EUR receivables, for the future balance sheet date, since the debtor paid the first installment 50 days overdue.

¹² In the first example, the impairment created in the year when the receivable was booked, appeared in the books at rate 250, while the next year impairment appeared after the first revaluation, therefore it reflected the particular daily rate. In case the enterprise choose to make monthly revaluation – which can be done legally, and according to the regulations of its parent company, usually it is obliged to do so – this way we almost reach the second solution.

In case the impairment created in foreign currency, the open position of the enterprise determined by the financial statement according to the Act on Accounting will be the following:

Assets: 500 EUR receivable due in the future - 40 EUR impairment

Liabilities: 500 EUR liability, due in the future.

The enterprise did not have an open position before the creation of the impairment, the value of EUR assets and liabilities was the same. The position virtually was opened by the registering of the impairment, and the enterprise got into the exchange risk that it wanted to avoid. According to the book, that reflects the financial reality, the position has not been opened since it can still expect 500 EUR revaluation difference from the debtor according to the contract. In case the receivable is lost, due to cancellation or factoring, the Hungarian Forint amount due is calculated on actual selling rate. This way there will be no exchange loss, instead, the credit loss increases.

In the case of hedging a seemingly financially open position on due date exchange rate, it means that it fixes the rate of the generated 40 EUR impairment so as to realize a 10,600 HUF loss for certain. In case it converts the receivables to Hungarian Forint on due date at 254 HUF/EUR rate, it becomes obvious that the hedging transaction, according to the year-end impairment estimation, has been unnecessary, because that does not avoid exchange rate risk, but brings it into the operation of the enterprise.

As for the unsettled 500 EUR, the enterprise does not have any exchange risk since the hedge is built into the credit transaction.

The deduction above attracts attention to that basic receivables of foreign currency-based contracts which have to be evaluated in the balance sheet at the determination of foreign currency position, whose starting point is usually the accounting date, in the same way as exclusively foreign currency receivables, and the impairment of these transactions has to be handled separately.

6. Amendments for helping the households indebted in foreign currency and their impacts on the FX-position

Foreign currency loans have resulted in a growing burden on households due to the weakening Hungarian Forint. During the last two years more laws have been enacted with the intention to ease this burden.

In the following I examine the impact of these new features on the FX-position and through this on the P&L of financial institutions.

As the first step in the line of these arrangements the possible applicable FX-rates have been limited. According to the new prescription from 27th November 2010, “if the financial institution settled an FX, or FX-denominated mortgage loan or leasing contract with a consumer, then the

- a) down drawn loan,
- b) monthly installment and
- c) any expense, fee or commission defined in foreign currency should be converted into Hungarian Forint...
- d) using the financial institution’s own average of selling and buying FX-rates, or
- e) the official rate of the National Bank of Hungary.”

The market price of the assets financed by financial institutions is usually defined in Hungarian Forint, but in order to calculate the amount in foreign currency to be financed, an FX rate should be applied. Before enacting the above cited prescription, creditors usually applied buying rates in this case, as they needed to buy the currency in order to be able to finance the asset. On the other hand, installments payable by the clients were converted to Hungarian Forint using selling rates with the underlying idea that the debtor needs foreign currency in order to pay the installment, and this will be sold by the financial institution at selling rate.

Limitation of applicable FX-rates will result in the fact that FX-amount of these loans at the inception of the loan term will be lower as the same Hungarian Forint amount will be converted to foreign currency at a higher rate, and installments in Hungarian Forint will be also lower as those will be converted to Hungarian Forint at NBH to an average rate, which is always lower than the selling rate.

Although this amendment is able to significantly reduce the creditor's profit, it does not have any impact on the FX-position, and the accounting prescriptions can be further applied without any modification.

FX-rate barrier introduced in summer 2011 gives the opportunity to clients indebted in foreign currency to pay the increase of installments – during 3 years starting from the contract amendment – in the future financed from automatic Hungarian Forint loans with maximized interest rates. {Act LXXV. of 2011, 1.§ (1) point 1. and (2)}.

In those cases, where the original contract had the same characteristics – that the installments are converted to Hungarian Forint at the due dates – this modification does not cause any changes from the point of view of the FX-position.

In these cases the creditor's receivables after the due dates up to now will also be denominated in Hungarian Forint, hence loan loss allowances were booked originally in Hungarian Forint, and there is no need for alterations.

Irrespective of the above, there are several problems to be handled by the creditors, as the original FX-based loan should be tied to the Hungarian Forint loans originated by the unpaid FX-differences of the client, and the interest rate of this loan can be capitalized on a quarterly basis, which is probably not the case regarding the general loans.

Due to the above, there will be a change in the position of liquidity also, as the creditor will not have enough amounts of Hungarian Forint to pay the refinancing loan in foreign currency, therefore additional Hungarian Forint sources will be required.

The client will be obliged to repay the accumulated Hungarian Forint receivables together with the original foreign currency loan, causing a potential increase in credit risk despite the partial government warranty.

As I mentioned earlier in Chapter III., in other cases the loan remains in the original foreign currency until it is paid, hence all parts (both past due and undue) of the receivables were registered in foreign currency before applying the FX-rate barrier, as FX-risk was transferred to the clients. In those cases where creditors book loan loss allowances for these loans, they register it in foreign currency causing position-opening. Whenever the creditors hedges this open position, it fixes the rate and the amount of the losses in Hungarian Forint is being born.

After using the FX-rate barrier, FX-rates for all due installments will be fixed during the applying period – therefore these will be converted in all the cases at the rate valid at each due dates. That portion of the loan (maximum the principal part of the installment for 3 years) will receive a different characteristic from the original foreign currency loan, and it will also differ from the ones due after 3 years. Provisions regarding principal payables during the application period of this new rule should be registered in Hungarian Forint in contrast to the principal due after this period.

Due to the above, the position, previously closed accurately, will open again, now in the opposite direction, hence provision booked on this Hungarian Forint principal will be removed from the position. This results in explicit FX-risk to the creditors as this means such changes in the contractual conditions, which affect the calculation of FX-position, as well.

The introduction of the FX-barrier can cause problems from IT point of view as installment payable in the following 3 years should be converted to Hungarian Forint, provisions related to these installments should be booked in Hungarian Forint, but installment due after the 3rd year can be treated as previously.

FX-risk arisen from the applying FX-rate barrier is limited by the law itself, as the application of it is not obligatory for loans with 90 or more days past due, and when applying it in a given contract after reaching the 90 DPD, the obligation of application of fixed FX-rate will be ceased.

Based on such loans – with DPD within 90 days – creditors are obliged to book maximum 30% provisions according to the accounting government decree. Assuming that creditors do not book higher provision than prescribed, we can conclude that the maximum of FX-risk arisen from this modification is the 30% of the principal due in 3 years.

The last resort of the “home safety” package is *the opportunity to repay the total amount of debt at a very favourable rate*, but this does not cause FX-risk, rather a one-off credit loss.

In this case cash inflow to be settled against the receivable will not cover the refinancing sources behind the original FX- receivable, as the FX-rate prescribed by the act is much lower than the actual FX-rates nowadays.

Loss derived from the above can be interpreted as either FX- or credit loss. In the latter case we assume that the Hungarian Forint cash inflow should be converted to the foreign currency at the originally contracted rate, hence not the total FX-amount will be repaid, but the creditor is not eligible to claim the unpaid difference from anyone, hence that amount will never return.

Both approaches clearly show opening of FX-position due to the applied favourable rate, their impact on the magnitude of the profit (loss) is equal, but the structure of the loss will be different.

In my view, interpretation of the loss as credit loss reflects the reality better.

The opportunity to repay the debt at this favourable rate does not have significant impact on impairment-related FX-positions, as early repayment is more probable for performing loans, rather than the non-performing ones.

7. Conclusions

The article introduces different definitions of foreign currency items found in accounting rules and other books, and shows that these definitions are not standardized/unified.

It is proven that the same handling of foreign currency and foreign currency-based transaction does not distort the true and fair picture; however, the direct application of it in the determination of the foreign currency positions of an enterprise could be misleading – regarding the impairment of foreign currency-based transactions.

The article introduced the impact of “home safety package” on FX-positions and outlined some technical problems to be overcome.

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Organizational innovations and their behavioral background¹

BALÁZS HÁMORI – KATALIN SZABÓ

Organizational innovations have always played a Cinderella role in the innovation literature, compared to product and technological innovations. Even though the role they play in economic development does not lag behind of these later types at all. Neglecting organizational innovations explains the fact that today there is no consensus about their definitions, about their measuring, about how to interpret them, even though, as a result of the information and communication revolution, networking, this organizational transformation that is fundamentally changing the workings of the economy is unfolding in front of our eyes. According to the authors, both versions of networking – within or outside of the firm – are present in all significant organizational transformations: from transforming rigid vertical firm structures into networks of loose autonomic units to new forms of cooperation between firms. In the second part of the paper the authors present the results of their research relating to organizational innovation based on an online survey of 302 firms. Organizational innovations are highly important in such countries – like Hungary –, which do not have enough financial resources to carry out significant product and technological innovations. However, according to the survey, in the case of organizational innovations we perform poorly even compared to the other types of innovation. The final consequence is that the social context and the attitudes and behavioral forms closely related to it are determinative in explaining our backwardness in the area of organizational innovation.

Keywords: organizational innovation, typology of organizational innovation, networking, organizational behavior, attitudes and factors influencing innovation

1. Introduction

When we talk about innovation even economists often exclusively think of product or technological innovations. That is neglecting other types of innovations, including primarily organizational innovation, which is not only a subjective impression but convincingly proven by the Internet search results related to the topic. If we type “product innovation” and “organizational innovation” into the search fields of one of the most commonly used database, our conjecture is confirmed:

Product innovation hits:	3. 900 000	(Google)	1. 914	EBSCO
Organizational innovation hits:	338 000	(Google)	667	EBSCO

2. The undeservingly neglected version of innovation

Organizational innovation was undeservingly pushed into the background. Organizational innovations carried the world forward not less than new products or the revolutionarily new technologies. Organizational innovations produced impressive results centuries before the Industrial Revolution. It is enough to allude to the smashing productivity increasing influence of the appearance of the manufactories. A unique example of organizational innovations of

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the pre-capitalist times is the Arsenal of Venice, the operation of the armory and ship manufacturing giant owned by the city state.

"The Arsenal of Venice was founded in 1104. By 1500 the shipyard/armory was the largest industrial complex in the world (...) and produced nearly one ship every day (!), and at its height, employed 16,000 people. It employed production methods of unparalleled efficiency that predated Henry Ford with long time, including:

- assembly lines
- the use of standardized parts
- vertical integration
- just-in-time delivery
- time management
- rigorous accounting
- strict quality control and
- specialized workforce" (*Crowley* 2011, p. 64.).

The fact, that Venice was able to be the queen of the seas for centuries, is owed to the above mentioned organizational innovation. In the capitalist era the “groundbreaking” organizational innovations was no less important, such as the production line of Henry Ford, the franchise-system of McDonald’s or the kanban ‘just-in-time’ system introduced at Toyota.

3. The theoretical approaches and the types of organizational innovations

Despite the exceptional importance of organizational innovations, the theoretical treatment of them is quite problematic. There is no dominant theory in the field. “The existing literature on organizational innovation is diverse and scattered. There is no consensus on a definition of the term ‘organizational innovation’, which remains ambiguous” (*Armbruster et al* 2008, p. 645.).

According to *Lam* (2011) there are three main approaches to organizational innovation:

The first stream of organizational theories focus predominantly on the structure of innovative organizations and its effects on product and process innovations (*Lawrence–Lorsch* 1967, *Mintzberg* 1979).

The second stream of the literature underlines the importance of organizational learning (*Argyris–Schön* 1978, *Prahalad–Hamel* 1990, *Senge* 1990, *Nonaka–Takeuchi* 1995, *Nonaka–von Krogh* 2009).

The third stream builds up models of organizational change and try to understand how organizations change (*Thompson* 1967, *Hannan–Freeman* 1984, *Burnes* 1992, *Kotter–Schlesinger* 2008).

The various approaches are separated from each other by the Great Wall of China; there are some overlaps between the various streams. The organizational innovations realized in practice can be classified in several ways. *Armbruster et al* (2008) highlights two significant points when grouping organizational innovations:

1. Do innovations take place inside the organizations or – by crossing its boundaries – in the inter-organizational field?

2. Do innovations in question affect the organizational structure itself; or rather they only change the processes taking places inside a given structure? Based on this we can organize and differentiate four types of organizational innovations a matrix:

Figure 1. Typology of organizational innovations. Are there any similarities between them?

		Focus of Organisational Innovation	
		Intra-Organisational	Inter-Organisational
Type of Organisational Innovation	Structural Innov.	<ul style="list-style-type: none"> • Cross-functional teams • Decentralisation of planning, operating and controlling functions • Manufacturing cells or segments • Reduction of hierarchical levels • ... 	<ul style="list-style-type: none"> • Cooperation/networks/alliances (R&D, production, service, sales, etc.) • Make or buy/Outsourcing • Offshoring/relocation • ...
	Procedural Innov.	<ul style="list-style-type: none"> • Team work in production • Job enrichment/job enlargement • Simultaneous engineering/concurrent engineering • Continuous Improvement Process/Kaizen • Quality Circles • Quality audits/certification (ISO) • Environmental audits (ISO) • Zero-buffer-principles (KANBAN) • Preventive maintenance • ... 	<ul style="list-style-type: none"> • Just-in-time (to customers, with suppliers) • Single/dual sourcing • Supply Chain Management • Customer quality audits • ...

Source: Armbruster et al (2008, p. 647.)

4. Theoretical considerations: The theoretical background of organizational innovations

If we are searching for a common core in the seemingly quite heterogeneous types of innovations, introduced in the table, we can conclude that most innovations point to the same direction: to "internal" or to "external" networking. The revolutionary changes leading to networking can be characterized by the followings:

- In the 20th century, beginning with the 80s, in the most developed countries and sectors with varying intensity, but everywhere the deconstruction of the traditional hierarchic firm took place: the vertical corporation characteristic of the industrial era are being broken down both from the inside and from the outside. The rigid organizations appropriate for the industrial societies gave way to looser organizational solutions.
- Decentralization inside the firm increases the independence of teams, empowers the autonomous units, and the firms are also transformed from inside by the special network of teams.
- Cooperation between firms and the development of networks blur the boundaries of the firm: rigid economic units have been replaced by organizational configurations significantly more flexible than the previous ones.
- Behind the two interweaving trends (the inside and outside networking) stands the informatization of the economy and its transformation into a knowledge economy. All of the above mentioned organizational innovations can be and should be interpreted in this context.

Already at the beginning of the loosening up process of the corporate structure the question arises: whether all these changes can be understood as the revitalization of the

market, or we are talking about something else? The deconstruction, the softening up of the firms, logically was considered first as the strengthening of the market, coordination to the expense of hierarchies. If we contrast firms indeed, as coordination of hierarchic forms to markets, it becomes logical that their deconstruction involves the strengthening of the market.

However, this simplified approach later was followed by more nuanced analyses. They did not perceive the internal and external networking of firms as the strengthening of the market, but rather they were talking about it as an increasingly larger 'intermediate zone' developing between the market and the hierarchy through organizational innovations (Zenger–Hesterly 1997). The most spectacular organizational innovation, the development of networks, was captured by the great figure of organizational theory, Oliver Williamson, as the new combination of the already existing two basic coordinating forms, highlighting the innovative organizational forms (for example network corporations) as mixes, hybrids of the market and the hierarchy at various proportions (Williamson 1987). Holland and Lockett pointed out the contradictory nature of the process, emphasizing that although organizational innovations introduce strong market incentives to firms, but to counter this/as opposed to this, hierarchic control is being partially extended to markets (Holland–Lockett 1997).

Albert-László Barabási went even further and – considering the network as the broader form – described 'the market as a form of the network: "In reality, the market is nothing but a directed network. Companies, firms, corporations, financial institutions, governments, and all potential economic players are the nodes. Links quantify various interactions between these institutions, involving purchases and sales, joint research project, and so forth"' (Barabási 2002, p. 208.).

The deconstruction of the firms, the external and internal networking is approached more dynamically by one of the authors of this study, Katalin Szabó in the book co-authored with Éva Kocsis. According to this:

"The network is such a specific area of transactions, where the given transactions are marketized and placed under the scope of the hierarchy, depending on which can solve them cheaper, which way it is more efficient. Thus, the network is a type of 'turntable' on which the rapid/fast play-switches between the market and the hierarchy take place. (...)We could also say, that the network customizes the organization, in other words, it always sets up an organizational framework that fits the solution of the given problem by the combination of the market and the hierarchical elements fitting to the given cases. (...)The switches between the market and the hierarchy, which took place earlier on a historical scale, taking long years and decades in a given area, accelerate and become common in the era of uncertainty and complexity, and they demand such organizational framework which is able to serve the demands for rapid changes" (Kocsis–Szabó 2000, pp. 199–200.).

The flexible and rapidly changing organizations, in which the basic coordinating forms, namely the market and the hierarchy change according to the circumstances, are the only special organizational reflections of the economic changes taking place as the result of the product and technological innovations. Thanks to the information technology and the Internet the previously clear boundaries have faded, have become relative in all areas and in all aspects. Not only can the innovative organizational solutions be considered as hybrids, changing mixes of the market and that of the hierarchy, but the products, as well. The information filled 'smart' products and services overlap, often it is even difficult to tell if we are dealing with a product or a service. The previously 'clear' economic roles are mixing, in the transactions sometimes the buyer takes over the role of the seller. On the Internet they are the buyers recruiting more new buyers of the product.

In this hectic and uncertain environment the firm is in a constant 'switched-on' state, and the teams organized for a given task belong to the firm only to a certain extent, but at the same time, they cross over its boundaries. Also within the firms, the previously built walls that separated the departments and divisions are coming crumbling down. The boundaries of the previously well-defined professions also started to blur: 'multiple competencies and qualifications' are basic job market demands and they are also following a worldwide trend. The real problem of the basic units of the work organization is that they do not know who the boss is, who appraises the performance of the members and who decides about the compensation. Previously these questions could not even arise since the hierarchy was solid and clear. The acceleration of the economic process implies that also in the organizations a special 'indeterminacy relation' begins to prevail. This can be detected in almost all organizational innovations introduced in Figure 1².

5. Synergy between the various types of organizational innovations and the postmodern economic environment

However, the organizational innovations, the breaking down of the hierarchies, the blurring of the boundaries, are spreading since the 80s of the 20th century – as it became evident from the above – they did not take place independently from the product and the technological innovations, rather they took place in a strong connection with them. "Although there exists a large literature on the adoption and diffusion of innovations, only a very limited part considers the joint adoption of a range of innovations. (...) They have then argued that the simple adoption of technological innovations alone is not sufficient to gain competitiveness; the full benefit of those technologies is only achieved if they are accompanied by a cluster of related innovations" (*Battisti–Stoneman* 2010, p. 202; 188.). If we pick almost any of the innovations from Figure 1, all of them are more or less in a strong interrelation with technological innovations, more closely with information technologies and the advent of the Internet. "Advances in information technology - the convergence of computing, networks, internet, and video technologies - that have the potential to radically affect the socioeconomic system, from global commerce to personal life styles and to enable new organizational forms" (*Lewin et al* 1999, p. 544.). Toyota's just-in-time system would operate with difficulty without constant information technologies and Internet background, but the flat organization 'simplifying' the hierarchic levels would have not developed before the computer age.

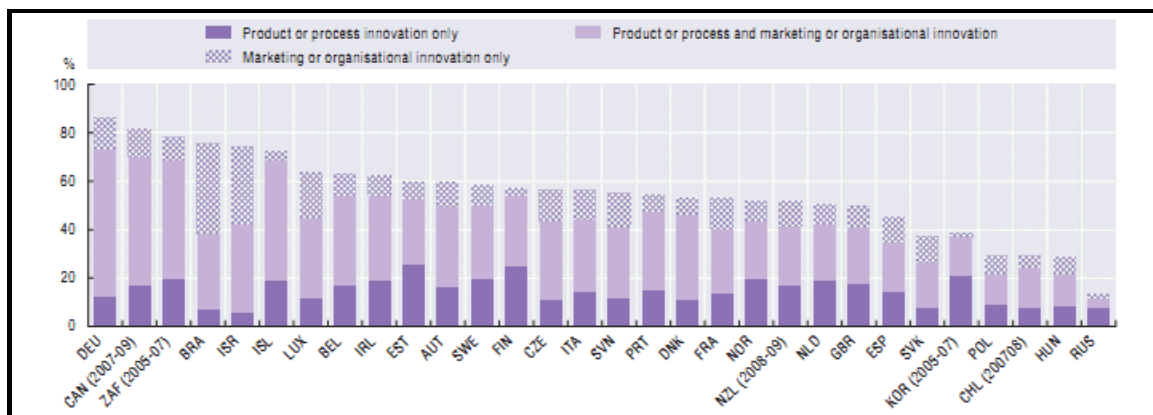
In 1958 Harvard Business Review published an article called *Management in the 1980s* by Harold J. Leavitt and Thomas L. Whisler. It predicted that the computer could do to middle management what Black Death did to fourteenth-century Europeans. So it has/says: If you are part of the middle management and still have a job, do not enter your boss's office alone. GE Lighting's President John D. Opie says: "There are just two people between me and a salesman - information technology replaced the rest". In a world of expensive, centralized computing, it might have happened that way. But distributed computing redistributes power. Goodyear's Vice President, Frederick Kovac says: "It used to be, if you wanted information, you had to up, over, and down through the organization. Now you just tap in. Everybody can know as much about the company as the chairman of the board. That's what broke down the hierarchy. It's not why we bought computers, but it's what they did" (*Stewart* 1993, p. 73.).

As it would have been impossible to run the first multinational firms at the turn of the 19th and 20th centuries without the telegraph and the telephone, in the same way it would be

² For more details on these processes see: *Szabó–Hámori* 2006.

impossible to apply supply changes management or outsourcing without the technological achievements and products of the IT revolution. The synergy between the Schumpeterian forms of innovations and the multiple innovations are also realized on the firm level. The next figure shows that the majority of the innovative firms realize not only organizational or technological innovations, but they realize all types of Schumpeterian innovations at the same time.

Figure 2. The rate of the manufacturing firms that attained the various strategic mixes of innovation – in an international comparison



Source: OECD, based on Eurostat (CIS-2008) and national data sources, June 2011.

The various types of innovations assume each other and not only in the sense where the firm, which is inclined to innovate in the area of technological innovations, is mostly open for organizational or marketing innovations, as well. There is a synergy at work between the various innovations, the technological change assumes new organizational forms and new products often demand new marketing perspectives. We empirically tested some of the described interrelations in regards to organizational innovations as part of a comprehensive innovation survey.

6. Empirical research results on organizational innovation

We carried out the survey between March 24 and August 15, 2011, among firms in the central region of Hungary with the help of an online questionnaire. The request to fill out the 52 item questionnaire was sent to about 3500 potential respondents. We focused on the owners and the managers of the SME sector, but we also included large firms in our survey in order to gain a more comprehensive picture of the topic at hand. SMEs amounted to 76% of the total sample. In regards to the sectors, the majority of the respondents was from the industrial (28%) and the business services (36%) sectors.

Altogether we received 302, fully completed questionnaires back. The survey is non-representative, but it covers the various sectors and age groups. In our opinion the survey is upwardly biased as it was answered mainly by people sensitive to the topic of innovation. The sample is better in many senses than it could be expected, based on international statistics. We have analyzed the innovation activity at the firms by dividing it into 4 areas and 3 types.

We have differentiated four areas of innovation:

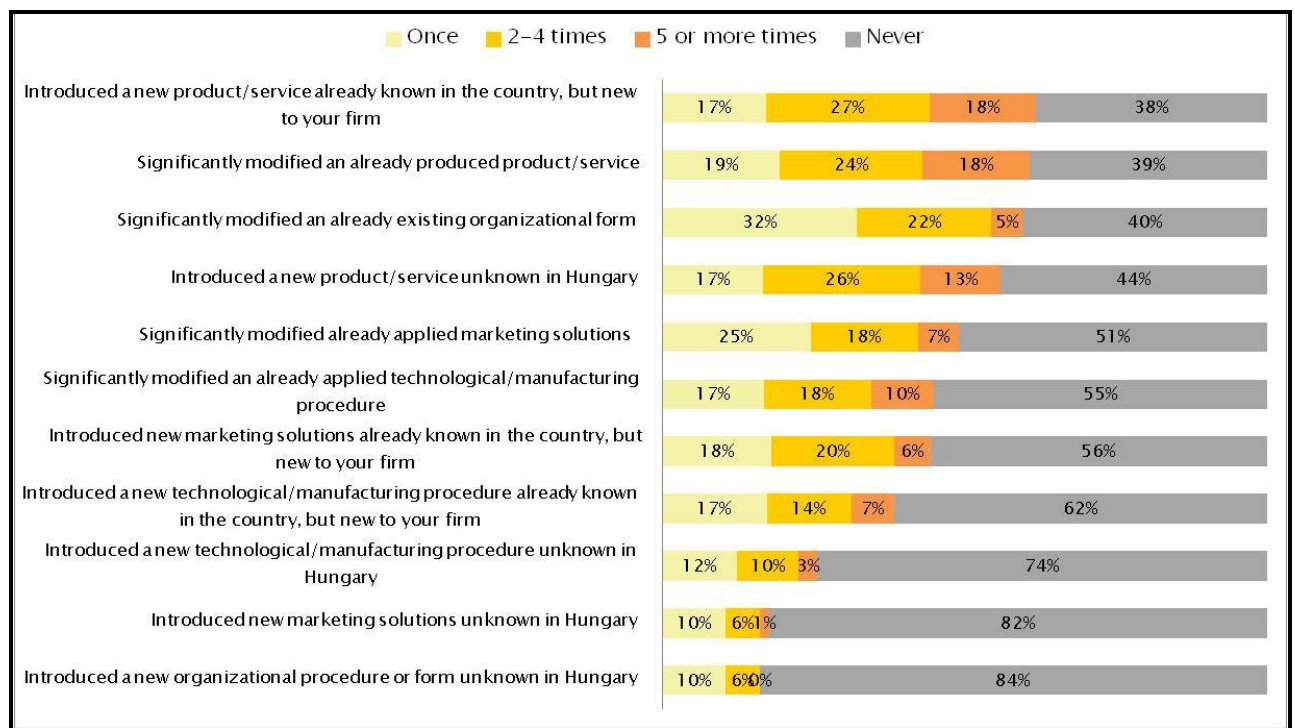
1. product/service
2. technology/manufacturing
3. organizational procedure or form
4. marketing solutions

We also have made a definite difference between tree types of innovations:

- a) The first category includes those innovations that can be considered as *completely unknown solutions in Hungary*.
- b) The second category includes those innovations that are *known in the country, but the firm has not yet employed them*.
- c) We included those changes in the third category where *the products, in technology, in organization, etc. are not considered new at the firm, but they are based on significant modifications*.

We asked the respondents to provide the number of various types of innovations during the past 5 years. We did not analyze those innovations in a separate category that can be considered as new in global terms, because in such sample size/having this many of samples, it would not show a detectable percentage. By introducing the category of ‘others’, respondents were allowed to indicate such innovations, as well. The two types of categorizations were combined in the next figure.

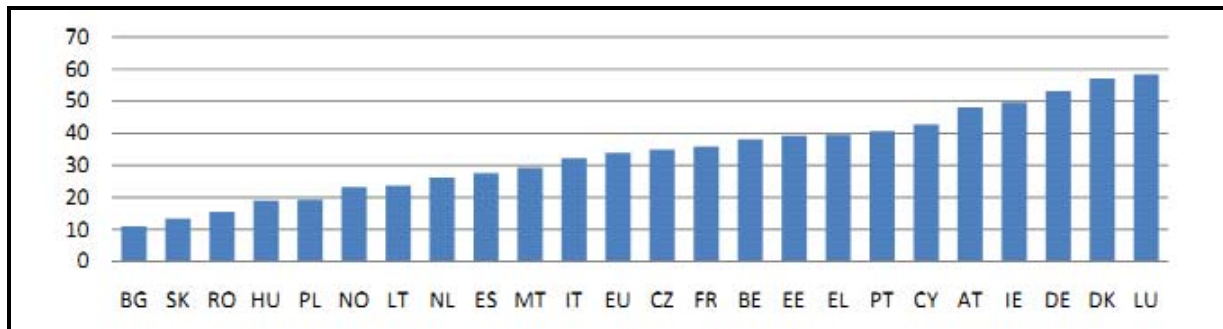
Figure 3. The number of innovations in firms according to the innovation areas and types during the past 5 years



Source: Own survey, 2011 (statistical data processing by Erika Hlédik)

We can see in Figure 3 that the general statement made at the beginning of our study about the inimical approach to organizational innovations is true. While the proportion of the firms, introducing unknown, new products in Hungary is 66%, and 13% of these firms introduced more than five such innovations in the 5 years under examination, in the case of organizational innovations these numbers are 10 and 0%. The situation is similar in the case of the marketing innovations. 82% of the firms taking part in the survey indicated that they had not introduced any kind of marketing innovations that can be considered new in the country. The figure below, which indicates the achievements of the Hungarian SMEs in an international comparison, shows a somewhat better picture than our survey, since 18% of the SMEs, taking part in the European survey, reported organizational innovations.

Figure 4. SMEs using organizational innovation (% of total SMEs)



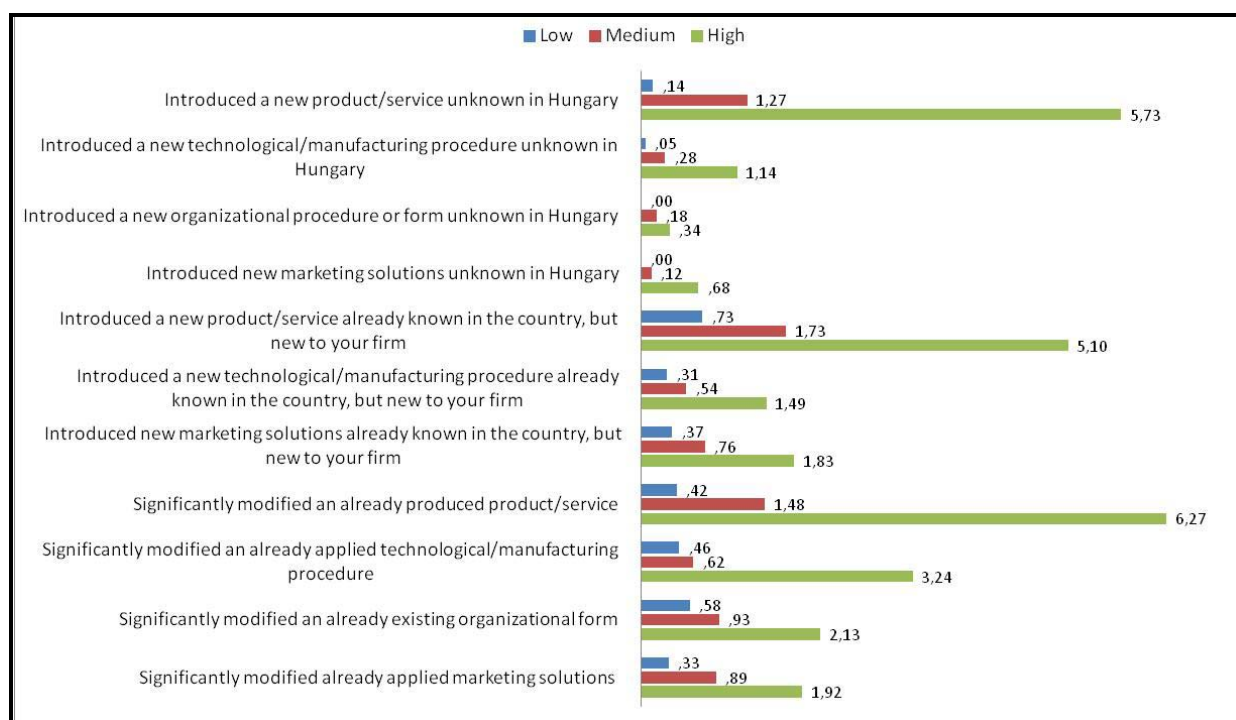
Source: *European Innovation Scoreboard, 2007.*

The significant difference can be attributed to the fact that in the EU survey they did not differentiate between the various versions of the organizational innovations. They probably defined organizational innovations in a broader sense compared to our innovation category (see in the last line of Figure 3): organizational innovation completely unknown in Hungary. If we add the proportion of those reporting significant modifications to the category of the completely new organizational innovations in Hungary, we will get a considerably larger value than those found in the EU statistics. According to the figures another 60% of the firms indicated that they had introduced significant modifications to known organizational innovations.

Finally, we categorized the firms into three groups – based on low, medium, and high innovation index (trisection). This way we have three, almost identically sized groups. The ‘high’ group primarily includes those firms that introduced several such innovations that were unknown in the country before, and in their case the number of innovations from almost all innovation types (or areas) was higher on the average than in the other two groups. The ‘low’ group includes those firms which have not introduced innovations that were unknown in Hungary before, and all of their innovation activities were lower on the average than that of the two other groups.

In Figure 5 we can see that while in the case of product innovations the performance of the three groups of firms can be well differentiated, there are much smaller differences in the case of organizational innovations. In other words, firms that are quite active in terms of innovation do not stand out because of organizational innovations, moreover, in this regard they differ much less from the groups showing moderate or weak innovational activity, while in the case of product innovations, the difference is much larger. This again indicates that organizational innovations are being pushed into the background. Especially, as Mátyás Blastik writes in his study: “The significance of organizational innovations is large in the case of those countries, where there is no chance to finance high cost technological innovations. So for Hungary it would be a plausible solution to place a larger emphasis on organizational innovations in order to counterweigh the high costs of technological innovations, and by their deliberate and effective application, the relative lack of capital could be offset” (Blastik 2011, p. 3.).

Figure 5. The number of various innovations in each innovation group



Source: Own survey, 2011 (statistical data processing by Erika Hlédik)

In our research launching study (Hámori–Szabó 2010) we hypothesized that for the reasons behind the low innovational performance of Hungary in an international comparison, we should primarily seek for institutional and behavioral factors. This hypothesis is supported by the studies of numerous outstanding domestic and foreign researchers (North et al 2006, Kornai 2010). This is especially true for organizational innovations, since the organization itself is a part, a basic unit of the society, the social problems and conflicts affect organizations more strongly and more directly than they affect products and technologies. This is also supported by the literature dealing with factors impeding organizational innovations. In Table 1. we contrast the innovation aiding and impeding factors which affect organizational innovations directly and strongly. We summarized the innovation influencing behavioral factors below:

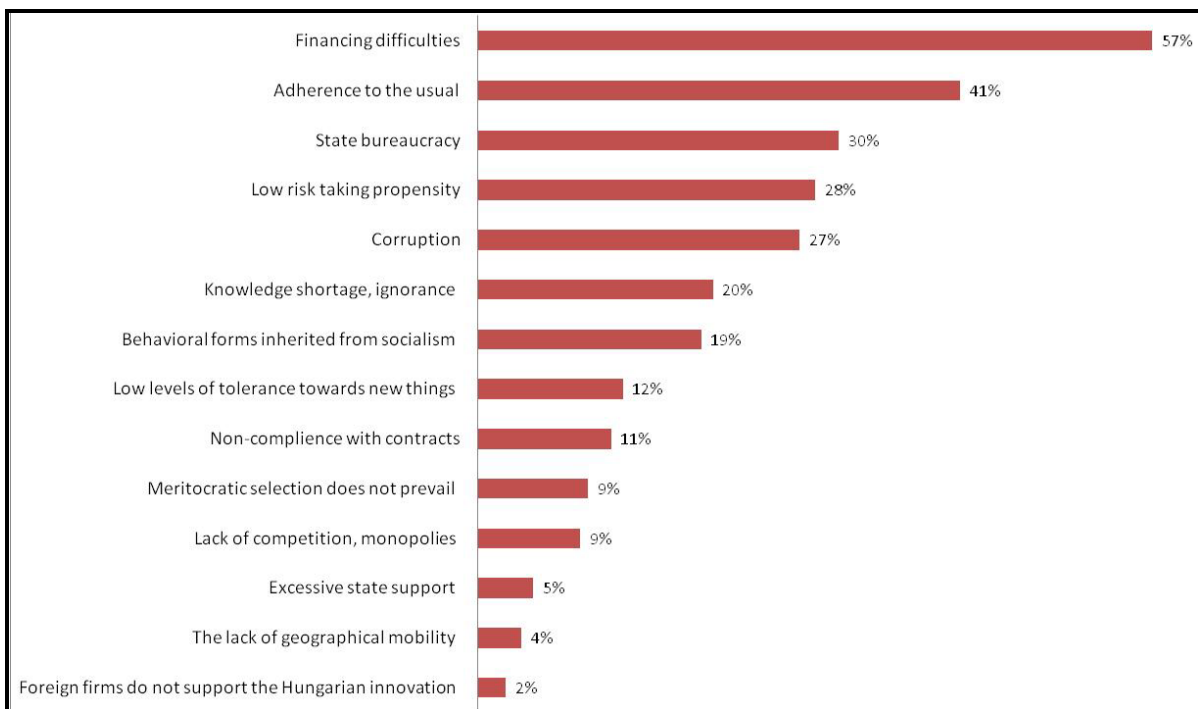
Table 1. Innovation-promoting and innovation-impeding behaviors

Behaviors, promoting innovation	Behaviors, impeding innovation
Inclination to change, flexibility	Adherence to the usual, inflexibility
Autonomous initiative, autonomous action, free decisions	Bureaucratic behavioral forms, vulnerability
High risk taking propensity	Low risk taking propensity
Correct behavior	Searching for corrupt by-passes
Openness, high level of tolerance	Seclusion, low level of tolerance
Rule following behavior in the environment	Contracts, failure to follow rules

Source: own construction

In our questionnaire we included questions about some of these factors. Although as Figure 6 shows, the majority of the respondents (57%) mentioned lack of money as the number 1 barrier to innovations, the behavioral and institutional factors also received prominent places in the figure.

Figure 6. Innovation impeding social barriers



Source: Own survey, 2011 (statistical data processing by Erika Hlédik)

Right after the financial difficulties, the respondents indicated human conservatism, the adherence to the usual, and an institutional and at the same time behavioral factor of the overgrown bureaucracy (30%) as barriers to organizational innovations. This is followed with almost equal measure by the low risk taking propensity (28%), well known for its low levels in Hungary, and corruption (27%). A surprising result is that only an insignificant amount of the respondent (2%) mentioned that the multinational companies settled in the country impede innovation, even though this factor is given a much larger measure in the literature and in the media. According to the international experiences, financial difficulties stand as the number 1 factor among the barriers of innovation, especially in the case of the small firms. (Hewitt-Dundas 2006). Nevertheless, ‘soft’ factors are also mentioned frequently: the low risk taking propensity of management, the bureaucratic behavioral forms are mentioned as the main impeding factors of innovation.

7. Conclusions

Organizational innovations are undeservingly pushed into the background both in theory and in practice, while it is possible to achieve better results by them when having less financial resources than by product and technological innovations.

Because of this fact organizational innovations should receive special attention in countries having worse competitive positions, just as also in Hungary, and in the case of firms that are financed with more difficulties, especially the SMEs.

The most recent organizational innovations – from outsourcing to the autonomous work groups – can be described as a kind of external and internal networking, a particular combination of markets and hierarchies, and their background and the driver is the IT revolutions. This form of innovation is closely related to product and technological innovations.

Among the aiding and impeding factors of organizational innovations ‘soft’ factors and behavioral forms related to organizational culture play an emphasized role.

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Sound theoretical knowledge as a remedy for practical organizational problems

PÉTER HARMATH

Establishing an organization, setting it on the track of development is becoming a more and more complicated task and in most cases, requires expert knowledge. Scientific organizational theory offers a great variety of applicable methods and tools for small and young enterprises as support for their design and development. The performed case study is based on the consultancy work at the local Business Incubator in Subotica.

This article presents the author's approach, examination and description of some of the most common problems of small enterprises. A number of organizational theoretical terms were considered and have been connected with the specific case. The basic aim of the project was to solve a set of actual organizational problems for one of the business incubator tenants. The analyzed group of problems were related to the structural design of an organization (e.g. existing simple structure vs. functional), division of labor, job design, decentralization, delegation, formalization and standardization and the span of control.

The applied methods were based on classical organization theory, contingency theory, Adizes life cycle of organizations and other different partial approaches. Far from the full set of factors that an up-to-date contingency survey uses, this article considers only a few aspects with special focus on small enterprises and their typical symptoms. While the task was successfully completed, this combined approach seems to lend proof to the problem solving possibilities of such methodical approach of applying organizational theoretical knowledge in practice.

Keywords: organizational theory, organizational diagnosis, contingency theory, life cycle of organizations

1. Introduction

Organizational problem solving possibilities are widely discussed in the literature on management and organization. Usually problems are mentioned as subjects of change activities (such as major or main organization tasks and accessory tasks). Of course, these problems or tasks for organizations are not the same. Generally there are tasks that are analyzable at high or low level. The classification of these tasks is case sensitive and very often depends on the theoretical background of the engaged experts. Low analyzability tasks are usually difficult to solve and require the problem solvers to use judgment, instinct, intuition and experience rather than programmed solutions. At any rate, it is advisable to use or consider more theoretical approaches and techniques in the meantime to solve the practical problems. The lack of a clear and holistic viewpoint can cause blindness toward the problems of an organization (Kieser 1995). Thus it is advisable to use wider argumentation for the basic terms of organization. While classical management theorists such as Taylor and Fayol were looking for the single best way in management and organization design, in the late 50s and early 60s a shift of paradigm arose, claiming that the organizational structure of a company or administration has to fit the situation in which it finds itself. In today's variable situations the different structures turn out to be the most effective ones. In other words the optimal organizational structure is contingent, depending on certain contextual factors. Therefore, the Contingency Approach is included in the practical case study. Different researchers used to focus on different contextual factors and measure their influence in empirical studies.

Considering the basic organizational properties and contingencies in addition to other attributes, according to the organizational science glossary, one can offer as a useable approach to problem analyzing. Organization theory is a diverse field and involves 'pluralism' (Reed–Hughes 1992) or 'paradigm war' (McKelvey 1997) depending on the perspective. As a theoretical background of this article some other empirically-oriented contingency theory was added, such as Burton and Obel's approach (Burton–Obel 1998a, 2005a). They justify the adoption of this theoretical foundation on the basis that it has been developed sufficiently to provide a comprehensive set of internally consistent propositions or rules. "The contingency or the situational approach recognizes that organizational systems are inter-related with their environment and that different environments require different organizational relationships for the effective working of the organization"¹.

While the contingency approach was used to analyze contingency design fit solutions and organizational properties, the included Adizes Life Cycle Assessment approach was applied to make the case more comprehensive (Adizes 1998, 2004, 2007).

Whether in an external or an internal consulting role, the participation of the client in all phases of the improvement process is a key factor to success. In respect of this role, the methodology was based on interviews and applied questionnaires according to the program OrgCon² (Burton–Obel 1998a Step by Step Approach (Burton et al 2006) and Adizes online Life Cycle Assessment³ (Adizes 2010a, 2010b).

2. Materials and methods

Complex organizational problems are made simpler when they are separated into smaller and more understandable elements. That is why this shortened case study is based on the consideration of the crucial theoretical and organizational terms. The selection of the right analysis tool depends on the nature of the problem. The list of cited terms guided the author to analyze and describe some of the most typical problems of small and young enterprises. The article describes one of the consultancy works completed in the Business Incubator in Subotica. The basic aim was to solve the obvious and very typical problems of one of the small and young enterprises. Its case could be described as a representative of the majority of the firms at a high rate of growth without named and delegated functions, lacking formal structure and formalization. According to the results of the initial enquiry (interview with the owner manager), this client - after a short period of being in the "Go-Go phase" it derailed towards the phase called "The founder's trap" (Adizes 2004, 2007). The consultancy work started with the questions (basic terms) about the range of contingency factors including:

- Size/Ownership,
- Management Style,
- Organizational Climate,
- Environment,
- Technology,
- Strategy.

Also about the organization and its current situation are listed as "organizational properties and structural configurations" (Burton–Obel 1998a) e.g.:

¹ <http://www.fao.org/docrep/W7503E/w7503e03.htm>

² The program "OrgCon" based on contingency approach expert system (Burton–Obel 1998b) provides a tool for diagnosis and design. It aids the design process by asking the designer questions about the current organization, the contingency factors, and then offers recommendations on the design, the configuration and the properties. (Zhiang).

³ The Adizes Lifecycle Assessment Survey instantly produce and present a customized web report that contains a graphical representation and written summary of the lifecycle stage(s) of the analyzed company. The custom report is based on the clients' answers to a series of questions. (www.adizes.com)

- Organization's current configuration (organizational structure – form),
- Complexity (vertical, horizontal, spacial differentiation),
- Centralization and decentralization
- Formalization,
- Incentives, etc.

As a matter of fact it is the problem finding stage that can be called as the strategic assessment. The problem finding and problem formulation stages are also part of the organizational audit. Special emphasis was laid on problems or typical symptoms that may occur at any of the small enterprises.

One of the possible patterns for analyzing these terms can be followed according to organizational (diagnosis and) design using a “Step-by-Step Approach” (*Burton et al 2006*).

3. The problem finding stage – the strategic assessment

We “should start by assessing two, always existing, fundamental goals, efficiency and effectiveness. Efficiency is a primary focus on inputs, use of resources and costs. Effectiveness is a focus more on outputs, products or services and revenues. These are competing priorities. Some organizations place a higher priority on efficiency, focusing on minimizing the costs of producing goods or services. Other organizations emphasize effectiveness focusing on generating revenues or seizing leading-edge innovation in the marketplace” (*Burton et al 2006, p. 11.*).

Based on the given answers and interviews the current organization’s features could be summarized according to the highlighted terms. Meanwhile, we can consider some theoretical recommendations pertinent to the current case.

3.1. The strategy of the organization

Before starting to analyze structural questions, one should know about the famous dictum “structure follows strategy” (*Chandler 1962*). One of the simple but powerful ways to describe a firm’s strategy is in the terms of a reactor, a defender, a prospector and an analyzer with and without innovation (*Miles–Snow 1978*). Situational contingencies influence the strategies, structures and processes. There is always more than one way to reach a goal but in any case managers should adapt their organizations to the situation. Most likely the client’s (studied case) strategy is to be a defender because it has greater focus on exploitation than on exploration. That means a defender is high on exploiting its resources and situations but low on exploring anything new or on being innovative. The defender should maintain its position by being efficient much more than the competitors. The defender is slow to make significant changes. This can lead to a dangerous position in some environmental circumstances. An organization with a defender strategy is an organization with a narrow product market domain. Top managers in this type of organizations are experts in their organization's limited area of operation, but do not tend to search outside their domains for new opportunities. In an uncertain environment, it is very likely that the customers will prefer variation in products and services. Competitors are likely to vary their strategies in products, prices, advertising, etc. New innovative strategies may be called for.

An organization in the “Go-Go phase usually is a company that has a successful product or service, rapidly growing sales and strong cash flow”⁴.

⁴ http://www.adizes.com/corporate_lifecycle_gogo.html

The Go-Go companies are sales- and opportunity-driven rather than opportunity-driving. They react rather than proact to opportunities.

Everything is described as a business priority. To make matters worse often the overloaded manager has difficulty articulating his strategy and ideas clearly. (In the client's firm evidently bad sign predicting misfits). The employees who can interpret the Founder's ideas become the key person, critically important insiders. They may become trusted and authorized confidants in the future.

3.2. The business environment

Open systems theory can be defined as a theory of an organization that views organizations dependable from their surroundings, highly complex entities facing considerable uncertainties in their operations and constantly interacting with their environment. The environment creates limits and opportunities for a firm's strategy and structure with other organizational properties. This system also assumes that organizational components will seek equilibrium among the forces pressing on them and on their own responses to their forces. The organization's environment can be described in numerous ways. For this case the four dimensional environmental description will do. A) The environmental complexity which is the number of factors in the environment and their interdependency. B) The environmental uncertainty which is the variance among the factors. C) The environmental equivocality which is the ignorance and confusion about the existence of some factors. D) The environmental hostility which is the extent of malicious external threats.

In the examined period of time the client's business environment can be described by medium equivocality, medium uncertainty and high complexity. In this stage it is important to consider first: whether the strategy matches the goals of the firm? If it does not match the goal, the statement should be reconsidered or the strategy to match the goals. Second: Does the strategy match the environment? Generally the aim (in the case of such a small firm) is to move the strategy of the organization to match the environment.

3.3. The size of the organization

One of the most widely accepted measures for organizational size is the total number of full-time or full-time-equivalent employees. With their 12 employees the consulted firm can be considered as a small enterprise. Some approaches define the adjusted size as define correction factors according to the employee's level of education. Between 51 and 75 % of the people employed by the client have a high level of education. But in this case the possible adjustments do not mean change. This enterprise is a typical small privately owned firm (a bit over the size of the so-called micro firm).

3.4. Organizational structure

It is sometimes called configuration or architecture, frequently pictured as an organizational chart. It shows the principles of departmentalization and identifies the grouping of the functions or the individuals, the hierarchy - number of levels and the span of control, the formal communication pattern-coordination and the integration. A poorly designed structure may cause a number of misfits between the organizational properties and the contingency factors. The contingency theory of organizations posits that there is no single best way to organize. The optimum structure for an organization depends on the values of variables describing its task and its environment. The organizational structure must provide adequate support for the position and effectivity. That means sufficient authority, resources and

management support. All of the jobs overlap should be avoided as a source of inefficiency and conflicts.

According to the scheme – organizational chart given, it was easy to recognize that the client’s organization had a typical Simple Structure. That can be characterized as a structure with low degree of departmentalization and a wide span of control. The authority is largely centralized in a single person with very little formalization. It usually has only two or three vertical levels, so it could be called 'flat structure', and means low vertical differentiation. Human resources are a flexible set of employees and generally one person in whom the power of decision-making is invested. This simple structure is most widely practiced in small business settings where the manager and (usually the) owner happens to be the same person. Its advantage lies in its simplicity. This makes it responsive, fast, accountable and easy to maintain. However, it becomes grossly inadequate as and when the organization grows in size. Such a simple structure is becoming popular because of its flexibility, responsiveness and high degree of adaptability to change. “Go-Go's need continuous restructuring. They are like children who keep growing out of their clothes. Many Go-Go leaders however, attribute little importance to structure, managerial processes or systems. They are focusing externally on the sales. Organizational structures, roles, responsibilities, require attention to detail, discipline and self-restraint. These qualities are quite alien to the entrepreneur”⁵.

3.5. Question of organizational complexity

The complexity of an organization is measured by vertical (hierarchical), horizontal, and spatial (geographical) differentiations. In most of the cases the hierarchy of an organization (vertical differentiation) begins to emerge when the organization experiences problems (very often connected with the question of delegation). A basic design challenge involves deciding how much authority to centralize at the top of an organization and how much to decentralize to middle and lower levels.

Small organizations should have low organizational complexity. The client has a routine technology, which implies that the organizational complexity should be low. When the environmental hostility is high, organizational complexity should be low. The top manager has a preference for a high level of involvement into decision making in lower (operative) levels, which leads to lower organizational complexity. It is also a symptom that appears in the Go-Go’s founder trap.

“When the size of the company and the environmental complexity increases the top of the simple structure usually may get overloaded with information. This information overload may compromise the effectiveness of decision-making performed at the organizational top, and make the organization slower in its adaptation to new situations. Therefore, growing companies, in changing and dynamic environments, may need to specialize and formalize their organizational structure so that work should not be heavily coordinated by the organizational top. Likewise, companies may need to differentiate activities into subtasks and employ specialists responsible for a given subtask previously handled by e.g. the company owner. Finally, companies may need to decentralize some of the decision-making power to lower levels of the organization, so that decisions are made by people responsible for the subtask, and by those who control specific knowledge and information about the handling of the given subtask. A clear pattern of vertical and horizontal differentiation can cut down on role conflict and role ambiguity”⁶.

“Organizational differentiation means the un-bundling and re-arranging of activities. Re-grouping and re-linking them is organizational integration (Lawrence–Lorsch 1967).

⁵ http://www.adizes.com/corporate_lifecycle_gogo.html

⁶ <http://www.businessmate.org/Article.php?ArtikelId=183>

When different units are assigned to individual tasks and functions, they also set independent goals”⁷.

3.6. Organizational climate

Organizational climate is a measure of internal environment and can be described in terms of the values of a particular set of characteristics or attitudes of the organization. It is experienced by its members. It refers to all members of the organization including superiors and subordinates. Basically, the climate can be described with two dimensions: A) Tension - incorporates a combination of organizational factors as experienced by insiders such as trust, conflict, morale, rewards, leader credibility and scapegoating. B) Readiness to change – people’s readiness to shift direction or adjust their work habits. For more precise diagnosis the four category models as a combination of the mentioned dimensions seems to be applicable (Table 1.).

Table 1. Organizational climate dimensions

	Group	Internal process	Developmental	Rational goal
Tension	Low	High	Low	High
Readiness to change	Low	Low	High	High
oriented	Internally	Internally	Externally	Externally

Source: own construction based on Burton et al (2006, p. 149.)

Based on the answers provided for analysis, it is most likely that the client’s organizational climate is a developmental climate. “The developmental climate is characterized as a dynamic, entrepreneurial and creative place to work. The leaders are considered to be innovators and risk takers. Readiness for change and meeting new challenges are important. The organization's long-term emphasis is on growth and acquiring new resources. Success means having unique and new products or services, and being a product or service leader is important. The organization encourages individual initiatives and freedom.” (Orgcon Report Summary according to the case).

3.7. The management style

Managers have to perform many roles in an organization and how they handle various situations will depend on their style of management. According to the applied approach (OrgCon questionnaire – *Burton–Obel* 1998b) the management style can be measured by the level of the management's micro-involvement in decision making. Leaders could have a low or high preference for micro-involvement. As a matter of fact, it means that there are two sharply contrasting styles: Autocratic and Permissive⁸.

In the current case the manager has a high preference for micro-involvement. It could be considered as a typical example for small firm around the Go - Go phase. The authority presents itself as the power vested in a person by virtue of his role to expand resources: financial, human and technical ones, in order to meet the accountabilities of the role. It is very important to have a clear and distinct line of authority, so called “chain of command”, among the positions in an organization.

The manager of the reviewed company has a preference for making most of the decisions himself. This means a high preference for micro-involvement. When the manager has a preference for using control to coordinate activities that leads toward a high preference

⁷ <http://www.fao.org/docrep/W7503E/w7503e03.htm>

⁸ http://www.rpi.edu/dept/advising/free_enterprise/business_structures/management_styles.htm, [Accessed 31 August 2011].

for micro-involvement. Founder - manager needs the employee's deep feelings of affection and respect.

3.8. Delegation and decentralization

Decentralization is a necessary and continuous process which means systematically delegating power and authority throughout the organization to middle and lower-level managers. It goes together with the delegation process by which a manager assigns a portion of his or her total workload to others.

The manager is "often ineffective (and frustrated). With his personal involvement in the day-to-day work of the company, the leader often has little time to manage. Work is hastily assigned with scant attention to detail." As a matter of fact the owner does not need to be involved in all those details. This is a real sign (distinctly appeared in this case) that there is a need for decentralization. Some founders view these symptoms as further evidence that successful business depends on their personal engagement. The usual problem is that they tend to fix these problems by taking personal control (and unnecessary level of micro-involvement). "The employees are frustrated. In the face of an overwhelming workload, unclear responsibilities and fuzzy goals, employees find it increasingly difficult to be productive. New people are hired and thrown into their jobs with little training or preparation. Physical space and proper equipment can be scarce because growth is difficult to predict. Promotions can occur on the spur of the moment. Later in adolescence it often turns out that people promoted into senior management positions during previous phase do not have the skills and the experience needed to succeed in that position"⁹.

Often when the rules and policies are created, the founder – leader could be the first to violate them. In the Go-Go phase founders also tend to struggle with delegation and decentralization. Workable decentralization requires an effective system of control. Mistakes in delegating can bring the Founder to retake the reins of control. It can endanger the process of effective decentralization. The Founder needs to escape from day-to-day details so that he can focus on the whole picture.

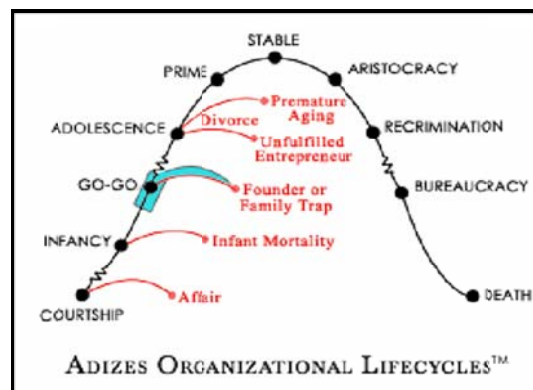
If perpetuated, this inability to effectively delegate will threaten the organization in the Go-Go phase into a premature aging syndrome known as the "Founder's Trap" (*Adizes* 1990) (see Figure 1). It occurs when a rapidly growing company is unable to relieve itself from dependency on the founder. With weak control systems, accountability is very unclear and no one takes responsibility. This is the stage where "everyone claims inadequate information, lack of authority and feels they are the victims of decisions made by other people. Fingers point in all directions. This frustrates Go-Go leaders. They feel betrayed. No one warned them of the tricky dangers ahead"¹⁰.

The urgent need is uncovered to develop functions and abilities needed among the employees to replace the unique skills of the owner. If it will not happen because the owner-manager is unwilling or unable to effectively delegate and decentralize control, it can become a fatal problem.

⁹ http://www.adizes.com/corporate_lifecycle_gogo.html

¹⁰ http://www.adizes.com/corporate_lifecycle_gogo.html

Figure 1. “Go - Go phase” turning into dangerous “Founder trap”



Source: Adizes (2010b) a customized web report

3.9. Integration and coordination

It involves the collaboration among specialists needed to achieve a common purpose of the organizational sub-systems. It evolves some controlling mechanisms for smooth functioning of the organization. As a matter of fact, it means organizational counterbalance for decentralization, differentiation and (in some cases) division of labor. Integration can be achieved across various specialized units and functions to ensure that organizational goals are being pursued. “Span of control refers to the number of specialized activities or personnel supervised by one manager. There is no optimal number for a span of control and the number of levels in the hierarchy. In fact, span of control and hierarchy levels are inter-related and depend on situational factors” (Barkdull 1963). Important features to be considered while designing are: the similarity and the complexity of functions, the need for direction and control, the managerial coordination and the planning requirements.

There are several methods to improve integration. (If needed even in a small organization). These include rules, procedures and professional training. Communication is another important process in the organization crucial for achieving integration and coordination of the activities of separated units at different levels. Communication can be horizontal, downward or upward. Integration and coordination refer to integration of the objectives and activities of specialized units or sub-systems in order to achieve the organization's overall strategic objectives. In large and complex organizations coordination and integration become extremely important. It can also be improved through developing rules and procedures, and professional training (done simultaneously), with professional committees involving managers from different specialized units.

Integration aims at ensuring that different sub-systems work towards common goals. Staff meetings with the purpose of integration and coordination are held weekly in short duration for each work group (department), with the general manager present. There are no meetings for the entire staff meantime.

Some additional terms of analysis were:

- Job design –“...the assignment of goals and tasks to be accomplished by the employees...”
- Job enrichment – “An alternative to job specialization which involves increasing both the number of the tasks (job enlargement) that the worker completes, and the control the worker has over the job which become crucial, as well, for the examined firm.” (Daft 2006).

3.10. Technology

Technology is based on major activity. In the current case it is production (a unit production technology - finished products from composite material, custom-made furniture). The client only has (a) few different products, operates in one country, has a low product and process innovation, with a high concern for quality. “In an uncertain environment, it is very likely that the customers will prefer variation in products and services. Competitors are likely to vary their strategies in products, prices, advertising, etc. New innovative strategies may be called for. Some rather non-routine technologies will likely be required to adapt to an uncertain environment” (Burton–Obel 1998b).

In this organization information and accounting systems seemed to be weak. This can be typical for the Go-Go phase where only the support for basic needs of production/operations, customer service and accounting exist. The client’s firm lacks useful cost accounting and accurate reporting of individual product profitability. Management reports are often published so late that they are of little use for day-to-day operations (Insufficient cost controls, ad hoc budgeting).

3.11. The question of formalization

Formalization is the degree to which an organization has rules, procedures and written documentation. Formalization means an organization is involving installation and the use of rules, procedures and control systems.

The examined firm is organized around people and projects. Responsibilities are assigned based on who can do the work on a project-by-project (product - task) basis. New tasks often conflict with previous assignments. The organization chart often does not accurately reflect the way the work really gets done.

4. The results – strategic design recommendations

According to the cited literature and applied practice knowledge the results of the performed analysis show comparisons between the theoretical input modules and the identified appropriate practical organizational solutions. The basic aim was to diagnose and solve the fundamental discrepancies between the contingency factors and the elements of the organizational properties. As a result some of the identified values of major factors and properties in the analyzed organization derailed from universal principles of management and contingencies, which means that urgent adjustment is needed in the client’s firm.

When many factors in the environment affect the organization, it may make it difficult for a defender, like the client’s firm, to protect what it does, and also difficult to protect its established market position. Therefore, the defender strategy is not appropriate. An analyzer strategy is more appropriate for this complex environment. Here the analyzer should seek for opportunities in the complex environment.

The current organizational complexity is low due to the fact that it is a small firm with medium horizontal differentiation, low vertical and low geographical differentiation. (It has only one location).

The most likely configuration which best fits the situation for the client has been estimated to be a functional configuration. A functional organization is an organization with unit grouping by functional specialization (production, marketing, finance, etc.).

The current formalization is medium but there should be high formalization between the organizational units, but less formalization within the units due to the high professionalization. Since the firm employs many professionals, the formalization should not be as high as otherwise it would be. When the organization is in the manufacturing industry

and it has a routine technology, its formalization should be lower than if it were in the service industry. When the organization uses an advanced information system, formalization should be high. A defender strategy needs cost efficiency and that can be obtained through formalization. Organizations with routine technology should have high formalization. High formalization is consistent with top management's preference for a high level of micro-involvement.

The organizational life cycle phase “The Founder's Trap” (uncovered pathologies for Go-Go) “occurs when a Go-Go company is unable to relieve itself from its dependency on the Founder. The company is trapped by the capabilities and the limitations of the bottleneck that is its Founder. This can occur because the organization is unable to develop the abilities needed to replace the unique skills of the Founder. The slide into the “Founder’s Trap” can also occur because the Founder himself is either unwilling or unable to delegate and decentralize control effectively. Developing the skills, systems, trust and respect needed to support delegation and decentralization is a crucial task for the given client. The process starts with delegation from the Founder, which involves transferring responsibility of important tasks down into the organization and creating the commitment needed to achieve the desired results. But forcing this transition before it can be effectively supported will foster mistrust and animosity between the Founder and the employees” (the future senior management team), and exacerbate the “Founder's Trap” pathology¹¹.

Go-Go companies must begin to make the transition from management-by-intuition to a more professional approach. Stages of the Founder’s trap should be avoided by staggered empowerment. That can be achieved through:

- aligned role with capability,
- aligned tasks with the role,
- aligned resources with accountability,
- context or value provided by the manager.

Consistent human resource management builds responsibility, enables avoiding confusion in roles and frustration of the employees.

The motivational system should develop a feeling of obligation in the employees and also the system of values, standards, conscience and aspirations that the individual demands from themselves. It relates to one’s own standards, conscience, values and aspirations.

Incentives should be based on results and procedures. The client’s coordination and control should be based on rules and procedures, integrators could be group meetings and some mutual planning. Unannounced and unproductive meetings should be avoided. A moderate amount of information will be required and it is not likely that there will be a need for rich information (nor for wide channels of information).

In the field of formalization the current client should consider increasing the number of positions for which written job descriptions and written rules and procedures are available. According to the defined measures the supervising of the employees should be at closer measures.

5. Conclusion

One of the major misfits that created obvious problems was the un-adjusted (defender) strategy with the business environment and the organizational climate. The reason lies in the lack of delegation and decentralization. The pathological Go-Go’s “founder trap phase” was spontaneously formed because of the overloaded owner’s inability to form and control

¹¹ http://www.adizes.com/corporate_lifecycle_gogo.html

strategy. It slowed down the process of growth, derailed the organizational forces, such as creativity, and led to the diagnosed “founder trap”. This stage threatens healthy development and it cannot be maintained over a longer period. Missing adequate organizational structure with poorly defined division of labor additionally worsens the situation. Very often “a single misfit may make the whole design unacceptable” (Burton et al 2002).

The detected situation shows misfits in a routine technology and an uncertain environment because it can cause problems. For this contingency some non-routine technology is better! “A routine technology produces goods and services efficiently which are standard and without variation. Low product innovation, but a certain environment, calls for a review and suggests that the organization should consider greater product innovation. Low product innovation means that the same products are available for an extended period of time. In a certain environment with little change in customer demands and preferences, there is little need for new products. But, with increasing uncertainty in customer demand, new competitor strategies, possible governmental actions, shifting customer tastes, etc., current products are likely to become soon mismatched with the possibly changed environment. New products and innovations will likely be required to adapt and meet the emerging needs and opportunities of the new business environment” (Burton–Obel 1998b).

It is evident that the client’s firm needs to make the recommended interventions to return on the fastest possible track of development.

Such simplified approach, showed in the article can give a model that would assist analysts to deal with more widely recognized factors. The majority of those considered organizational glossary terms should be considered when diagnosing and designing organizations of any type and in any contingency circumstances. Users are asked to identify organizational design parameters in order to change their settings (if necessary). In this case the majority of important contingencies have been identified. It is also shown that the selected and analyzed terms can provide wider and guided possibilities for organizational analyses in even more complex situations. The suggested model of thinking or a qualitative analytical approach may be applicable to the majority of the managerial issues.

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Knowledge – management with talent – management

HENRIK HEGEDÚS

In the first part of the article the author points out that seeking employment is not simply looking for a job, or for a source of income, as literature defines with the term 'subsistence employee' Thereafter the means and complex processes of becoming a grand master are being discussed through the actual aspects of the topic, together with the consideration of the career building possibilities. In the final part the author stresses, that 'knowledge-management' in the world of labor means that such skills need to be elaborated, adequately to the existing abilities of the individual, which increase the survivability and makes them more competent and credible in their professions.

Keywords: knowledge management, grand master, talent-management, credible, career-planning, business success

1. Introduction

The challenges provoked by global processes and quick changes demand constantly amplified and maintained knowledge both from organizations or individuals, and this does not only have socio-political and economic management consequences. This is very true from different points of view for the army as well. The problems of teaching, education and executive training must be dealt with special care also within the sphere of the defence. To accept the primary importance of modernization and innovation, to resolve contradictions in the interests to develop human resources one needs growing, more profound and wider knowledge concerning the possibilities to develop personality and the limits of this possibility. The so called soft competencies of the personality, through the development of which the penetrability between the civil and the military spheres can be assured, should be placed in the focus of the talent management. According to my conviction human security (working security etc.) being a fundamental human requirement, in a moral sense gives the basis for the vision of the future and as such, promotes social integration and cohesion. I examine the problem from both the side of the employees taking the dynamics of the progress of the individual, of their need for progress in consideration. According to my hypothesis the time of knowledge-workers has come, in the army as well but in a different sense than at any other time in history. The foundation of a knowledge-based society, the high speed technical and technological progress are in a tight correspondence with life long studying, with knowledge production and enlargement, with knowledge-maintenance, with talent management, with added value based activity, all which I would like to prove item by item.

2. Our quickly changing world

Nowadays things change more often than we ourselves would even think. The mathematical formula is almost impossible to solve, as in this equation the only invariable is the variable itself. Therefore the world around us is changing quickly, often and radically.

The dissolution of trade limitations, the communication revolution and the science-based economy induces significant changes in the global and virtual labor market. As we get more and more integrated to the blood circulation of the globalized world, employees become more diverse, independent and better trained. Through in-depth analyses of the changes, employers have realized the complexity of the situation, and started to put more emphasis on science-management and talent-management. Nowadays this is already a question of strategic

importance for us. Career-planning and promotion inside the organization have become nowadays a task of primary importance for the leadership.

In the primer socialization environment, in the family, in the school there are already tasks related to the topic, but without simplifying it exclusively to the problem of how to raise geniuses. The contradiction of nowadays is that besides the high number of unemployed people, the problems caused by the aging Europe and by the decreasing number of births show that „according to the U.S. Bureau of Labor Statistics, more than 25% of the working population will reach retirement age by 2010, resulting in a potential worker shortage of nearly 10 million” (Lockwood 2003). Concerning the lack of labor force, consequences for the European Union might be dramatic to 2013.

Seeking employment means not only looking for a job or source of income - these people are named 'subsistence employees.' For them 'where', 'what', 'why', 'how long' is all the same. They only instinctively want to have their biological and physical needs being fulfilled, and they do not intend to overstep this, as from the economic point of view they are just men of impulse.

Conscious employment is much more, it means profession, career, credibility, orientation, behavior and the improvement of skills. Nowadays the latter naturally goes together with the modification of profession, the high level of mobility and the continuous (re-) training. It can already be seen that in our faster world immobility, seeking employment with only one degree or profession means a clear disadvantage for the employee, while the above mentioned characteristics provide significant competitive benefits for him.

3. HR profession looking for the way

The HR activities of nowadays need to be generalized and individualized at the same time. Remuneration and other benefits, social policies, etc. need to affect the whole staff of the organizations, however, career planning and performance evaluation need to be individual, person-centered. Together with all these, 'talent management' need to have a center position in science management. The talented, opened employee of extroverted character deserves special attention and different treatment than the grey average does. Besides improving professional capabilities they can and need to be put on the leader career path, and the preservation and future training of them is a strategic interest of the organization.

Professor László Mérő, while teaching cognitive psychology specifies the following development phases – using chess as a competence model – while summarizing the typical characteristics of becoming a grand master: advanced (bungler), unprofessional, his performance is unstable, he is alien in the professional language, in his work and his workplace relations he is inconsistent, and he exactly knows what he does not know. The expert, as his name states too, is professional, analytic, and correct in his relationships, works in a balanced way, gives a stable performance, decides rationally, his performance is steadily at the expected level, and he can perform all these without being under constant control. His wording is expressive, uses the professional language freely. He knows, what he does know, and where does he know it. However, there is a risk of becoming a hostage of his own knowledge, thus becoming cold, introverted and closed. He can easily convince himself that he is the most important 'chimney' and that he is personally irreplaceable.

From the perspective of the overall topic the most important one is the grand master, who can not only analyze, but also synthesize his knowledge and schemes on the world. He is characterized by his transparent, logical, system-oriented work style. His wording is of native level, understandable and scientific at the same time. Intuition plays a crucial role in his decisions, as he knows, what is good and what is not, but he does not know where he knows it. He can be the facilitator in knowledge-transfer, who can take responsibility in the education of the new blood, either as a mentor or school-forming personality, in the talent-

management in the world of labor. In the latter case the greatest success for him is if his students overshadow him.

4. Being talented in the world of labor

In this case we face the talented individual directly. However, the road to this is quite complicated, and on the way we see the loss of many, who lose their faith in career-building. From the recognition of the talent the road towards the Maslow-type self-realization leads through the conscious development of personality, the forming of competences and continuous training.

Concerning the given sections of the lifelong career, there are highly and weakly motivated employees. The possibilities of the latter ones will be narrower in the future, as organizations will rather choose mobile, able-to-change workforce, who is able to take responsibility for his own individual career. Successful career requires high flexibility and mobility, which depend on the personal abilities. There are ones, who are unable to tolerate dependency, others like to control people, are keen on power and taking responsibility, but there are ones longing for stability as well.

Belcourt and her colleagues divide the employment career into five parts (*Koncz 2002*):

- Preparing to work (0–25 years)
- Organizational entry (18–25 years)
- Initial career (25–40 years)
- Middle career (40–55 years)
- Late career (55–retirement)

When choosing profession, individuals are looking for an environment suitable for their personal character. Choosing profession is also defined by the situation of the labor market and the prestige of the given profession. During the 'organizational entry' phase the primary task is to appropriately choose the employer and the job.

Nowadays „one can speak about a new generation of talents, who will supposedly have to face more stress in the workplace, more conflicts and more discontent, but at the same time they will have more opportunities to change workplace or to retain valuable knowledge and resources” (*Gandossy et al 2007, p. 23.*).

Keeping and motivating this workforce also means, that such working environment needs to be created, where they feel being respected for their knowledge and talent, and being valued as well, recognizing their efforts.

The number of parameters endangering the commitment of the employees in increasing, the next generations are under huge pressure concerning the global competition for workplaces and the growing responsibility felt for their own careers. 'Talent management' shows significant correlation with the organization culture. 'Unifying culture' minimizes the self-interest, even though market economy is really run by self-interest. Being atomized is a real source of danger in our era. At the same time, it can be also realized that interest-based economy also need values and virtues, which can be formed by the family, communities of friends and on the workplace on the micro level, and by the society itself on the macro level.

The HR needs to motivate people with the whole spectrum of its helping, supporting and servicing activities to always give the best expected performance. We need to let the employee know both his strengths and weaknesses. We need to realize the limits of our performance compared to the competency model and the workplace requirement profile, need to know our maximum load and our vitality in order to decrease the risks of burnout caused by the stress, and the loss of balance.

5. Developing during the whole career

While developing the personality of an individual – which is, by the way, not dependent on age – we need to find the strong point, and based on them – according to the possibilities - we need to address the weaknesses as well, by developing them selectively. According to Péter Popper psychologist and psychiatrist, 'talent management' needs to be centered on the harmonic, balanced, stable personality model.

An employee can be considered healthy if his skills are in harmony with his performance and has developed adaptation ability for finding one's feet. In his way of life he realizes and keeps himself to the golden mean. He is a communicative individual, who is ready and able to sense the events of the outside world, notice the beauty and good as well, and is a positive, emotion-rich personality. Besides, as a consequence of the above mentioned ones, he is empathic as well.

The lack of any of these characteristics can result in failure, which might lead to the loss of the balanced state of the human organism, forcing the psyche to compensate, and may induce even an illness.

In the framework of the market economy health means the reproduction of the working ability of the employee, recreation and mental hygiene as the key questions of the success of the individual. Society, the micro and macro environment and the employee himself are all in the change. So the question is whether the work organization, its regulations, procedural mechanisms, organizational culture, organizational system of values and strategy fit into the impetus of these changes. In the fast changing environment this question can be put to the HR profession as well, as instead of the consequences of 'talent management', system of promotion and objective performance measure we are still fighting with contra-selection. The question even today is that concerning possibilities and career building, would it be still enough simply to belong to the given nomenclature?

The answer is evident for all of us, short and concise: no. I claim this together with stating that in my opinion there will always be such people in every organization, who think forward, who learn from the losses of the others, and also such ones, who react to the warning signs only too late. The talented person – one can call him 'smart' as well – learns from his own loss, thus they realize that failing, being unsuccessful similarly strengthens the personality, like success and being successful does.

6. Conclusion: Knowledge as element of success

Thus we are not sentenced to continuous success and victory. The symptom is highly complicated and complex. Nowadays we can also meet a special type of the talented workforce, the science nomad: „the science nomad can be interpreted mostly in science-intensive fields of work, but cannot be narrowed only to the advisory and IT-sector” (*Gandossy et al 2007, p. 215.*).

On all levels of the national and global labor market there are such professions, which attract science nomads. Besides possessing the knowledge they also have certain entrepreneur ambitions, thus they are willing and able to torn themselves out from the secure environment and leave the constraints behind. They economize their knowledge individually, according to their free will, selling it on the highest possible price.

Another important perspective of the science nomads is that they are bonded to organizations according to their own interests, e.g. they realize, how to harmonize individual and organizational interests. If such a harmony can be achieved, then organizational affection can overwrite the migration motives of the science nomad, and he will see his own success in the success of the organization.

The special feature of the knowledge-economy is that from the affection for a given company it tendentiously goes towards standing on many feet, where the employees live rather like freelancers, utilize their knowledge individually, and maneuver on the labor market by choosing the financially most optimal situation. At the same time, the citizen atomized at the society level means that workforce can be substituted, thus it needs to be recognized that there is no irreplaceable person. Peter Drucker writes in his book titled 'The Leader' that the leader should first get rid of those people, who made themselves irreplaceable. Thus preserving the workforce became a strategic problem of the HR. The main question here is price of substituting a given person, e.g. how much does cost the loss of human capital, and how does it affect the efficiency of the organization on the short and long run.

The slogans of the knowledge-based society are well-known, such as the added value-based production, life-long learning, etc. It can be clearly seen that possessing improved knowledge and preserving innovative knowledge is a key definitive of the competitiveness of a given enterprise. The loss of a creative mind is either really hard, or really expensive to make up, compared for example to the loss of a trained worker.

Supporting the talent in the world of profession means that such proficiencies are to be formed according to the existing abilities of the individual, which increase the survival skills of the individual, and makes him being credible and competent.

According to a Gallup survey, business success is based on the satisfaction of both the customer and the employee, which has an important message towards the HR nowadays.

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Corporate opinion about competition and cooperation in the examined enterprises

HILDA HURTA

Enterprises emerging from the crisis face significant uncertainty independent of their capitalisation. While looking for points of departure enterprises try to measure each other's intentions. In my survey I strived to inquire about entrepreneurs' assessment of their position and their attitude towards their partners considering the present stressful economic environment. The research's results indicated that respondents are more optimistic than expected, their answers indicated that they don't struggle for survival but strive to maintain their stability and realise a moderate growth. Most of the managers consider their enterprises competitive on the domestic market and financially profitable. From the government they nevertheless expect an increased protection of domestic actors. They consider Hungarians to be rather competitive, although competition is not spotless in the country. Nevertheless they judged their own attitude to be cooperative rather than competitive. They emphasised that clean partnership is important for a successful business but differences in income are not due to outstanding economic performance. They consider their companies flexible and stabile, prepared for the oncoming changes, yet they are not risk-taking, work with long term contracts and allow for rebates in favour of cooperation.

Keywords: economic situation, competitive, cooperative attitude

1. Introduction

Economic processes are defined by economics as relationships of competing partners, where market forces competition of market actors. Actors strive to implement their objectives by competing with each other; competition defines the allocation of wealth, production and distribution.

Results of applied psychology suggest that uneven allocation of resources can give ground to conflicts (Bakacsi 1996), which is considered a baseline characteristics of organisations and groups, conflict arises from the perceived incompatibility of individual goals (Smith–Mackie 2004). Individual solutions of conflict can come in many forms: conflict avoiding attitude, adaptation, competition (rivalry), cooperation or compromise. In the case of competition the individual follows his own goals and tries enforcing them even on the other parties' expense. In this case, conflict is a game with victory as the only solution. Grzelak (1999) also considers the difference between interests arising from conflict resolution as the foundation of competition, where the focus is on individual interest based rivalry instead of cooperation along common interests.

Is the „homo oeconomicus” obliged to compete when obeying his individual interests, or is he able to cooperate and share the earned benefits?

According to the Economic Research Company (GKI 2009) competitive market conditions declined and ethical behaviour of enterprises decayed in Hungary in the last years. This includes willingness to pay taxes which reduced to a level experienced last time a decade ago, and the perception of strong corruption.

According to the ranking of *Global Competitiveness Report* (2010–2011) Hungary stepped forward to the 52nd position in 2010-11 from the 58th place in 2008–2009, Slovakia fell back from 47th to the 60th place, while Czech Republic and Slovenia advanced from 31st to 26th and from 37th to 45th respectively.

Intensity of competition is relatively strong in Hungary, according to a survey of *GKI* (2009) managers assessed is 5,5 on a 1–7 scale. Nevertheless this value is still behind the western countries, in the US the respective value was 6,3. As the real obstacle the regulation of competition was indicated by most respondents, who considered it more stringent than American or Japanese regulation. For example, the impact of regulations and rules on products was assessed on a scale of 1–10 as 7,3 in Hungary compared to the US value of 6,6.

If we consider cooperation as the second subject of our analysis, then the following results can be seen: adaptivity of the Hungarian market (its flexibility to react to market effects) is moderately flexibly according to the *IMD* (2011) report (5,67 on a maximum 10 scale), this value is lower than the Japanese or US value, but higher than Germany's. According to the *IMD* report the Hungarian corporate sector's technical cooperation is favourable, but in relation to developed countries the value is mediocre as on the same scale (1–10) it is 2 points behind the scores of the US or Japan.

Attitudes are characteristic to everyone, as they define our relationship, behaviour and approach to our environment's objects, persons and situations. Since attitude can not be seen, overheard or sensed, the only way to conclude it exists is from the behaviour of the observed person (*Klein* 2004).

According to the dictionary of foreign words and phrases (*Bakos* 1973) attitude is behaviour, conduct and manner or in other words a theoretical standpoint or attitude of mind. In sociology – quoting the same source – it is habit, behaviour, or conduct in a given situation or for a given opinion.

Attitude is a capstone of socio-psychology, and recently economics also started to acknowledge its influence and studies its role in behavioural economics. Behavioural economics was formulated because economics (mostly due to Kahneman) started to apply psychological methods and approaches. Developing strongly in the 90's behavioural economics combines therefore elements of economics and psychology, studies the reasons of economic behaviours and decisions because a decision maker is not simply a logically behaving algorithmised robot, but social, cultural and emotional factors also influence him. We can have more precise results if we consider the additional motivations found in economic processes (*Hámori* 1998).

In a concise manner attitude is „an opinion strongly infiltrated by judgement which directs one's behaviour” (*Pléh–Boross* 2006).

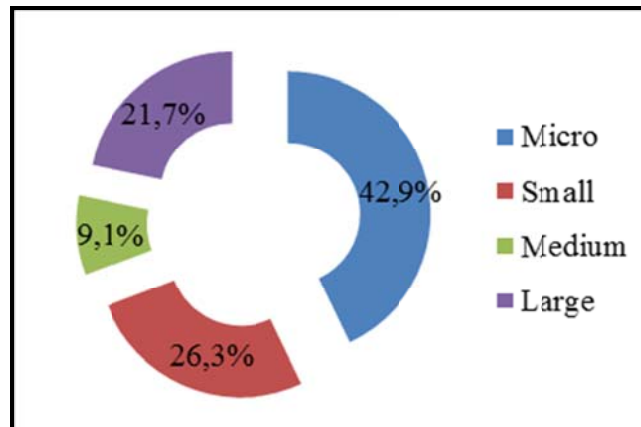
According to *Hámori* (2003) behavioural economics has stronger ties with psychology than with economics, since it examines why individuals don't act rationally and follow the principles of utility maximisation.

Economics can be considered more or less a young discipline, and behavioural economics is even younger. Observation of attitude and cogitation can be considered to be still in the cradle, although many called the attention on this significant factor. Among others *Román* (2007), *Szerb* (2008) and *Chikán–Czakó* (2009) who claimed that competitiveness and business success or handicap frequently stem from individually determined factors.

2. Material and methods

A pre-survey was conducted in March, 2011 as a trial phase. This survey included 87 questions and consisted of 7 larger blocks. Respondents had to indicate their opinion on a scale of four degrees. This means that answers represented subjective opinions. The total number of answered questionnaires was 198, distribution by size is shown in Figure 1.

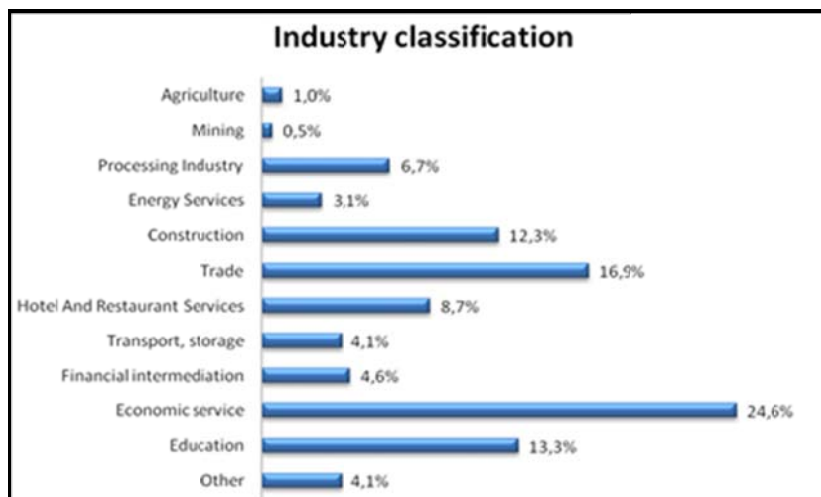
Figure 1. Surveyed enterprises by size



Source: Own construction

Out of the enterprises 86,7% was commercial, and 13,3% non-profit, 79,3% of the respondents were located in the Central-Hungarian region, and the remaining 20% of the answers came from the remaining six regions. The breakdown by their area of activity can be seen in Figure 2.

Figure 2. Area of activity of the enterprises in the sample (%)

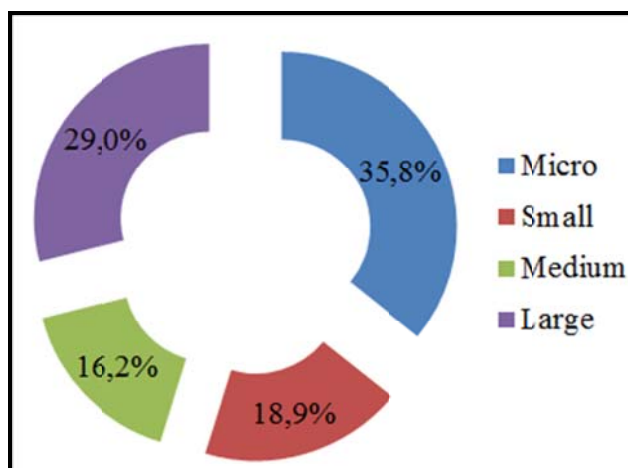


Source: Own construction

Concerning the sex of respondents, 61,5% was male and 38,5% female. The age distribution shows that the majority (63,2%) was between 36 and 50 years old, 20,2% was over 51 years and 16,6% was under 35 years. The share of executive managers was 37,3%, 34,7% were mid-executives and 28% of the respondents were ordinary staff member. Their highest qualification was university/college degree in 42,3% of the cases, 42,8% reported high school and 14,9% had more than one degrees.

Full representativity was not an objective, but it has to be noted that the responses resembled a similar picture to the Central Statistical Office's (KSH 2009) statistics on size distribution of domestic enterprises. I consider the managerial attitude to define the attitude of the employees, therefore representative for all the employees. It is well founded to perform the weighting on this basis and thus obtain a representative sample with respect to the proportion of employees (Figure 3).

Figure 3. Share of employees in the respective enterprise size classes



Source: Own construction based on KSH (2009)

Statistical analysis was performed with SPSS (Székelyi–Barna 2002). After coding the questionnaires and recording the answers labels were given. Descriptive statistics was used in the initial steps, to present the frequencies of the answers to the respective questions.

Associative links between qualitative variables were examined by crosstabs, the statistical significance of links was tested by chi-square (χ^2) test. The nullhypothesis was that the variables were independent; the nullhypothesis was refused if the empirical significance values were not larger than 5%. Refusal of the nullhypothesis meant the statistical justification of an associative link.

Strength of correlation between two ordinal variables was tested by the Gamma association test, which is a symmetric measure of association between two ordinal variables that ranges between -1 and 1. Values close to an absolute value of 1 indicate a strong relationship between the two variables. Values close to zero indicate little or no relationship. Negative sign shows a relationship of opposite direction, a higher value of one variable indicates a probably lower value for the other variable.

If two nominal or mixed (nominal and ordinal) variables were tested for correlation, then the Cramer's V was applied. Cramer's V is a measure of association based on chi-square, its value can range between 0 and 1, a value closer to 1 indicates stronger relationship.

From multivariate statistical tests I applied cluster analysis to group observed units and variables.

For grouping variables I used hierarchical clustering, as agglomeration methods I used the nearest neighbour and Ward's variance method. The first methods is perfect to indicate extreme cases, the Ward method maximises in-cluster similarity. Dendograms were used to display the results, and the resulting graph allowed me to identify and name the groups.

For grouping observed units the K-means clustering was used.

In the formulation of groups I considered the deviation of the group average as the basis for classification. For this one-way analysis of variance (ANOVA) was used. I tested the differences between the group averages by the empirical significance values (p values). Differences are statistically significant if the p values are not larger than 5%.

I used post hoc tests to identify groups with significantly deviating averages. Analysis of variation was tested with the Levene-method to identify the proper post hoc test. If the variances were identical between groups then the Turkey and Scheffe test was used, otherwise the Games-Howel test was applied.

Throughout the questions of the questionnaire, the respondents had to evaluate their activity or express their opinion on a four-degree scale. Values '1' and '2' indicated disagreement while '3' and '4' indicated agreement.

Number of answers to be evaluated were different by questions, therefore not the total sample size but the number of possible answers was considered as 100% (as the projection basis).

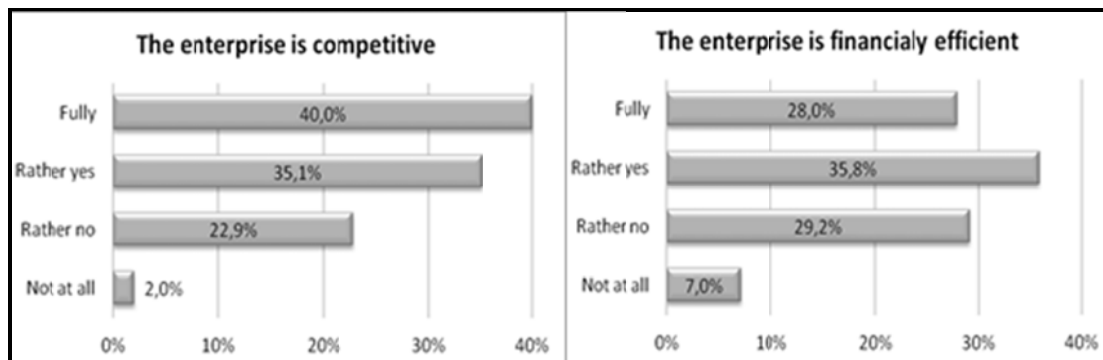
In the essay's quantitative assessment section charts and figures were used to illustrate the results for better understanding (Excel was used for this purpose).

The present study is a pre-survey of a future large scale research. Its objective was to enable a reasonable reduction of size and to test the clarity and consistency of questions and deductibility of conclusions. Clearly it can be the case that as an academic researcher I associate a different meaning with a term than an executive manager working in the corporate sector, and it should also be highlighted that an executive can not spend too much of his valuable time with filling out a questionnaire. The following sections present the main consequences and results of this study.

3. Results

The empirical sample is representative concerning the number of employees by enterprise size. For the comprehension of their business attitude I first assess their economic situation (Figure 4).

Figure 4. Assessment of the competitiveness and financial state of enterprises by the responders



Source: Own construction

Source: Own construction

Enterprises indicated unexpectedly high values for the questions inquiring about „competitive” (75% was positive), „financially successful despite the crisis” (64% was positive) and „ready for challenges” (63% was positive) qualities.

Enterprise size was proven to be a strong distinctive factor in competitiveness ($p=0,001$). Competitiveness was indicated in micro-size enterprises to a lesser extent, SMEs to an increasing extent, large enterprises to an overwhelming extent respectively.

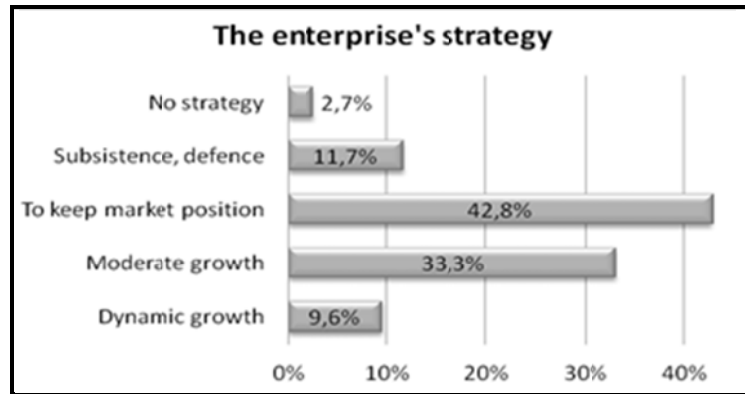
Competitiveness of a firm also correlated significantly with the importance of innovation ($p=0,004$), acquirement of foreign markets ($p=0,016$), and appearance with a new product development. Typically only those firms declared themselves completely competitive who also found innovation, foreign market acquirement and new product development important. The remaining companies might lack competitiveness due to the non-recognition of the importance of innovation.

Size of the enterprise also gave a statistically reliable ($p=0,000$) hint about the establishment of the firm: micro and small enterprises were founded typically for covering a market gap coming from on an own idea or a business plan. Medium enterprises were

typically sourced out, and large enterprises were daughters or members of a commercial chain.

Concerning strategy, the overall image is also more positive than expected. Only 12% considered his firm to be struggling for survival, 43% aimed at preserving stability and conserving market positions, and another 43% reported of a corporate (smaller or larger rate) growth target. Only 3% denied their companies having any strategy (Figure 5).

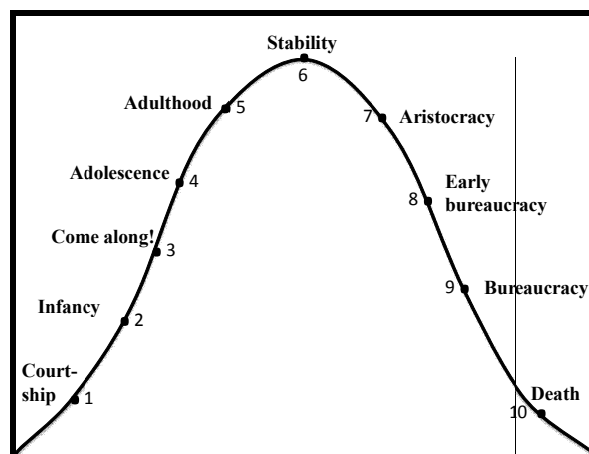
Figure 5. Definition of strategical directives by the respondents



Source: Own construction

The strategies of the firms has a statistically significant relationship with their location on the corporate life-cycle curve ($p=0,000$). Those who are struggling for survival are losing markets, or as Adizes (1992) put it, in their „aristocratic period”. Those who targeted the maintenance of their market positions typically indicated „adult age”. Companies which reported moderate growth targets typically placed themselves in the „adolescent age”, and strong growth targets were typically associated with a „mature” phase. Firms without strategies were recently started firms in the stage of infancy (Figure 6).

Figure 6. Organizational life cycle model



Source: Own construction based on Adizes (1992)

The sample justified a strong statistical correlation between the location on the life-cycle curve and competitiveness ($p=0,02$) or financial profitability ($p=0,000$). Respondents with companies in their „settled down” phase typically indicated their companies to be competitive and profitable. Companies showing signs of „aristocracy” were deemed less competitive and profitable by their managers, „come along” phase companies were mostly indicated as competitive, „adolescents” were classified rather as profitable by the respondents.

Concerning risk aversion, 52% of the companies would rather choose lower return rate projects with less risk, location on the life cycle curve provides a distinctive factor for risk aversion. Companies in „infanthood” and „aristocracy” refuse high risk projects, companies from „adolescence” also restrain themselves from overly risky projects. Risk taking is characteristic for the „come along” and „early bureaucracy” stages. The reason for this can be that the present crisis made entrepreneurs more cautious, and at the same time companies in the declining section of the corporate life cycle might find consider their last chance to implement a risky higher margin project.

Company size and risk taking is also closely correlated ($p=0,036$), typically mid-size enterprises take risk, small and large enterprises try to avoid it, microenterprises totally refuse taking risky endeavours.

Low risk taking is underlined by the responses concerning company procurement and sales as 68% of the respondents reported existence of long term contracts in these areas, and further 85% revealed that rebates or price-cuts are used to incentivise cooperation with partners.

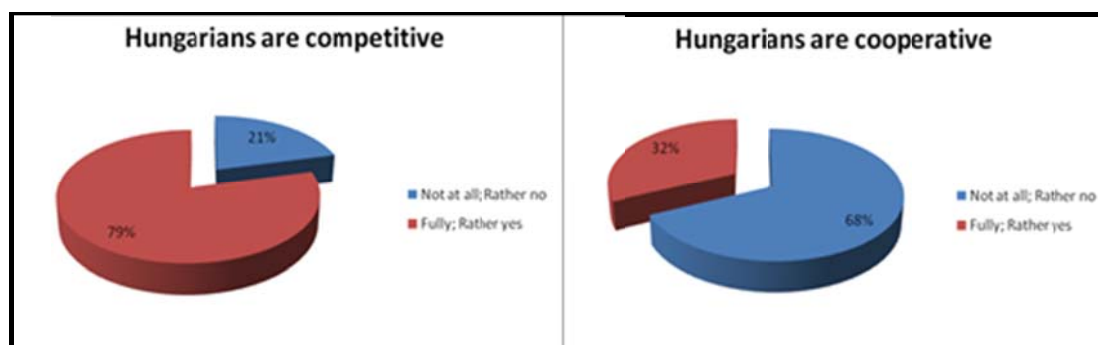
Opinions on state activity and intervention are as follows. A striking feature is that a large part of even those respondents who described their companies to be in good financial condition expect state or governmental aid. According to 92% of the respondents the state should use every available means to protect the domestic enterprises against foreigners and should also prefer in-country entrepreneurs in governmental purchases (95%), applicable funds (96%) or soft loans (89%).

The reason for this might be that while 75% of the respondents considered themselves to be competitive on home grounds, on the global level only 34% was confident. Yet they also expected governmental support. It has to be mentioned that 42% of the respondents announced that the state should protect the domestic enterprises beyond the point of them becoming strong enough to compete. This contradicts the fundamental rule of free market capitalism namely that market is competitive and distribution of wealth is defined by the efficiency in competition.

The majority of respondents considered competition unfair (61%), cooperation incorrect (58%) and level of confidence unsatisfactory (63%). Differences in income and wealth could not be associated with outstanding economic performance according to 62% of the answers. We will now take a look what is the attitude towards competition and cooperation in Hungary under these conditions.

Fundamental attitude of Hungarians will be assessed in the following section. The answers given in the survey indicated that Hungarians were competitive (79%) and not cooperative (68%) (Figure 7).

Figure 7. Competition and cooperation in Hungary according to the responders

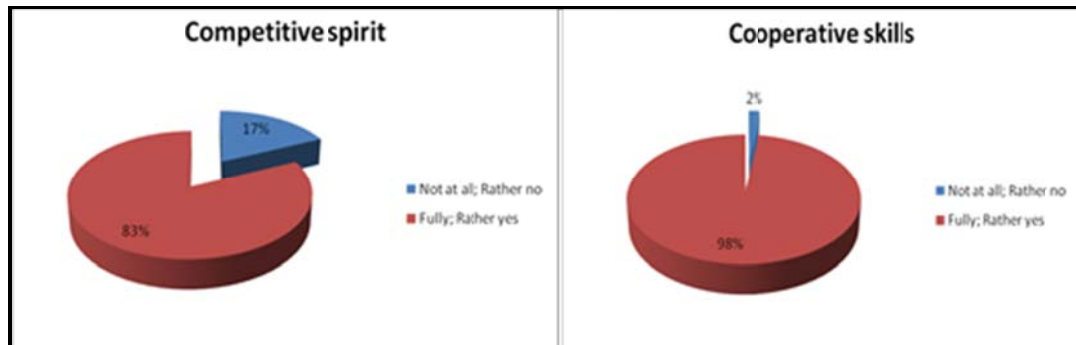


Source: Own construction

Source: Own construction

To provide an interesting contrast the self-assessment of the responders is presented on Figure 8. As the figure demonstrates difference on in competitiveness is negligible between the self-image of respondents and their opinion about Hungarians. On the other hand, willingness to cooperate is not just greatly different between the two groups but of opposite sign.

Figure 8. Competitive spirit and cooperative attitude among the responders

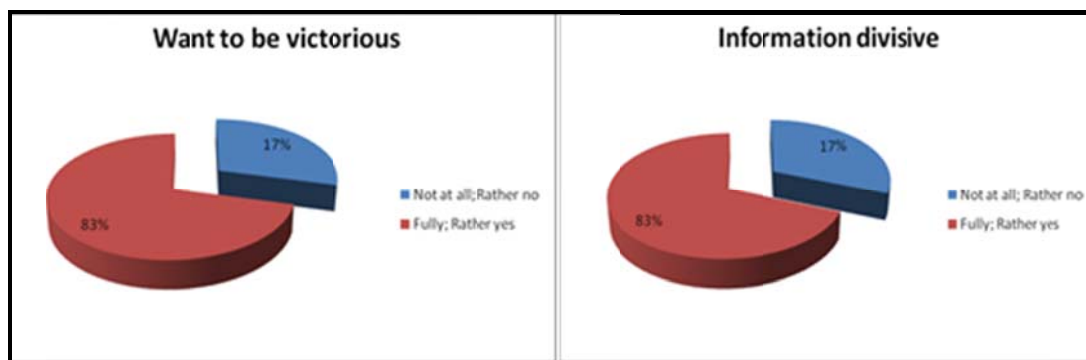


Source: Own construction

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As it was defined in earlier research (Hámori et al 2007) competitive attitude is a positive attitude. In this case executives consider competition as a constant challenge and the desire to achieve victory provides a strong motivation to do everything to overcome rivals. Based on this definition and utilising furthermore the assumption that cooperativeness implies information sharing here are answers to two monitoring questions (Figure 9).

Figure 9. Victory as a goal and inclination to share information among the responders



Source: Own construction

Source: Own construction

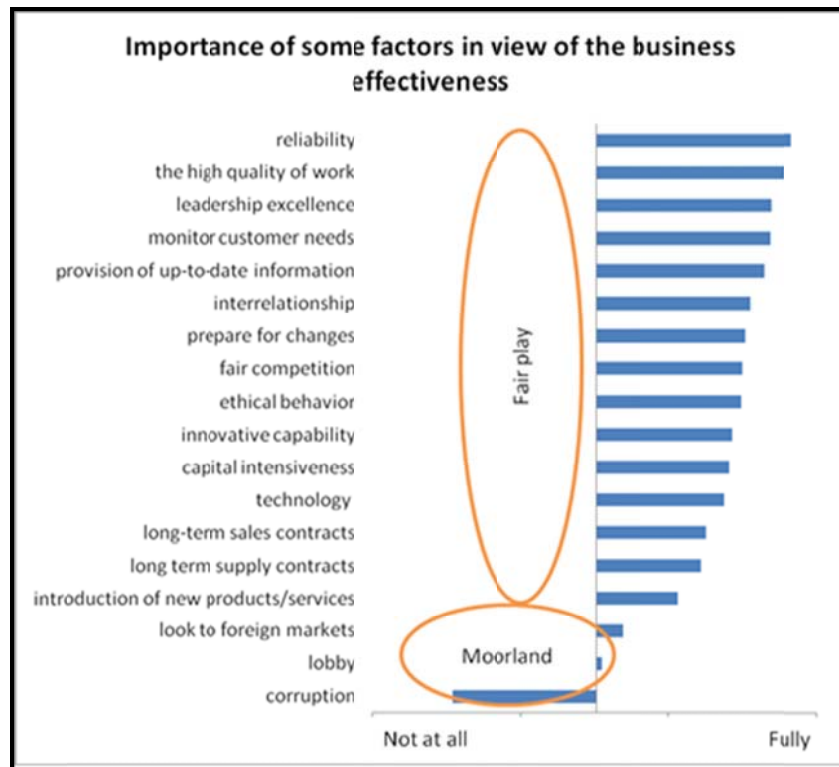
The level of competitiveness of Hungarian firms seems stable with a value over 70%. The image is not so unambiguous when considering inclination to cooperate. Although the difference between cooperativeness and information sharing attitudes was around 30% the general perceived image of cooperativeness of Hungarian partners (68% states that Hungarians are non-cooperative) as described by the responders is still contradicting the reported attitude of cooperativeness of the responders themselves.

This baffling contradiction is not easily resolved since the subjects of the survey themselves are also actors of the Hungarian society. In this case it is insufficient to explain this with the baseline distortion of self-declaration as responders want to comply with expectations. My opinion is that responders are aware of the proper and desirable attitude and the necessary endowments to comply with challenges yet the conditions in our country are still not eligible (for a cooperative business climate).

In the following I present the factors for profitability which were indicated as important (Figure 10) The chart shows that the most emphasised factors are the so-called soft factors, from reliability, managerial skills and ethical behaviour to innovative capabilities. These are

followed by the so-called hard-factors like capital funds, applied technology, introduction of new products to the market. At the end of the line we can find the entry to foreign markets and lobbying as less important factors, and corruption which is not considered important.

Figure 10. Importance of some factors from the aspect of business success

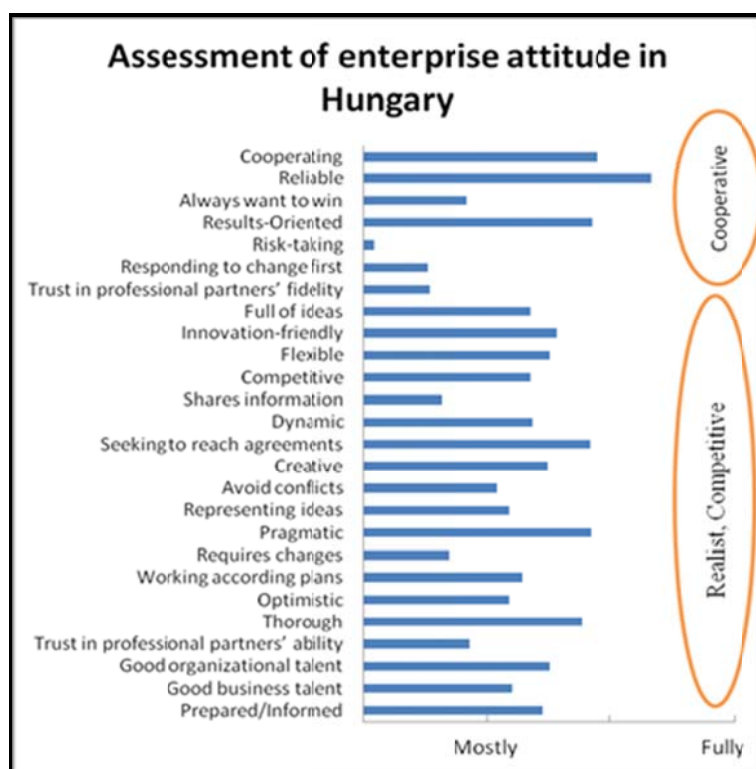


Source: Own construction

The cluster analysis suggests that „development of cooperation” does not show any resemblance to any other variables. For the remaining variables two clusters could be distinguished. The first includes those who from the aspect of business success find both the objective (capitalisation, technology) both the subjective (ethics, fairness, reliability) factors important. That is, they work along „fair business principles”. The other cluster contains only three elements: lobbying, foreign market presence, and corruption. These factors I called loose grounds or “moorland”. For their implementation a lot of money and extra effort is necessary, yet they are very risky and don’t guarantee success.

The attitude of the Hungarians stood in the focus of my analysis, with special regards to cooperation and competition. Among the personal characteristics, the „indecisive” doesn’t show any similarity with other variables. Two clusters could be fitted to the rest of the variables along the original assumptions, one was a pragmatic and competitive group, and the other was a risk-avoiding cooperative group (Figure 11).

Figure 11. Attitude of Hungarian entrepreneurs



Source: Own construction

The results from the questionnaire's data are also supported by the relevant literature. The postponing of necessary reforms, corruption, deteriorating competitive conditions, the strengthening gray and black economy are all limiting factors for the development (GKI 2009). According to Kolodko's (2010) insight many players lost their inertia, but this is rather due to the suspension of necessary structural reforms and to the overemphasised political clashes, than to the global economical crisis. In the opinion of Bogsch et al (2011) the country is in moral crisis, Hungarians' attitude has to be changed if we want to be competitive.

4. Conclusions

As the outlined results show respondents deemed their situation better than expected, this can definitely be considered positive. A negative sign is that competition and cooperation is not considered fair. Those who perform under the average don't pay attention to innovation. In general it can be stated that lack of confidence adds extra costs to the budget of economic actors. Development of cooperation, risk sharing and common innovation to reduce costs would be necessary these days to meet the challenges of the economic environment. Companies under the present conditions unfortunately don't dare to undertake such ventures limiting growth and improvement of competitiveness.

Even if we consider that self-surveying always gives more positive results than the actual values, still we find an enormous distance between how respondents described the Hungarian situation and how they assessed their own attitude of cooperation and reliability although they make up the economy. A positive benefit could come from mutual confidence and cooperation if firms would perceive each other accordingly.

Summarising the results, the executives know which qualities are necessary to comply with the challenges, but the situation in our country is still not appropriate. Ethical behavior, computability and improvement of cooperation is considered a righteous expectation.

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Family – business – development

SZABOLCS IMREH – ÉVA MÁLOVICS – GERGELY FARKAS

Small and medium-sized enterprises are the dominant form of enterprise; according to estimates, families run 65-80 percent of these companies. In our paper we first review the main approaches of literature about family businesses. The aim of our research is the analysis of the main features of Hungarian SMEs, mainly of family businesses, and the mapping of their demands for development and training. Since in literature we found a lot of characteristics of family businesses which are different from non-family businesses, we supposed that this differences appear in demands for development and training. According to our empirical results, there is no significant difference between family and non-family businesses. the majority of challenges experienced by family businesses are identical with those faced by non-family businesses.

Keywords: *enterprise, family, entrepreneurship, resource based view, competitiveness, familiness*

1. Introduction

Small and medium-sized enterprises are the dominant form of enterprise; according to estimates, families run 65–80 percent of these companies. After reviewing the opinions about family businesses, we find rather contradictory statements. Family businesses are not professional, not modern, but rather remote from everyday life in case we study their operation from the point of view of business sciences; moreover, they are contradictory to the common sense. Only one undeniable fact questions the spreading of these opinions. This fact is that family businesses are the most successful and most important business entities in almost every national economy of the world (Klett 2005).

The aim of our research is the analysis of the main features of Hungarian SMEs, mainly of family businesses, and the mapping of their demands for development and training. First we explored the characteristics and contradictions of family businesses as they appear in the literature. After that we showed the role of family businesses in Hungary. Next presented our research findings based on our research aim, and tried to answer our research question. We could not verify our hypothesis on our sample, and this sample was the main barrier to our research because snowball sampling does not guarantee the representativity of results.

2. Definition of the term family business

The literature does not contain a uniform definition of family businesses. According to Wimmer, we speak of a family business, when a business is owned by a family or an association of families and the family/families has/have decisive influence on the development of the enterprise (Wimmer 2005, p. 6.). The influence of the family can manifest itself in relation to issues of organizational culture, personnel policy or e.g. management decisions. Their main features, based on which they can be considered a separate business entity, are the result of the strong connection between the family and the enterprise. Two social systems with different logics overlap and interact with each other. The definition above is rather broad, also implying small-scale entrepreneurs, medium-sized enterprises, and large enterprises, where a family is the majority owner.

For our research, we chose the related definition of the European Union:

1. A firm, of any size, is a family business, if the majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs;
2. The majority of decision-making rights are indirect or direct;
3. At least one representative of the family or kin is formally involved in the governance of the firm;
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital (*European Commission 2009*).

The Commission proposes the application of this definition in the member states.

3. Family and business as distinct social systems

The family provides a special resource for the business, also called "familyness", which can have a negative impact resulting from the strong interaction between the family and the enterprise. Positive emotions increase the motivation and the will to sacrifice, while negative emotions can generate destructive behaviour. Accordingly, this form of enterprise is characterized by a complexity that increases its sensitivity to conflicts and makes them particularly vulnerable in critical situations. For a family business, familyness can represent serious additional resources, but it also can have an opposite impact and even peril the existence of the enterprise.

This form of business includes at least two connected social systems that follow different logics. Dyer summarizes the differences of the logics of the two systems in Figure 1.

Figure 1. Distinct characteristics of family and business systems

Dimension ▼/System ►	Family system	Business system
Right to exist/goals	Birth, marriage, adoption	Affiliation
Withdrawal:	Theoretically impossible	Any time, according to contract
Communication:	Emotional communication	Decision communication
Forms of communication:	Informal, oral and hierarchical to a small extent	Formal, written, hierarchical
Decision:	Large zone of negotiation, rather agreement	Smaller zone of negotiation, rather hierarchical

Source: based on Klett (2005, p. 147.)

According to Schlippe (2012), in order to understand the conflicts in family businesses, we must see the different currencies of the different systems: In a family, the expression of the strong attachment or love for each other is important in an indirect or symbolic form. In a business, people bring their labour, and they expect remuneration on a short term. Appreciation is certainly important in the businesses as well, but nobody gives up his/her remuneration only for being thanked for something; however, parents do this for their children.

The different logics of family and business can cause serious conflicts as well. Without saying or clarifying it, the members of a family act in a business according to the family logic, they make efforts for the business that are larger than in normal working conditions, they give up their free time, overtime pay, and adjust their lives to the interests of the business (this is one of the familyness resources). This can imply a succession trap: The successor skips other

career opportunities, stays in line for the family business without seeing clearly the time and way of affiliation.

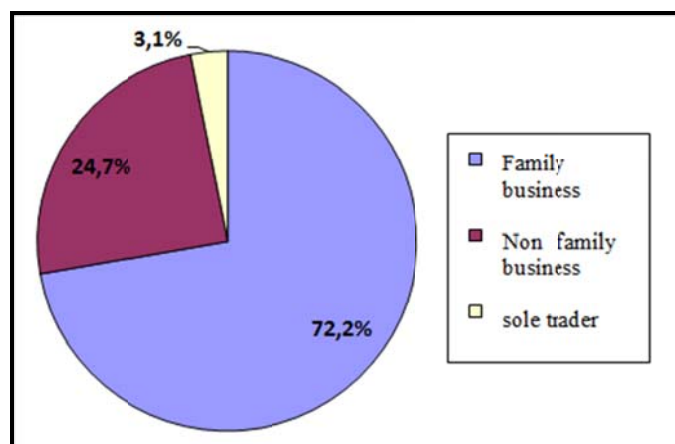
Based on the above-described facts, the family businesses are often called paradoxical organizations (*Wimmer et al 2006, Schlippe 2012*). The meaning of paradoxical is antinomic, filled with tension, even impossible, and due to the strong interaction of the two different systems mentioned earlier, these attributes could be related to family businesses, the basis of which is the ownership. Should the ownership gain a psychic and social meaning, and it cannot be arbitrarily used for a certain investment, a family is not only a family anymore, and the enterprise is not only an enterprise anymore, both systems start to interact with each other. Business interactions, decisions, organizational forms, culture, personnel-related decisions etc. are not considering business, market and stakeholder aspects anymore, their adjustment to the family, its history, members, values etc. becomes important as well. Similar things happen in the family as well. The business plays a role in the planning of the children's future, the formation and preservation of identity, and the development of the financial and social status. This interaction can have advantages and disadvantages for both systems. The point is that the two systems are functioning according two partially opposite, even exclusive logics, thus situations can arise in which a statement is true and false at the same time, depending on whether it is related to the business or the family.

A family and a family business are characterized by different dynamics from the point of view of their life cycles. In the founding generation, "the company is sitting at the table as well" (*Simon 2005, p. 43.*). Accordingly, the children learn about the business from early on. The parents, especially the fathers, are very busy handling the business; they feel remorse for it, and try to compensate it with presents. The "pioneer" fathers are often very autocratic both at the company and with their children, especially with their sons. Consequently, the children identify themselves with the mother, and not the father. This is a disappointment for the fathers and can start a negative spiral, since the father expects primarily from his son to continue his ideas. The second generation shows more understanding for the potential successor and his/her dilemmas. Accordingly, the children of the third generation enjoy a greater freedom of choice regarding the takeover of the company. Only 3 to 4% of family businesses are able to transmit the ownership from the second to the third generation. (*Simon 2005*). The longer the company remains in family ownership, the more family members can be mentioned for succession. The family members do not meet during breakfast anymore, but rather during owners' meetings, thus the relationships become more formal. However, the dynamics of these families hides the possibilities of specific conflicts, one of which is the issue of equity. Even if one of the children seems incompetent, it has the right to a share of the company. *Simon (2005)* considers that in the case of family businesses, family therapy often transforms into family coaching.

4. The role of family businesses in Hungary

The Hungarian Central Statistical Office (KSH) does not yet examine the proportion of family businesses within the entrepreneurial sector, but according to the research of the Foundation for Small Enterprise Economic Development (SEED) of 2008, at least half of the corporate enterprises and at least 20% of the individual enterprises are family businesses. Accordingly, there are around 400,000 family businesses in Hungary, employing and ensuring an existence for at least 1,000,000 persons. Family businesses in Hungary play an important role in employment, since they often employ family members that were unable to find a job elsewhere in the labour market (*Scharle 2000*). The following diagram shows these proportions.

Figure 2. The proportions of family and non-family businesses



Source: Filep–Petheő (2008, p. 3.)

The proportion of family businesses is higher than the average in labour-intensive sectors, such as agriculture, retail and wholesale trade, and catering (Scharle 2000).

As for the ownership, according to the data of the SEED Foundation, at least two owners of more than 58% of the Hungarian small and medium-sized enterprises are from the same family. Usually, spouses and their children become co-owners, the formation of undertakings with brothers or sisters or sons- or daughters-in law is rather uncommon. In most cases, the husband manages the business and negotiates with partners, and the wife takes care of accounting and finance. It is rather uncommon for a woman to start an undertaking by herself, and to be joined by family members at a later date. Hungarian family businesses often fear that the outsiders are untrustworthy, thus they rather employ family members and/or relatives. According to a research carried out in 1998, 52.39% of the undertakings started the business with family members, 21.58% with non-family members, and in the case of 26.02% of the undertakings, family members joined the business at a later date (Filep–Petheő 2008, Scharle 2000).

According to the research of Laky of 1998, these companies are not growth-oriented but consumption-oriented, meaning that they adjust their development to the needs of the household, and not to their possibilities.

As for the legal forms of the undertakings, limited liability companies and limited partnerships are the most common forms among family businesses.

The businesses ask for advices and help mainly from family members and occasionally from external partners. During their business activity, they build mainly on their own business-related experiences, studies, books and the experiences of family members (Filep–Petheő 2008).

The previous subsection shows that a great number of companies and family businesses were formed at the regime change; the majority of the founders were in their thirties or forties. They soon reach the retirement age and face the issue of generational change. Contrarily to western European or U.S. family businesses, Hungary is lagging behind in this regard (as well), since there are mainly first-generation family businesses in the country due to historical reasons, thus they do not have the proper knowledge of and experience in the smooth implementation of the generational change (Filep, no available data on year).

A generational change already concerns 13% of the family businesses, the succession is in progress, 5% of them had a generational change in the past 5 years, and for 50% of them the issue will become timely in the next 5 years (Filep–Petheő 2008).

We can state that the most important Hungarian actors are aware of their family character, and a great number of them members of international organizations representing

family businesses. The majority of the SMEs do not know how to manage the competitive advantages and disadvantages arising from the family character of the enterprises. The literature tries to define this difference less known in Hungary with the notion of familiness.

5. Empirical research

5.1. Presentation of the sample

The snowball sampling included 456 replies, with 445 evaluable ones. The proportion of micro enterprises in the sample was 48.3%, which is less than their proportion of 95.5% among small and medium-sized enterprises measured by the KSH, with around 700,000 operating ones in Hungary. This however is not a problem since an adequate number of small and medium-sized enterprises could be included in the sample. The questionnaire is irrelevant for single-member, self-employed businesses, and the national statistics does not include a statement of them, thus a stratified sampling would not have been practical. The other part of the sample included small enterprises – 39.8%, and medium-sized enterprises – 11.9%.

Half of the companies are seated in the region (South Great Plain). Less than 5% were formed before 1988 due to historical reasons, but half of the sample consists of undertakings operating for more than 10 years. As regards the legal form, 48% are sole proprietorships, 31% Ltd, 11% limited partnerships and 10% have other legal forms. 75% of the entrepreneurs are male, aged between 20 and 80 years (Mean=43.18, S.D. = 10.04), 35% of them have formed more than one enterprises. 87% of them are first-generation businesses, 21% are planning to change the top management in the next five years.

Our family business definition can be used for 62% of the sample, representing a proportion similar to other Hungarian researches. There are two differences between family and non-family businesses. According to the Kolmogorov-Smirnov test, by a significance level of 5%, there are more sole proprietorships among family businesses, while limited liability partnerships are typical among non-family businesses, and non-family businesses employ on average a few more employees than family businesses.

5.2. Differences between family and non-family businesses

In our analysis, we present the crosstabs regarding the descriptive statistics for factors with a significant difference between family and non-family businesses according to the Kolmogorov-Smirnov test. These factors are the number of employees, the legal form of the entity, the level of education, and the question whether the entrepreneur is a founder as well.

Table 1. Differences regarding the numbers of employees

	Non-family Business	Family Business
1-9 persons	34.25%	45.39%
10-49 persons	49.32%	49.45%
50-249 persons	16.44%	5.17%
Total	100%	100%

Source: own construction

In the case of the number of employees, there is a visible difference for family businesses among micro enterprises. This is an unsurprising fact considering that numerous family businesses try to employ only family members, which is a serious barrier on the way to growing to a small enterprise. Among medium-sized enterprises, considered as big enterprises

among SMEs, the family businesses are in a minority. Above 50 employees, the management-related tasks are in many cases assigned, which is a difficult step for a family business, especially when a non-family professional must be involved in the business management.

Table 2. Differences regarding the legal forms

	Family Business		Total
	No	Yes	
Individual entrepreneur	31.5%	60.1%	48.0%
Limited partnership	12.3%	12.1%	12.2%
Limited liability company	41.8%	24.2%	31.7%
General partnership	2.7%	1.0%	1.7%
Private company limited by shares	7.5%	1.0%	3.8%
Public company limited by shares	2.7%	1.0%	1.7%
Other	1.4%	0.5%	0.9%
Total	100.0%	100.0%	100.0%

Source: own construction

The legal form of the entities is significantly different as well. The proportion of individual entrepreneurs among family businesses is two times higher, and there are fewer limited liability companies. The more complicated forms are rather common among non-family businesses. The number of organization structures with several owners can only grow in economies with a strong legal protection of minority shareholders.

Table 3. Differences regarding the education

	Family Business		Total
	No	Yes	
Primary school	0.7%	1.5%	1.2%
Secondary school	11.0%	20.1%	16.2%
Vocational school	18.5%	29.6%	24.9%
College	38.4%	34.7%	36.2%
University	28.1%	13.1%	19.4%
PhD training	3.4%	1.0%	2.0%
Total	100.0%	100.0%	100.0%

Source: own construction

The managers of family businesses usually have a lower education level. The proportion of those with a university degree shows the biggest difference. This difference can probably be traced back to family dynamics, since there is no demonstrable difference in the case of other individual demographic characteristics. Family entrepreneurs are owners and managing directors of the company; the issue regarding the selection of the manager does not even arise at first-generation enterprises. Even if there are several owners, the position of the managing director is always occupied by the head of the family. The motivation for the formation is in many cases to guarantee a material welfare for the family, which in many cases results in a so-called false self-employment, if there are no other possibilities to be employed in the labour market. On the other hand, non-family businesses often choose their managing directors based on competence, rather than nepotism. In case of multiple unrelated owners, greater attention is paid to the fact that business affairs are managed by a well-educated professional, who can be an owner or an acting director.

There are more family-founded, first-generation undertakings among family businesses. The proportion of managers that are not founders is four times higher among non-family businesses. The sample does not include the wave of generational change mentioned so many times by Hungarian experts despite of the high proportion of the first-generation family businesses. There is no difference in the age of entrepreneurs, thus a change based on age is as justified as in the case of non-family businesses. Since family entrepreneurs are very much attached to the property securing the existence of the family, a smaller percentage, but still an insignificant amount of entrepreneurs plans a generational change in the next five years (18.6% of family businesses compared to 23.4% of non-family businesses).

Table 4. Difference regarding the fact whether the current manager is a founder as well

	Family Business		Total
	No	Yes	
Is not a founder	23.3%	6.6%	13.7%
Is a founder	76.7%	93.4%	86.3%
Total	100.0%	100.0%	100.0%

Source: own construction

5.3. Features of the demands of trainings

Most respondents have already used more than one business development services, and only around 5% have not used any of these. The most popular service acquired so far was the one related to trade development; however, among those wished to be acquired in the future, the development of business relations is more popular than trade development. Overall, there are no significant differences between the types of services, each one of them has a rationale, but none of them is extremely important as regards the totality of SMEs.

Table 5. The proportion of enterprises having acquired and wishing to acquire business development services (N=445)

	Acquired	Would acquire
Trade development (new market, premises etc.)	39.10%	36.85%
Development of business relations	36.63%	44.72%
Education and training	35.28%	35.06%
Counselling	34.16%	31.46%
Provision of information (legal, market etc.)	33.71%	35.51%

Source: own construction

Table 6. Types of business development services acquired by the enterprises (N=445)

	N	Percentage
Trade development (new market, premises etc.)	23	5.2%
Development of business relations	185	41.6%
Education and training	142	31.9%
Counselling	63	14.2%
Provision of information (legal, market etc.)	22	4.9%
Trade development (new market, premises etc.)	10	2.2%

Source: own construction

The entrepreneurs consider general business training as the most important among business development services. Training is followed by the different types of counselling, while communication services are the least important according to the respondents.

Table 7. Ranking of business development services by importance

	1. place	2. place	3. place	4. place	5. place	6. place	7. place	Average ranking
General business training	30.37%	21.00%	17.58%	10.73%	3.65%	4.11%	12.56%	2.99
Special training according to the client's demands	21.87%	15.03%	19.82%	15.72%	3.42%	11.62%	12.53%	3.49
Marketing counselling	11.79%	20.18%	15.42%	17.01%	6.12%	12.93%	16.55%	3.90
Counselling related to growth problems	12.53%	14.81%	16.17%	14.35%	5.24%	15.72%	21.18%	4.17
Counselling related to succession	10.93%	14.35%	12.76%	13.67%	11.16%	18.45%	18.68%	4.30
Counselling related to conflict management	6.14%	8.86%	12.05%	21.59%	17.05%	22.05%	12.27%	4.50
Communication services	5.94%	5.25%	6.39%	7.08%	53.20%	15.53%	6.62%	4.69

Source: own construction

It may be surprising that the respondents trust mainly professional legal and financial advisers. Partners and family members come only after external advisers even in the case of family enterprises. The reason for that can be that in cases when the manager thinks that he/she needs counselling, he/she needs a competence requiring special education.

Table 8. Whose advice do they trust in first place?

	Non-family Business (N=154)	Family Business (N=199)
Lawyer	24,03%	26,63%
Financial service provider	27,92%	21,61%
Accountant	27,27%	20,10%
Associate or business partners	14,29%	14,07%
Spouse or registered partners	5,19%	12,56%
Parent	1,30%	5,03%

Source: own construction

6. Summary

In our research, we analyzed the main features of Hungarian SMEs, mainly of family businesses, and their demands for development and training. First, we presented the main characteristics of family businesses available in the literature, and their proportion among Hungarian SMEs. In our empirical research, we analyzed the features and training demands of family businesses among the examined SMEs.

According to our empirical results, there is no significant difference between family and non-family businesses. The majority of challenges experienced by family businesses are identical with those faced by non-family businesses. These are for example the confused economic situation, the continuous tax changes and legislative amendments, and the growing administrative burden. (Filep–Petheő 2008). We have to consider the factors impeding our research as well. One of these is the snowball sampling, which can distort the results.

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Consumer awareness in public services environment – quantitative examination of water consumption habits in the city of Szeged

KLÁRA KAZÁR

The accurate knowledge of the customers is an essential part for good management in the public service sector, as well. However, water service market is one of the priority areas because water is a scarce resource as the world's population keeps growing, while the amount of fresh water available is dropping day by day. The question, whether the consumption of this scarce resource is done consciously, has gained crucial importance among the leaders of water suppliers. My objective was to find an answer to what extent the awareness of concerning water use is present in the residential sector. My research was based on a pattern observed in the households of the city of Szeged. In a primary research I observed the factors affecting per capita water consumption, and mapped out the dimensions characterizing awareness, then identified separate consumer groups based on the extent of conscious behavior. Although I have come to the conclusion that the desired attitude towards water consumption would be the spread of conscious consumption, and it has not completely taken place among Szeged consumers, yet.

Keywords: water consumption, consumer behavior, consumer consciousness, consumer awareness of water

1. Introduction

The accurate knowledge of the customers is an essential part for the good management in the public service sector, as well. However, the water service market is one of the priority areas, because water is a scarce resource as the world's population keeps growing, while the amount of fresh water available is dropping day by day. The question, whether the consumption of this scarce resource is done consciously has gained crucial importance among the leaders of water suppliers. Due to my involvement in the city of Szeged, my objective was to find an answer to what extent awareness concerning water use is present in the households of the city.

In the theoretical overview (Chapter 2.) I write about the marketing specialties and the consumer behavior theories of water consumption. In the first part the public service characteristics of water services and the marketing communication of the public utilities are introduced. In the case of water services consumer behavior is described with water consumption models and sustainable consumption theories.

During my primary research (Chapter 3.) I worked with a proportionally stratified sample set by the different parts of the city and by the consumer deciles with the number of 1237 cases. The methods applied included the analysis of variance, factor-, cluster- and crosstabs analysis. I would like to find an answer for the main question of my study with the help of the theoretical overview and my primary research.

2. Theoretical overview

In this part II. present the marketing specialties and the consumer behavior theories of water consumption.

2.1. *The specific marketing aspects of water consumption*

The specific marketing aspects of water consumption derive from the public service nature. Consequently, the marketing communication is different from the communication of the non-public service market which is introduced in Part 2.1.2.

2.1.1. The public service nature

“The nonbusiness sector includes the actors of economic life, whose main activity satisfies collective needs or/and this activity is in public service, the actors belong to the public service sector which produce collective needs services, i.e. public services” (*Dinya et al 2004, p. 111.*). It also includes water service.

It follows from the above, that due to the quasi-monopoly position of the service the consumer's decision does not happen between the products, services or competitors but the subjects of the choice are the consume/not to consume, or the amount of the consume. Water is vital for the human being, so the decision role concerns the consumed amount. It could be concluded that the consumption is not influenced by the other factors of the supplier therefore, the public utilities can ignore the marketing aspects. But this would be a wrong approach.

On one hand the public utilities need to match more actors (consumers, administration and public opinion) due to public attention. On the other hand marketing aspects should be considered for the public utilities, as well, to form and keep the satisfied consumers. If the water service market opened entirely for the organizations of the private sector, these aspects would rather come into view and the other consumer influencing factors (satisfaction, brand preferences, communication) would have a bigger effect.

2.1.2. Marketing communication of the public utilities

In the case of the marketing communication of the public utilities the nonbusiness nature appears in the aim, the theme and the target audience of communication (*Hetesi–Révész 2004b*). The general aim of marketing communication is to motivate costumers for purchasing a product or to use a service and finally, to increase the company sales. However, the main product of the public utilities (in this case water) is a particularly scarce resource with a great importance, it is necessary to consider the saving and the environmental issues in the service process, the public utilities are in public attention and their activity is often ruled by the government due to the public opinion. Thus, the general aim of the marketing communication loses its relevance in this service. The aim of the communication in this case could be the increase of consumer satisfaction and the reach of consumer loyalty, and their importance might grow with the liberalization of the market.

The theme of the communication should be different from the increase of the company sales. On one hand this theme could be the motive of scarcity or reserve depletion, or the supplier can motivate the consumers for the savings or the conservation of the resources (preservation of natural waters). These suppliers are in public attention, so their message should be communicated very carefully concerning the interests of each group.

These groups – the target audience of the communication – should be monitored separately because they have different information gathering and media using habits, and in several cases the content of the message can also be different. In this sense the residential consumers, the industrial users (business to business market), the local authorities and the government can be differentiated.

Révész (2002) pointed out that the helping tool of marketing communication can be branding, case marketing and relationship marketing in the case of the public utility services. With the help of branding they can justify their name, evolve the company's image and differentiate their service. This is particularly important for utilities in deregulated market to

keep their clients however, later the current monopolized markets can be in the same situation, so it is worth starting to work out the appropriate brand strategy. We can read about the importance of relationship marketing in *Payne and Frow (1997)*. Internationally the public utilities market has already been opened for the new entrants in several countries. In this new competitive environment the public utilities should try to understand the consumer's needs better and they should ensure personalized services to keep their consumers.

In the study of *Hetesi and Révész (2004a)* we can read that after the deregulation of the public utility markets the increase of a company can be realized on three ways: by obtaining new customers, by encouraging more frequent purchases of the existing customers, or by reducing the tendency of defection. However, due to the scarcity of the main product, (water, energy) more frequent purchases are not good solutions, and the authors note that the cost of gaining new customers is higher than the cost of keeping the existing ones. It is needed to have detailed information about the former customers to keep and reach them with continuous and personalized communication, which can confirm the relevance of segmentation. Public utility services are in an advantageous position because they do not have to deal with building up the clients range, and they have already had some information about the existing customers. However, this is only invoicing information, in turn it would be worth gathering other kind of data (characteristics of households, family, consumer habits, lifestyle features) to implement more efficient segmentation.

2.2. Consumer theory of water

In the case of water services consumer behavior can be described with water consumption models and sustainable consumption theories. I would like to analyze conscious and less conscious consumer groups in my study, thus, the importance of segmentation in water consumption is to be presented in section 2.2.3.

2.2.1. Water consumption theories

In the study of *Salmana et al (2008)* the key question evolves the appropriate pricing strategy of the water suppliers. The demand for the influence factors of the consumers and their willingness to pay need to be known. The authors involved socio-economic variables in the influencing factors, which are in significant relationship with water consumption – except for the educational level. These variables were: the marginal price of water, the rate structure premium (it can show changes in consumer payment if price changes by one unit), the income, the household size, the house type and the number of bathrooms.

Papp et al (2007) are paying attention to the fact that in the future we can face several water availability problems (decrease in water resources due to climate change, large fluctuations in weather). Therefore, more efficient water management methods are needed, and in order to execute them it is essential to know the influencing factors of water consumption. According to the authors the demand-side can be modelled mainly by socio-economic factors. In their opinion there are five effecting factors of water consumption: the geographical status, the different consumer habits, the degree of civilization, the lifestyle – way of life and the economical status.

By *Fox et al (2009)* we can read that the water suppliers need more accurate forecast about the demand of water due to the increase of the number of the population and the changes in family structure. According to the authors the demand for water can be anticipated mostly by the physical property characteristics of the households. They examined what kind of relationship exists between the physical property characteristics and the demand of water, and whether it is possible to use these relationships for forecasting the demand of water. They

examined three variables in physical property characteristics: the number of bedrooms, the type of building and the existence of garden.

In the work of *Kayaga et al (2003)* the key question is whether in countries with lower income the water suppliers would need to have more efficient cost management to keep up the quality of the service due to the increase of the number of the population. Therefore, it is important to know the influence factors of the customers' willingness to pay the water suppliers.

The authors examined the relationship between the customers' loyalty and satisfaction. Taking into account the relationship between the loyalty and the willingness to pay, it can be said that the loyal customers pay their invoices earlier, which can result higher revenue for the supplier. The customer satisfaction can stay as an independent variable at the background of customer loyalty. However, this relationship can be influenced by several other external moderator variables. The authors mentioned here the gender, the number of years spent in formal education, the occupational status, the number of people in the household, the ownership status of the residence, the type of premises, the household income and the use of alternative water supply by the household.

In the study of *Jorgensen et al (2009)* we can read about the challenges concerning the water suppliers. Namely the demand of water is growing by the increase of the number of population, but the supply of water is narrowing due to the climate change. Therefore, the suppliers should try to have more efficient water management, so it is needed to explore the influence factors of the demand of water. Being different from the described models *Jorgensen et al (2009)* need to draw other factors into their model for the deeper understanding beside the used socio-economic variables. From these new factors the authors pointed out the role of the trust in their study.

In some of the presented models the role of the price and the socio-demographic factors are dominating (*Salmana et al 2008, Papp et al 2007, Fox et al 2009*), but in other described models the elements of the service marketing can be explored (*Kayaga et al 2003, Jorgensen et al 2009*).

2.2.2. Sustainable consumption – consumer awareness of water

According to *Náray-Szabó (1999)* the explosion increase of the consumption can cause big difficulties for the mankind, because it can lead to quick depletion of resources and the irreversible contamination of the environment. The consumer fever can be hardly broken, and there will be more and more needs. The problem of the environmental pollution can be more serious, because the amount of available water is dropping, even wars will be fought for water in the future according to the author. In relation to this approach the environmentally responsible behavior belongs to the topic of water consumption.

In the case of consumers' environmental awareness there are similar opinions in the examined studies. Based on *Nemcsikné (2007), Tóth et al (2009)* and *Vágási (2000)* it can be concluded, that some of the respondents can be considered environmentally responsible consumers, but the concept of responsibility-putting away appears in the rest of the respondents. Based on these studies there might be differentiated conscious and less conscious consumer groups in the case of water consumption, as well, which is examined in the primary research of my study.

2.2.3. The importance of segmentation in water consumption

It has already turned out that there can be different groups in conscious water consumption; therefore, it is worth reviewing the connection between water consumption and segmentation. In my opinion the supplier can send more targeted message to the consumers by separating different groups within the population, which can increase satisfaction. The importance of

satisfaction has already come into view in the water consumption models (Kayaga et al 2003), because it can result in loyalty, and the intention for achieving loyalty should be one of the primary goals of an organization focusing on the principles of service marketing.

More effective communication can be important because of the examined question, namely the increase of consumer awareness, as well. In the case of this scarce resource the existence of effective water management and conscious water consumption has gained crucial importance. The suppliers should motivate their consumers to acquire this kind of behavior. For the implementation one of the tools can be the segmentation based, more targeted communication.

After the review of the theories of specific marketing aspect and consumer behavior of water consumption, the primary research is introduced in the next part of the study.

3. Primary research

In this section I present the objectives of my research and the applied methodology. After that the answers for the research objectives and the limitations on applicability of the results is described.

3.1. Objectives of the research

In my primary research I would like to find an answer, whether the consumer awareness of water appears in the inhabitants of the city of Szeged. Awareness means the existence of water saving attitude and the efficient water management. During my research I wanted to find out, what the influence factors of water consumption are, what kind of factors can be evolved for consciousness, what kind of relationship there are between these factors and the socio-demography variables and what kind of groups can be created based on the dimensions of awareness.

3.2. Description of methodology

In the spring of 2010 I took part of a research which was conducted by the Faculty of Economics and Business Administration of the University of Szeged. The aim was to model the water consumption of the city of Szeged. As a result, I gained a primary database, and based on this my own primary data analysis was performed. I need to present the background of this research based on the research report of the project (2010).

The Szegedi Vízmű Zrt. – Water Supplier Ltd. of Szeged made a series concerning the period of 2002–2008, which contained the amount of water consumption (yearly aggregated data) and the consumer plants based classification of each consumer unit. The supplier handles the different parts of city of Szeged separately, due to the different consumption structure. Each part was assigned with a letter by the Szegedi Vízmű Zrt, which were called plants. Those units were taken into consideration in the definition of target population, which had already had consumer data for three years however, this condition was completed in the period of 2006–2008. The yearly total water consumption of each household was not able to exceed 300 m³ (ignore the extremely high consumer units), and each consumer unit needed to behave stable, which means that the yearly total water consumption needed to be minimum of the amount of six-month consumption of the previous year, but maximum twice the amount of the previous year. Taking into account these conditions 54168 residential consumer units was added into the target population.

The supplier applied questionnaire method to explore the influence factors of water consumption. The questionnaire was made by an external expert group and accomplished by telephone interviewing (Malhotra 2008). There were different question blocks concerning the

points of water consumption, the attitude of the water consumer, the socio-demographic factors and the economical awareness towards water consumption.

The sample for query was evolved based on proportional stratification by the plant and urban deciles, and 1237 workable answers came from the sampled 4000 addresses (which were chosen from the plant and urban deciles, proportionally selected target population with 54168 cases).

3.3. The influence factors of water consumption

For the examination the influence factors of water consumption in the city of Szeged, the presented socio-demographic models (*Salmana et al 2008, Papp et al 2007, Fox et al 2009*) can be starting points. Considering the opportunities of the questionnaire and the overlap between these models, I examine the relationship between the water consumption per capita and the educational level, the economical status (socioeconomic status and occupational status of the head of household), the size of the household (the number of household members), type of the house (belonging categories based on plant codes) and the number of places with available water, with the help of analyzing of variance.

There are not significant relationships between the water consumption per capita and the educational level, and between the water consumption per capita and socioeconomic status at a five-percent significance level. In the case of the categories of occupational status, the number of household members, the type of house and the number of places with available water there are significantly different means of water consumption per capita (at a five-percent significance level).

In the case of occupational status the average water consumption per capita of part-time workers are higher than the average water consumption per capita of full-time workers, and non-workers have higher amount compared to part-time workers in the sample. There are significant difference between the full-time workers and non-workers at a five-percent significance level.

In the case of the number of household members the water consumption per capita of single-member households and two-member households can be considered equal at a five-percent significance level, and the water consumption per capita of three-, four- and five-ten-member households can be considered equal, as well, at the five-percent significance level. The group means of single- and two-member households and the four- and five-ten-member households are significantly different (on five percent significance level). The single- and two-member households show higher means of water consumption per capita.

The influence effect of the type of house can be described through categories of plant codes. Each plant can be contracted due to the similar consumption structure. Thus suburb (A-H-Z plants), periphery (D plant), garden city (R-S-U plants) and city center (B-P-E plants) can be differentiated. In the parts of the city it can be said that the households in the city center have lower means of water consumption per capita than the households in suburbs or the in garden city.

In the case of the number of places with available water the increase of it can imply the increase of the water consumption per capita until the households with 6-places with available water. The households with 2–4 places available water are different from the households with other number of places with available water significantly in the means of water consumption per capita (at five-percent significance level).

3.4. The dimensions of awareness

For the creation of the factors of the consciousness I tried to integrate the consciousness measuring variables with the help of factor analysis. Due to the information content

preservation of each variable (communality) I was able to include in the analysis eight variables. The KMO-value (0,516) and the result of Bartlett-test (sig<0,05) can justify, that the factor analysis can be applicable on these eight variables. The four new factors can preserve 73,18 percent from the information content of the original variables. For the easier understanding I applied rotation which can help to make the data more clear (*Sajtos–Mitev 2007*).

The correlation coefficients – found in Table 1. – can determine which variables can be transformed into a common factor.

Table 1. Rotated component matrix

Variables	Factors			
	1	2	3	4
I prefer to do the washing up in flowing water	0,933	0,046	0,059	0,015
The people live with me prefer to do the washing up in flowing water	0,932	0,058	0,044	0,024
The people live with me prefer to have a bath than have a shower	0,046	0,894	0,005	0,021
I prefer to have a bath than have a shower	0,052	0,890	-0,003	-0,052
The water consumption cannot be reduced significantly	0,084	0,039	0,786	0,046
People use the water economically	0,005	-0,035	0,762	-0,074
If the price of water was reduced by half, the double amount of the water would be used	-0,095	0,008	0,126	0,810
If the price of the water was risen by double, the half amount of the water would be used	0,133	-0,038	-0,164	0,750

Source: own construction

In the first dimension the original variables are on the negative scales, so the higher values mean the preference of washing up with stagnant water. In the case of the first factor and the variables concerning the washing up, the higher factor scores mean the more conscious behavior based on the positive correlation coefficients. I called this factor economizing on washing up.

In the second dimension the original variables are also on the negative scales, so the higher values mean the preference of having a shower. In the case of the second factor and the variables concerning having a bath the higher factor scores mean the more conscious behavior based on the positive correlation coefficients. I called this factor economizing on bathing.

The third dimension relates to water savings. In the original variables the higher values mean the agreement with the statement, which reflects the awareness. Therefore, the higher values of the created factor mean the awareness and the greater degree of sparing, based on the positive correlation coefficient, so I called this factor water saving attitude.

The fourth dimension concerns about the effect of price changes. I do not consider conscious behavior when the consumed water volume changes due to the changes in prices, because the price of water should not influence the amount of consumed water, but the elements preference of environmental awareness should dominate. In the variables related to price changes the higher values sign the increase of agreement with the statement, which

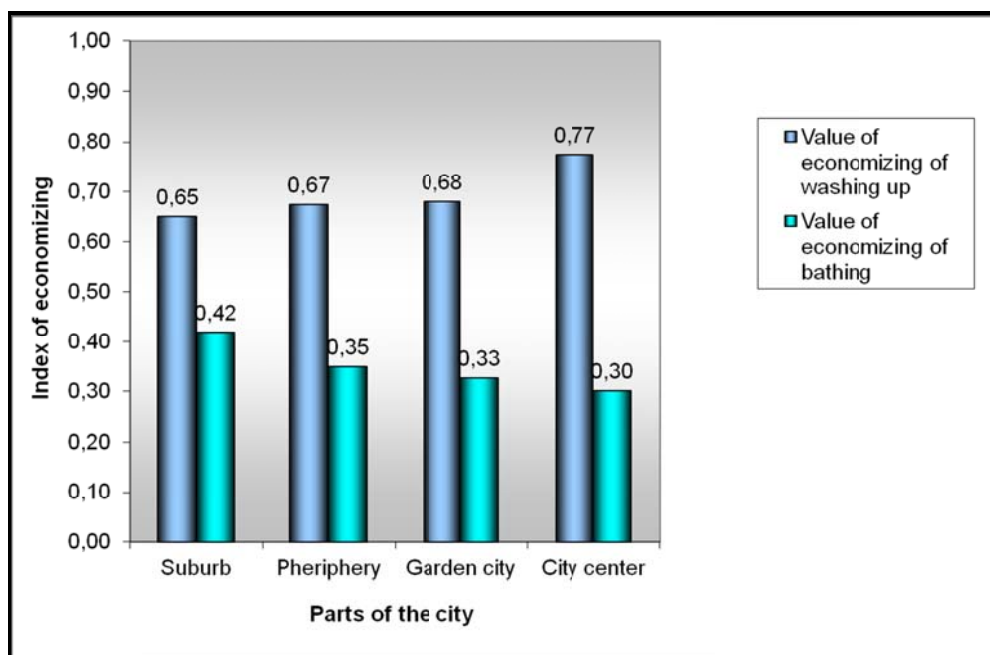
express the lack of consciousness. The higher factor scores mean the higher degree of agreement; therefore, there is a reverse sense connection between the awareness and the fourth factor. After that, for the easier understanding, I multiplied the last factor by minus one so that all high value reports of conscious behavior should act the same way. I called this factor reaction to price changes.

In the factors of the values above the average (positive values) mean the conscious, and the values below the average (negative values) reflect the less conscious behavior. For the easier visualization I made a linear transformation on each factor by the $(x-x_{min})/(x_{max}-x_{min})$ formula (Petres-Tóth 2004), so the values of the factors belong to the interval [0;1] and the values became easier comparable. Then the closer values to one mean the more conscious households.

I examine the relationship between the four consciousness describing factors (economizing to washing up, economizing on bathing, water saving attitude, reaction to price changes) and the socio-demographic factors (occupational status, the number of places with available water, number of household members, the residential characteristics/part of the city) with the help of the analysis of variance. Sixteen tests were executed, significant relationship can be shown in ten pairs, but it is important to mention that the households in each parts of the city can behave differently concerning the awareness factors.

As an example I would show that there is significant relationship between the economizing on washing up and the parts of the city, and between the economizing on bathing and the parts of the city, as well, but the different behavior in the households in each parts of the city can be seen in the Figure 1.

Figure 1. Dimensions of consciousness and socio-demographic factors



Source: own construction

The behavior of the households in the city center can be considered conscious in economizing on washing up and less conscious in economizing on bathing. It can be concluded that it is worthwhile separating and examining the conscious and less conscious groups of consumers.

3.5. Description of conscious and less conscious consumer groups

Based on the theoretical overview and the end of the previous section, I think it is possible to separate conscious and less conscious consumer groups regarding consumer behavior. I attempted to do it by clustering based on the four awareness factors.

For the classification I chose the K-means cluster method because of the big size of the sample, but sometimes this method can select wrong initial value (*Székelyi–Barna 2002*). Therefore, I applied the first two steps of the cluster method and then I gave the centers of two-step solution to the initials of the K-mean method based on *Kovács et al (2006)*. This way it can be eliminated from the program to start with an outlier value. So the groups can be called from the resulting final centers of the clusters.

In Table 2 the group means are higher than the main mean referring to the existence of consciousness, and the group means are lower than the main mean referring to the lack of consciousness.

Table 2. The final cluster centers made by K-means method

Clusters	Economizing on washing up	Economizing on bathing	Water saving attitude	Reaction to price changes
1	0,8326	0,8802	0,5379	0,7082
2	0,9402	0,1079	0,8033	0,7712
3	0,9355	0,1409	0,3478	0,3494
4	0,0901	0,0895	0,4508	0,7131
Total	0,7522	0,2922	0,5674	0,6465

Source: own construction

The cases in the first group are conscious in economizing on washing up, in economizing on bathing and in reaction to price changes. I called this group the consumers acting consciously. In the second group the cases can be considered conscious in economizing on washing, in water saving attitudes and in reaction to price changes, so I called this group the consumers thinking consciously. The third segment is conscious from the aspect of economizing on washing, but it is not from the aspect of the other three factors. I called this group the price sensitive unconscious. The members of the fourth group can be considered unconscious from the aspects of economizing of washing, economizing of bathing and water saving attitudes, so I called this group the squanderers insensitive to prices.

I was curious if the cluster membership is in relationship with the socio-demography factors (education, socio-economic status, occupational status, the number of places with available water, the number of household members and the residential characteristics/parts of the city), or not. It can be examined with the help of crosstabs analysis. It is important to mention that the cluster membership is based on consciousness attitudes not on the real water consumption data. There is a relationship between education, the occupational status, the number of household members, the number of places with available water and the cluster membership. But the socio-demographic factors do not form the clusters; it is not possible to identify the clusters based on these factors. The significant relationship in this case just refers to the fact that there are small shifts in the different groups. It is important to consider that the groups were evolved on the base of consciousness, and for example in any group any education type can occur. Moreover, the sample is representative from the aspect of water consumption, but it is not from the view of the socio-demographic factors, which can influence the distortion of the results, as well.

3.6. The limitations on applicability of the results

I find interesting to examine – beyond my research objectives – whether the conscious segments behave consciously indeed, they try to save water, or just they profess themselves conscious?

The exact water consumption of each cluster can be found in Table 3. The first two clusters can be considered declaring themselves conscious; however, the lowest exact consumption is produced by a less conscious cluster (this consumption belongs to the price sensitive unconscious).

Table 3. The means of yearly water consumption per capita in the clusters

Clusters	m ³
Consumers acting consciously	31,50
Consumert thinking consciously	33,16
Price sensitive unconscious	30,78
Squanderers insensitive to prices	33,52
Total	32,33

Source: own construction

This means that the respondents profess different opinion about their water consumption behavior from their real water consumption amount.

In the questionnaire there were two more questions concerning the appearance of awareness in reality: the knowledge about the exact amount consumed and about the real unit price of water. In these variables the choice of the real, correct answers and the correct estimate refers to conscious behavior.

The knowledge about the consumed amount can measure awareness. If someone is not clear with its consumed amount entirely, it is less probable that the water consumption is conscious and the intention for economical water usage exists. 37,8 percent of the 1204 respondents hit in the estimation their real consumption category, but 62,2 percent of them did not. This suggests that the consumers are not clear with their own consumed amount; therefore, they can be considered probably less conscious water consumers.

The question about the real unit price of water concerned the consumers knowledge about what the price of a unit of water (m³) is without sewer charges. It can be concluded that – compared the answers with the real data – 19,9 percent of the 878 respondent was able to give the correct answer. The consumers are not clear about the unit price of water either, what can refer to the lack of awareness and the lack of information.

4. Conclusion

In my study I wanted to find an answer to what extent awareness concerning water use is present in the households of the city of Szeged. For answering this question I made a theoretical overview concerning the water consumption theories and I conducted my primary research.

In the case of water consumption the entire conscious behavior would be desirable, but it has not been realized, yet. The information and the motivation for more conscious behavior of the consumers would be the task of the suppliers and the management, but the implementation of the real action would be the role of the consumers, so both of the actors have responsibilities. It is important to notice that it is a less examined field, although fortunately, the importance of this area is growing. In connection with my results more researches are needed for which my study can be a starting point.

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Assessing faculty's performance: war of the worlds?

GABRIELLA KECZER

In the vast majority of Hungarian state universities individual performance is not assessed, according to a recently conducted survey including 11 institutions. Assessing individual performance in the academe is a controversial and delicate issue not only in Hungary, but also all over the world. More controversial and delicate than in the corporate world or even in the public services. Nonetheless, assessing individual performance has an enormous impact on motivation, engagement of the employees, institutional effectiveness and the output.

In the first part of my paper I deal with the conceptual framework of individual performance assessment of the university faculty. I list those characteristics of higher education that make performance assessment a difficult and complex issue. These concerns must be taken into account when elaborating and introducing an assessment system at any Hungarian universities. However, these characteristics do not make individual performance assessment a 'mission impossible' at the universities, only a complex professional task.

Individual performance assessment of the university faculty has been introduced and operated successfully in several countries of the world. In the second part of my paper I present some good practices pursued at foreign universities – they could be adapted to Hungarian state universities.

Keywords: higher education, faculty performance, performance assessment, teaching, research and service roles

1. Introduction: individual performance assessment and its significance

„Performance assessment is a process of an organization to get and give feedback about the performance of its employees” (Elbert et al 2003, p. 254.). Evidently there are many other definitions of performance assessment in the literature, also called 'performance appraisal', but the one cited is absolutely adequate for us. The literature, emphasizing the significance and the role of individual performance assessment in the success of organizations, is also huge; we mention only some of the most important considerations. „In every situation, be it organizational or individual, performance has to be managed and measured to ensure continuous excellence. The performance of the employees holds the key to the success of the organization” (Yu et al 2009, p. 814.). „Performance appraisal is an important supporting activity for the accomplishment of organizational goals and to channel individual behaviors. Appraisal mechanisms are means by which an ... organization measures success, identifies problem areas and monitors progress” (Dilts et al 1994, p. 21., p. 5.).

Decisions in organizations, such as strategy, resource allocation, salary, promotion, work load, etc. can be either performance based or non-performance based (Dilts et al 1994). Subjective, ad hoc decisions, made without systematic, formal performance assessment may have the following negative impacts:

- inequity of performance and reward demoralizes employees,
- expectations of the organization are not clear to employees and can not be enforced,
- due to the lack of motivation individual competencies are not manifested,
- poor performance and its reasons are not revealed, thus development is improbable,
- etc.

Archer makes it clear: if universities are unable to recognize and reward high-achievers, some of the best will leave. And some that remain will become de-motivated (*Archer 2005*).

Performance based decisions have the following positive impact:

- merit pay and reward fosters equity and morale,
- regular appraisal and feedback help organizational expectations to be met,
- measuring and rewarding good performance have a motivational effect,
- revealing poor performance helps to develop employees and activate dormant capacities (based on *Pálinkás–Vámosi 2001*).

Individual performance assessment can be the base of:

- rewarding and stimulating individual effort and contribution,
- mapping development needs,
- revealing strengths and weaknesses of employees,
- following their progress,
- planning human resources,
- providing information to decisions concerning personnel,
- reviewing jobs, workload, expectations, division of labor,
- giving feedback,
- forming realistic strategy and goals,
- etc.

As any other organizations, universities also make use of individual performance assessment. The purposes of performance assessment at universities are:

- Administrative – promotion, dismissal, organizational planning,
- Motivational – self appraisal and acts as incentives to hard work,
- Developmental – identifying training needs,
- Performance improvement – through MBO, participative goal setting and other work planning processes (based on *Okafor 2005*).

Steps of individual performance assessment:

- definition of performance expectations for the next evaluation period,
- assessment of the extent the expectations were met to,
- analysis of accomplishment or lag,
- execution of rewarding, training or career change (*Poór et al 2008, p. 115.*).

2. Performance assessment in higher education

2.1. Characteristics of higher education related to performance assessment

The notion of assessment has become accepted among the employees in the competitive sector, and this attitude is now spreading to the civil servants of the public service sector. But the overall attitude of a/the faculty toward performance assessment is quite different: although many members of the faculty are for it, some are skeptical, others are even hostile. That can be one reason why in the vast majority of Hungarian state universities individual performance is not assessed according to a recently conducted survey, (*Poór et al 2008*) including 11

institutions. The arguments underpinning that performance assessment is impossible, or at least hard to execute in university context, are many.

One commonly mentioned argument is the intangible character in the output of education. Among others, Salmon cites this argument. While personnel assessment is possible in industrial or bureaucratic contexts, it proves to be impossible when production relates to intangible goods, such as knowledge or education. Thus, the system put in place in certain sectors, such as the customs or finance administrations, was unsuitable for higher education. This opinion, largely held by teachers, is often the basis for the refusal of any of the managers' vague assessment attempts. *Dilts et al* also mention the intangible characteristics of services, such as education, when talking about performance assessment at universities. 'Educational outputs cannot be physically gauged, weighed or inspected for defects. In the absence of a physical product, assessment of quantity and quality of output becomes more complicated. The intangible characteristics of education require far more sophistication in performance appraisal because of the identification and measurement problems associated with the assessment of performance without a tangible output' (*Dilts et al 1994, p. 18.*)

There are other characteristics of higher education that make performance assessment a special issue. According to a common opinion, implementing an assessment system at universities is genuinely difficult, not only because of its inherent difficulties, but also due to the specific context of higher education. „The diversity, sometimes the status, and often the highly specialized nature of the jobs, and the mutual misunderstanding between teachers and administrative and technical staff, make universities a complex place to carry out the assessment process” (*Salmon 2008, p. 32.*). We also have to mention the complex role a professor has, making assessment a complex task: teaching, doing research, conducting service, mentoring, fund-raising, administrating, etc. As Yu say „with the introduction of technology as aids for teaching, especially during the 1990s, the job of an educator has grown in complexity to involve not only disseminating knowledge, but also to keep oneself up to date with new knowledge while conducting research on new discoveries besides giving pastoral care to students. It is difficult to put into words how the profession of education can and should be measured with such diversity” (*Yu et al 2009, p. 819.*)

In addition, higher education is a slow and loosely coupled system, thus performance expectations must differ from those of the corporate world. *Dilts et al* also add an important point to the issue: „Academic decision making should not and cannot be constrained by profit-maximizing goals if educational progress is the goal” (*Dilts et al 1994, p. vii.*). As they say self-interest, campus politics and conflicting evidence often cloud the understanding of the goals and processes of performance appraisal.

The survey conducted at Hungarian universities reflects the same opinions. Some say that without clear organizational goals performance assessment should not be introduced. Experiences show that assessing individual performance is not the interest of most of the faculty, thus fierce opposition, or at least tough bargaining, would precede its introduction. The survey proved the general opinion that in higher education it is hard to measure and evaluate performance, because there are no traditions, no methods, models and practices to adapt. (There are several good practices, methods and models all over the world to adapt – author's note). Quantitative factors, such as the number of lectures and publications, or the contentedness of students cannot reflect the quality and effectiveness of one's work (*Poór et al 2008, pp. 115–144.*)

Salmon describes performance assessment as an issue where the permanent war of the worlds in the academe clearly shows. Higher education is traditionally a sector where several worlds cohabit. A higher education institution can be summarily described as the juxtaposition of a bureaucratic structure principally deployed in the civic world and a professional structure (the teachers) and more focused on the inspiration-driven world. This

world is embodied in the figure of the creative genius who cares little about criticism or the market value of his work. Higher education teachers, partly because they are by definition teacher-researchers, are part of this world: the only important thing is the beauty of their research, the scientific value of their publications and the accuracy of their work, regardless of whether these activities result in practical, potentially marketable applications. Therefore, universities are often described as places where two worlds co-exist, which of course does not mean that teachers are without a sense of public interest. The state and the management of the institution, whether they like it or not, hold the values of this market-driven world which stresses the necessity to be competitive, to reduce costs and to attract customers. In this world values consist of conquering market shares and the market-driven world clashes with the inspiration-driven world of the teacher-researchers, as well as with the rigid civic world of the other personnel.

Thus, implementing a reform (personnel assessment) is highly likely to revive what we call the war of the worlds within the higher education sector. Therefore, the assessment process will be strongly promoted by the management in the name of the values of the market-driven world. It will improve quality and therefore market competitiveness. On the other hand, it will clash with the teachers who appeal to the inspiration driven world so as to deny the capacity to assess, (in the sense of giving value to) their work, and the right to curb their creativity. The other personnel categories, part of the civic world, will reject it, as they perceive it as a solution promoting the interests of the individual to the detriment of the public interest and serving the interests of the private sector before those of the public service. Therefore, it is hardly surprising that carrying out the assessment process provokes what the authors of the theory call a controversy, the confrontation of several worlds. There are three different ways to resolve this controversy. The first one is to simplify a world: one of the higher principles overcomes the others and the players adopt this principle, accepting the fact that the controversy will be resolved in one certain world rather than in another. The second solution is to search for what is called an arrangement, i.e. a local agreement, similar to bargaining which cannot be generalized on a larger scale and can only be temporary. The third way to resolve a controversy is to aim for a compromise: a more sustainable agreement, exceeding the "values" involved, by establishing a certain dosage of the mix and genuinely combining the ranges of actions of all the players (*Salmon 2008, pp. 39–42*).

All these concerns must be taken into account when elaborating and introducing an assessment system at any Hungarian university, but these do not make individual performance assessment a 'mission impossible', only a complex professional task.

2.2. Aspects of performance assessment in higher education

Questions to answer before the elaboration and introduction of a performance assessment system are many, such as:

- What to assess: what kind of activities are those that counts – teaching, research, service– and how to weigh them in the overall performance?
- How to assess: what criteria, standards and evidence should be used and how they should be recorded in the assessment process?
- Who should assess – the individual (self-assessment), the chair, the students, the peers–, and how to make them competent, how to avoid them being biased?
- How to use the results: what the consequences of extreme performance should be? Is merit pay too daring?

We deal exclusively with the question of what to assess.

If individual performance is not assessed at universities (this is so in most of the cases in Hungary) the only criteria for the assessment of one's performance is their scientific output, since it is measured right from the time one starts their career in higher education. To get access to a doctoral school, to obtain a PhD, to accomplish habilitation, to win scholarships and attain managerial positions one has to have an attractive scientific output embodied in publication and citation lists and impact factors. Thus, scientific efficiency is the only criteria one is evaluated against, although a faculty member has at least 3 kinds of tasks: teaching, doing research and conducting service. „Publish or perish! may be the easiest of all performance based appraisal systems to be administered. This system is completely appropriate if publication in leading journals is all that needed to accomplish the mission of the school. But most academic institutions have teaching and service portion of their mission. If teaching and service are expected, they must be evaluated and weighed in decisions concerning personnel” (Dilts et al 1994. p. 42.).

The omnipotence of scientific output roots in the Humboldtian model of university, but as Voeks states: „There is no theoretical basis or empirical evidence that demonstrates that research and teaching must be positively correlated” (Voeks 1962). The reason can be that „the demonstration of knowledge through publication in referred journals shows that a faculty member is keeping abreast with at least some portion of their academic discipline, but it does not assure that they also have a breadth of necessary knowledge to be an effective teacher of specific courses.” (Dilts et al 1994, p. 43.). At an average Hungarian state university, especially at faculties having kind of a ‘community college’ role, a younger member of the faculty having 12–14 lectures a week has to run courses in several different disciplines, while their research must focus on only one specific topic, since publications in other topics do not help their doctoral and habilitation efforts, or to win a research (e.g. Bolyai) scholarship. In these activities one has to prove that they have significant results in their field of research, thus doing scientific work in other fields is definitely a waste of time, money and energy. So talking about the Humboldtian unity of teaching and research, and asseverating the omnipotence of scientific output when evaluating one's performance as a faculty member, lack realities, although match the priorities of those influential professors – with great scientific achievements and less involvement in teaching – who control the system.

2.3. Foreign practices

An admirable attitude: University of New Hampshire

The Philosophy of Performance Management of the University of New Hampshire is the following: “Our ability to fulfill our mission of educational and research excellence and to contribute exemplary service to the larger community largely rests in the hands of our employees. In recognition that the quality and commitment of the University's workforce is an integral part of overall institutional effectiveness, we seek to make explicit the University's core values regarding performance” (University of New Hampshire 2011).

A classical method: University of Leeds

In 2000 a unified staff review initiative was settled to focus the purpose of the activity on a review of objectives and job and career planning rather than a bureaucratic, paper based imposition. Regular reviewer and reviewee trainings are provided and the new Fund for Special Payments specifically identifies ways in which rewards can be made for outstanding performance. It is the task of the heads of departments to appoint the reviewers. They are one of the staff's immediate supervisors or an experienced member of staff. After each review cycle the departments are asked to confirm that the review meetings have been completed and to report back any training needs or issues arising from the Reviews.

The heads of departments are reviewed by their dean biennially in relation to their performance in the headship role. They are required to invite staff from all categories into the department to comment on their performance as heads, directly to the dean. Deans are reviewed by pro-vice chancellor, the vice-chancellor by the pro-chancellor. For senior managers also a 360 degree feedback review model was introduced through an online questionnaire. For senior management, the staff peers and the customers are encouraged to contribute to the feedback.

The HR department suggests using a review scheme to do the reviewing. The review scheme consists of 3 parts. Section A is a review of performance and progress since last review. In this section the reviewee is asked to:

- review your progress during the period concerned, indicating particular achievements, and strengths; any problems, concerns or constraints and the extent to which you believe you have met your previous objectives,
- evaluate the benefit of any training or professional development you have undertaken in order to meet your previously agreed objectives,
- suggest work objectives for the next 12 and 24 months, and longer term, including any wider career plans,
- suggest areas in which your skills and abilities might be developed and ways in which this might be achieved.

Section B is a record of discussions during the review meeting. This section should be completed by the reviewer within 10 working days of the Review Meeting. In this section the reviewer should give:

- a summary of progress, achievements and performance for the period under review,
- objectives for the forthcoming 12 months and any longer term aims,
- personal and career development plans agreed.

In Section C the reviewee can make his comments after reading the reviewer's opinion. A copy should be returned to the reviewer and to the head of department within 10 working days of receipt. In the event of serious disagreement over the outcome of the review, the reviewee should request a meeting with the head of department or the designated second reviewer (*Keczer 2006*).

We must add that progress in university management including human resources are initiated and strongly supported by the state in the United Kingdom. In the frame of a government initiative called „Rewarding and developing staff in higher education”, 330 million pounds were allocated in 4 years to universities for HRM development including the introduction or the development of performance assessment system (*HEFCE 2002*).

Closer to Hungarian reality: Nigeria

Every University lecturer in Nigeria receives a written performance appraisal annually which provides a feedback on performance and justifies decisions concerning personnel such as promotion. This official form includes a self-assessment page for the lecturer to fill out and it is sent in turn to the respective departmental heads who state their perception. Then the completed form is forwarded to the appointment and promotion committee where it is reappraised and action is recommended. This could be a promotion, continuity with the system, a termination or a warning. The behavior standards expected from the university staff, which form the core of the performance appraisal, are set in the staff hand book, and these

standards relate to the tasks that determine academic excellence and the output. Academic peers apply these standards through collegial review.

Problems of this system are the followings:

- The ratio of lecturer to student for a specific course in most public universities ranges from 1:90/200. This large student population impacts the level of resource and is time dedicated to research, publication and community service. Yet emphasis is on publication as a criterion for performance (Publish or perish!) and such publication should preferably be in an international journal. Incidentally mentioned, lecturers' remuneration is hardly able to support such demand. A senior lecturer having a PhD earns a salary of \$9000 per year, and this cannot support their payment of an annual subscription to a professional body to attend a conference abroad.
- Performance appraisal in itself is carried out as an event rather than a process. It occurs at a given time of the year, in the month of April.
- A country, unlike the UK and New Zealand, where students feedback form an important aspect of the proposal, public universities in Nigeria are still toying with the aspect of students inclusion.
- There are problems relating to subjectivity (*Okafor 2005*).

An innovative way: University of Malaysia

The system based on the electronic version of the balanced scorecard is well-known in business. It provides a new method for aligning the objectives of individual lecturers to the organizational goals while offering a way for the individuals to plan their goals and take corrective actions ahead of time.

The actors of the system are: staff – responsible for updating the system with current achievements and keeping track of individual performance; appraiser – continuously monitors the performance of individuals and that of the department, and formally reviews and scores individuals at the end of a performance period; faculty dean – selects the key performance indicators (KPIs) relevant to the faculty from the list of corporate KPIs and assesses the overall performance of the faculty; and system administrator – performs system maintenance and management.

Then the academic staff will continually update personal achievements on the e-BSC, while the appraiser monitors the progress of the individuals in the Tracking Stage/tracking stage. At this stage, the current performance of the individuals can be continually monitored to enable ongoing feedbacks from the superior and to ensure corrective actions that are carried out immediately. When the formal evaluation period ends, the appraiser evaluates the staff's final performance by entering the corresponding scores. Following this, the e-BSC automatically calculates the scores to produce the average overall points and to generate performance reports on the performance of the department that can be viewed by the individual or by the appraiser, or on individual, departmental or overall faculty performance reviewed by the dean. To ensure the effectiveness of the e-BSC, the system administrator constantly performs system maintenance and management to preserve the logic of the system. At the end of a formal evaluation period, performance charts are generated by the system, based on the calculated scores and the overall average points.

Since every institution of higher education would have different expectations from the academic staff, the e-BSC has to be slightly modified accordingly, to be suitable for the respective institution; the faculty scorecard should not automatically populate the lecturers' personal scorecard. The individual lecturers should be allowed to select the relevant KPIs instead, from the faculty scorecard, to plan how they can contribute to the university (*Yu et al 2009, pp. 820–826*).

3. Conclusions

Higher education is a particularly difficult sector to enforce the assessment process. Its specific characteristics, multiplicity of staff positions and status, the various history of the academic institutions, also its traditions of independence and free spirit, make higher education a real challenge for implementing a personnel assessment process. However, contrary to what some people claim, these specific characteristics do not make the assessment approach impossible, only specific.

CEOs of for-profit corporations argue that a push to upgrade human capital is vital. Some call it „Leadership Darwinism” and are afraid of its demoralizing effect, but many emphasize that it is just the opposite. We must agree with them, as Grote says: „top performers relish working in an environment free of non-contributors, and what genuinely demoralizes is a climate that tolerates mediocrity” (Grote 2000, p. 4.).

There is a great number and a wide range of practices abroad that could be adapted by Hungarian universities. Adaptation means to change something to suite different situations or uses, so adaptation is the mean between the two Hungarian extremes: a) doing nothing, b) mindlessly implementing a foreign system.

Strategy and funding are the key factors of progress. When admiring the British universities for their spectacular development in human resources management, we have to add that the initiator and the sponsor of the national project, giving a solid professional and financial framework to the institutions’ activities, was the government. Without a central initiative and support, the progress, if any, will be slow and sporadic in Hungary.

Whether individual performance assessment significantly contributes to the achievement of the goals of the universities depends on the consistence of the key performance indicators with the mission of the institution. ‘Publish or perish’ may help a good scientific output, but may undermine the teaching and the service element of the mission. A balanced attitude is much favorable: some are better at teaching, others at service or research. The question is very simple: who is the sail and who is the anchor on the ship.

Individual performance assessment is an essential tool of motivation and development, as well. Underestimating the importance of the faculty being motivated and developed can be dangerous at least on the long run, because at the universities the output depends not only on technology, but also on the engagement of the workforce, and the social impact of the quality of professors’ work is enormous.

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Financial literacy of hungarian teenagers¹

GÁBOR DÁVID KISS – ANDREÁSZ KOSZTOPULOSZ – PÉTER KOVÁCS – BALÁZS RÉVÉSZ

Personal financial literacy is the ability to read, analyze, manage and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond with competence to life events that affect everyday financial decisions, including events in the general economy. Instead of asking the target group for definitions, it is much better to study their decisions and attitudes in connection with financial products. This study focuses mostly on the dimensions of savings, loans, insurances, credit cards and general issues.

This paper presents the theoretical and empirical frames of the “SZTE GTK – Econventio” questionnaire, based on the experiences of the first sampling in 2011 and the improvements for the next sampling in 2012. The main research question remains to prove some connection between demographic factors and financial literacy.

Keywords: financial literacy, teenagers, “SZTE GTK – Econventio” questionnaire

1. Introduction

This paper presents the method of measuring financial literacy among Hungarian teenagers created/invented/executed by the SZTE GTK – Econventio workgroup. After a short definition of financial literacy, the importance of the knowledge-based, client-bank interactions will be presented then the theoretical background of the questionnaire will be summarized. The methodology of the “SZTE GTK – Econventio” questionnaire is based on the model of rational behavior by Simon (1955) and on the financial literacy model of the *JumpStart Coalition* (2007) – which is the one of the most significant entities in this field in the US according to *Huston* (2010). The last chapter summarizes our entire model, and the paper is closed with a short conclusion.

2. The importance of financial literacy

Financial literacy is the ability of using the existing broad knowledge about financial products in business and everyday life, as *Huston* (2010) suggests. The speciality of this subject comes from the nature of money transactions, because they are based much more on trust than any other enterprise, as *Botos* (2006) states in his recent article. A bank risks the money of its depositors due to investment operations, establishing a “my-adventure-with-your-money” situation. The traditional specialization of commercial and investment banking ended, but the era of universal banking introduced a set of radically new challenges of information and telecom technologies. As a result of the evolution of the retail customers’ preferences, together with the decrease of the added value supported the idea of CRM – which means product diversification and niche strategies. Therefore, retail banks had to be open for universal solutions in the case of back and front office, as well (*Consoli* 2005, *Haenlein et al* 2007). The retail branch had to face higher transparency and the consumers’ brand switching behaviour – choosing the right offer, opening accounts, doing transfers, abolishing an account – is cheaper and faster, as well. This commodization of basic banking products had a negative

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impact on the industry margin and the profitability – so the development of the products has to fit for the customer's necessities (*Haenlein et al 2007, Goddard et al 2007, Puri–Rocholl 2008*). On the liability side of the balance, market-based institutions overtook the dominant role in supplying credit from commercial banks – the share of deposit collection in 2007 was reduced to 39%, contrary to the interbank market instruments to 16% and bonds to 27% reductions, while derivatives gained an important role in risk management (*Ondo-Ndong 2010*). Therefore, we can say that financial products became more and more complex, while the banking system relies more and more on the interbank market liquidity. After the sub-prime crisis in 2008, regulations like the Basel III liquidity ratios or the Austrian loan-to-deposit ratio aim to provide additional incentives to improve the private client-bank relations. These frames are regulated by the Markets in the Financial Instruments Directive (MiFID) across the European Economic Area (2004/39/Ek, In Hungary 2007. CXXXVIII law (Bsztt.)) – transactions between retail customers and banks have to be based on fair, objective and professional process, clear orientation without deception. All financial service providers have to pay attention to the customer's financial skills, experience and particular circumstances to ensure all necessary information before making the financial decision.

The level of financial literacy determines the opportunities of the bank operations, because it affects not only the saving or borrowing behaviour, but the overall economy behaviour, as well. This chapter summarized the necessity of the knowledge-based client-bank interactions, therefore, we are able to show, how we can measure the financial literacy with a questionnaire.

3. Financial literacy and economic rationality

Financial literacy is only one property of an economic actor; therefore it is useful to begin from the Homo Oeconomicus or the behavior model of rational choice by *Simon (1955)*. The rationality of this actor exists in three dimensions: gathering information (perfect knowledge of the environment), preferences (clear and stable) and decision making (rational calculation to find various casual relationships that determine the pay-offs, the set of alternatives open to choice and the preference-orderings among pay-offs). The rational choice-based agent theory suggests how to behave “rational”.

This model can be updated by the finding of *Kahneman and Tversky* and their model of bounded rationality which involves biases during information collection (about probabilities as well as spatial, channel and time limits) causing framed preferences and heuristic decisions (*Ackert–Deaves 2010*). Under these circumstances the reaction will be non-linear, which means they do not respond strongly to relatively small changes in the inputs, but larger movements may trigger a disproportionately larger response with a strong effect on other economic variables (*di Mauro et al 2008*).

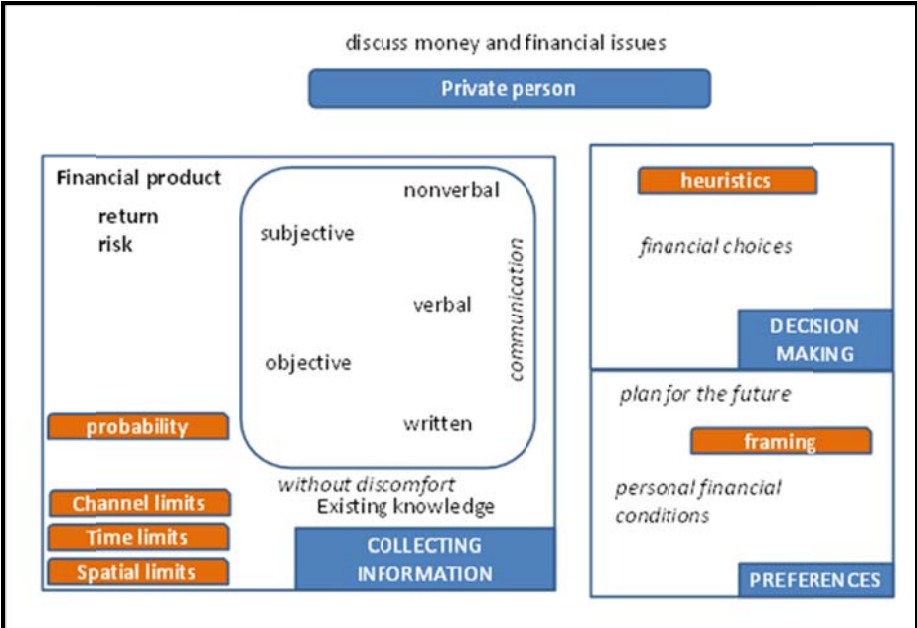
Huston (2010) distinguishes between financial knowledge and financial literacy the following way: financial literacy has an additional application dimension which implies that an individual must have the ability and confidence to use their financial knowledge to make financial decisions. Therefore, financial literacy could be conceptualized as cognitive (personal finance knowledge) and practical (personal finance application) dimensions. At first we define the properties of the financial knowledge then we apply the two models of rational choice, one of the definitions by *JumStart* on financial literacy.

The personal financial literacy has no general accepted definition. Financial knowledge could be analyzed in four dimensions: cash-flow management, credit management, saving, investment, as *Hilgert–Hogarth (2003)* suggest. A different approach is provided by *Wang (2009)*, where financial knowledge derives from objective and subjective elements. Objective knowledge means accurately stored information, while subjective knowledge is a belief about that state of knowledge. *Monticone (2010)* showed on the inverse U-shape form of the age

profile of financial knowledge, that middle-aged adults have higher level of financial knowledge than both their younger and older counterparts due to their labour activity and consumption patterns. This result could be useful during the evaluation of the answers given in the questionnaire.

JumpStart coalition has a leader role in the development of the US financial literacy, as *Huston* (2010) underlines. According to their definition, financial stability is the ability to read, analyze, manage and communicate about the personal financial conditions which affect material well-being, including the ability to discern financial choices, discussing money and financial issues without (or despite) discomfort, planing for the future, and responding with competence to life events that affect everyday financial decisions, including events in the general economy (*Vitt et al* 2000).

Figure 1. Financial literacy and economic rationality

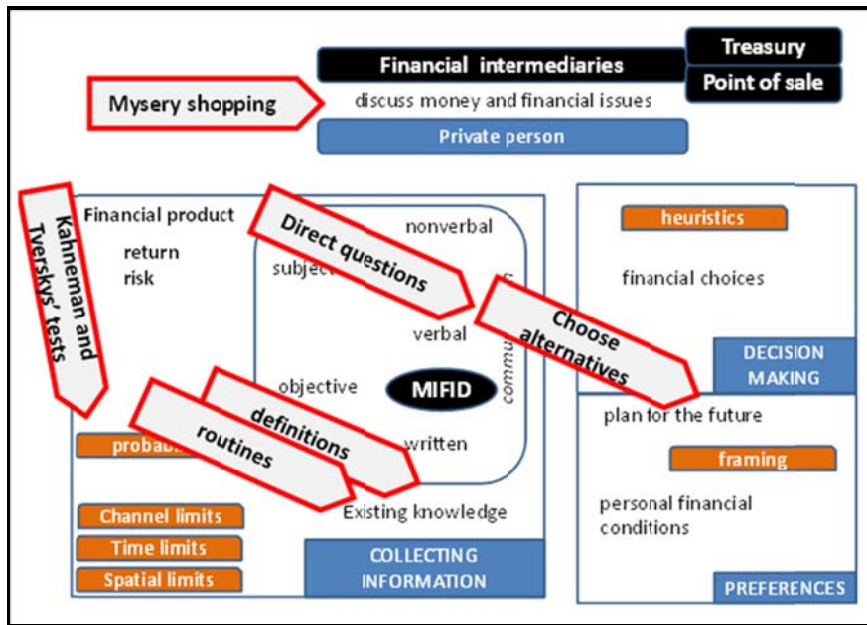


Source: own construction

Financial literacy could be easily embedded in the dimensions of rational choices as Figure 1 suggests. This combination could be useful to define the methods of collecting data about financial literacy. Measurement of financial knowledge seems to be obvious – it could be enough to ask for definitions of various financial products as the “MNB Pénziránytű” questionnaire suggests. To measure the application of this knowledge at least asking for basic calculations in this field is necessary as *Monticone* (2010) has already done it before.

The other ways/Another way of data collection are/is summarized in the Figure 2. Mystery shopping is a widely accepted method to evaluate the whole, real interaction process, showing not only comprehensive results as in the questionnaires. This method is far from our research area because we would like to apply only questionnaires and the density of the bank-contact of our sample is low due to their weak labour activity.

Figure 2. Financial literacy and economic rationality



Source: own construction

Bounded rationality of the sample could be checked through the application of the Kahneman and Tversky's test. This could be closed with the acceptance or rejection of their model – therefore, it could be useful under the domestic application of foreign items.

There are no good or bad answers in the case of preferences and attitudes – we are able to measure only their rationality. These items could be useful during the mapping of the sample's opinion about their business environment or their time-orientation.

4. Phases of THE Elaboration of the questionnaire – evaluation and improvement

It is hard to provide brand new items in this field today, the main innovation of the “SZTE GTK – Econventio” questionnaire comes from the structure of the items. In the previous chapter we introduced the vertical dimensions of the questionnaire, while horizontal dimensions are based on the work of Hilgert and Hogarth (2003). They introduced cash-flow management, credit management, savings, investment dimensions, that we improved through the introduction of an additional “labour market” and a “country-risk” dimension.

These dimensions were evaluated by a preliminary focus group interview at the end of 2010. High school students, between 17 and 19 years of age, were asked about the definition of “success” (in connection with the dimension of labour experience), their saving-consumption preferences, their experiences about the financial sector and their way of choosing between financial service providers and products. Their answers had the following impact on our questionnaire: first, their work experience is poor but it is increasing with their age; second, they have poor experience about financial services and they are not the target group of the mainstream financial products. Therefore, we can say that finance is much more a theoretical and an abstract phenomenon from their point of view, which could bias our results.

During the pilot sampling period in the spring of 2011, in 62 high schools nearly 6000 students were analyzed by our research team, it was basically the biggest sampled study in Hungary within this target group. The campaign was divided into three parts: first the students were asked about their general financial knowledge; in the second turn we focused in the field of savings and insurance; and in the third turn we collected data about loans and the pension system. This campaign was enhanced by a newsletter-service which contain information in

connection with the three questionnaires. Therefore, the team was able to measure not only the financial knowledge, but also to improve that. This pilot sampling was useful to evaluate our items and the questionnaire as well as to place the given/and give public attention in this field and to involve schools.

5. The structure and items of the “2012 SZTE GTK – Econventio questionnaire”

According to the past experiences we were able to develop a single, structured-to-the-model questionnaire for the campaign of 2012 where the items were fit to the vertical and horizontal dimensions as our model required. In the following chapter we give a short summary of our “2012 SZTE GTK – Econventio questionnaire.”

The following items in the dimension of definitive-knowledge were enabled (choosing the good/right answer):

labour subset:

- the level of gross minimal wages in Hungary;
- the amount of VAT included the price of a pair of sports shoes worth of 12700 HUF;

risk and country risk subset:

- choosing a country where the EURO is not an official currency;
- approximately how much Hungary’s public debt per capita is;

basic bank services subset:

- how much time you need to transfer money to the bank account at another bank;
- what an ATM is;

savings and investment subset:

- interest rates on loans are higher or lower than interest rates of bank deposits;
- whether it is necessary to take higher risk for higher gain;

insurance and pension subset:

- you collide with your car during parking – what you should do at first;
- how much the current retirement age is;

credit subset:

- the THM (total loan-fare ratio) covers all of the costs of a loan;
- in what kind of situation it is adequate to use an account-loan;

The following items in the dimension of definitive-preferences were applied (showing the preference in the answer):

labour subset:

- working as a subordinate or having an own enterprise could provide a stable existence on the long run;
- how you could describe the man of success;

risk and country risk subset:

- whether you are interested in news and information of financies;
- whether we need to introduce the EURO as soon as possible;

basic bank services subset:

- the bank makes a both profitable offer;
- the importance of a financial balance of the family budget;

savings and investment subset:

- who will be asked first before a financial decision;
- what you would do with a sudden 10 million HUF win;

insurance and pension subset:

- whether you want to live only from the state pension in your future retired years;

- how you would increase your incomes, if the state pension would not be enough in your future retired years;

credit subset:

- in what kind of situation you would prefer to take up a loan;
- whether the entire Hungarian society should take the financial responsibility for the default of foreign currency denominated private loans;

The following items in the dimension of decision making-comparing alternatives were enabled (selecting the best alternative with the highest financial outcome):

labour subset:

- you have to choose between two summer job offers: one is in Austria for net 1000 EURO and one in Hungary for net 270000 forint. The bank has the following exchange rate: 270 forint for 1 EURO (travel, living and accommodation costs are not covered);
 - Students have to focus on the difference between the price levels in the two countries, therefore, the second offer is rational.

risk and country risk subset:

- assuming 6% inflation, you have to choose between two deposit offers for a one-year-period of savings: the first is for 6.5% interest rate and the another one is for 5.5% interest rate;
 - Students have to compensate the loss of inflation in their purchasing power right, so the first offer is rational.

basic bank services subset:

- there are 10 ATMs in your town and you need cash from your account at least three times a month, and you have to choose between two bank account offers: the first bank has only one ATM in your town and the costs of cash withdrawal is 100 HUF from their own machine, but 400 from the ATM of the other banks, while the second bank requires 300 HUF generally for the ATM usage without any difference;
 - According to the density of ATMs, the first offer means a $0,1*3*100+0,9*3*400=1110$ expenditure, contrary to the second offer's $3*300=900$. Therefore the second offer seems to be rational.

savings and investment subset:

- if you have 200,000 HUF that you need 3 months later, which form of saving is adequate: bank deposit, public traded share, real estate investment fund, 6-month discount government bond;
 - Only the bank deposit seems legit because the other forms contain additional risks and do not fit the length of savings.

insurance and pension subset:

- twice a year you usually need some dental service which costs 17,000 HUF and there are two insurance offers: the first covers the full price of the first treatment and only 50% of the second one for 2.000 HUF monthly fee; while the second offer covers only 50% for both treatments with a 1,000 HUF monthly fee.
 - Students have to cover 34,000 HUF expenditure. The first offer means 24,000 HUF insurance expenditure and a 10,000 additional payment (sum: 34,000). The second offer means 12,000 HUF expenditure for the insurance, while 20,000 HUF has to be paid for the treatment (sum 32,000) – so this seems to be the rational choice.

loan subset:

- in January 1, 2012 you need 200,000 HUF (200,000/semester) to cover your university studies. There are two alternatives: a part time job, which offer a net 34,000 forint salary

for a month in the next 5 years, or a loan for fixed 10% interest rate with a payback of 19,000 forints monthly between 2012 and 2032.

- The two amounts are the same, but involving inflation and the increase of possible incomes in the future after graduation, the second offer is rational.

Items of Kahneman and Tversky's questionnaire, following *Ackert* and *Deaves* (2010), will be ruled out from the 2012 version according to the experiences of our pilot questionnaire in 2011 due to.

In the 2011 pilot campaign, Kahneman and Tversky's items following *Ackert* and *Deaves* (2010) and denominated in Hungarian forint were involved in our questionnaire, and the consistence of the results with the original US measurements evaluated the theory of bounded rationality for our sample. But these items have to be ruled out from the 2012 questionnaire due to their length and the lack of the possibility of new developments.

6. Conclusions

This paper aimed to summarize the process of questionnaire development to measure the level of financial literacy among Hungarian teenagers. According to the theoretical and the legislative background of the economic relevance of the trust and knowledge based financial services, we presented an adequate definition of financial literacy and combined it with economic rationality. This combination provided us with a model with dimensions and ways of measuring our target group. To clarify and to evaluate the items, our research team applied focus group interviews in the late 2010 and a three-staged pilot questionnaire in the early 2011. After processing the results and the feedback, we were able to present the current, one-step questionnaire for the early 2012 campaign.

The presented results underlined that definitive questions are not adequate to measure financial literacy – it was proven both by the theoretical combination of economic rationality and financial rationality, as well as by the special circumstances of teenagers with poor experiences in the field of labour and financial services.

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Trait emotional intelligence (TEIQue) as an individual performance influencing factor

EDIT KOMLÓSI

In the 1990's Salovey and Mayer introduced the concept of emotional intelligence and since then this field of psychology has gained path to management sciences. Among the many emotional intelligence models and tests K.V. Petrides' Trait Emotional Intelligence Model (TEIQue) examines what personality traits result and provide a picture of individual well-being, self-control, emotionality and sociability.

The Hungarian translation of the TEIQue test took place during spring 2011 and the validation process with András Göndör, associate professor of Budapest Business School started in June.

This paper will represent the first stage of the Hungarian validation results of TEIQue, examining future managers' emotional intelligence by analysing the relationship of university students' emotional intelligence and their academic performance at the Faculty of Economics.

Furthermore the paper intends to deal with the latest aspects of high performance and give an outline to how individual performance can be measured in service industry such as education or the hotel sector.

Keywords: personality traits, measuring emotional intelligence, TEIQue, individual performance

Taylor in the digital age

ZOLTÁN KOVÁCS – DÓRA TASNER – VIKTOR KOVÁCS – KRISTÓF KOVÁCS

Photos and video shots were first used in factories as the development created by Frederick W. Taylor. The main question raised by the authors is that how digital technique can be used to create efficient workflow analysis and optimization at a manufacturing company. A lot of companies are not aware of the reference time periods regarding the processes, so cost reduction and productivity growth cannot be accomplished. With this newly developed program by the authors the duration and the content of the processes can be recorded. After the uploading of the records, computer use dedicated software to mark the special events of the process. Then they transfer frame data into spreadsheets where time periods will be calculated. Afterwards the results are analyzed. It is possible to make statistical reports which contain the approved time regarding the quantity of production during a given time period and the expected performance. With these features the production schedule can be supported. There are other advantages of this program, for example, it provides useful basis for ergonomic examinations. According to the results of the analysis it is possible to provide suggestions regarding the perfection of workflows. Furthermore, these data can be used for training, education and for work studies, as well.

Keywords: ergonomics, time standard, video recording, work study

1. Introduction

The objective of motion studies is to recognize and filter the superfluous, exhausting, long and less efficient motions from human interactions. Instead of this the main aim is to create a comfortable and effective series of motions. One of the goals is to ensure an appropriate productivity. People completing monotonous tasks are affected by unhealthy stress in the case of quickly recurring jobs. One of the reasons for that is time pressure, as you have to repeat a short task quickly and workers may take certain postures for long hours. On the other hand this work is worsened by uncomfortable postures which have to be kept sometimes very long. As a consequence, from a psychological point of view, these workers under these conditions do not identify themselves with their jobs. They are often not even aware of the significance of the manufactured piece, this is why they feel neither the outcome of their work, nor their responsibility (Nahlik 1983).

As a result of this, performance will decline since workers are getting tired very soon. The quality of the product will deteriorate and the number of job accidents may increase. (Zeller 1996).

For this reason ergonomical questions are to be considered for the business to be successful (Rowan–Wright 1994).

Some decades ago different ergonomical workstudy methods for solving this problem were developed which have been deployed successfully for analysing and developing various workflow.

The study of work processes was first published in the USA. As the effect of the second industrial revolution, technical tools, machines were improved suddenly and affluent raw material was at service. On the other hand, the workforce was few and expensive and it was not adequately skilled for the more complex tasks, such as leading or being organisational (Chikán–Demeter 2006).

Frederick W. Taylor (1856–1915) as a mechanical engineer saw this problem of the American industry: he supposed that it would be possible to produce effectively, but the

production and the realization of the process was neither properly received, nor harmonized. Right principles and methods had to be found to function. He did most of his research at Midvale Steel Company in Philadelphia through observing, analysing and measuring the time needed for the work of turners in order to specify their daily performance. His leading theory received scientific title since it was based on regular and method-based measurements, time and motion studies. The fundamental principle of his work is the organisation based on measurements, which means detailed technological, operational study followed by motion analysis. All the details were described, then standard time date was defined on the basis of the measurements. The detailed motion analyses allowed excluding superfluous motions through which an ideal range of motion was created. As a result, productivity increased whereas the physical load on the workers decreased or became more balanced. Taylor extended standardization not only for the motions, but also for the orders and the working tools. His goal was to establish the same tools and conditions for the same work (*Koltai 2001, Ho-Pape 2001*).

Henry Ford (1863–1947) built the first assembly line in his factory on the basis of taylorian principles, with which he eliminated the final barrier from mass production. Ford wanted to produce cheap motor vehicle so he considered decreasing the costs as his primary task. The solution was the assembly line. This meant a new challenge from the point of view of work study since every operation had to take for nearly equal time so as not to stop the line, as it was extremely ceremonious to restart the process and it made a lot of damage.

First the Gilbreth couple dealt with motion study. They used motion pictures for the first time. Their aim was to make work simple and decrease workload (*Tuczai 1994*).

With the management of H. B. Maynard motion studies were made with motion pictures in the range of 10.000 in the presser plant of Westinghouse clockfactory in the 1940's. Maynard published his results as MTM method – Method Time Measurement – or 3M as its Hungarian translation is “Mozdulatelemzéses Munkatanulmányozás és Munkakialakítás”. It is an elemental timestandard system that dismantles human and physical activities pliable by humans to basic motions, to which it assigns definite time values, and whose extent depends on the feature on the influential factors (*Végh 1989, Kristensen et al 1997*).

The film version of the multimoment technique on the basis of traditional frequency study was described by Susánszky János as one of the possible methods of rationalisation. The synchronous concentrated multimoment technique was used primarily with the purpose of recording workdays (*Susánszky 1984*). This technique was also used at the University of Chemical Engineering at Veszprém, Hungary (the present University of Pannonia).

The goals of the REFA Association – created in 1924 (Reichausschuss für Arbeitszeitermittlung – Empire committee for working hours investigation) – are to improve workstudy, to elaborate the policies of the execution of work on which time studies are based, as well as economical plant organisation. Beside this research their consulting and publisher activities are significant (*Kovács 2001*). REFA is expedient to be used in the case of companies that want to produce with shorter scanning time, lower costs and planed delivery deadlines. By using this, the decrease in production time and in costs is achieved without significant investment and reaching better quality, and in addition, more efficient work is gained.

PCs, whose performance developed highly, gained ground in the 1990's. By signing the general technological convergence information technology and video technology coalesced. (*Clemmet 1995, Gregson 1995*).

The advantage of using video and computer is that they provide the opportunity to analyse the data later, if our observation is recorded in field notes instead of video recording, lots of things could be looked over or we might simply be unable to note every single detail accurately. On the other hand the recorded material can be rewound, played in slow motion or

stopped for detailed data collection. As a result data are more precise, since time data are also gathered from computerised material and not from a stop-watch data collected by us or by a colleague. During motion analysis one should work with seconds and it is both difficult and complex work take to measures with a stop-watch.

Nowadays, several companies deal with electronic time analysis, an example of which is UMTPlus¹. The hardware used is a PDA, which can be considered as a kind of stop-watch. The software consists of a database where we can choose which operation to be measured. Having executed the measurement, data can be downloaded to a PC, where another program makes their statistics. Alike the above, some solutions have been developed by other companies. These developments solve the problem of electronic measurement, datastorage, dataprocessing however, specific motion cannot be observed, rewind the exact same operation due to their given characteristics, which means they do not offer the possibility of videorecording and/or videoprocessing. MVTA method was developed by the two researchers of Wisconsin – Madison, in cooperation with an industrial and a governmental consortium².

Currently it may be the most highly developed workflow analysis system. In essence it enables the analysis of work processes built in the function of videoanalysis on the computer. Certain points of the video recording can be marked for instance at the beginning or at the end of a motion with the software, based on which the program calculates the time of the motion. This will lead to more exact outcomes as compared to human measurement, and further more, it enables the analysis of micromotions. The program is able to handle analogue videoplayer and operates digital MPEG and AVI formats, as well. The program completes various time studies, calculates frequency and provides statistics. MVTA is a separate modul of Synchronized Video and Data Acquisition (SVDA), which together with video and audio track, enables the recording of seperate datatracks and the import to computer. This means one can measure several features, such as distance, weights, pitch, during recording of the material. As a consequence, a more detailed analysis is allowed.

This videotechinque is used for observing business life in Japan. It is used extremely efficiently in three fields. It gives one help in developing ergonomical methods, statistical methods and technology. On the one hand the user's everyday behaviour is observed through this method, and on the other hand the employees' work, for example during fixing gaspipelines. Consequently using this method the satisfaction of consumers and the safe work of employees will be increased at the same time (*Matsunami 2007*). Video recordings were made during picking processes in car industry when several hours of work was recorded. The aim of the recording was to allow the employee to click on those motions in the recorded film during the evaluating program, called VIDAR, which caused them pain or made them feel uncomfortable, and his clicks were recorded by the program. The results showed that through this method the company received data, which could be used for changing processes and for the ergonomic analysis of complex work analysis succesfully (*Kadefors–Forsman 2000*).

2. Own improvement

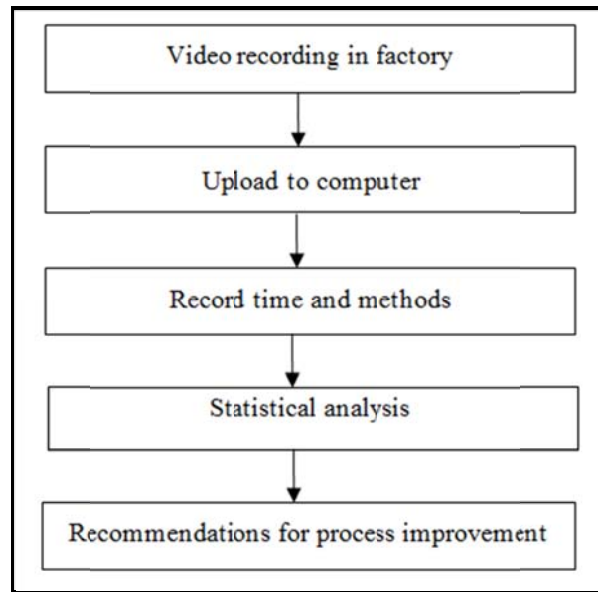
2.1. Process

According to the method elaborated by our team the process is completed through the following steps:

¹ <http://www.laubrass.com/en/products/statique/umtplus.html>

² <http://www.simweb.com.tw/mvta.htm>; <http://mvta.engr.wisc.edu/>

Figure 1. Steps of elaborated method



Source: own construction

In the factory at the selected workplaces, the process should be recorded several times. The amount of the repeated recordings can be defined with statistical methods in order to gain significant results. Long and continuous recordings are needed, so that they better represent reality. There is no “spoiled” recording, as an error at the workplace and the interruption of the material flow may have the same importance as perfect motion operation for ergonomic reasons. It is worth recording each workplace from several positions. Beside the basic processes, the different additional processes (e. g. material supply, product delivery, asset change) should be recorded, as well. The recording may include burst operations, product repairs, or other activities.

The usage of the camera tripod is mandatory, as during the follow-up a stable image ensures better analysis, which is impossible to achieve during long and continuous recordings. The power supply can be provided through high capacity batteries or network, if the work is not hindered by them.

2.2. Processing

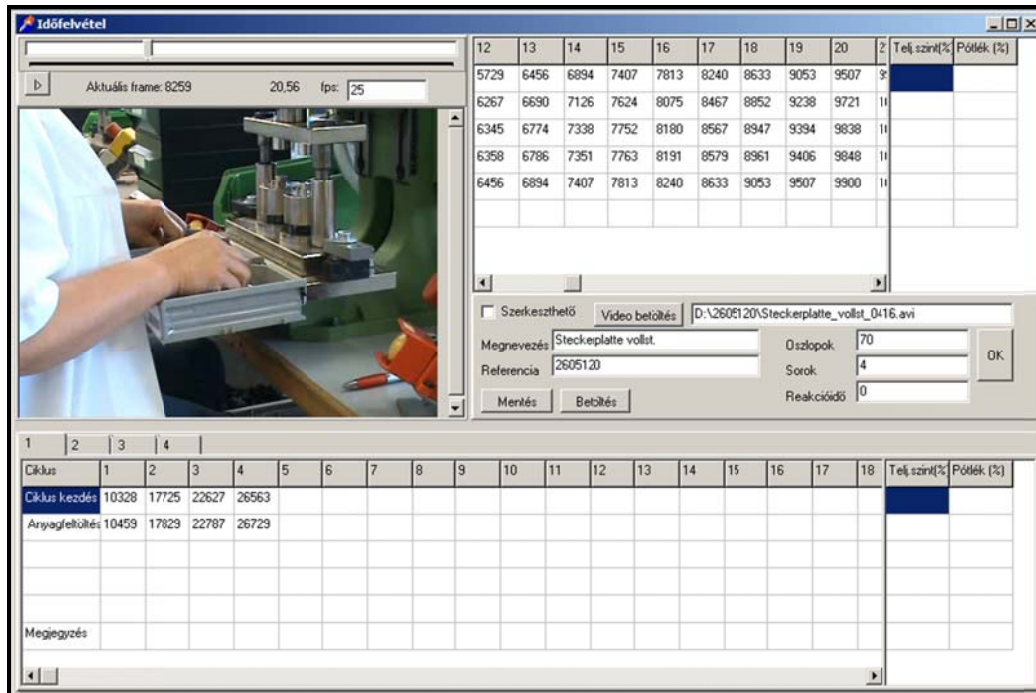
After recording the material has to be transferred to computer. This process is very simple these days if the camera records digital (DV), the video can be transferred via FireWire or USB port. For easier portability it is useful to compress the recording, as one hour duration DV material needs about 12–13 GB space on the storage media. DivX compressing is excellent for this purpose. During the process the quality of the compressing should be set to about 2000kbps, and what even further, it is possible to resize the image (720x576 → 384x288). It is essential to change the maximum distance of the two key frames, from the default 300 to 5–10–20. The less value it has, the quicker skip is possible in the video forward and backward however, with the same bit rate it results in poorer quality. The goal of the program is to extract the time data of the recorded workflow which will be processed in a spreadsheet.

3. Application experience

3.1. PreCon

This study introduces the application of the program through the example of a pressing operation of the Precision Controls Ltd. in Veszprém. At this workplace, the workers insert the components and two pieces of Steckerplatte into the compactor, then push the buttons on the machine (double machine), and finally they remove the finished product from the machine and bulk it into the storage box on the right side.

Figure 2. The user interface of the program



Source: own construction

25 cycles were recorded. The cycles were divided into separate sections, according to the different processes. The different columns of the tables contain the data of each cycle. The starting time (position) of the cycle sub-processes is shown horizontally. The different tables belong to different operations. The main work was interrupted as an additional one was inserted and the operator had to leave for material. Works of this type should be represented in the table at the bottom. The data recorded in the program can be processed in different ways. In this study, an Excel spreadsheet was developed at the Department of Management, University of Pannonia. The recorded frame data of the program can be inserted into the Excel spreadsheet through the clipboard. The user has to fill in the green fields, some of which originate from the program.

Figure 3. The recorded frame data of the program in an Excel spreadsheet

Basic time																
Activity	1. Cycle	2. Cycle	3. Cycle	4. Cycle	5. Cycle	6. Cycle	7. Cycle	8. Cycle	9. Cycle	10. Cycle	11. Cycle	12. Cycle	13. Cycle	14. Cycle	15. Cycle	16. Cycle
Start cycle	68	609	1100	1625	2189	2728	3248	3723	4228	4727	5266	5729	6456	6894	7407	7813
1 Material put in	338	883	1381	1913	2487	2963	3490	3964	4450	5009	5537	6267	6690	7126	7624	8075
2 Sp put on	478	999	1506	2073	2590	3098	3592	4107	4617	5194	5656	6345	6774	7338	7752	8180
3 Engine	494	1016	1520	2086	2602	3112	3604	4121	4632	5208	5669	6358	6786	7351	7763	8191
4 Put out	609	1100	1625	2189	2728	3248	3723	4228	4727	5266	5729	6456	6894	7407	7813	8240
5																
6																
7																
8																
9																
10																
Quantity	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Number of activities:	4															
Material supply																
Additional time 1																
Start cycle	10328	17725	22627	26563												
1 End cycle	10459	17829	22787	26729												
2																
3																
4																
5																
6																
7																
8																
9																
10																
Quantity	21	17	12	9	1	1	1	1	1	1	1	1	1	1	1	1
Number of activities:	1															

Source: own construction

For clear identification, the head of the table and the time recording program indicate which workplace and which product is processed, as well as further additional data, for example, the time unit, more precisely, how the values from the time recording (frames) can be converted into seconds. In this case 25 units equal to one second (Frame rate). The first table contains the main time data and the second contains the additional time data.

Figure 4. The main and the additional time data

Calculation of times																
Operational times: (s)																
Activity	1. Cycle	2. Cycle	3. Cycle	4. Cycle	5. Cycle	6. Cycle	7. Cycle	8. Cycle	9. Cycle	10. Cycle	11. Cycle	12. Cycle	13. Cycle	14. Cycle	15. Cycle	16. Cycle
1 Material put in	10,8	10,96	11,24	11,52	11,92	9,4	9,68	9,64	8,88	11,28	10,84	21,52	9,36	9,28	8,68	10,48
2 Sp put on	5,6	4,64	5	6,4	4,12	5,4	4,08	5,72	6,68	7,4	4,76	3,12	3,36	8,48	5,12	4,2
3 Engine	0,64	0,68	0,56	0,52	0,48	0,56	0,48	0,56	0,6	0,56	0,52	0,52	0,48	0,52	0,44	0,44
4 Put out	4,6	3,36	4,2	4,12	5,04	5,44	4,76	4,28	3,8	2,32	2,4	3,92	4,32	2,24	2	1,96
5	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS
6	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS
7	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS
8	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS
9	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS
10	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS	HAMIS
Total:	21,64	19,64	21	22,56	21,56	20,8	19	20,2	19,96	21,56	18,52	29,08	17,52	20,52	16,24	17,08
Quantity	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Cycle times are valid	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1

Calculation of times				
Material supply				
Operational times: (s)				
Activity	1. Cycle	2. Cycle	3. Cycle	4. Cycle
1 End cycle	0,249524	0,24471	0,53333	0,737778
2	HAMIS	HAMIS	HAMIS	HAMIS
3	HAMIS	HAMIS	HAMIS	HAMIS
4	HAMIS	HAMIS	HAMIS	HAMIS
5	HAMIS	HAMIS	HAMIS	HAMIS
6	HAMIS	HAMIS	HAMIS	HAMIS
7	HAMIS	HAMIS	HAMIS	HAMIS
8	HAMIS	HAMIS	HAMIS	HAMIS
9	HAMIS	HAMIS	HAMIS	HAMIS
10	HAMIS	HAMIS	HAMIS	HAMIS
Total:	0,249524	0,24471	0,53333	0,737778
Quantity	21	17	12	9
Cycle times are valid	1	1	1	1

Source: own construction

Note: „HAMIS” signs mean „FALSE”.

Next, the table converts the frames into seconds, and then calculates the mean and the amount. The insertion of the component into the compactor took 9.09 seconds on the average,

the placing of the Spule took 4.72 seconds, the running of the machine took 0.47 seconds, finally the removal from the machine and the bulking took 3.44 seconds.

Figure 5. The filtered data, differing with more than 50% from the mean

Operational times after Additional time 2																	
Activity																	
Activity	1. Cycle	2. Cycle	3. Cycle	4. Cycle	5. Cycle	6. Cycle	7. Cycle	8. Cycle	9. Cycle	10. Cycle	11. Cycle	12. Cycle	13. Cycle	14. Cycle	15. Cycle	16. Cycle	
1 Material put in	10,8	10,96	11,24	11,52	11,92	9,4	9,68	9,64	8,88	11,28	10,84			9,36	9,28	8,68	10,48
2 Sp put on	5,6	4,64	5	6,4	4,12	5,4	4,08	5,72	6,68			4,76	3,12	3,36		5,12	4,2
3 Engine	0,64	0,68	0,56	0,52	0,48	0,56	0,48	0,56	0,6	0,56	0,52	0,52	0,48	0,52	0,44	0,44	
4 Put out	4,6	3,36	4,2	4,12	5,04			4,76	4,28	3,8	2,32	2,4	3,92	4,32	2,24	2	1,96
5																	
6																	
7																	
8																	
9																	
10																	

Source: own construction

Afterwards, the program filters the data, differing with more than 50% from the mean. Screening can vary depending on the type of work and the workplaces, and in addition significant interruptions should not be counted into the developing of the norm. The interruptions should be eliminated instead of counted as normal. After filtering, the program recalculates the mean, the amount and the deviation.

Figure 6. The proposed time standard

Quantity proportional times :					
Times		Unit time (sec)	Unit time (min)	Unit time (hour)	
Basic time		17,23547	0,287258	0,004788	
Additional time:					
Material supply		0,316	0,005267	8,78E-05	Additional time 1
	0	0	0	0	Additional time 2
	0	0	0	0	Additional time 3
	0	0	0	0	Additional time 4
	(other)		0	0	
	(other)		0	0	
Total:		17,55147	0,292524	0,004875	
Other addition	0	0	0	0	
Other addition (%)	0,1%	0,017551	0,000293	4,88E-06	
Target time:		17,569	0,29282	0,00488	204,91
		second	minute	hour	2 unit/hour
Approved time:		18	0,3	0,005	200

Source: own construction

Different additional time data can be specified, as well (here 10%, which means, the time unit should be multiplied with 1.1). Finally, the program indicates the table of the proposed time norm (19.72 sec) in the summary. Rounded up to 20 seconds, this can be approved.

Figure 7. The calculation of expected performance

Quantity independent times:					
Setup time (preparation and finish):		300	5	0,08333	
			0	0	
			0	0	
Total:		300	5	0,08333	
		second	minute	hour	
Quantity to be produced:	1				Performance:
Allowed time:		318	5,3	0,08833	11,321
		second	minute	hour	2 unit/hour
Allowed time calculation example:					
Quantity to be produced:	1000				Performance:
Allowed time:		18300	305	5,08333	196,72
		second	minute	hour	2 unit/hour

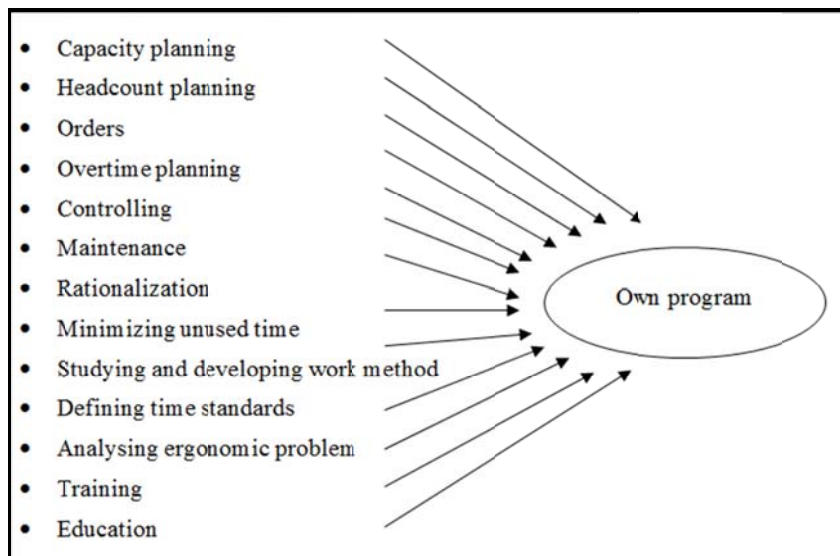
Source: own construction

In addition, expected performance can be calculated, considering the preparation and the completion times.

3.2. Application possibilities

The program and the relevant analysis can be applied in all cases, where the goal is better at understanding of the workflow related sub-processes:

Figure 8. The program can support the analyzer and the designer, work in multiple ways



Source: own construction

3.3. Development opportunities

The program is not only suitable for determining time data: the video playback functions (winding backward and forward, frame skipping) can be used for ergonomic analysis which is the main opportunity for future development. Possible further functions may be changing the speed, continuous repetition between two points allowing a more effective ergonomic analysis. An even more developed method is possible, if beside video and sound tracks,

further data tracks are attached. This way factors, which are not or just partly visible on the recordings, such as weights, loads and distances, could be measured.

4. Conclusions

In this study we examined the relationship between digital technology and work analysis and furthermore, identified the areas where the computer application can be extended. We found that this method results in faster, more accurate and more effective outcome than stop watch measurement and the post-input of the data.

A possible method for the computer analysis of video recordings was presented in which the opportunities of our own program and Microsoft Excel are combined. Our own development is suitable for a convenient and accurate identification of the time data which can be used in Excel to generate statistics, for example for defining time standards. Taylor is still with us...

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Students in the labour market

ZSÓFIA KÜRTÖSI

One important goal of all universities is to provide practice-oriented training and usable knowledge to students which can make sure that the graduates, as educated and well informed intellectuals, can enter the labour market with a degree that can be well used. Our empirical researches try to find an answer to how much higher education institutions prepare students for the world of work and how the graduates evaluate the usability of the acquired knowledge. This present study is useful, first of all, for those employers who would like to get a picture of how well the students of the University of Szeged are prepared for the labour market and what their expectations are, and for those who also want to have some information about the work situation of the graduates of our university one to three years after their graduation.

Keywords: labour market, higher education

1. Introduction and theoretical background

Financed from the tax payments of citizens, education in part represents the state's task worldwide. Therefore, it is not irrelevant whether this money is used in a profitable way, that is, whether students leaving the education can utilize their knowledge and meet the demands of the labour market. Hungarian researchers have been interested in higher education output and response to labour market demands for decades, but the question of incongruence still represents an unsolved task (Veress 1999). The government strives to establish harmony with the help of various regulations and employment forecasts, however, these efforts seem to reach only partial success. To estimate the efficiency of education (or the estimate of perceived risk of efficiency) it is vital to take into account the deviation of competencies such as the expected institutional and educational competencies by students and presumed and experienced institutional and educational competencies. This "deviation" has a key importance in the evaluation of individual institutions as well as the system of institutions (Vilmányi et al 2008).

In the changing and competing higher education environment, there are a lot of questions: "how can we apprehend and write down the quality of the institutions of higher education, how can we express their impact on the students, namely what does the student receive from the institution, how and in what extent will the students be better by studying at the given institution. It is also a big question, whether the main goals of the Bologna process are achievable, and is it a realistic aim to create a student and employee mobility? What is the expected quality and result from the students and from the employees of the institutions of higher education?" (Hetesi–Braxmair 2011, p. 2.).

1.1. Specialities of higher education

Education is a service where the fundamental features of services occur with different emphases and the special strategic tasks deriving from these also set special demands for the service provider. Out of the four basic features (intangibility, inseparability, heterogeneity and perishability) intangibility, inseparability and heterogeneity heavily influence the judgement of educational services:

- Services do not have parameters and features that could be inspected by our senses; we can only get to know them empirically. In the sphere of education, the forecasting role

of physical parameters is small, while future students can collect information about the service much more via communication, like the institution's promise and other people's experiences (words-of-mouth); consequently, tangible factors play hardly any role in their decision of choice and therefore, the sense of risk is especially high in the preceding process and in the course of services as well.

- Services are usually consumed the moment they are created; the provision and use of services usually happens in the same place and time and the user actively participates in the service process (*Zeithaml et al 1985*). Based on the intensity of the relationship between service provider and user, Chase distinguishes services based upon low and high direct consumer relations, where the interaction time is considered and believes that the longer the two parties deal with each other, the more the service process needs regulation (*Chase 1978*). Education is a service where the time that the two parties spend in the “system” is very high; therefore, the process assumes special significance in how consumers evaluate service quality.
- The performance of service providers and the consumer evaluation of performance varies and is uncertain and, due to the human factor, quality is heterogeneous. In the case of educational services, fluctuating quality occurs more intensely, since here, on the one hand, standardizing is not logical, on the other hand, subjectivity of the parties has a stronger influence on the evaluation of quality due to the complexity of service dimensions.

Besides the specialities of the service process itself, providers have some special characteristics too. Institutions providing education services have a strong hierarchical structure and their organizational culture is mainly based on tradition. These organizations have numerous, deep-rooted traditions reaching back for centuries (e.g. the departmental structure based on academic fields, adherence to the faculties and rules), due to which they resist changes, and the market expectations that appear towards the students bear secondary significance to them (*Harmon 1993, Sirvanci 2004*).

The third problem in the case of educational services is defining the consumer group, since the identification of the consumer in higher education is much more complicated than in business life. Neither researchers dealing with higher education, nor institutions providing the service have reached any agreement on who can be regarded as consumers. While some only consider students as consumers, in other approaches consumers appears in a much more differentiated way and, beyond students, include institutional colleagues, parents, former students, employers, the local community, and society in the broader sense. Nevertheless it can be seen that some of the aforementioned groups can rather be regarded as stakeholders than direct consumers. If we apply the production model where incoming students can be regarded as raw material while outgoing graduates are the finished product, the opinion of the employers and fresh graduates is the most important factor for the institution.

In connection with education, quality can be apprehended from different perspectives. According to one, the quality of the education is nothing more than the ability to educate highly-educated labour force continuously, which is committed to permanent studying and self-instruction. In this approach, quality means the congruity for the previously set requirements, and the permanent updated information flow towards the stakeholders (students, associated-professions, labour market, etc). From another approach, the quality of the education ensures the training that is adequate according to student expectations, including the high-quality classrooms and physical environment, where the appropriate timing and the encouraging cooperative classes associate with the possibility to improve knowledge and abilities (*Brocato–Potocki 1996, in Hetesi–Braxmair 2011, p. 3.*).

2. The empirical studies

The students' labour market preparedness can be indicated by the professional experiences they have besides their studies, and also by how many of them join professional training programs. Another important factor is foreign language skills, which are a basic requirement for many jobs in Hungary, too. The graduates' ideas about their first workplace and expected salary well reflect their expectations towards their employers.

Introducing how our graduates find employment provides information about the ways of looking for a job, the length of time spent looking for a job, whether graduates stay in or leave the region, the salaries available, as well as the graduates' satisfaction with their work or with the labour market itself. All this information might be useful for those employers who would like to strengthen their team with well-prepared graduates entering the labour market who are committed to their professions.

2.1. The surveys

The present study is based on the results of five surveys. All of the five surveys were carried out in 2010-2011. As the survey questionnaires were continuously developed during the surveys, some topics were not included in all studies, so, certain aspects were viewed through the data of only one or another survey.

Our current students' preparedness for the labour market is presented through two surveys. One of them is the survey carried out in spring 2010, when all students available via e-mail were contacted. This meant approximately 24,000 students. This electronic survey was filled out by 5589, which makes a response rate of 23%. The other data collection took place in spring 2011, when again all students received the questionnaires. At this time, 4510 people responded, which is 18% of the total number of students we contacted. The sample of respondents was weighted in both cases so that it reflects the faculty, type of training, and gender rates typical of the University of Szeged. As this study aims at revealing the language skills and preparedness of graduates for the labour market, we present the views of full-time students only. This means 4153 people in the 2010 survey, and 3178 people in the 2011 survey¹.

The labour market situation of students who have already graduated is presented through the results of three surveys. One was a survey carried out in spring 2010, focusing on the students who graduated in 2007 and 2009, when we contacted all of the graduated students (more than 10,000 people). In that year, the response rate was 18%, that is, 1861 people completed our electronic questionnaire. The other study was carried out in spring 2011. In this case, we contacted a group of people who graduated in 2007, 2008 and 2009 by phone. Practically all of the ex-students who we could contact (1203 people) answered our questions. The third survey took place in spring 2011, at which time students who graduated in 2008 and 2010, approximately 11,000 people, were surveyed via online questionnaires. The number of respondents was 1884 in this case. While focusing on the first few years of graduates entering the labour market, only former full-time students' responses are presented from each of the three studies: 845 people from 2010, 666 from the 2011 telephone survey, and 1129 people from the 2011 survey.

2.2. Students' preparedness for the labour market, foreign language skills, expectations

We describe students' professional preparedness mainly based on their professional experience and their participation in professional training programs, but we also asked if they

¹ As the students completed the survey questionnaire independently, and obviously not all students answered all of the questions, the number of respondents might be lower in certain cases.

wanted to work according to their qualifications, or rather do a different job. Foreign language skills were not measured based on language exams which have been passed as this does not necessarily mean real living language skills. Instead, we asked if they speak a given language, and if yes, then what the level of their skills is. Regarding their expectations, on the one hand we introduced salary expectations, and on the other hand we examined what kind of workplaces students want to find employment at after their graduation.

2.2.1. Foreign language skills, studying and working abroad

Language skills, especially English, but also German and French, are indispensable not only for working abroad, but also for some Hungarian jobs. In the 2011 survey, we asked the respondents themselves to rate the level of their own foreign language skills. In Table 1, we listed the four most frequent languages. It is clear that students mainly use the English language, one-fifth of them speaking English definitely well, even being able to use it as a working language, and hardly any of them having zero knowledge of English. Knowledge of the German language is much less widespread: one-third of the students do not speak it at all, but the good and very good speakers make up 20% of students in the case of German, too. The two other languages, French and Italian, are less popular among students.

Table 1. Foreign language skills of full-time students as a percentage

<i>What is the level of your language skills? (in parentheses: the number of respondents)</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>Total</i>
English language (N = 3157 people)	2%	11%	30%	36%	21%	100%
German language (N = 2957 people)	33%	27%	20%	13%	7%	100%
French language (N = 2721 people)	83%	10%	5%	2%	1%	100%
Italian language (N = 2717 people)	83%	10%	4%	1%	1%	100%

Note: 1 = no language skills at all; 5 = very good language skills

Source: the survey carried out in 2011.

2.2.2. Professional experience

Based on our 2010 survey, when almost one-third of respondents were graduating students, 40% of the students had already done work related to the profession they studied. On the other hand, the majority of them (30%) had occasional jobs only, while 10% of them confirmed that they continuously worked in a field closely related to their studies.

In the 2011 survey, we used a different method to assess how students were related to the labour market. We asked not only about professional work, but about working in general. At the same time, we did not ask if they had ever worked during their studies, but whether they had been working at the time when they filled out the questionnaire. A little more than one quarter (27%) of them confirmed they had worked during their studies. In general, this work means student or trainee work, while some students take jobs for shorter periods of time on a contract basis. One-fifth of the students working, however, take non fixed-term permanent jobs. For most of the students, practically 50% of them, the work they do is related, in some way to their studied profession, while the others take jobs unrelated to their studies.

2.3. Anticipation and expectations related to labour market

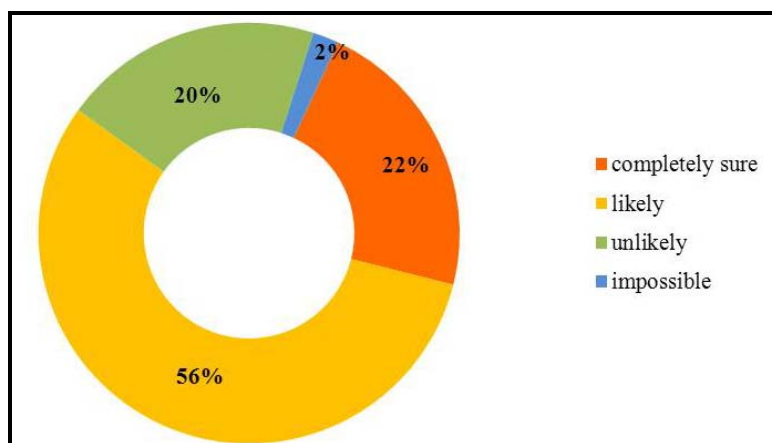
In the 2010 survey, we asked about numerous topics in relation to students' future work, such as changing their professions, planned jobs, and expected salaries.

Seventy-eight percent of the students would definitely like to have a job in the field they currently study. Those who are preparing for professions in health care (like doctors, dentists

and pharmacists), as well as artists, are the most committed to their professions. At the same time, the majority of students of sciences, law, nursing, and economics, also think of having jobs in their own professional field. Nearly a further one-fifth of the respondents confirmed they would take jobs close to their studied professions, and only 5% thought of changing their careers.

Nearly 80% of the respondents trust they can find a job in the field corresponding to their professions, but only one-fifth (22%) of them were completely sure about it (Figure 1).

Figure 1. Probability of finding a job corresponding to qualification



Note: Answers to the question ‘How likely it is to find a job that corresponds to your qualification?’ (N=4028). Data source: the survey carried out in 2010.

Source: Own construction

After graduation, most of them (56%) would like to have full-time jobs, and a further 28% think they will do extra work besides their full-time jobs. Very few of them are planning to live on occasional or contract-based work, but more than one-tenth of them would like to start their own businesses. The idea of being an entrepreneur is especially popular among future dentists, agriculture specialists, pharmacists, and economists.

More than one-third of the respondents, in harmony with the training portfolio of the university, would like to find a job in the public sector. The non-profit sector seems to be less attractive (5%) The rest would like to get along in the private sector: 13% of them, for example, would take a job at a multinational company, and 15% at big companies. Fourteen percent of them would choose small- and medium-sized enterprises. The public sector appears attractive mainly for doctors, but nearly 70% of graduates of the Faculty of Music are preparing to find employment here, too. From the rest of the faculties, less than half of the graduates are planning to find a job in the public sector.

3. Graduates’ situation in the labour market

So far, we have presented the opinion of full-time students currently studying at the University of Szeged. Now we will focus on students who have already graduated. We will present the process of looking for a job, and, connected to this, the knowledge that helps them find their jobs. We will also mention some university services supporting students’ future careers, and then we will describe our graduates’ situation in the labour market.

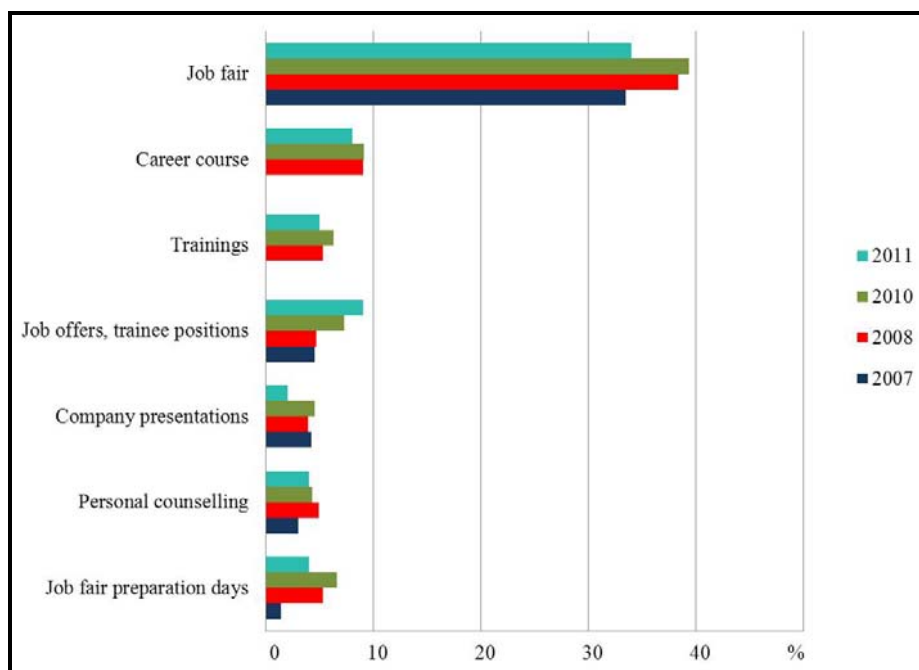
3.1. The use of university services that help in finding jobs

The University of Szeged tries to help students find jobs and improve their situation in the labour market in several ways. To achieve this, the Career Office of the University of Szeged

offers several services to students, such as job fairs organized twice a year, in the spring and in the autumn. Collecting and mediating job offers, however, is not limited to these two occasions, but is continuously happening throughout the year, just like finding and offering trainee positions to students. In addition to this, the Career Office organizes career development courses as well. In every semester, approximately 300 students take these courses in which they can learn about finding jobs, writing CV's, selection procedures, and some issues related to labour law. In addition, they have a chance to take part in different trainings, and to get personal counselling.

In general, 36 to 46% of full-time graduates use one of the services offered by the Career Office; e.g. in the case of graduates of 2008 to 2010, 40% of them confirmed this. Among the individual services, job fairs and career courses seem to be the most popular (Figure 2).

Figure 2. Use of services offered by the Career Office in the past years



Note: Answers to the question ‘Which service provided by th Career Office have you used?’ (N= 1129, 845, 646, 696). The online survey carried out in 2011 and 2010, and the printed questionnaire survey carried out in 2008 and 2007. In 2008, we surveyed students who graduated in 2006 and 2007, while in 2007, we surveyed those who graduated in 2004 and 2005.

Source: own construction

3.2. Finding employment after graduation

Based on surveys of the past years, we can conclude that 20 to 22% of our graduates do not wish to enter the labour market after graduation, but continue their studies or found a family, or do not take paid jobs due to other reasons. A majority of graduated students can find employment when they enter the labour market. Based on our telephone survey, 91% of our full-time student respondents managed to find a permanent job since their graduation. On the other hand, many of those full-time graduated students who had not found a permanent job, were still somehow related to the labour market: they took occasional jobs, worked abroad, or worked as volunteers.

4. The current situation of graduates in the labour market

Not all of those who successfully find a job after graduation actually keep their jobs. Their jobs might cease or they can be sent off, so there may be periods of not being employed during the years after graduation. It might also happen that young people decide to have children, and in this way finding employment after graduation does not necessarily mean that graduates still have their jobs at the time of the survey. To be able to discuss the actual situation of graduates in the labour market in a reasonable way, and in relation to this, see the threat of unemployment that graduates of the University of Szeged might have to face, we will now introduce the nature and characteristics of the current jobs of the respondents, their possible salaries, and whether graduates entering the labour market are satisfied with their own situation.

Ninety-four percent of former students who successfully found employment had jobs at the time of the survey². Considering all respondents, including those who did not want to or could not find employment after graduation, we can say that 85% of the graduates were employed at the time of the survey. Approximately half of those who did not actually have a job at that time were inactive, i.e. they were away from the labour market due to having children, while the other half were registered unemployed people. This makes up approximately 5% of all the graduated full-time students.

The majority of those who found employment have a non fixed-term contract (60%), but more than one-third of them found jobs on a fixed-term contract³. Some of them do occasional work.

Those who graduated as full-time students are just starting their career, so relatively few of them work in leading positions: according to our research so far, this rate is slightly higher than 10%. Most of them are in lower- and medium-level leading positions, and only 1 to 2% of them work in the upper management.

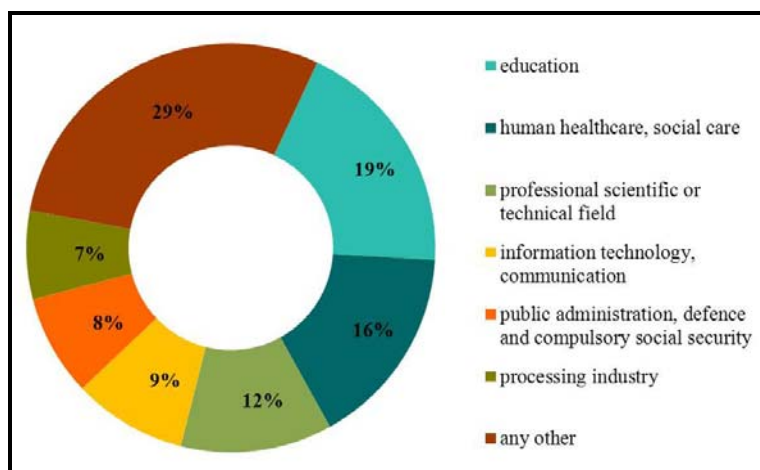
Nearly the same number of respondents worked in the public and government sector as in the for-profit field: 45 to 46% of the respondents. The rest, almost one-tenth of the respondents, became employed in the non-profit sector. We found similar rates in earlier studies as well. The respondents could choose more than one field: e.g. a public employee who has their own enterprise too, could mark both the public and the private sector, but only few people did so.

According to the portfolio of the University of Szeged, most of the graduates of this university find employment in education, human health care and social care (approximately 35 to 41% of the graduates entering the labour market). At the same time, many of them stay at organizations specialized in professional, technical, or scientific activities (including business expert activity, legal and technical consulting, and scientific research), and also at organizations of public administration and compulsory social security (Figure 3).

² the telephone survey carried out in 2011.

³ the online survey carried out in 2011.

Figure 3. Distribution by industry of the graduates' workplaces

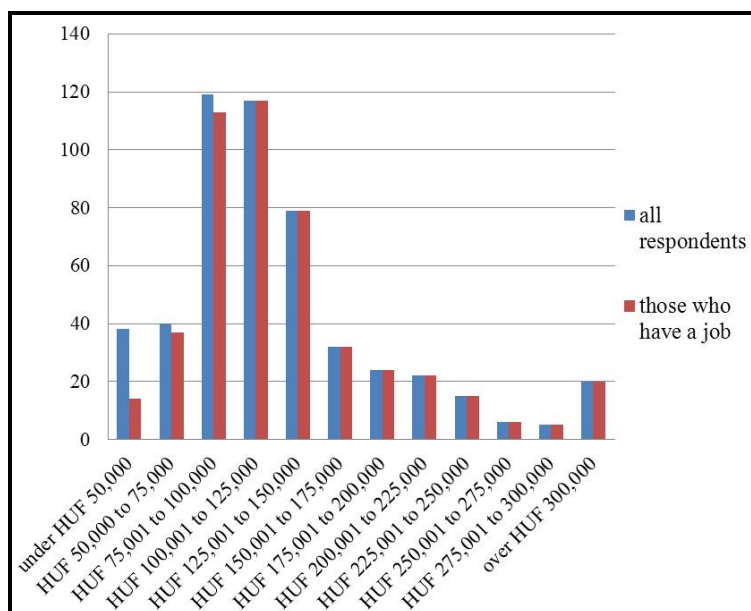


Note: Answers to the question 'The industry your workplace belongs to'. Data source: the online survey carried out in 2011.

Source: Own construction

Now let us see the possible income that graduates entering the labour market can have. The question regarding the net monthly salary was addressed only to those who had, or had ever had, a job since their graduation, that is, to those who had entered the labour market⁴. This is a rather sensitive topic, as some people are not so pleased to answer questions about their financial situation. During the 2011 survey, 13% of the respondents refused to give information about this. If we consider only those respondents who given a substantive answer (517 people), we can say most of them get a salary of HUF 75,000 to 125,000 per month, and 15% of them have a salary lower than HUF 75,000 (Figure 4). The salary of three-quarters of the graduated students does not exceed HUF 150,000.

Figure 4. Net monthly salary of the graduates



Note: Categories of the net month salary of the graduates entering the labour market (in numbers of people), N=517, N=484. Data source: the telephone survey carried out in 2011.

Source: own construction.

⁴ The telephone survey carried out in 2011.

If we consider only those who currently have a job, then, as expected, there are fewer respondents in the lower salary categories. According to the surveys carried out so far, typically one-third of those who have jobs do not take home more than HUF 100,000 per month. A monthly income higher than HUF 300,000 might also result from distorted information, i.e., respondents report an income higher than what they actually have, or, it may also result from the fact that 1 to 2% of them found employment abroad.

4.1. Finding employment in the region⁵

As we described this earlier, more than half of the graduates of the University of Szeged find employment in the Southern Great Plain region of Hungary. Considering the whole of Hungary, even though the labour market situation is not the most favourable here, still there are regions with worse unemployment rates than this one. In fact, the region-level labour market data are not exactly of informative value, as the differences between smaller areas are washed out. Typically, it is easier to find jobs in bigger towns and in their neighbouring areas, while it is more difficult to find employment in certain smaller units of area where the labour market is practically closed.

The process of finding employment is slightly longer for those who want to work in this region compared to other regions which is probably also due to the saturation of the local labour market: only approximately two-thirds of the graduates find employment within up to three months, and the rate of those who find employment after one year reaches 9%. In other regions, especially due to all the possibilities in the capital and its neighbouring areas, only 1% of the graduates look for a job for a longer period of time than 12 months.

The most important way of finding employment, just like anywhere else in the country, is the network of personal relationships: this is how one-third of those who stayed in the region found their jobs. Online advertisements have a less significant role, although a little more than one-fifth of the graduates found their first jobs through online advertisements. Those who are looking for employment are more likely to read traditional printed advertisements, and getting job offers from the place of their professional training is more frequent, too. Ten percent each find their jobs this way.

Graduates had to go through selection procedures to a smaller extent (three-quarters of them) to get into workplaces in this region than in other regions. This procedure, in the great majority of the cases, is the job interview itself, usually in Hungarian: in the region only one out of ten respondents had to answer questions in a foreign language, too, while this rate is significantly higher in other regions (28%). Other selection procedures were not really typical as employers did not use complex procedures, and psychological tests were not very usual either.

Graduates who find employment in this region can take advantage of their foreign language skills to a smaller extent than those who find jobs in other regions: in other areas of Hungary, almost one-third of the graduates use English frequently, and one-fifth of them use German. In the Southern Great Plain region, only one-fifth of those who find jobs use English, and a little more than one-tenth use German frequently.

Regarding how many of the graduates have jobs currently, there is no difference between this region and other parts of Hungary: approximately 94% of them do.

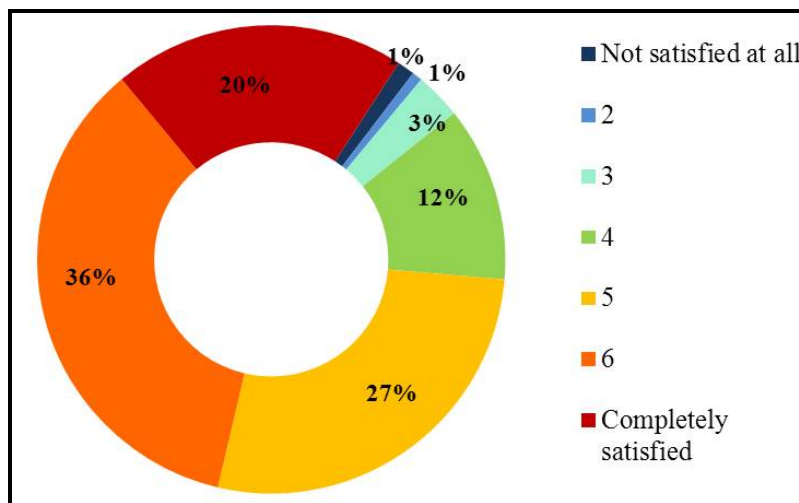
4.2. What do the graduates entering the labour market think of the University of Szeged?

It is also an important part of graduate career tracking, besides finding out about the labour market situation, to ask our ex-students what their opinion is, in the light of their experience

⁵ based on the telephone survey carried out in 2011.

in the labour market, about the University of Szeged, about the knowledge and skills they learned here, how satisfied they were with our institution (Figure 5), and whether they would recommend it to other young people preparing for higher education.

Figure 5. Satisfaction of full-time graduated students at the University of Szeged



Note: Distribution of the answers on a 7-point scale to the question ‘How satisfied are you with the university of Szeged?’, N=666. Data source: the telephone survey carried out in 2011.

Source: own construction.

Generally speaking, graduates are definitely satisfied with the University of Szeged. Eighty-five percent said they were satisfied, 20% of whom were completely satisfied, and only 5% of whom were unsatisfied (that is, marked values of 1 to 3 in the 7–point scale)⁶ (Figure 7). These results are in harmony with the views from the previous years: the rate of satisfied people has been fluctuating between 83 and 85%, with that of the unsatisfied being around 4 to 6%, while the rest of the respondents (approximately one-tenth) have an ambiguous view. If we compare this to our results concerning the labour market, just like in earlier surveys, we can say: 71% of even those who are unsatisfied with their situation in the labour market are satisfied with our university, and only one-tenth of them are unsatisfied. This means that the respondents did not base their opinion about the place of their studies on their actual situation in the labour market.

As a result, it is not an accident that a huge majority (96%) of our graduates entering the labour market would recommend our university to others. Those who would not, make up 3% of the respondents, and a further 1% could not decide in this question. We also asked about the reasons for not recommending our university to others. A part of those who would not recommend our university to others feel the training is too difficult, others felt the acquired qualification was not useful enough, some respondents felt the practice part of their education was too little, and a few of them mentioned reasons that come from their personal situation.

5. Summary

There is a long lasting debate among higher education experts, professionals and researchers about the efficiency of higher education. As there are many stakeholders with different concepts it is not easy to set up a well-defined measuring system. One possible way is to track graduates’ career after leaving the institution and collect data about their employment status. These descriptive researches based on fresh graduates’ opinion describe only one side of the

⁶ The telephone survey carried out in 2011.

coin apparently, but they can be useful to get a clearer picture for further studies and provide possibility to develop more sophisticated measuring systems.

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Logistics performance assessment

PÉTER LAKATOS – GYÖNGYI NÉMETH

Importance of logistics has become strategic today. Numerous wholesalers face the fact that delivery accuracy and ability is not enough to satisfy customer needs. On the market of pharmaceutical products, customers (pharmacies) try to be as liquid as possible. Wholesalers, in order to improve service level, have to analyse their performance and costs.

The use of performance measuring and controlling, completed with IT background, coordinates the aims of the different sciences and integrates them, so as to help the management in decision making. With warehouse optimization, the question of stock levels, with route optimization, the question of more deliveries per day is answered.

After analysing these options the result will tell the management the best way to reach higher service level. With the help of these sciences a company, a wholesaler can improve its performance; develop in hard economic situations by focusing on customers and the future.

Keywords: logistics, supply chain management, controlling, optimization, performance management

1. Introduction

The effect of the 2008-2009 world (economic) crisis is perceptible now: high unemployment rate, the Hungarian forint is also weak. Companies have to face the fact that not paying attention to their costs and performance will make them not being able to stay on the market. The customers' needs are unvarying or maybe they expect more than before. The best way to be profitable is to use the tools of management science. In this paper some of these options are mentioned and the methods how to use them for improvement or for reducing costs.

2. Importance and problems of logistics

Logistics is a continuously developing science. According to the Council of Supply Chain Management Professionals, "logistics management activities typically include

- inbound and outbound transportation management,
- fleet management,
- warehousing,
- materials handling,
- order fulfilment,
- logistics network design,
- inventory management,
- supply/demand planning and
- management of third party logistics service providers.

To varying degrees, the logistics function also includes

- sourcing and procurement,
- production planning and scheduling,
- packaging and assembly and
- customer service.

It is involved in all levels of planning and execution-strategies, both operational and tactical. Logistics management is an integrating function which coordinates and optimizes all

logistics activities as well as integrates logistics activities with other functions, including marketing, sales manufacturing, finance, and information technology” (*Council of Supply Chain Management Professionals* 2011). As we can see from the definition it is an interdisciplinary science which requires an integrated point of view.

Why is it important? Many companies recognize that they can save more money than they expected if they focus on logistics. A question is: how? First of all we should look at logistics as a management function. “Many companies are still in the process of defining specific scopes of the responsibility of the logistics function and gearing their service networks towards the customer needs” (*Antoni* 2012). There are well-known theories, like ‘Just In Time’ with which companies can reduce their cost and improve efficiency.

Nowadays the main problems are: how to optimize the processes, how to improve service level? Also the effect of pollution is getting more significant now. Firms, especially multinational ones, use controlling and a controller in order to monitor and to control the financial situation of the companies, as well as to measure performance and to prepare decisions. The controlling of logistics is appearing these days. In the following sections these instruments, their effective utilization and other important actors will be discussed.

3. Good supply chain manager

Labour is a key factor in the life of the companies. The employees and the managers are as significant parts of the firm as the heads of it. However, there is a gap between the interests of the managers and that of the shareholders (if there is separation between ownership and management). This phenomenon is the principal-agent problem. “The shareholders are the principals; the managers are their agents. Shareholders want the management to increase the value of the firm, but the managers may have their own axes to grind or nests to feather. Agency costs incurred when (1) managers do not attempt to maximize firm value and (2) shareholders incur costs to monitor the managers and to influence their actions” (*Brealey et al* 2006). There are a lot of ways to solve this problem and to reduce relating costs, but the best method can be to define a goal which has to be considered as the highest aim. The leadership and other managers’ interests can only be prevailed if these meet the highest aim.

As the importance of logistics has been growing, the supply chain managers also have been climbing the corporate ladder upper and upper. In line with this the directed area has been bigger, too. The supply chain manager (SCM) is a coordinator, a director, a controller, a core of identification, an alderman, a protector of interests, and so on.

But how can the SCM fulfil all of their obligations? Aside from the appropriate knowledge other abilities are also required. First of all there is a need of *system approach*: the head of logistics can assign any event or part of the process of the whole logistics process to the corresponding area, so they can prevent quarrels or arguments.

Obviously the *cost sensitiveness* is essential because the SCM is connected to the participants of the whole supply chain and has to know all of the expenses and costs which are related not only to the logistics department, but also to the full process. They have to obtain the ability to coordinate the financial approach of the leadership and the process point of view of the operation. With this skill, the new financial phenomena will be realized in a more effective way.

The prerequisite of *coordination* ability, the system approach, has been mentioned before. The basis of the collaborations among the departments can be defined as the followings: clarifyign the interests, sharing the tasks and finding convenient communication channels, then the problems of the joint areas will be solved faster without unnecessary arguments.

Need for the *problem solving ability* is quite different at an operational level. SCMs have to locate, prioritize and assign the responsibility of a problem if it occurs. A distinction

has to be made between the problem and the task: the problem is a situation whose solution is not known, the task contains the method of fulfilment (it has to be written in order to avoid unprofessionalism).

SCM, like other managers, has to organize their day, prioritize their tasks. On the other hand, delegation of tasks is also important, especially in the case of longer projects: fixed dates for meetings are essential. During *decision making* numerous methods can help analysing the options, like SWOT or risk analysis. A supply chain manager is a member of a group so communication and emotional intelligence (EQ) is needed to work together with not only the leadership, but also with the employees of the corporation (Hampell et al 2007).

4. Performance measuring, optimization and developing

Companies work with numerous data, information about production, output, etc., and they use different indicators assessing costs and the profit making activity of the employees, machines, etc. With performance measuring the management can inform especially the owners and the employees about how the firm works. The philosophy of performance management appears at this level. Performance management is a process which deals with mainly motivating the employees in order to reach the strategic goals of the firm.

In the case of logistics the most important is that the customer gets the ordered product in the best conditions. In this paper the service level improvement will be discussed with an example of a pharmaceutical wholesaler company. Pharmaceutical industry has special features: as it deals with medicines, the firms have to face a lot of obligations. The customers are not the end users (patients) but primarily are the pharmacies and the hospitals. To satisfy the needs of the pharmacies the wholesaler company has to know what the needs of their customers are as well as that of the end users (consumers). Pharmacies do not want to invest their capital in medicines and stockpile products because they prefer to be liquid. That is the reason why they give preference to those companies which can provide more transportation a day: they need a product to be ordered and handled as soon as possible to sell it to their patients. Naturally if a patient comes and the requested medicine is not available, the pharmacy might ask them to come back in the afternoon. The process is the same but the wholesaler has only a few hours to deliver the requested medicine to the right pharmacy.

If there are given conditions, like full range product scale at relatively high inventory levels, the needs of the pharmacies and the hospitals of the whole country have to be satisfied. At certain point a wholesaler company is not able to develop without the thought of investment and using such programs and methods like warehouse and route optimizers and logistics controlling.

4.1. Controlling and logistics controlling

The controlling (in Hungary) is a subsystem of management, a coordinative function which analyzes the company's capital and its liquidity, focuses on result planning as well as observes performances and expenses. Controlling is an information system for managers, it helps the management with planning and it represents control, as well. On the other hand it examines plan-fact differences. The controller is a partner of the managers, who shows variances and makes proposals. The controller is often a leader advisor within the company (Mészáros 2011). The major aim of controlling is to give information for the top management about the performance of the firm. The financial information is as important as the other indicators.

The controlling system contains the operative and the strategic controlling. Within the borders of a firm this may have other specializations which can complete it. These parts

concentrate on e.g.: project controlling, quality controlling, marketing controlling, logistics controlling, etc. This paper will focus mainly on logistics controlling.

4.2. Logistics controlling

The logistics major goal nowadays is to improve the customer service level, to satisfy the customer's needs in the best way. The logistics needs performance measuring, as well, but the philosophy of controlling and logistics is not the same, the differences can be seen in Table 1.

Table 1. Controlling and logistics

Compering criterion	Controlling	Logistics
Organizational function (mentality)	coordinate	integrate
Goal of the management	information	time
Central market character	owner	customer
Motivation	profit, free cash flow	profit
Performance	optimal decision	service level
Object of the optimization function	input-output	material and information flow
Utility	decision supporting	place and time, customer loyalty
Motivate the development	market competition	market competition

Source: Körmendi-Tóth (2006)

According to the logistics' way of thinking, controlling has to help the work of the management in:

- „logistics performances,
- vendor activities,
- production lead time,
- customer and product structure,
- logistics costs,
- orders” (Körmendi-Tóth 2006).

4.3. Project management

Nowadays operating with a project is not novelty. If a company wants to be efficient and to realize a higher level of profit, it uses the help of project management. We call project “every innovative investment, technical, product improvement, application writing task which has accurately defined strategic aim, and time-, cost- and performance parameters. [...] The project management does the managing, the organizing and the successful realization of the project” (Körmendi-Tóth 2006).

The market competition has established the situation in which individual aims and needs are in the centre. For a company it is essential to give answers to these arising environmental challenges. Project management accomplish this task focusing on individualism and innovation. According to these it increases efficiency so that the firm can react to the changes easier.

Project controlling helps the work of the project management:

- planning the process and the tasks of the project (for example with network planning), the tasks and the determination (for example with GANTT diagrams) of the part of deadline the tasks (mile stones)
- planning and programming of the expenditures of the tasks (living labour, costs, etc.)
- coordination of risk estimating (in the case of external advisory firms)
- realization of the task, the control of the expenditures according to the deadlines and

- informing the project management in time (for example about the missed deadlines, over driftings of the costs).

So project controlling helps the project management's activity in planning, in plan-fact realization controlling and in reaching current information related to the differences (Körmendi–Tóth 2006).

4.4. Warehouse and route optimizers

Due to the developing of information technology, optimizer programs ensure the even more effective processes in warehousing and delivery, as well.

First of all we should take a look at a warehouse optimizing program, Storeopt. The Storeopt was founded by Szeged Software Zrt. The program focuses on how to locate the products in a commissioning area in the case of a new and furnished warehouse. The main optimizing aspects are the followings:

- weight: during commissioning heavy products should be located below to avoid accidents,
- number of pickers: it refers to how many employees are working at the conveyor belt, the speed of the picking depends on the performance of the workers,
- place of storing: picking time depends on where the products are located, the direction and the length are also included in the cost of picking,
- exceptions: in the course of optimizing the program can take into consideration exceptions. For example, if two medicines have similar names or the same product has different weights, the probability of making a mistake is higher. Exceptions are used to reduce or avoid these mistakes.

Storeopt can decrease costs and improve picking velocity. If the firm doesn't want to reorganize the whole warehouse, there is a need only for relocating some products (e.g. in the case of special offers), this option is also achievable.

With help of route optimizer programs like Versys, which was founded by Iterion, the company can save money: there is no need for the delivery manager to always organize the routes again and again with lots of variables; the program can find shorter and faster routes, as well. The main aims of utilization are:

- quality correction of route plans: cost savings with complied restrictive conditions,
- to ease route organizing, making it faster and more flexible,
- more simple control and governance of the delivery subcontractors and
- support for analysis.

The program, estimating the cost of the deliveries, has a high quality scanning map on which the secondary and other smaller streets can be seen.

With these programs the company can operate in a more effective way and can satisfy the needs of customers more efficiently.

4.5. Establishment of a new warehouse – is it needed?

The aforementioned tools are crucial for modern company managements. Over a certain level growth one can speak about level-keeping. In some cases the firm cannot improve its service level without a more significant step. The examined pharmaceutical wholesaler faced this

fact. The company reached its full range product scale, the capacities were fulfilled. To reach higher service level there should be more deliveries per day because of the special needs of pharmacies. In the region of the original warehouse (logistics centre) the company accomplishes 2 deliveries per day, but unfortunately, because of the distances in the country, only 1 delivery can be fulfilled to the countryside. The wholesaler's choice is to test: whether it is worth establishing one more warehouse?

The utilization of controlling as a decision preparing factor of Versys, the optimization program to calculate the costs of deliveries and distances, and last but not least the cooperation of each manager. As this would be a significant investment it necessitates due foresight.

This task requires the process of project management which has 4 basic parts: in Table 2, the project life-cycle model can be seen.

Table 2. Project life-cycle model

Period	Main tasks
Preparation	Working out the suggestion Settling the project Marking technical area and business goals Analysing the feasibility Estimating the resources Preliminary contract negotiations Decision about the project launch
Project setting up	The project manager's designation and commission Creation of the organization and the operation the project General planning Refined resource plans Initial meeting and review Approval
Fulfilment	Detailed plans Allocation of work and acceptance Training and communication Formal supervision Analysing the results Problem management
Project closure	Show and accept the results Evaluation Surety and guarantee

Source: Chikán–Demeter (2006)

After analysing the present situation of the company, estimations can be made. One has to calculate unit costs (cost of producing one product or service), the costs of equipments. One example is given in Table 3: how much it costs to move one pallet (because the interest of the company for the date does not refer to the reality). When the assessment happened, the salary of the employee (who works with it), the materials (like electricity, accumulators, oil, etc), other related services (insurance, cost of maintenance and repairing) and depreciation, etc, have been taken into consideration.

The management has to decide every single characteristic which is needed for a new warehouse. The requirements have to match with the law and the Good Distribution Practice (GDP) of Medicinal Products for Human Use. This document is a directive, guideline from the European Union.

Table 3. Cost of moving one pallet

Moving a pallet	HUF/pallet moving
Pallet mover	100
Picking forklift	260
High picking forklift	310
Rotation very narrow aisle forklift	380

Source: own construction

How does this new warehouse affect the other, so called logistics centre? First of all, the most significant change will be in the inventory levels. The logistics centre has incredibly high inventories which has negative effects on cash flow. After establishing the new/regional warehouse there would be lower inventories, free capacities which could be used for renting. Moreover, the commissioning would work more efficiently because the employees could focus on their task better. In the region of the logistics centre the company could ensure 2 distributions for the customers instead of only 1.

Effect in the region – where the new warehouse would be located – could be that more and more customers could order from the wholesaler, so the main goal of the improvement of service level would be reached.

5. Conclusions

If a firm would like to be successful, it has to implement the sciences of management. The lack of these tools can bring failure to the corporations as continuous improvement and developing are essential. If the company just takes a look at their logistics cost, or even at the performance of their employees and machines, it can save more than it is expected. Due to the support of innovations of information technology and science, as Storeopt and Versys, faster and easier documentation or serving is available. Project management ensures the innovative role of the firm. Also motivation of employees, as performance management, is a core competence. In addition, using these without an expert management team is impractical. The interest and the strategy of the company have to be accepted by all of the personnel, this is the only way for reaching future success.

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Nógrád county: rural tourism?

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The share of the Hungarian rural tourism within the tourism in Europe, is still insignificant, but the interest is increasing. More people realize that after overworking everyday, a metropolis or the beach are not necessarily suitable for recreation because they are contaminated and crowded. If we look at the other side, it is difficult to make a decision whether the villages, which start to organize, enhance the profitability of rural tourism. Tourism as a source of income has some contradictions; one of these is the seasonality. The earning potential runs for a few months, this fact is so stimulating, therefore, the hosts meet the real and putative needs of the guests. A few-day-long event that moves large masses and makes the name of the town known has a positive impact on visits for the rest of the year, as well. The nearly fifty towns, where Palóc people live, are located at the foot of the North Hungarian Mountains. The popularity of the still living traditions encourages the residents to preserve and care for their traditions. We see countless examples of this in Nógrád county. Some of these settlements are Hollókő, Kazár, Bánk, Mihálygerge among others. Strengthening the tourism may boost the economy of the county, as seen in other regions, sub-regions and other counties of the Hungary. The support of the local governments and entrepreneurs is essential. Nógrád, although in size the second smallest county Hungary, yet is full of amazing natural formations, historic monuments, and attractive events for visitors. We intended to demonstrate the positive and negative sides of rural tourism. We used the example of Nógrád county.

Keywords: rural tourism, opportunity, Nógrád county, gastronomy, gastro-tourism

1. Introduction

In the past the power of a rural community had more important role in the life of bigger cities, as well. Villages have social and biological space that provide the livelihood for the communities who live there and for the natural environment, as well. It provides food safety. Influencing factors are in the life of the villages: historical heritage and influence of the regime (Ángyán 2010).

After the changes of the Regime people have more possibilities for leisure, there have been more demands for travelling. The reason of this included the freedom of visa applications. It helped the current trends, such as an increase in leisure time and that of the discretionary income, demographic changes and the search for authenticity, etc.

Recently the infolded crisis had an impact on the service sector and on tourism, as well, (traffic loss, revenue loss, job loss). Then we observed a long term regeneration process which is predicted to continue. It would be, that more and more people are admitted to the fact that the key to the development of high quality tourism to build. The share of the Hungarian rural tourism within the tourism in Europe is still insignificant, but there is no question that the interest is increasing. More people realize that after overworking everyday, a metropolis or the beach are not necessarily suitable for recreation because they are contaminated and crowded. Nowadays the natural and cultural values of villages are more popular. Many people are looking for romance and rarity of an idealized countryside; others are attracted by the beauty of the landscape, the silence and clean air, as well. In Hungary there was an organized form of recreation before the Transition, this kind of recreation disappeared, then many families had no other option only rural tourism.

If we look at the other side, it is difficult to make a decision whether the villages, which start to organize, enhance the profitability of rural tourism. Tourism as a source of income has some contradictions; one of these is the seasonality. The earning potential runs for a few months, this fact is so stimulating, therefore, the hosts meet the real and putative needs of their guests. The pizzerias, tennis courts, guest houses are harm to the landscape, the cultural attractions and the unique features. A few-day-long event that moves large masses and makes the name of the town known has a positive impact on the visits for the rest of the year, as well. The appearance of large masses is a serious burden on the village (pollution, noise, crime).

2. Nógrád county

Nógrád county is located in Northern Hungary and it is also the member of this tourist area. Nógrád has more neighbours: Pest county is from the West and Southwest direction, and Heves county is from east. Nógrád has a foreign neighbour also, Slovakia. The county is divided further into six sub-regions¹:

- Balassagyarmat sub-region
- Bátorfyerénye sub-region
- Pásztó sub-region
- Rétság sub-region
- Salgótarján sub-region
- Szécsény sub-region

Almost 150 settlements are resided by Palóc people, mainly at the foot of the North Hungarian Mountain Range, the sharp and rangy mountains of Cserhát, Mátra and Bükk which can be found in the territory of Borsod, Heves and Nógrád, primarily.

Nógrád consisted of 131 settlements at the beginning of 2008, six of them were cities. (Salgótarján is the county town). This is the smallest county of Hungary with the territory of 2,546 km² and the population of 210.2 thousands, the 2.1% of the whole country. Population density is 83 person/km², that is smaller than the country average (108 person/km²). In 2010, the population was 204,917 people; this was probably decreased with 2000 people during 2011. Regarding the population of Salgótarján, it is the second smallest county town, and there can also be found only 10 more towns as big as Rétság in the country (*Szalainé* 2009). It is a favourable destination, beside the touring options there is a list of historical memories in calm environment waiting for tourists who want to relax, hunters, fishermen, lovers of special wines and admirers of water and winter sports. The prehistoric findings of Ipolytarnóc have international fame, the hive rocks in the Southern edge of Bükk and also the Plateau of Bükk. In these mountains there are mammals, birds and plants that have an increased protection.

On the operational territories of the National Parks, there are 11 landscape protected districts and 17 environmental districts that are under nationwide protection. In 1995, the European Council donated the European Diploma to the territory of the prehistoric findings of Ipolytarnóc.

3. Palóc people

It is very important to mention the Palóc population in this topic. The Hungarian peasants understood as Palóc people live in the Mátra, in the Nógrád Basin and in the Ipoly Valley, North from the Bükk Mountain.

¹ <http://www.nograd.hu/>

The common features of folklore, the extended family system and the settlement structure that reflects it remained during the first half of the 20th century, the Roman Catholic religion and also the dialect that uses two types of “a” sounds mostly connect the inhabitants of “Palóc Land” (Highlands). The ethnographic collections outcropped a very rich and strong folklore in this area. The world of myths, the customs connected to the nuptials and to the high days are extremely rich.

The gastronomy of the ethnical group is said to be unique within the county, as well (*Selmeczi* 2008). Food made from a variety of pulp and flour had/ has a major role in the nutrition of the Palóc. One of their favourite dishes is baked pulp also known as ‘görho’ or ‘málé’. In the theme of traditions we have to mention the settlement, Hollókő. The present state of the village was established after the fire in 1909, thatch was replaced by burned clay, but the ancient architectural forms were preserved. Later a porch, made of board, was built with a balustrade to the house. In most places grapes are grown on the porches, called “hambitus”, In 1987 the village was added to the list of the World Heritage Committee of the UNESCO². The small community that lives here wears folk costumes and keeps the forgotten, popular customs alive. They do it during the confines of different events such as Easter, when they await the tourists with “sprinkling”, egg painting and other traditional activities.

4. Crisis and recovery

The future of the rural lifestyle may be diverse and it is necessary to plan it (*Szilágyiné* 2008). In this planning, organization and realisation are crucial factors of the regional development. The regional development policy is one of the six pillars of rural, city and village development. While it was thought earlier that the only key to the rural development was the development of agriculture, we know it already today that this alone is not enough, if there are not any additional alternative sources of income beside it (*Verbole* 2000, *Fleischer–Tchtechik* 2005).

The role of tourism is more than just economic recovery, job creation and land development. Hungary is rich in tourist attractions. The range is only a very small part of the offer of tourism. The capital reason is that we do not know the attractions of whole areas. There are a lot of natural conditions, cultural values and modern supplies of touristic products in Hungary.

Tourism based on the natural conditions and historical, cultural values in the touristic region of Northern Hungary, as well. This area has modern offers for tourists, which are acting on the needs of the visitors. The conductors are the health- and culture tourism, cultural tourism, the wine and gastronomic, active-, eco and rural tourism which has defining destinations: Eger and its surroundings, Miskolc-Bükk, Gyöngyös-Mátra, as the part of the world heritage, Hollókő-Szécsény-Ipolytarnóc, Aggtelek-Cserehát and Tokaj-Zemplén.

The Northern Hungarian region received the fifth place in the range of the Hungarian touristic regions according to the guests in 2007. In the region, the number of nights spent by domestic guests has been increasing continuously in the recent years; it exceeded to 1.2 million nights in 2006–2007. It shows the importance of domestic guests as the number of nights spent by domestic travellers is 86 out of 100.

The tourism of Nógrád county lost its significance in recent years. The commercial accommodation is visited by fewer guests every year, even the proportion of foreign guests is low.

Nógrád county and the situation of its area is positive, which cannot be said, despite the numerous nights spent by guests. 7, 6 million foreign tourists visited Hungary in the first quarters of 2011. This value is a small portion of those who aimed the region of Northern

² <http://www.unesco.hu/kultura/vilagorokseg-www/cikk-cime-100107-2>

Hungary. We may say that the sub-regions of Nógrád county do not count as the centre of holiday destinations within the country. The fact that in the service sector the number of employees was decreasing between 2008 and 2010 also supports this statement. However, the tourism is an integrated part of the national economy sector. As we told earlier the Nógrád area could excel in the rural tourism mostly according to our ideas. It is probable that a diversified rural tourism would reduce the number of the unemployed. This would be important because of the number of unemployed decreased over the past two years, and it is still observed at a significant level in the county. Moreover, this region provided the majority of the unemployed in the recent years.

Despite all of this a lot of rural development program started in Nógrád micro-regions in the recent years, each of these objectives include the development of local tourism, increasing the income from tourism and this is supposed to be done by creating jobs.

5. Festivals

In the last few years, the number of festivals organized directly for tourists grew exponentially on the international market³. Studies show that the more of the average net income of the household is, the higher chance there is that they choose a destination where a festival is held (*Sulyok* 2010). But what kind of outing could we call a festival? There have been so many phrases and point of views.

“Every series of events – cultural, art, gastronomic, sports or other, that is organized around one or more themes, set up in one or more locations and has an announced program – whose aim is to offer accentuated high-standards, transmitting and expanding values, quality at the same time entertaining, spare-time, public experience for its audience.” (Hungarian Festival League) (*Smidt* 2009).

Festivals could be categorized according to numerous factors. By the length of festivals, we can speak about one- and more day-long, a week long or a month-long duration, as well. We could differentiate local, regional, national or international festivals according to their area of attraction.

The frequency of organization is also an important criterion: there are one-off outings and periodic ones, as well. The significance of the latter is that periodic programs have serious brand-erector effects, even a one-time thing (jubilee) can be set up regularly later as a hallmark event, being a starting point of series of events with similar themes. By the Hungarian Festival League, festivals are categorized by genres:

- Artistic festivals (music, theatre, dance, literature, graphic art and handcrafts, movie, video, photo, multimedia, folklore, circus and others), pure amateur, artistic and “lineage competitions” (reader of poetry, shot, firemen’s orchestra and others).
- Gastronomic festivals (food, drink, crops, gastronomic tradition-promoting).
- Other, not artistic festivals (landscape or natural value-specific, traditional, historical field-specific programs, castle games, feast-related, ecclesiastical or profane traditions, carnival, merry-making, fiesta, nature, environmental protection, promotions related to a brand).

In the course of thematic grouping, the international scientific literature treats festivals as collective concepts and grand programs completed by festivals. The latter consists the next categories: carnivals, artistic festivals (dance, theatre), religious festivals, circus, sport events, mega-events (Olympic Games, cultural olympics and related festivals), cultural grand programs (for example: European Capital of Culture) (*Sulyok–Sziva* 2009).

³ <http://www.gsztujsag.com/index.php/turisztika/29-fesztivalok-es-turizmus>

According to the European tendency the growing role of festivals can be found in the following fields:

- mediation of culture,
- intensifying national identity,
- the development of regions and settlements,
- the rising of tourism.

The significance of festivals is running through three threads:

- artistic: training of the audience, expansion of offers, protection of values,
- social: community-building, reaching the disadvantaged, presentation and maintenance of local spiritual and built-up heredity, intensifying tolerance, educating environment-consciousness,
- economic: tax incomes, employment (artists, collaborators, suppliers, etc.), expansion of the settlements, touristic value-enlargement, creating images.

Festivals are varicoloured and diverse; all together with local public events, there are several thousands of programs, series of events like them annually. In 2010, the number of festivals attracting bigger audience was 300–400 in Hungary. In this period the number of the audience of registered festivals reached 4.8 million people. The total cost of registered festivals almost reached 8 billion HUF (*Elekes et al 2010*).

6. Festivals of Nógrád

There are many festivals in Nógrád, primarily linked to gastronomy but at least associated with the appearance of traditional food and drinks.

Such events among others are:

- Louis Armstrong International Jazz Festival
- Nógrád International Folklore and Gastronomy Festival
- Gödör (Hole) Festival
- Tóparty (Shore) Festival
- Palacsinta (Pancake) Festival
- World Heritage Day
- Dió (Walnut) Festival
- ÉTER Festival 2011
- Somoskői Vár Festival/Castle Festival of Somoskő
- Szent István napi várjáték/Castle Tournaments of Saint Steven's Day
- Szüreti Fesztivál(ok)/Vintage Festival(s)
- Kőleves Fesztivál/Stone Soup Festival
- Salgótarjáni Bányaréms Fesztivál/Snag Festival of Salgótarján
- Málna (Raspberry) Festival

“Recall the tails of our childhood! Prepare the famous and magical soup from stone of the cave that hide the fabulous treasures of Kis-kő and from some of the secret flavoring.” The appeal this year says this about the Kőleves (stone soup) Festival that is held in Szilasgöny in the last 5 years⁴. This gastronomic event, inspired by a folk tale, won in the “Most popular program in the County” category in 2007. The major step in the cooking

⁴ <http://www.kis-koleves.hu/content/k2010.htm>

competition is: Kőleves (Stone soup) can be made from anything, the only compulsory rule at the beginning of the cooking is to plunge the volcanic stone from the Kis-Kő Mountain, the soup is named after this mountain, into the cold water of the soup.

In 1996 at the open-air stage of Rárós the first Nógrád Folklore Festival was opened, since then it hits the road every year and visits the cities and villages of Nógrád County.

In 2000, the festival crossed the border of the country as a herald of common Europe and found friendly welcome in Nagykürtös, Losonc, Füleke, Ragyolc, Vidina and also in Divény. Since then the event has the right to wear the name of Nógrád International Folklore Festival, that presents the folklore culture of the Hungarians and the Slovaks up to now in more and more settlements – Szügy, Mihálygerge, Pásztó, Palotás, Egyházasgerge, Salgótarján, Hollókő, Bánk, Balassagyarmat, Szécsény, Somoskő, Kazár, Ipolytarnóc – on both banks of the Ipoly.

Ten years is not a long time but enough to build a tradition of an event which has achieved appreciation in Hungary and also abroad⁵. In 2011 the event widened with a gastronomic day and got the name Nógrád International Folklore and Gastronomic Festival.

Today the event is held in ten locations within the confines of Hungary-Slovakia Cross-Border Cooperation Programme 2007–2013, with Ukrainian, Georgian, Slovak, Italian, Serbian, Romanian, German and Polish participants and visitors.

The program supports the mutual development of Hungarian-Slovak border region and also the integration of the Hungarian-Slovak border region in economic, humane, environmental and transport aspects. The cross-border programs by the INTERREG IIIA program were financed by the Structural Fundamentals resources⁶.

7. The market features of the rural gastronomic tourism

A national market potential for increasing gastronomy is among the instruments of culinary events, like the typical touristic products. The elements of folklore can become specific products linked to gastronomic products and the diversity of rurality. The diversification gets realized inside the product, stepping over the touristic frameworks.

The same and also different traditions provide the diversity of gastro-tourism in the region. The gastro-tourism is the tourism in which the guests and the residents find their way and it is the closest to each other's.

The variety of gastro-tourism can be categorized as gastronomic events, gastronomic museums and attractions of thematic tours (road Horseradish, Plum). The grouping of gastro-touristic events shows clearly the diversification (*Fehér-Kóródi* 2006):

- Hungarian food-related events
- a food prepared in more variants
- based on one stock, using more technology
- applying a technology on more stock

During programs like this the most typical way of making meals is cooking in a cauldron, also the event of pig killing, the festivals of cereals and pastas, dairy products, vegetables and fruits.

We may talk about the above mentioned gastronomic program types according to another grouping (*Fehér-Kóródi* 2008):

- programs being attached to illustrious days (Harvest festival, Márton-day)

⁵ <http://www.nogradfolklor.hu/index.php?page=21>

⁶ http://www.husk-cbc.eu/hu/a_programrol

- folk gastronomic events (Palóc Days)
- programs being attached to the past of the Hungarian nationalities (Renaissance feasts)
- professional events (“Wonders of flavors” Gastronomic Competition and Festival)
- Hungarian food-related events (cauldron-food festivals)

The events are not only culinary demonstrations. They take place in their natural environment; the cookers, the household utensils and the furniture recall the past. Some events are like a living museum where the old exhibited objects are present in use, meanwhile their function becomes clear in front of the ones being interested.

8. The future of rural gastronomy

Abroad it has already been recognized that staying in the rural areas contributes to the conservation of health on a large scale (*Anderson–Getz 2009*), and they deny the view that these holiday places have sights for the elderly and they are only village areas. They emphasize the individuality of the authentic and the importance of returning to the folk culture beside this.

The traditional flavors are not always present in the urban kitchens as a result of modernisation which affects food and drinks, especially wine (*Mak et al 2011*).

We can say that the opportunities are given. In this section of rural tourism it would be worth laying the emphasis on additional ones and the organization of gastronomic roads, museums and presentations are necessary to be in the spotlight.

9. Negatives and positives of local, rural festivals

Festivals often serve as the reinforcement of the local culture and the costumes, and they also give opportunities to the public for enhancing their cultural identity beside these, helping and promoting local artists to reach higher; in addition opportunities are created for a short term and also high-level artistic, creative work is being done. Primarily gastronomic and folklore festivals are usual in smaller towns and in villages.

Until music festivals could be described often as “global” events (for example mostly internationally admitted performers), gastronomic festivals could help with presenting and selling local products. Considering the socio-cultural effects of the festivals, they play an important role in the development of the local communities because if we compare them with other forms of culture they are socially more inclusive. Furthermore, the organizers and the population consider the festivals as a tool of utterance of diversity and identity. It is worth mentioning that festivals have a positive impact in terms of renewal which may include the democratization of culture, the celebration of differences, the revitalization and strengthening of the community and also the improvement of the quality of life. Festivals are usually temporary, fleeting and elusive experiences and if they are not repeated they are unable to maintain cultural continuity. Therefore, it is ideal that they are organized annually. Also it is a problem that festivals become more and more international and they lose their roots and relationships with the given location. The characteristics of smaller community festivals is that they are more attractive for the local population than the mega-programs. However, generally they fail to attract tourists and less likely they are economically viable long-term, unless they receive a comprehensive local financial support. Another problem may be the loss of authenticity, giving up the artistic integrity or the depreciation of culture. Many authors talk about the fundamental differences between community-oriented and tourist-oriented events and raise the questions about the sustainability of the latter one.

10. Discussion

The potentials of tourism in the region of Nógrád are immature. The sought of them was stagnant and had little interest. It has less popularity than the major targets of tourism, such as Budapest and its surroundings and the Balaton Uplands, etc. By contrast, regarding tourism, it has all the potentials to build traditional holiday opportunities filled with folklore.

11. Conclusion

Festival tourism may have outstanding benefits in Nógrád county connecting it with village tourism, but the touristic destinations have to avoid the oversupply of these programmes. In such a little location, like the area with the Palóc, inhabitants definitely are worth staging unique, traditional based festivals to emphasis the exclusivity. The tourists, who visit the country would like to step out of the uniformity of the globalized world, having the comfort and the usual things present. They want to know the diverse, the unique, the unknown things, landscapes, flavors, activities. (Pakurar–Olah 2008). The tourists considering travelling as a pleasant form of learning, they make acquaintances with the people with pleasure fast and they also easily get to know unknown things. This applies during the journey where eating a great variety of food can also be found. In the future it would be important to focus on the role of culinary tourism in this region which could be a breakout opportunity.

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How to get employee engagement?

BRANKO LOBNIKAR

Studies have shown that employee engagement has impact on business results, productivity, customer loyalty and staff turnover. Developed economies realized that development and growth cannot be achieved simply by adding capital or increasing the number of employees; the results stems from the innovation ability of employees and their efficient management. When business needs to do more with less, engaged employees may be the difference between surviving and thriving. Employee engagement is the extent to which employee commitment, both emotional and intellectual, exists relative to accomplishing the work, mission, and vision of the organization. In an empirical study of employee engagement, conducted on a sample of professionals and managers employed in a large Slovenian company (n = 71), we found that 27 percent of managers, included into the survey, are engaged in the job, 66 percent are not engaged, and additional 7 percent are actively not engaged. However, in comparison to the employee engagement in developed economies, the engaged employees' percentage in the analysed company is comparable to that in the U.S., being higher than the average engagement in Slovenia.

Keywords: employee engagement, efficiency, efficacy

1. Introduction

We would have to take the saying „employees are our biggest asset”, which is often used as a slogan, literally and seriously. Especially in a period of altered economic dynamism, which is visible in stagnation, if not lower economic production. Practice as well as research offers enough evidence that a company's success heavily depends on adequate employee management and their ability as well as willingness to use their knowledge, skills and capabilities in their work. Discussions on adequate employee management can be summarized in three words: satisfaction, confidence and commitment. Literature review shows that in this context a lot of attention was dedicated to establishing employee satisfaction, but only a few researches focused on the relation between satisfaction and work success of employees. Even less researches and findings dealt with the impact of engagement on the work success of employees (Gruban 2005). Only lately has more attention been dedicated to the concept of employee engagement within the framework of human resource management.

Employee engagement concerns the degree to which individuals make full use of their cognitive, emotional, and physical resources to perform role-related work and was, as a concept, developed by Kahn in 1990 (Xu-Cooper 2011). Another definition of employee engagement was set by Shuck and Wollard (2010, cit. in Shuck et al 2011) as an individual employee's cognitive, emotional and behavioural state directed toward desired organizational outcomes. According Kahn, engaged employees are fully present, and draw on their whole selves in an integrated and focused manner to promote their role performance. They are willing to do this because three antecedent conditions are met: (a) employees feel psychologically safe in the presence of others to apply themselves in their role performances, they (b) have sufficient personal resources available to devote to such performances, and (c) their work is sufficiently meaningful that such personal investment is perceived as worthwhile (Kahn 1990, cit. in Xu-Cooper 2011, p. 401.).

Robertson and Cooper (2010) seek to bring together two distinct constructs, namely the employee engagement and the psychological well-being; they defined this integrated construct as “full engagement”. The concept of full engagement rests on the principle that the

beneficial impact of narrow engagement is enhanced when psychological well-being is also high – and similarly the negative effects of low engagement would be exacerbated when psychological well-being is poor. This wider focus on psychological well-being is important and better reflects a more rounded view of engagement, covering both the aspects of narrow engagement that describe positive employee behaviour but also assuring underlying employee psychological well-being, which in turn is important in supporting high engagement (Robertson–Cooper 2010, p. 328.). The full engagement is supported by the notion of flow, which Csikszentmihályi (1975, cit. in Devi 2009, p. 3.) defines as the “holistic sensation” that people feel when they act with total involvement. Flow is the state in which there is little distinction between self and environment.

Engagement has an impact on the actual business results of the company, productivity, customer loyalty and the staff turnover. Many believe that employee engagement is a dominant source of competitive advantage and thus, have been drawn to its reported ability to solve challenging organizational problems such as increasing workplace performance and productivity amid widespread economic decline (Macey–Schneider 2008, Macey et al 2009, cit. in Shuck et al 2011). Researches prove that the majority of employees do not attain the level of engagement employers wish for. Gallup (2006) published the results of the most extensive research on engagement, which was carried out in 114 countries around the world and comprised different types of industries and activities. Research showed that only 26 percent of employees are engaged, meaning that the majority of employees are not engaged. They come to work, do what they have to and go back home. They are not bad people or bad employees. They are only not engaged in their work and do not have any passion for their work and company. The percentage of not engaged employees in the average amounts to around 55 percent of all employees. The remaining 19 percent of employees are so-called actively not engaged. This group of employees is not loyal to the company and its vision; while at the same time they usually oppose everyone and everything. The majority of them are unhappy and disappointed and share their bad mood with everyone prepared to listen. They actually recruit new members to their “club of actively not engaged employees”.

Engagement can be divided into three groups: (a) *engaged employees* are active employees, who work with passion and feel a deep connection to the company they work for. They have high innovation ability and help with the development of the company. They have confidence in themselves and managers. (b) *Not engaged employees* are “partially absent”. They do what they have to. During their work time they are “half asleep”, they invest their time into work, but not their energy and passion. (c) *Actively not engaged employees* are not only dissatisfied with their work position; they also actively show their dissatisfaction. They underrate work performed by their engaged colleagues every day. They have a harmful impact on the engagement and satisfaction of customers (Dimovski et al 2003, p. 184.). The table 1. summarizes data on employee engagement levels by country.

Table 1. Comparison of employee engagement to other countries

	ENGAGED	NOT ENGAGED	ACTIVELY NOT ENGAGED
Slovenia	16 %	68 %	16 %
USA	27 %	56 %	17 %
Canada	24 %	60 %	16 %
Germany	12 %	70 %	18 %
United Kingdom	19 %	61 %	20 %
Japan	9 %	67 %	24 %
France	12 %	82 %	9 %
Singapore	12 %	68 %	20 %
China	12 %	62 %	24 %

Source: Gruban (2005)

Data on the impact of engagement on business results is revealing. *Gallup* (2006) states in the research that companies with engagement levels attain 18-times higher value of profit per share than companies with low engagement levels, in comparable business environments. At the same time they also record higher growth rates than their competitors. Environments with highly engaged employees have an 18 percent higher productivity, 12 percent higher profitability and higher innovation ability among employees, which consequently has an impact on the business success of the company. Business environments with a high number of actively not engaged employees record between 31 and 51 percent higher staff turnover than environments with a high number of engaged employees. The high engagement level is visible in numerous seemingly unimportant activities carried out by employees on a daily basis and which in turn create higher customer engagement. A high level of engagement is related to a low level of absenteeism and a lower level of accidents at work. Undoubtedly – employee engagement is an important factor of competitive advantage and a factor, which determines whether a company is thriving or not, with similar material starting points (*Gruban* 2009).

2. Description of the used method, instruments and sample

Within the framework of the research, we studied different behavioural factors in a large Slovenian production company in the food industry. In the fall of 2009, we carried out an anonymous and voluntary inquiry. The sample included employees with a high vocational education or higher and/or employees that perform a management function in the company. The overall defined population in the company included 92 individuals, which were invited to participate in the research. We received 71 answered questionnaires, which represents 78.02 % of all respondents included in the research. The sample included 67.6 % of men and 32.4 % of women. The average age of respondents was 40 years. The average number total years of service were 17.9 years and the average number of years of service in the company is 14.2 years. As regards education level, three percent of respondents did not finish secondary school, 38 % have secondary school, 15.5 % have higher education and as many as 43.7 % have high vocational or university education.

Personal engagement was established based on the "Q12" questionnaire, which *Gallup* (2009) has been using successfully for researches in different parts of the world for years - it measures the personal engagement of employees. The Cronbach coefficient of internal consistency (α) for the used questionnaire is 0.737.

These claims represent the basis for measuring employee engagement and are based on long-term Gallup studies. Agreement with individual claims was assessed with marks from 1 (I completely disagree with the claim) to 5 (I completely agree with the claim). The answers to the questions and the analysis of agreement with claims represent the basis for the level of employee engagement.

Reference limits, used by the research and consultancy organization Gallup for this purpose for over 25 years, are part of their copyright methodology. For the purposes of our research, we used the following division: *actively not engaged* (less than 30 points or an average score below 2.5), *not engaged* (between 31 and 44 points or an average score between 2.5 and 3.7), and *engaged* (45 or more points, or an average score above 3.7).

3. Analysis and interpretation of research results

Personal work engagement was measured with 12 different claims. The results (see table no. 2) reveal that the respondents are well aware of what is expected of them. As much as 92.9 % of respondents are very familiar or familiar with the expectations of their employer. All of the respondents are familiar with the expected work results, but 5.6 % are not well acquainted

with the expectations. 64.8 % of respondents said they have everything they need to perform their work, 1.4 % do not have everything, while others are partially satisfied with the equipment and material, which they need for their work. 17.1 % of respondents can do what they are good at every day, which means they can express their natural talent. 38.6 % frequently have this opportunity, while 21.4 % do not have or rarely have this opportunity. Others use their talent as necessary.

Table 2. Descriptive statistic of work engagement in the analysed company

CLAIMS	AVERAGE	STANDARD DEVIATION
I know what is expected of me.	4.3	0.76
I have everything I need to do my work well.	3.6	0.95
In my work, I can do what I am good at almost every day.	3.5	1.05
In the last week, my work was commended or my achievements recognized.	2.2	1.24
My manager pays regard to me as a person.	4.0	0.89
Someone in the organization plans for and encourages my development.	2.1	1.04
My opinion counts and is considered.	3.4	1.02
The importance of my work is reflected also in the company's mission.	3.5	1.01
My colleagues are engaged in good and quality work.	2.6	1.08
I have many good colleagues at work.	4.0	0.90
Over the last 6 months, my development and progress was discussed.	2.1	1.42
I had an opportunity to learn and develop in the last year.	3.2	1.41

Source: author's survey

Based on the presented methodology, we divided the respondents into groups with regard to their engagement level. The results are presented in Table no. 3 below.

Table 3. Engagement level of employees in the analysed company

ENGAGEMENT CATEGORY	ENGAGEMENT LEVEL - AVERAGE VALUE	SHARE OF EMPLOYEES
Engaged	above 3.7	27 %
Not engaged	from 3.7 to 2.5	66 %
Actively not engaged	below 2.5	7 %

Source: author's survey

Although we presumed that there will be no actively not engaged employees among the population, their share totalled 7 %. This fact is concerning above all because we only included professionals and the middle-level management in the research. If these employees are actively not engaged, they can actively show their disappointment and thus reduce the engagement of their colleagues and subordinates. 66 % of respondents are among the not engaged employees, who work during their work time, but only do what they have to: they stick to the "line of least defence" principle. As many as 27 % of respondents are engaged in their work. Compared to employee engagement in other countries, the share of engaged among the analysed population is comparable to the share of engaged employees in the USA. According to available data by country, the share of engaged employees is the highest in the USA (27 %).

With a factor analysis we tried to uncover one or several hidden characteristics, which cannot be measured directly, but which presumably have an impact on the observed variables. The factor analysis includes 8 variables (after excluding four variables, which did not contribute to internal consistency). The structure matrix of the distribution of individual claims to factors is presented in the table below.

Table 4. Structure matrix of the distribution of claims by individual factors

CLAIM	factor 1 35.84 %	factor 2 15.1 %	factor 3 12.72 %
» My manager pays regard to me as a person.«	0,811		
» Someone in the organization plans for and encourages my development.«	0,709		
» In the last week, my work was commended or my achievements recognized.«	0,646		
» I had an opportunity to learn and develop in the last year.«		-0,895	
» Over the last 6 months, my development and progress was a topic of discussion.«		-0,824	
»The importance of my work is reflected in the company's mission.«			0,833
»My opinion counts and is considered.«			0,706
» I have everything I need to do my work well.«			0,600

Source: author's survey

The common feature of the claims, included in the first factor, is mutual communication, which is why this factor was called "*Communication*", and explains 35.84 % of the overall variance. The two claims, included in the second factor, refer to career, and were called "*Career planning*", and explain 15.01 % of the overall variance. With the claims, included in the third factor, employees establish that the management can present goals and the company's mission, assure conditions for successful work performance, and explains 12.72 % of the overall variance. It is called "*Confidence in the management*".

In continuation, we used the acquired factors to also establish whether these factors of personal engagement were related to some social-demographic variables of employees. The results of the analysis are presented in table no. 5 below.

Table 5. Relation between personal engagement and social-demographic data

		EC	ECP	ECM	AGE	ED	TYS	YS
EC – Communication	r		-0,217	-0,264*	-0,005	-0,016	-0,005	0,051
	p		0,078	0,031	0,968	0,897	0,969	0,683
ECP – Career planning	r	-0,217		-0,208	-0,311*	-0,308*	0,366**	0,267*
	p	0,078		0,092	0,010	0,011	0,002	0,029
ECM – Confidence in the management	r	0,264*	-0,208		0,095	0,134	0,034	0,062
	p	0,031	0,092		0,445	0,280	0,786	0,618

Note: Legend: EC – personal engagement »communication«; ECP – personal engagement »career planning«; ECM – personal engagement »confidence in the management«; AGE – age, ED– education; TYS– total years of service; YS – years of service in the company. * p = 0.05 ** p = 0.01

Source: author's survey

Based on the analysis of correlation (Pearson correlation coefficient), we did not establish a statistically significant impact of demographic factors, such as age, education, total years of service and years of service in the company, on personal engagement factors called "communication" in our research, as well as on personal engagement factors called "confidence in the management". We established a positive impact of the total years of service and the years of service in the company on personal engagement factors "career planning", while age and education have a negative statistical impact on this factor. As regards employees with a longer years of service and years of service in the company, we can influence the increase of personal engagement with more frequent talks on personal progress. We must encourage them to undergo additional training and study; we must recognize their advantages, knowledge and skills. The finding that these impacts lose their strength with age is interesting.

4. Discussion

Previous research confirmed that employee engagement affects the company's results, productivity, customer loyalty and staff turnover. The meta-analysis (*Gallup 2009*) included 199 researches in 152 independent organizations. It was proven that there is a positive correlation between a higher engagement level of employees and the level of success (business results), which is among other evident in higher efficiency and productivity, higher profit or revenues, lower fluctuation, better quality of work, a lower number of accidents at work, less absence from work and presenteeism¹.

4.1. How to increase the personal engagement of employees?

Personal engagement can be increased by satisfying psychological needs and expectations of colleagues. The satisfaction of these needs assures personal and professional development of employees as individuals and employees as colleagues.

It is namely understood that development and growth in developed economies cannot be attained by adding capital or increasing the number of employees. We also look for added value in the increase of productivity, which arises from the innovation ability of employees and their efficient management. The basic question that arises is how to attain their maximum engagement. *Gruban (2005)* gives a simple, but efficient instruction to managers: "Clarity is the key, kindness is the way".

Insufficient employee engagement is a problem for many managers. All too often we see a simple divide: engaged are good, the not engaged are bad, lazy. The problem thus moves away from management efficiency. A fact we must not forget is that the majority of employees is highly motivated and engaged when they come to the company, but their engagement in the average consistently falls throughout the duration of their employment. Therefore, this is not only a problem of personnel selection, or of "good or lazy" employees, but above all a problem of managing relations at work (*Mumel 2008, p. 34.*).

Questions, which we need answers to, are how to preserve a high level of employee engagement through a long period of career development with efficient management. Employee management must consider various and numerous factors, which affect how our employees will be engaged or not engaged. In this context, it is important that managers dedicate the majority of their time to operative issues and tasks. At the same time, the secret lies in the differences that appear in the different levels of engagement among departments in the same company. Factors that result in lower engagement in one department can be completely different from factors, which result in lower engagement in another department. Managers are namely the decisive factor for employee engagement in a given middle. *Gruban (2005)* supports the saying that people come due to excellent companies, but leave due to bad managers. "Even if the most talented in the knowledge economy are looking for employers offering the best benefits, highest salaries or an opportunity for personal development, their subsequent work success and the time, in which they are prepared to be maximally engaged or remain in the company, above all depend on relations with managers. The mediocrity of management goes hand in hand with the average employee engagement. How employees feel about their work and the company as a whole is how they feel about their manager." *Seijts and Crim (2006)* combined the instructions for managers to assure employee engagement in 10 C's:

1. *Connect* – the manager must show the employee that he appreciates him as a person and that he appreciates his work. Employee engagement is the result of the relationship between employees and their manager.

¹ Presenteeism – presence at work merely out of fear of losing the job.

2. *Career* – the manager must assure work challenges and projects with the possibility of career advancement to the employee. He must also encourage him, trust him and assure the necessary knowledge and resources.
3. *Clarity* – managers must clearly present the company's vision and goals. Employees want to know what their role is, how much they will contribute and how it will be implemented.
4. *Convey* – a good manager introduces work processes and procedures that will help employees face everyday tasks and attain the planned results.
5. *Congratulate* – all of the employee's work must be visible, commended and awarded by his superior.
6. *Contribute* – employees want to know that investing efforts and time in work contributes to the overall goals of the company. The manager must lead them to the point where they recognize and feel how and how much they contribute to the company and the implementation of goals.
7. *Control* – the manager must give employees the opportunity to participate in the process of adopting important decisions, which on the one hand raises stress among employees, but on the other hand strengthens confidence and culture.
8. *Collaborate* – good managers build teams that create an environment of confidence and mutual cooperation.
9. *Credibility* – employees want to be proud of their work as well as the company. The manager's task is to maintain the company's reputation and represent high ethical standards.
10. *Confidence* – a manager gains the confidence of employees by living the values, norms and ethical standards of the company.

Managers must be aware that employees want to be engaged in their work. They want to live a full, productive, successful and satisfying life. We already established that the majority of employees are highly engaged and motivated when they start working. What happens that after a few months or years they "put" their engagement away and no longer take it to the work place? Employees need good managers. Managers, who know that an adequate salary and awards are only two of the many factors that have an impact on the engagement level of their team. Managers, who do not only know, but can in practice also think, experience and take measure in a manner that encourages the work success and satisfaction of employees (Zupan 2004, p. 58.). Compared to the satisfaction of employees, engagement is a concept that is directly related to the success of the company and its business results. This means it is an upgrade of the satisfaction concept, because engagement also incorporates the work success of employees. Manager's main goal is to attain the planned results, which is possible only in an environment in which people are prepared to be engaged in the attainment of results. Practice shows that good business results are possible also when the satisfaction of people is low. It is common in business environments, where fear, control and force are predominant. How long this success lasts and how long it will be possible to keep or allure healthy and talented people to such an environment is another matter entirely (Dimovski et al 2003, p. 198.).

5. Conclusion

For the purposes of our research we modified Gallup's model (2009) of assessing employee engagement, which is often used by other researchers as well. We established that three factors, which incorporate between 8 and 12 claims of the original Gallup model of assessing employee engagement (Q 12, see sub-chapter on method), have an impact on personal employee engagement in the analyzed company. The impact of factor "Communication" on

employee engagement in our research is 2.7. According to the classification used in the research, the company ranks in the lower half of the class of not engaged employees, with marks between 2.5 and 3.7. The attained average mark of impact of factor "Career planning" on engagement is even lower, at 2.6, and is bordering on actively not engaged employees, which includes claims with an average mark below 2.5. We measured a higher average mark (3.5) for the factor called "Confidence in the management". Employees were classified in the upper part of the ranking of not engaged, which borders on engaged employees.

Gallup's researches have shown that the ratio between the number of engaged and actively not engaged employees is an excellent macro-indicator of the health of an organization. Companies with a ratio 5.4: 1 in favour of engaged employees have a critical mass of people, which provides for better work and business success. The ratio in favour of engaged employees in our research is 3.8: 1. Since the research was conducted only among management and professionals, we assess that the actual situation as regards employee engagement in the company is even worse, which represents a special challenge for the company management.

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Paradigm shift in organizational health management

ÉVA MÁLOVICS – BEÁTA KINCSESNÉ VAJDA

Paradigm shifts are often due to new, unusual issues or questions raised in a given discipline. The Ottawa Charter (1986) became a basic document for health promotion in the world, resulting in the wake of reform strategies that considered (among others) factors determining health, environmental protection, labor market situation and equal opportunities. The essence of the shift is to cross from a pathogenic approach towards researching the resources of health. Antonovsky, as one of the most important representatives of the salutogenetic approach, was a major contributor to the shift. In a salutogenetic approach organizations focus on the potentials of healthy working conditions. The idea that lies behind is the assumption that the investment in human capital in advanced economies contribute to a greater efficiency and a sustainable development. Psychological well-being, which focuses on the experience with other people, is a part of health, in which security, trust or giving a reason are recurring concepts in literature. The aim of this paper is to give an overview on these topics.

Keywords: health promotion, workplace, salutogenesis

1. Introduction

Paradigm shifts are often due to new, unusual issues or questions raised in a given discipline. The *Ottawa Charter* (1986)¹ became a basic document for health promotion in the world, resulting in the wake of reform strategies that considered (among others) factors determining health, environmental protection, labor market situation and equal opportunities. "The essence of the change is to cross the line between pathogenetic orientation and health resources research" (Varga et al 2008, p. 9.). Aaron Antonovsky, who was one of the most important representatives of the salutogenesis approach, significantly contributed to this turnaround. Medicine mustered up a number of accurate scientific research results about what makes people ill. However, the question of how some people preserve or restore their health in an increasingly unhealthy environment became more and more interesting.

The importance of health-related behavior is also increased by the fact that today's most common diseases (chronic degenerative diseases) are closely related to the individual's lifestyle and environment, meaning that the individual's role has become more important in the preservation of health and the development of disease processes. This trend is reinforced by a constant rise in health care costs.

According to the above the topic of health is now becoming increasingly interesting to more and more people and economists consider health-related innovations as fundamental importance in the future of the global economy. A growing number of industries get in contact with medicine and social trends increasingly affect people's health behavior, as a result of which health protection in organizations is enriched by new features and the concept of health promotion appears gaining even bigger ground. Dealing with health promotion can be considered as an investment, as there is a connection between the physical and psychological health and the job performance, morale and staying at the actual workplace, as argued in the Healthy Workforce 2010 Report (*Partnership for Prevention* 2010).

¹ <http://www.who.int/healthpromotion/conferences/previous/ottawa/en/index.html> [Accessed 15 May 2012].

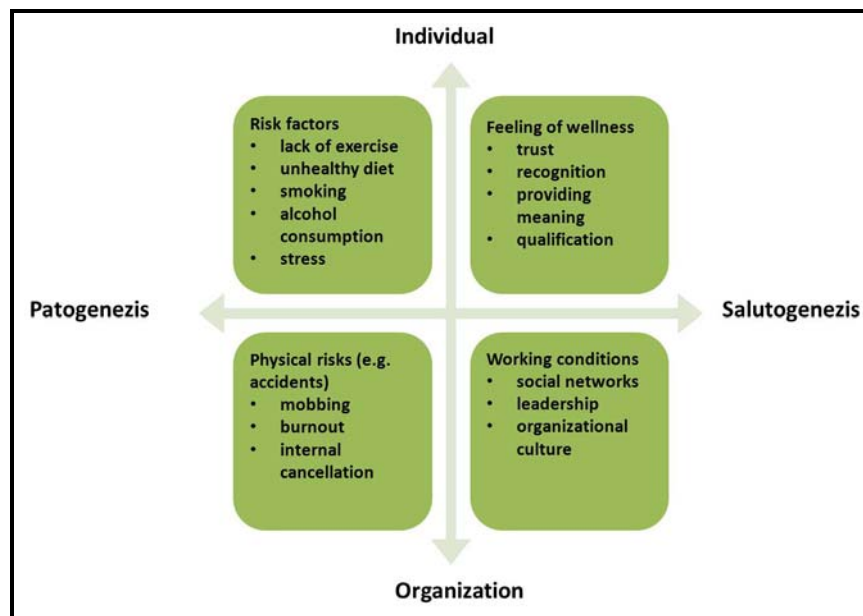
Moreover, the definition of health by the WHO (World Health Organization) is no longer limited to the biomedical determination of health status².

The effect of the above-described changes in the approach to organizational health policy appears in the literature, as well. Reviewing the basic research in health policies of the past two decades, two concepts and fields of use can be identified:

- risk prevention,
- the development of health potentials.

The differences arising from these two approaches are shown in Figure 1.

Figure 1. Two approaches in health policies: problems raised

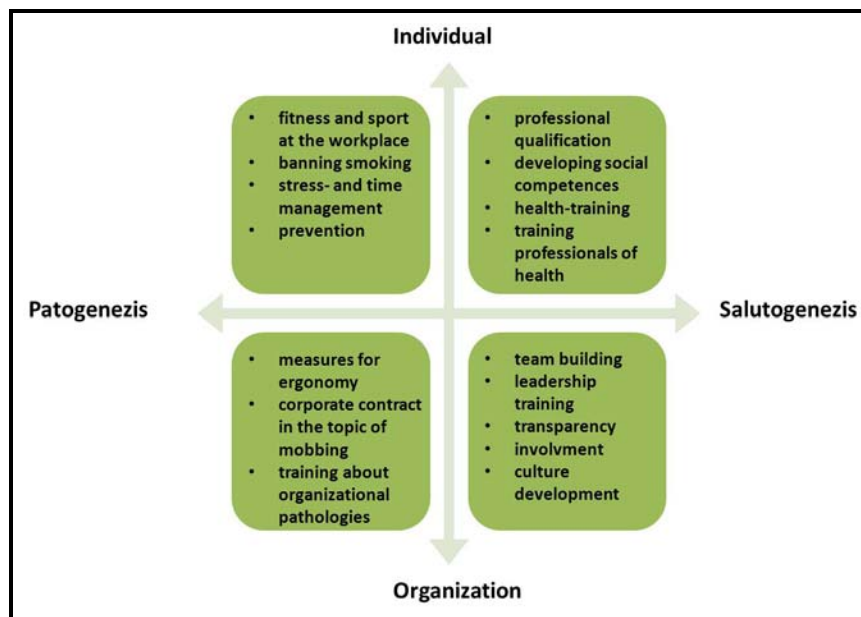


Source: Badura et al (2003, p. 42.)

The essence of the salutogenesis approach is that the organization focuses on the potentials of health and working conditions, both in relation to the individual and the organization. The ideas behind this assumption is that investing in health potential and human capital in developed economies contribute to a greater efficiency and to sustainable development. Besides the old question "What makes us ill?", the question "Why do we stay healthy?" is becoming increasingly important. Psychological well-being, which is based on the experience we gained in our relationships with other people, is a part of health. Security, trust and providing a meaning are all concepts that characterize health promoting life- and working conditions and are recurring in literature (Seligman 2003). Figure 2 shows the actual options for action.

² According to the WHO's definition of health, it is a state of complete physical, mental and social well-being, and not merely the absence of disease or infirmity (WHO 1946).

Figure 2. Two approaches in health policies: options for action



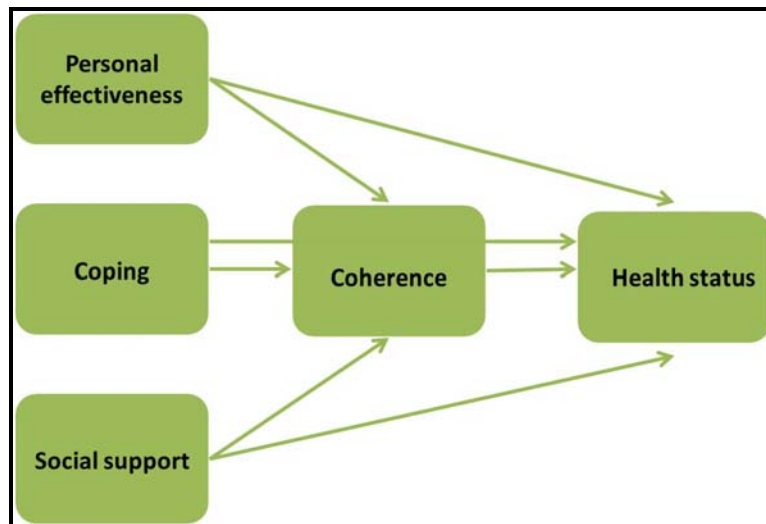
Source: Badura et al (2003, p. 42.)

In Antonovsky's (1993) model of salutogenesis, the sense of coherence plays a central role. An important message of the salutogenesis model is that health can be interpreted in a system-theoretical framework, in which the sense of coherence between the individual and his environment provides the balance even in difficult conditions, amid constant changes and challenges. Antonovsky's answer to his question is: the sense of coherence. "The sense of coherence is a global orientation that expresses the degree of one's comprehensive and durable – although dynamically flexible – confidence in the feeling for that:

- either internal or external stimuli and effects during his lifetime are structured, predictable and can be interpreted,
- he has enough resources to comply with the requirements of these stimuli and effects,
- these requirements can be interpreted as challenges and therefore it makes sense to commit resources to deal with them (Varga et al 2008, p.10.).

Antonovsky and his colleagues prepared psychometric tests for this model and both them and several researchers worldwide have examined whether those people with a high sense of coherence tend to be healthier than those who have lower results in their tests. The sense of coherence – test (SOC) has been found to be consistently and significantly linked to any positive health-related factors and to be negatively correlated with the disease data. These results were confirmed by Hungarian researchers in Hungarian samples, as well (Varga et al 2008, Skrabski et al 2004). Skrabski et al (2004) have shown a strong relationship between the sense of coherence and personal efficacy (the concept of Bandura), and the coping strategies and the social support. These relationships are shown in Figure 3.

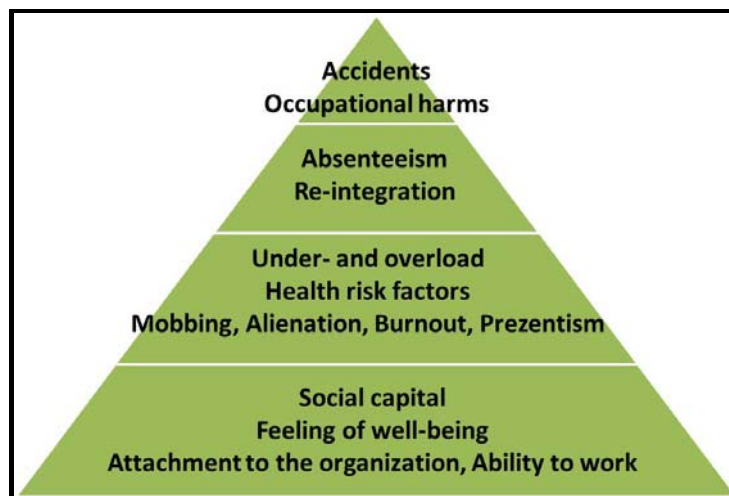
Figure 3. The relationship of coherence and health status with personal effectiveness, coping strategies and social support



Source: own construction on the basis of Varga et al (2008) and Skrabski et al (2004, p. 3.)

The areas of organizational health policy and their effectiveness according to Badura (2010) is depicted in Figure 4.

Figure 4. Tasks of organizational health policy



Source: own construction

As can be seen above, the literature on organizational health policy and management can be characterized by a very complex, strategic approach which is summarized in Figure 5. Transposing this approach into practice requires a comprehensive and incremental organizational change during which not only driving forces, but also major barriers can be expected, as well. The figures above show that the new conception of organizational health management affects nearly all operational areas of the organizations. Within the framework of this study only certain areas can be discussed – we have chosen those of leadership and work-related stress.

Figure 5. The integration of health-related tasks



Source: own construction

2. Management and health

Nowadays more and more research takes place in the topic of how leadership behavior influences employees' health. These are based on different approaches and there has not yet been a clear result of the above relationship. It is obvious that leadership affects the health of the employees and it is not clear, however, what the extent of this effect is, and what the leader can do to support his employees' health and well-being. We attempt to answer this question by the following literature summary. Papers published in German or English language in the last 15 years in the topic of leadership and health have shown proof of the existence of the relationship described above, in several areas of scientific studies. In their "four factor" model, *Spiess and Stadler (2007)* summarize the possibilities of a health promoting leadership, described as follows:

- goal-and task-oriented leadership,
- employee-oriented leadership,
- work processes and organizational design,
- the development of organizational culture.

Zimber and Gregersen (2007) formulate similar thoughts when defining the health-related duties of the leaders:

- raising the issue of health and safety, discussing them and forming into goals,
- caring for health and safety,
- forming health-promoting work activities,
- motivating employees and participative leadership.

Sparks et al (2001) argue that health-promoting leadership can be developed by leadership skills training courses, which enhance the management's conscious behavior at the workplace.

Stadler et al (2000) call the attention to the fact that leaders underestimate their influence on the welfare of their employees. Those leaders who evaluated the work-creation and the impact of leadership behavior higher were more interested in workplace health promotion. *Wilde et al (2009)* found that two important factors of the health-promoting leadership are the awareness that the management impacts health, and the knowledge on how to manage in a healthy manner.

The HAPA (Health Action Process Approach) model of *Schulte and Bamberg (2002)*, which explains individual health behavior, was used in an organizational context. According to the results the following factors affect whether the leader promotes health-promoting measures:

- how he evaluates the health of the employees and the organization,
- whether he knows health-promotion methods which he considers effective,
- whether he considers these methods as possible for introduction in the organization,
- how he implements the organizational health development intentions into concrete action.

Nowaday's popular science that links natural and social science research results is neurobiology. One of the most important results of the research on the neurobiological basis of motivation was to prove that humans are social beings who seek co-operation and support. To achieve this (to create such social relationships) there is a need to develop the ability of mutual understanding (understanding the other person in a spontaneous and unconscious way and responding with a social resonance). The social resonance and social embeddedness is rooted in biology, based on a mirror neuron system. (*Badura et al 2003*). The mirror neuron system is the base of empathy and sympathy, which are the essential conditions of social competences that can be acquired during socialization. The neurobiological research has confirmed that the exclusion of the individual from the area of social mirror and resonance are both psychologically and biologically harmful.

Organizations are social systems where the successful co-operation of their members is required. Common beliefs, values, rules, trust, support and recognition are the conditions of achieving organizational goals. All these contribute to the social wealth of the organization, which is an important factor in the motivation of human capital and a major contributor to corporate success and the members' better health, as well.

The studies in the topic of leadership and health are heterogeneous from the point of view of their theoretical basis, methodology and research plan, which limits the comparability and the explanatory power of their results. The research traditions of various disciplines (work history, organizational psychology) differ from each other, but the results draw attention to some important relationships, even if their systematic scientific revision is necessary.

3. Worksite stress

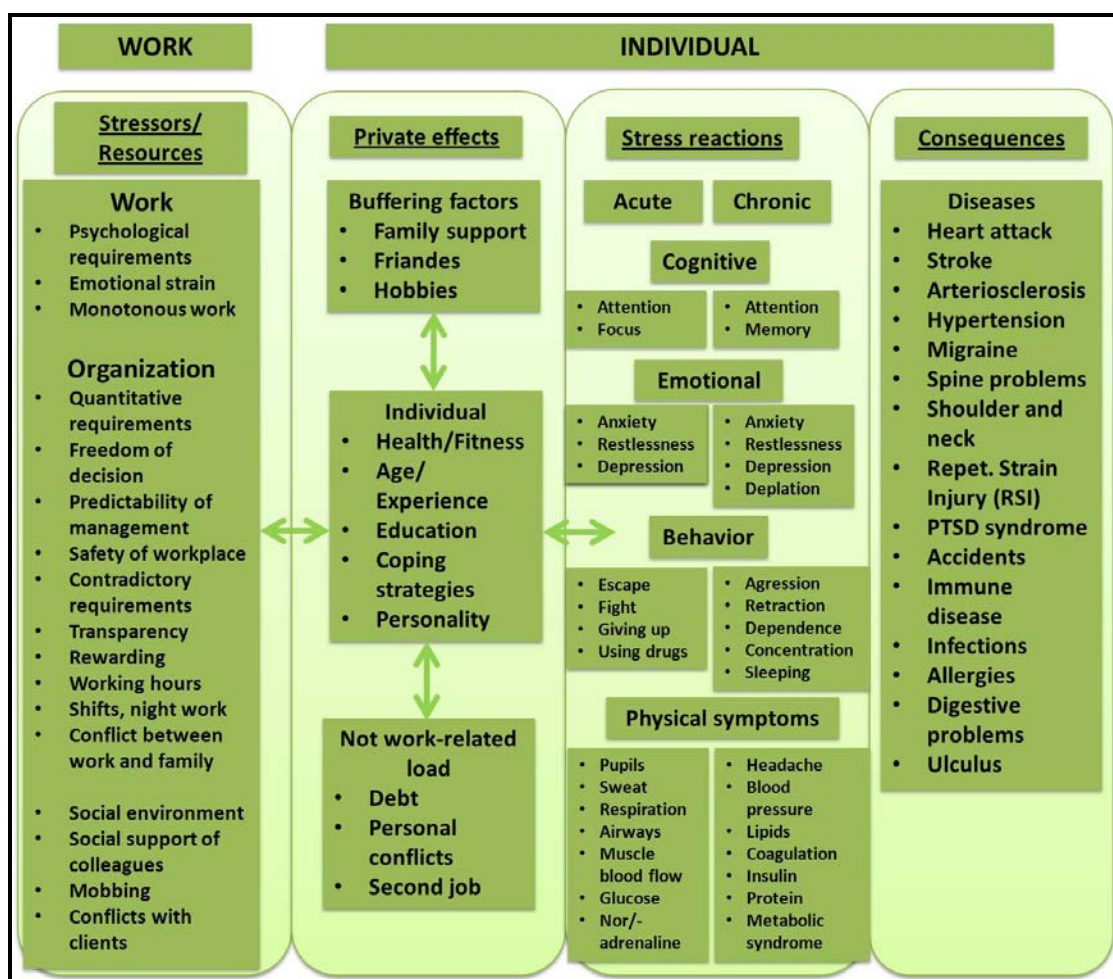
In the recent decades work-related stress is a major topic of scientific research, for instance, there are comprehensive longitudinal studies using objective health indicators, resulting that there is no doubt today about the existence of a causal relationship between psychosocial workload and health (*Belkic et al 2004, van Vegchel et al 2005*). It can be regarded as proven that psychosocial strains are more closely related to back pain than to heart and vascular diseases, and to emotional disorders than to physical workloads. High work intensity, low job security and the lack of social recognition are significantly related to depressive symptoms (*Hasselhorn–Portuné 2010*). The question in this context is how and to what extent psychosocial pressures and their negative effects can be reduced at the workplace.

Stress can be defined in various ways, for which there is good reason, but this paper does not intend to discuss this issue. For organizational health management a clear definition of worksite stress is needed. Today's internationally accepted definition considers stress as an active and reciprocal interaction between individuals and their environment, that is, as a transactional process (Cox et al 2000). According to the work of the Ad Hoc Group on Work-Related Stress of the European Union (1996), stress is:

- the process of emotional, cognitive, behavioral and physiological reactions,
- that is caused by an unpleasant working and organizational environment,
- and this process includes strong negative emotions and the perception of excessive requirements.

Figure 6 illustrates the complex model of transactional work stress.

Figure 6. The complex model of transactional work stress



Source: Hasselhorn-Portuné (2010, p. 364.)

The model in Figure 6 shows that available resources play an important role in managing stress and affect whether one considers the situation as a threat or a challenge. Coping skills, the field of action and social support are important resources. In addition to social support, it is mainly the quality of leadership that the scientific literature draws the attention to. It was demonstrated in an experimental way, as well, that positive feedback given by the superiors triggers positive emotions and corresponding action tendencies which function as protective factors.

With an increased workload, stress-related job resources (e.g. the freedom of action and the observed level of social support) are reduced, which results that the chances of coping with stressful situations further decreases. Stressful situations are especially risky in the cases where they are not controllable, less predictable and new for those affected. The longer and the more intense such stressful processes are, the more likely that there will be negative consequences. In this case, it is likely that medium-term disease processes arise (see Figure 6, column 3, right side), and there is a serious chance for the development of long-term ones, as well (see Figure 6, column 4). The chronic stress response requires constant effort and attention, spreads to other areas of life, as well, and finally, those affected will have reduced psychological and physical resources, although they would increasingly need these (*Hasselhorn–Portuné 2010*).

In the literature, both behavioral based (stress training) and condition-based (changes in organizational terms) stress-related measures are recommended; according to the efficiency measurements, the combination of these two methods seems to be the most effective solution.

4. Conclusions

In our study we intended to present the most important factors of the new approach of organizational health management. The health management paradigm shift is based on the salutogenesis approach which seeks the answer to the question of how to keep one healthy. The response has appeared in the management sciences for decades and it draws the attention to the humanistic approach which is supported by tens of thousands of published research papers. In this school, one of the most important factors refers to social relations, the leader – subordinate relationship, and to participations. As it turns out these have an effect on improving and maintaining health, on disease courses and the healing process, as well. Basically, both pathogenic and salutogenic potentials are involved in social relationships, however, it is primarily their positive health promotion side that is inherent. Humans are social beings, whose genetic make-up allows the construction of empathic social relationships by the aid of mirror neurons (*Rizzolatti–Sinigaglia 2008*). Social relationships can be considered as the resources of generalized resistance resources, against pathogenic effects of the social and physical environment (*Bengel et al 1999*). These findings, of course, concern social relationships at the workplace, as well, the development of which can be an important source of organizational health promotion. According to *House et al (1988)*, on the basis of salutogenetic and pathogenic processes, three fundamental phenomena of social relationships can be distinguished:

- social support is a positive relationship which has the potential for health promotion and reducing stress,
- social requirements and social conflicts (also called social loads) are potentially harmful to the health and increase stress,
- social control and influence behavior and both can have positive and negative effects on health.

In the rapidly changing world of organizations social relationships have a growing significance (*Weber–Hörmann 2007, Badura et al 2010*). There are social loads of work such as conflicts with management, colleagues, or customers; organizational justice issues; lack of information; lack of social support; isolation and behaviors that can be considered as socio-pathological, such as mobbing (*Holz 2006*).

Social support at the workplace does not only help in the prevention and treatment of social load, but enhances coping with many other workplace problems, as well, such as

overload, time pressure, role overload, role conflicts, low level of participation, high control, an uncertain future or organizational changes.

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Corporate management and the revolution of the Machiavelli-method

GYÖRGY MAROSÁN

Until the 19. century the economy was built on the small and traditionally organized enterprises. In early of the 20. century gradually the companies become the most important factors of the economy). Based on the organizational and technological innovations the whole system of business – the ownership control and management of the organizations – fundamentally changed. From the 1930' the owners gradually withdraw from day to day activities of the business, and hand over the responsibilities of the corporate control to the management. However from the 1960' – as a result of the growing dissatisfaction with the performance of the management – the stockholders started a struggle for regain the power on the company. In the 1990' gradually formed the complex system of the corporate governance. It consists of the institutions of the shared power, balanced system of rights and responsibilities, and motivation simulating the owner's interest.

However the events of the 21. century – the collapses of the companies (ENRON, Parmalat) and the crise of the world economy – proved, that the well organized institutional check and balances, and existing system of ownership control necessary but not sufficient to guarantee the appropriate development of the companies. Moreover even the latest modifications in the company laws - SOX and the Say-on-Pay – aren't enough. The author analyse the problem why the institutional control is insufficient. The paper argue, that within the companies, as a result of the „natural” process of selection of management, a special type – so called High Mach – personality fill most of the posts of the managerial jobs. This type of the personality - from viewpoint of the management - is very efficient on the one side, however at the same time is very unstable. The control of this type of managers the companies needed – beside of the institutional control – a well organized motivational system, a well-considered decision-making process, socially responsible corporate culture, effective business ethics, and a selection process based on this conditions.

Keywords: corporate governance, market for corporate control, corporate disaster, „High Mach” personality, „High Narc” personality

1. Introduction

Till the end of the 19th century the economy was built on small businesses that were tradition-based and tradition-oriented. At the beginning of the 20th century large companies gradually became dominant and the scientific analysis or the standardization of the production process started to begin. In these years standards of workshop oriented organizations (Taylor) are formed, just as well as the standards of professional organizations (M. Weber), standards of organizational management (Fayol) and also the standards of organizational forms and management (Sloan). Due to the adaptation of these innovations the capitalist economy and several companies started to develop dynamically. The average growth rate – despite the world crisis – exceeded that of each epoch of world history. The national income of those countries which were involved in world economics grew dynamically. Inequality of GDP/person, that can be experienced even today, mainly appeared in the 20th century and depends on different growth rate of the countries (Maddison 2008). Technical innovations changed the economy and the society fundamentally. More consecutive innovation waves went through the economy, creating life-cycles of new industries while leaving those of the old ones behind. The consumption compared to the previous centuries widened enormously.

This success was significantly due to the enterprises and their management. One sign of it is that the size of enterprises also grew. In view of the above effects – and about the presence of the intense competition – the practice of management became more and more important. The management’s job was to internally integrate the organization and provide the effective operation.

2. The evolution of the institution (-system) of corporate management

During the 20th century, the management of business enterprises changed basically. In the early 20th century, the powerful owner-managers (now: Chief Executive Officers), who had huge ownership share(s), played the main role. However, in the first decades of 20th century the average size of the enterprises grew rapidly, while at the same time the complexity also grew. The companies satisfied more, sometimes even distinct consumers groups by producing diverse product portfolio for each group. It was possible with the help of “non-compatible” technologies and those generating units which were found in more and more countries. At the same time one problem occurred (that did not exist in the past): the owners became separated and got farther from those who worked in the manufacturing and service sectors.

From the 1930’s the owners gradually handed over not only the operational leadership, but also the management roles to the managers. In 1932 two researchers (*Berle–Means* 1932) determined this tendency as a general rule. The main line of their study is: ownership and leadership should be separated from each other. Owners should only focus on controlling; plus on selection and motivation of the appropriate management. However, the operation of the organization and the operational decisions – which require more specialized expertise – should be in the managers’ hands. In order to effectively enforce the interest, a so-called “checks and balances” system was created between the institutional controlling and the power counterweight.

However, as a result of these some typical contradictions arose. Both the employees and the representative leaders could practice the opportunist behavior easily (instead of furthering the interest of the organization and that of the owners, their own goals and interests followed). (*Cordes et al* 2010, p. 2.). While seeking for solution the institutional model of corporate governance refined continuously. After the 1970’s crisis the owners have gradually realized that they barely have control options. For that very reason they took the field for winning back the legal leadership. The scientific footprint of this struggle is a study from 1976, which proved that managers basically do not further the owners’ interests (*Jensen–Meckling* 1976). The authors proved – in the article that turned classic – management, who runs and actuates a company, takes less care about raising the value of capital; and tends to follow their own (financial) aims. After the disputes came to an end the corporate senior management – partly because of discretion, partly because of the opportunism – accepted the critique: on the one hand they committed themselves to maximize shareholder’s value, on the other hand they decisively focused on the enforcement the interest of the ownerships.

This way, till the early 1990’s, the system of Corporate Governance developed entirely (*Mallin* 2004). The institutionalized distribution of power developed gradually; the role of corporate decision-making strengthened, a stock-option based incentive scheme was developed which simulated the proprietary interest. Partly due to these changes the 1990’s brought some incredibly fast development. The Dow-Jones index quintupled and the riskier stock of start-up companies – NASDAQ – was able to produce major growth. This confirmed the view – which may prove illusionary in retrospect – that the managers can create and suitably operate the adequate institution of responsible governance within the enterprise; this way not only the corporate disasters can be avoided, but also the enforcement of proprietary interest can be ensured. However, series of catastrophes that occurred since 2000 – first the

collapse of NASDAC and NYSE, then the bankruptcy of numerous wonder enterprises (eg. ENRON, Parmalat etc.) – queried all these hopes. Why did thus the crisis come about?

3. The leader individual: “High Mach”

The book of “The Peter Principle” was published at the end of the 1960’s, which explicated a modish idea in an easy to understand form: after a certain time in each organization everybody reaches his own level of competence (*Lawrence–Hull* 1969). The authors of books made their point around the statement that in an organization, sooner or later, each position will be filled with incompetents. They presumed to discover the reason of the phenomenon in the “normally” prevailing practice of the selection – which emphasizes the disciplined and reluctance-free execution. Further examinations did not confirm the emergence of the Peter Principle; however, they pointed out a similar, but an inconvenient, with far more serious consequent factors: the Machiavelli Principle.

The Machiavelli Principle states that sooner or later the top positions in an organization will be filled by so-called “High Mach” individuals. The concept of High Mach refers to N. Machiavelli, Italian scientist. On the turn of 16th century in his book, *Principle*, he described those practical counsels with which a leader can acquire and retain authority (*Machiavelli* 1987). Though he did not mention the motto that is now engaged by his name – that the end justifies the means – but he drew attention to the simple fact that “if you want to reach the aim, you will ask for the means, too”. However, the fact is that – despite the sanctified principles of his era – he served with very rational counsels to the lords and the statesmen.

According to the literature and political science the Machiavelli Principle – in any organization, as we are approaching the top of the hierarchy, the positions will be stuffed with “High Mach” type leaders – has been present for a long while in the society. However, its significance has multiplied in the 20th century, when big organizations gathered ground in the fields of society, politics and especially economics. In these establishments the work is mainly done by trustees (persons who are entrusted by the proprietor). From the interest of the proprietors’/investors’ point of view this situation basically leads to two main motivation problems:

1. the proprietors “file out” (of) the organization and entrust others, not only with the completion of production but also with the leadership. Whilst they should face the problem that the trustees will follow their own interest, not the proprietors. So they behave in an opportunist – following self-interest – way (*Cordes et al* 2011).
2. One – in many cases basically – determining aspect of the trustees’ behavior is to advance in hierarchy. However, the selection model applied by the organization decisively favors the “high Mach” personality-type, which – as we will see – is liable to execute even the acts that are not justifiable by moral principles; which evokes the disapproval of the proprietary and the society.

Treating others like a tool, having hard and risky jobs done by others and partner manipulating – sometimes even immoral – behavior are typical of a “High Mach” personality. “High Mach” persuades others to sacrifice their freedom and life, to carry out dirty and dangerous tasks, he tends to apply without any hesitation the most efficient – morally not supported – tools that are necessary to achieve the aims; though he himself only supports the objects of the organization if they are in accordance with his own ones. At first sight this personality does not seem very favorable, indeed, the majority of sociologists and writers talk about it in a negative way.

The question is whether the scientific research confirm the existence of Machiavelli Principle or not. The auto-selection and the existence of a leader personality became the

subject of the examination only in the 20th century. The first studies were related to motivation within the company. McClelland continued his first – the so called TAT-based – researches at the end of 1940's. Within the confines of the above mentioned he diagnosed that in the world of work people are basically motivated by these three factors: performance, relationship and power (*McClelland* 1961). From the beginning it was obvious that in some proportion all three factors can be caught in act in everyone; but they do not distribute equally. Further examinations – which applied the so-called Mach-test – have really shown that a typical distribution can be experienced among the people with different positions and different tasks. Engineers are mainly motivated by performance; employees who directly serve consumers are relationship-driven, whilst in the leader positions we can usually meet with power-oriented ones (*Harrell–Stahl* 1981). That is to say people in leader positions are more typical of a “High Mach” personality according to the Mach-scale than workers from other positions (*Vugt–Cremer* 1999).

4. Why will the “High Mach” (HM) be selected?

Becoming a leader turned into a planned and conscious process in the 20th century, when organizations began to grow. From this time career has been basically determined by the internal logic of the organizations. From our point of view there are 4 basic reasons why “High Mach” (HM) personalities will (in almost each and every organization in the modern societies) be necessarily selected – concerning companies especially from an extremely competitive area – and why they get along easier in the hierarchy:

1. Though the selection principles of organizations do not directly focus on selecting these personalities, but indirectly the HMs favor them. Organizations are fond of the, problem-solving oriented, career ambitious individuals who are hungry for success. Therefore, their selection parameters prefer the dynamic, power- and money-oriented people who seek for solutions and for excuses. They like to employ those who are capable of giving instructions (orders) and are ready to execute those; who do not hesitate but are ready to take actions.
2. The one who does the selection is mainly the HM, as well. They know what can be expected from each person, and also know who is the one being able to execute the instructions without any hesitation. They also know how these individuals can be motivated, how they should be handled. Work is easier with an HM than with a LW, however, it is clear for him: it is not wise to set the HM free but he has to keep an eye on him.
3. People who apply for a leader position are usually HMs, as well. The reason of it is the following: they generally know – especially if they have spent some years in the world of work – with what kind of tasks should the leader cope with, what kind of problems can occur around the bureau. They consider how much they would like to face with these problems day by day. For an “Average-Mach” this kind of work is accompanied by a significant role-conflict and a higher stress-level which he dislikes.
4. Stepping up in the corporate hierarchy from one level to another is basically determined by two factors: the success showed on the present level and the predicted performance on the new, higher level. Success in the management areas is generally helped by an HM personality. (See competence-management!) As someone gets higher and higher in the hierarchy, the real professional problems will be fewer and there will be more in connection with human- and corporate relationships (*Bartol–Martin* 1991, p. 25.). Nevertheless, the HM rather tends to help the success of handling these problems than to hold it back.

In view of the above mentioned factors the leader positions of the organizations – not only in the economy but also in politics and in the area of non-profit companies – are usually filled by “High Mach” personalities.

4.1. Is “High Mach” a curse or a gift?

We have seen that in the world of business the HM personalities – who are usually considered as negative figures – will be almost naturally selected. According to the above it seems that the people of everyday life and the writers, researchers all agree that the HMs are not only unpleasant but they also affect internal life of the organizations unfavorably and even harmfully. But why is it this way? Let us just think of the fact that in almost every organization and in each society such situations occur repeatedly – like crisis and corporate catastrophes – when it is needed to make decisions quickly, even if they are against someone’s interest, but they serve the interest of the society. Even these days circumstances can predict such cases when danger and risk are lurking at a group of people, and it depends on the top managers’ decision how many of them will survive. In these situations dilly-dallying and uncertainty can be followed by consequences of the management principle being seemingly justifiable, which can be characterized mainly with one of the characters’ saying from the book titled *Foundation of Salvor Hardin* – I. Asimov: “Never let your morality hinder the right action.”

The question is whether the research underpins that “High Mach” is a completely negative personality. The question is right because several situations occur in the society and a personality which functions efficiently in one situation might be unsatisfying in another one. In the past years a special analyzing system has been extended, the so-called trolleyology. (*Thomson 1976*). This model tries to explore the personal attitude in the ethically susceptible situations. The basic situation of trolleyology is the following: 5 people are working in front of a runaway bogie, rolling down the railway and they can not take off. We stand in front of the wheel and turn the shift gear on a free rail, but there is a man standing whom we might hit this way. What should we choose? Save those 5 people at a price of scarifying one? Situations like this can occur even in our society: in case of a corporate bankruptcy we have to decide on dismissals, during a social disaster whom to help and whom not to, or when we have not got enough resources we have to make decisions.

It is easy to see it is not only a disadvantage but a significant opportunity if the decision maker is not hesitating in situations like this, but – in a utilitarian manner – ‘he searches for the good for more people instead of only one’. It means that refusing “High Machs” – which usually relates to personal antipathy – cannot be justified in all cases. However, the “trolleyologic” researches unearthed more thought-provoking outcomes, as well. A new research has shown that 90% of the people refuse in the “trolleyology” tests to kill someone unknown just to save five more unknown ones. The scientists examined the psychological “profile” of the other 10% “hotshots”. They are diagnosed as follows: (1) they have a high “High Mach” point; (2) basically they approach decisions in a utilitarian manner with other words in a purpose-oriented way, (3) they do not assign high value to life. Above all – assigned by the researchers – we have to be aware and treat them carefully (*Bartels–Pizarro 2011*).

Another research also gives valuable information about “High Mach” personalities. Researchers have found a strong correlation between utilitarian values – which play an important role of managing the organization – and the set of a “High Mach” personality. They have found that the High power, which is typical of a “High Mach” personality, is liable to prefer the aim- and tool-rational deliberation by solving social problems. Contrary to this the Low power personality tends to put ethical deliberations forward (*Lammers–Stapel 2009*).

In a new research, executed this year, 213 people were put into low and high status and in power oriented situations. Some were chiefs (high status) and some were employees (low status). Some were put into powerful positions above others so they could divide money among them. Main observation is: people who originally had low status, but now they stepped – even if just temporarily – into a high status, tended to ‘take advantage of’ others (on), so as to humble and humiliate them, especially those with high status/low power situations. According to their phrasing low status/high power situation brings “little Hitlers” forth (*Fast et al 2011.*)

These researches impulse us to be cautious by hiring employees/leaders with such personality characteristics. On the whole we can draw a lesson that “High Mach” is an indispensable, useful, efficient, but a risk and danger hider personality. It executes orders without thinking and in order to execute a command, it is liable to violate moral principles, cultural traditions and the drawn rules of decisions. It can count but does not feel! It has arithmetic but no ethics. It knows what is more or what is less, but does not know what good or bad is. This type of personality is indispensable in some situations – in the case of a war or a catastrophe – on the other hand, it can generate in peaceful times. It is wise to employ him only carefully, watchfully and under hard control.

5. Root case of crisis

Analyzing causes of corporate “rampages” – which by the way can be caught red-handed at the breakdowns of political parties’, as well – the most results refer to the following:

- Success and failure does not depend on one single person, but rather on the institution.
- Success and failure are made not by separate people, but are “made” by “cooperating” groups.
- The prime root cause of failures is: an institution under a responsible governance working inappropriately (the appropriate board of trustees, the board of supervision and the general manager).

Studies and experience refer to the case when even corporate and institutional separation of powers is not enough to prevent from corporate “rampages”. Like a good engineered truck, a safe and well serviced brake system even with a well-qualified, proficient driver is not sufficient to avoid road accidents. It is not sufficient even if the road on which the truck is driven is usually safe. If the driver is drunk, or if he does not drive the truck according to the weather conditions, he can bring about an accident. If he turns in an unforeseeable bend mindlessly, because he is in a hurry, the tragedy is set up, as well. Experience of the 21st century – enterprise bankruptcies (ENRON) and the global economic crisis – show: institutional separation of power is needed (just as the safe brake-system is also needed), but is not sufficient. Even “retailoring” the law (SOX law or the Say-on-Pay, ect.) proved to be slight at keeping business enterprises on a sufficient growth route.

However, stepping into the 21th century another contradiction joined the above mentioned ones. In politics, but especially in business, as well, one more – earlier less conspicuous – factor affects the selection. An article draws attention to the appearance of the so-called narcissistic personality (*Neicka 2011*). As in politics, – where it leads to problems, as well – in the governance of enterprises and non-profit organizations, where the decision making also passes by directly or indirectly by election, the so-called celebrity CEOs get into a leader role.

Narcissistic personality has specific characteristics: high self-evaluation (‘God knows everything, He knows everything better’), overconfidence, lack of self-criticism and realistic

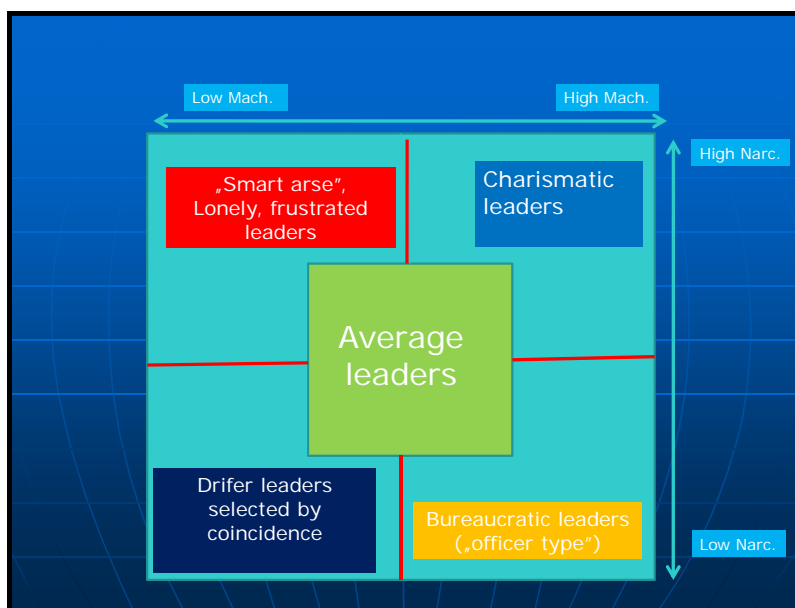
self-assessment, narcissism. From the synergy of them an unusual – adored and likely to be followed by an average person – individual “arose”. This person has a clear and seductive vision, though sometimes seceded from reality. He is shiny, begrudged and desired to be followed at the same time, but is not helpful at all. He is dumbfoundingly appealing, but self-interested beyond measure. He has excessive self-confidence, but always blames others for mistakes; defeats are always someone’s faults. He is deaf at critics, he declines it in the organizations and moreover, he bans open colloquy. He tends to follow only his own logic and intuition. In spite of his paradox features an average outsider determines the following important management qualities: self-confidence, excellence in leadership, ability to convince others, authority. Studies have shown that occasionally it is really true, but it is more often that even the opposite comes true. Researchers have found that while the narcissistic leader is busy with his own excellence, just his above mentioned features hinder the organization to practice the method of collective decision-making.

Eventually based on these two factors – the High Mach and the High Narc – evolve the degree of leader charisma in the selectors and the electors, which becomes a determinative selection factor by “rewriting” almost every other professional practice and experience. (see Figure 1).

6. Conclusion

The experience of the last decade implies that not only in politics, but even in business “celebrity CEO” is spreading. They are the ones who are formed to “band names” with corporate expenditures and with the help of the media, and their value becomes an important part of the value of the company. However, likewise in politics, in business being a “celebrity” is also dangerous. The end source of success and failure: appropriate institutions, clear rules of decision-making, responsibility stimulating culture and the effective and accepted ethics in the society. Just like in management – as we have pointed out – by necessity the so-called High-Mach and lately the “High Narc.” personality is selected, to “have a hold” on this personality beside the institutional separation of power, mature incentive system, appropriate operational method and an organizational culture which is considering the interest of the society, and effectively operating ethics is also necessary. The complexity of organizations has reached a level when it is no longer important who the leader is, but what the content of governance is. Furthermore, we have to move forward from here: the institution of responsible governance which is “holding in check” the charismatic individual is not enough; building around, effective culture, adequate ethics and deliberate decision-making system is essential.

Figure 1. Leader types



Source: own construction

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The role of fairness in modelling business relationships

ESZTER MEGYERI

Many researches focus on identifying and understanding the key drivers and dynamics of the company-client relationships. In this study we will present relationship models from the literature built on fairness as a relationship quality dimension when describing company contacts with partners. We will look at the fairness definitions used by each mode, besides evaluating what other relationship quality constructs are used. The objective of the paper is to review the literature on fairness in the business relationship modeling context in order to identify how fairness was determined and measured in previous studies. This will allow us to develop an in-depth understanding of previous empirical studies that can be utilized in our future research as we plan to examine fairness in business to business context in Central Europe.

Keywords: fairness, intercompany relations, relationship marketing, relationship quality

1. Introduction

By the 80's, it became evident for researchers and practitioners, that the growth of a business entity does not purely dependent on the amount of revenue generated, but also influenced by other elements, such as customer satisfaction. In parallel, the customer focused strategy and execution turns to be the key business deliverable (Kohli–Jaworski 1990, Vieira 2008). The scientific research focus moved from a functionally defined, transaction oriented approach toward different relationship interpretations. Instead of selling products, today companies offer service bundles to their customers which are motivated by putting the customer expectation in the center of the value interpretation (Vargo–Lusch 2004).

Dwyer, Schurr and Oh (1987) claimed that the relationship continuity was to be examined in depth instead of the discrete exchange between seller and buyer. When looking at the chain of supply, there are a number of clients and customers beside the final consumer. As a result, relationships are distinguished in their characteristics depending on the type of partners participating, namely we differentiate Business to Consumer (B2C), and Business to Business (B2B). When looking at dynamics of the B2B relationships, the last 20 years of business research has a lot to share as an insight. The first step of the conceptualization was the definition and differentiation of the discrete and relationship exchange (Macneil 1978).

The concept of the relationship quality, based on the literature, is one of the results of the relationship marketing theories and empirical researches (Dwyer et al 1987, Crosby et al 1990, Rauyruen et al 2005). There are many relationship quality interpretations within relationship marketing, which model the relationships in a different way in order to determine the main objective of what relationship is considered to be good versus bad. The challenge whether the concept of relationship quality can be formalized as a discipline is a dispute among researches in business studies. Furthermore, there are different approaches to modeling that relationship dimensions are attributed to shaping relationship perception and evaluation (Holmund 2008, Naude–Buttle 2000). Fairness is considered to be one of the relationship dimensions interpreted as an independent variable in most models.

Specific fairness research in the B2B context is strongly based on the research field of organizational justice which provides a solid background with an intensive three decades of conceptualization and empirical testing. As a result, three types of justice and fairness are differentiated: distributive, procedural and interpersonal; some models incorporate all 3

branches in an integrative fashion (*Greenberg 1990, Greenberg–Cropanzano 2001, Folger–Bies 1989, Tyler–Lind 1992*).

The basis of distributive justice has been established by *Adams (1965)*. His performance driven equity theory was inspired by *Homans’ (1961)* original piece of work. In the equity theory, the company employee perceives fairness based on comparing the received outputs such as compensation in relation to the invested inputs, or efforts. The employee partly reflects on themselves when comparing the received compensations to the invested efforts; in case of dissatisfaction there will be an adjustment process of either working less or requesting a higher salary. Based on the equity theory the perception of fairness is compared to either a reference individual or a group (*Adams 1965*). In this other aspect, the employee compares their output/input ration to others’ output/input ratio, which will influence the fairness perception and adjusts their performance or expectations on the individual’s side (*Greenberg 1990*). When there is equality between the output/input ratio of the individual and the reference person or group, the employee will consider their company evaluation to be fair. The current working definition of the equity theory on the field of social psychology is the following: “it is a theory of social interactions, in which individuals try to achieve a perceived balance of the ratio of outputs and inputs in a relationship” (*Hewstone et al 2003. p. 488.*).

The business entities today create and manage relationships far beyond their company boundaries. When interpreting fairness in a B2B or B2C context, we must acknowledge, that the conceptualization work of organizational justice represents the base. B2B relationships are strongly, but only partly driven by written contracts which explicitly and legally determine the cooperation principles and expectations between the involved parties. However, a contract might not assure a full protection from opportunistic behavior without trust (*Hámori 1998*). This is the sensitive area where fairness has a role in shaping the interaction and the relationship among parties based on a mutual cooperation.

As we are going to see, research supports the fact that fairness has a direct influence on trust, satisfaction and loyalty in both B2B and B2C relationships. However, it might have different dynamics in different industries, power relations or cultural environment. In our study, we present 5 models which have fairness as an embedded construct. In all models, fairness is considered to be a norm when describing the dynamics of the relationship quality. The aim of this summary is to present the learnings on modeling fairness based on the literature overview, in order to establish a future research program on fairness in Central European context.

2. Models treating fairness as a relationship dimension

The three most commonly used constructs when describing relationship quality are trust, satisfaction and commitment (*Morgan–Hunt 1994, Gruen 1995*). Fairness is a further relationship dimension which impacts trust, satisfaction and loyalty in B2B and B2C relationships, as well. In this chapter we describe the following 5 models in which the fairness dimension is considered in company relations:

1. Interorganizational exchange behavior in marketing channels (*Frazier 1983*).
2. Evaluation of relationship quality in business relationships (*Järvelin 2001*).
3. Culturally different inequity perception in interorganizational relationships (*Sheer et al 2003*).
4. Antecedents and consequences of consumer trust in the context of service recovery (*Santos–Fernandes 2008*).
5. Fairness–trust–loyalty relationship under varying conditions of supplier–buyer interdependence (*Jambulingam et al 2011*).

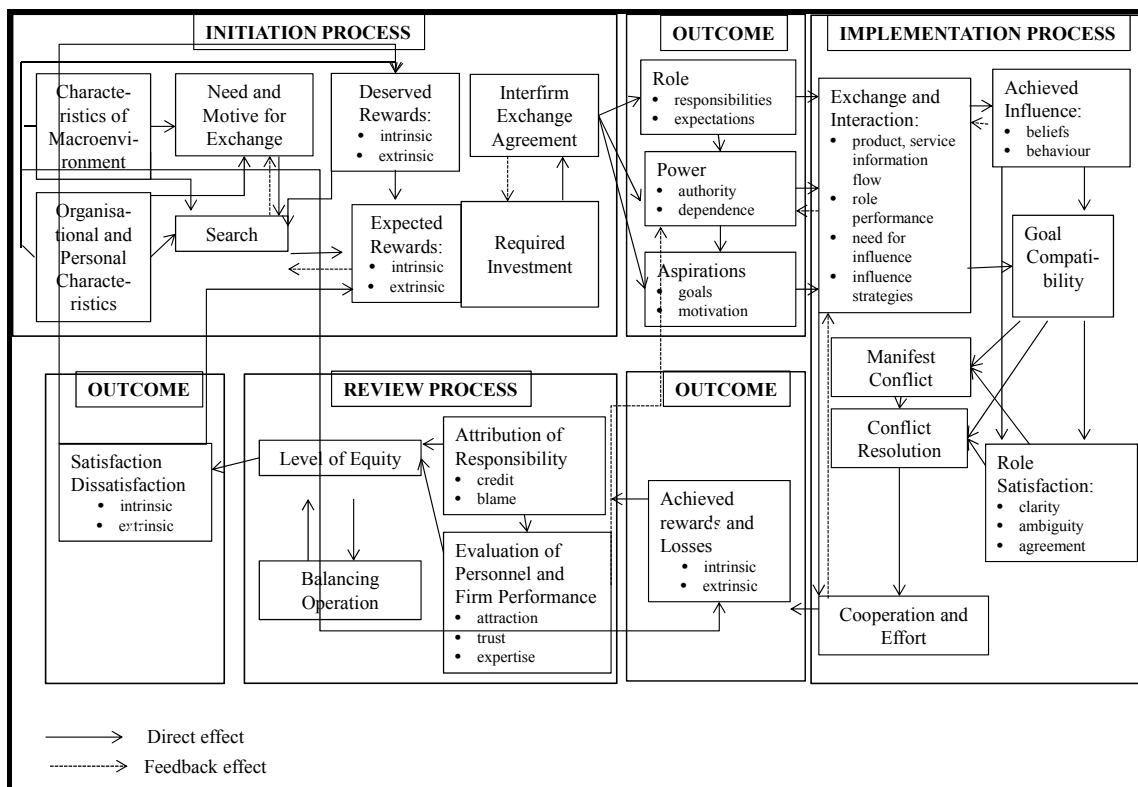
2.1. Interorganizational exchange behavior in marketing channels

Frazier (1983) is considered to be among the first ones who builds the fairness attribute into his model interpreting interorganizational exchanges. He splits the process into three phases: initiation, implementation and review process. Each phase represents a specific process with particular outcomes on which the next process builds (Figure 1).

In the initiation phase, the entity determines and calibrates the external macro environment and the internal organizational and personal characteristics. In the next stage, the need and the motive for exchange is determined to enable the partner search. Before an exchange and the required investments are formalized, deserved and expected rewards are specified from the intrinsic and extrinsic point of views.

There are three outputs of the initiation process: determining the responsibilities and expectations for each role; clarifying the power distribution in terms of authority and dependence; and establishing aspirations in terms of goals and motivation aspects. Frazier puts the exchange and interaction to the second, implementation process phase, during which we experience and influence the level and depth of cooperation, invested efforts, influencing needs and strategies and their impact on goal compatibility. These encounters are inevitably fueled by conflicts.

Figure 1. Framework: interorganizational exchange behavior in marketing channels



Source: Frazier (1983, p. 69.)

The conflict resolution process will influence the quality attribute of the cooperation and the quantity of the need for invested efforts. The outputs of the second process are the achieved rewards or losses on the intrinsic and extrinsic level.

The review process assesses responsibilities and then evaluates the performance on the firm and the individual level. The equity evaluation is the next stage of the process followed by the balancing operations, if required. The outputs of the third process are formalized in the intrinsic and extrinsic satisfaction levels, which also impacts and determines the potential of future exchanges (Frazier 1983).

The model refers to equity (as fairness) in two different phases of the process. Firstly, in the initiation process the expected and deserved outcomes are determined, which projects the way of sharing the results and outcomes of the exchange between the partners. Secondly, dependent on the partnership history, the interfirm exchange agreement can differ significantly. In the review process, the achieved results and performance is evaluated, in which the level of equity is specifically reviewed. The equity directly influences and determines the level of satisfaction experienced during the exchange transaction (Frazier 1983).

Frazier created the above illustrated model as a conceptual framework to drive the process to create a research agenda on the subject. The model describes the operational mechanism of the exchange episodes and indicates the connecting points between the partners. The equity evaluation is a part of the initiation and the review processes. Frazier does not interpret either the relationship quality as a concept, or any relationship dimensions, which is understandable based on the date of creation. However, Frazier was considered later as a focal reference point in studies on relationship management (Järvelin 2001, Kumar et al 1995a, Scheer et al 2003). He influenced the research direction of the proceeding decades, during which a major shift was experienced moving from interaction toward the relationship and network driven partnership development.

2.2. Evaluation of relationship quality in business relationships

Anne-Mari Järvelin (2001) dealt with the evaluation process of relationship quality in the context of B2B relationships in her thesis. Her approach partly builds on the process orientation of Frazier's model, and partly on the basic principles of the IMP school¹. Along the evaluation process on the individual level, she further introduces other three levels: department, company and intercompany. The primary element is the individual level episode evaluation. Each participating company has employees, who have individual, independent perception of a transaction which is also influenced by the other company employee's perception. Based on the experience collected during a serial of episodes, the individual forms their relationship quality perception. In an organization, the sum of all individual perceptions provides the organizational point of view, which eventually shapes relationship quality perception on the interorganizational level (Järvelin 2001). Parties, beyond the directly interacting individuals, also share the quality perception of the relationship, which allows the creation of a link to society and the external environment. The author declares that the relationship quality is applicable for a dyadic relationship, in which each side develops a perception and an evaluation process either jointly or alternatively separately.

Järvelin examines the process from both the seller and the buyer side. She differentiates experience collection stage on episode level and later on the relationship level quality perception development. The main evaluation process includes a step in which there is a comparison to the previously set standards which can be followed by a correction process to modify objectives, if necessary.

The main evaluation process starts when an episode begins (Figure 2), during which a partner collects experiences in order to be able to evaluate the actual episode based on the preset standards.

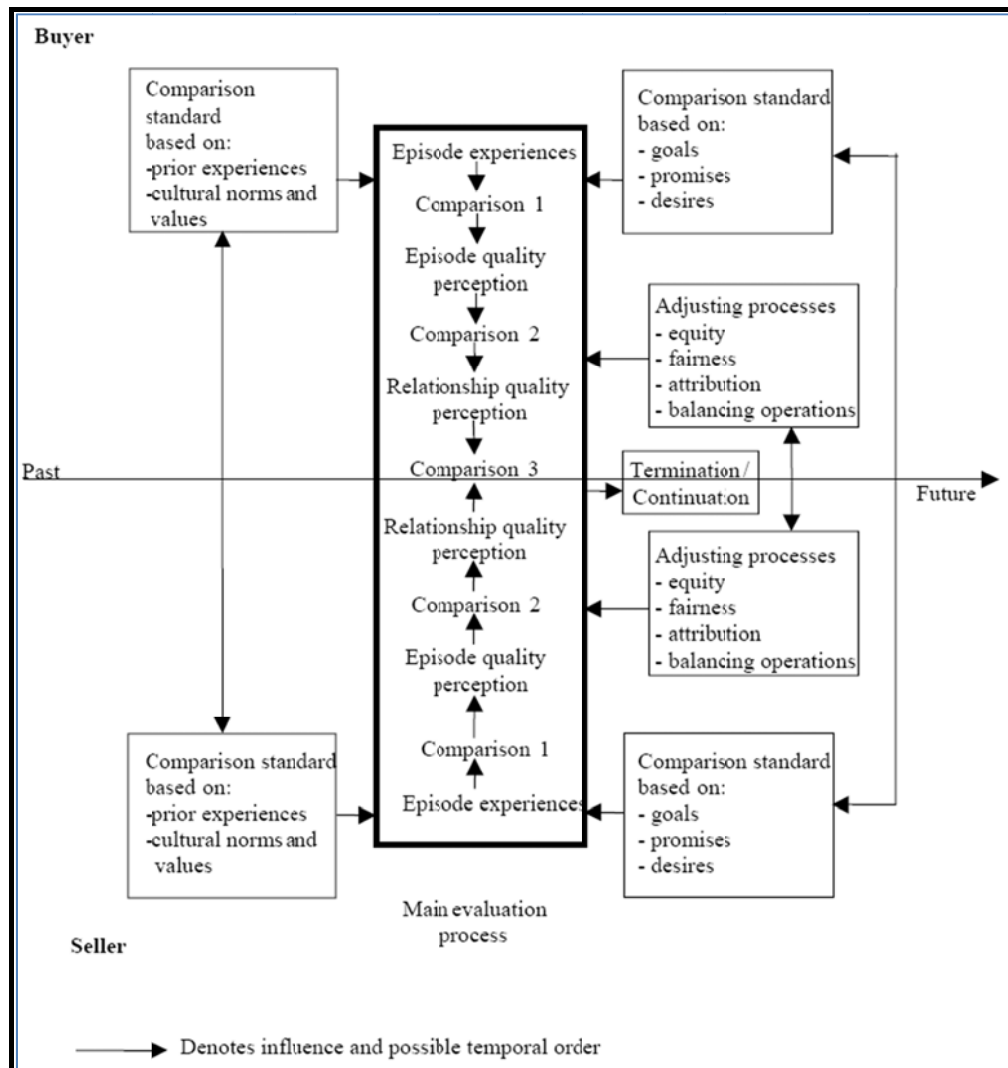
The comparison standards include previous experience, company objectives, company commitments, cultural norms and values. The outcome of the first evaluation process is the

¹ Researchers of the IMP Group (Industrial Marketing and Purchasing Group) focus on the different levels of interaction and relationship dynamics looking at them from each participants point of view on the personal and business level as well. From the methodology point of view, they examine specific cases and case studies evaluating practical, real life examples. Håkan Håkansson, Ivan Snehota and David Ford are among the lead researcher of the IMP group.

perception and the evaluation of the episode quality. If it reflects a gap between results and standards, it can be modified by an adjusting process.

The episode quality evaluation is followed by a second comparison, which refers to the episode quality impact on the relationship quality as a whole or can suggest a review of the comparison standards. There are also adjusting processes on this level, which can influence the main evaluation processes. The third level of evaluation might be necessary in case there is a negative evaluation of the relationship without a successful adjustment. Eventually, the impacted partner might decide to continue or terminate the relationship.

Figure 2. Relationship quality evaluation framework



Source: Järvelin (2001, p. 58.)

We have to examine closer the so called adjusting processes, which are broken down to four subprocesses by Järvelin (2001):

1. equity: comparing the partners' output/input ratio;
2. fairness: one partner's perception of their own output/input ratio;
3. attribution: determining who is responsible, when the evaluation results in a major gap;
4. balancing operations: a mutual effort by both sides in case of a major evaluation gap.

Järvelin develops output dimensions such as technical, social, economic and ultimate ones to the overall evaluation process based on the literature.

The definition of equity and fairness in the adjustment process roots back to Adams' equity theory. Järvelin emphasises, that different schools of researchers have alternative ways of linking the equity and fairness evaluation to the main evaluation process. In the North American service marketing interpretation, in which the focus is on the customer satisfaction and service quality measures, equity and fairness are part of the main evaluation processes. When applied to the B2C environment specifically by schools focusing on the distribution channel evaluation, the equity interpretation represents a specific stage of the main evaluation process, as we saw it in Frazier's model.

Järvelin tests her model in a case study example. She does not evaluate it in a broader empirical research, which she considers neither necessary nor an expected task. Using case studies for model verification is a typical methodology used by the IMP Group. It can be considered as an acceptable approach, that the case study results and findings provide a specific result and an outcome for the examined relationship. Therefore, it is a tool to evaluate relations by itself. The model scope does not intend to give an insight to the way of process dynamics or an answer the questions such as what relationship quality dimensions are present and how they interact and influence the relationship.

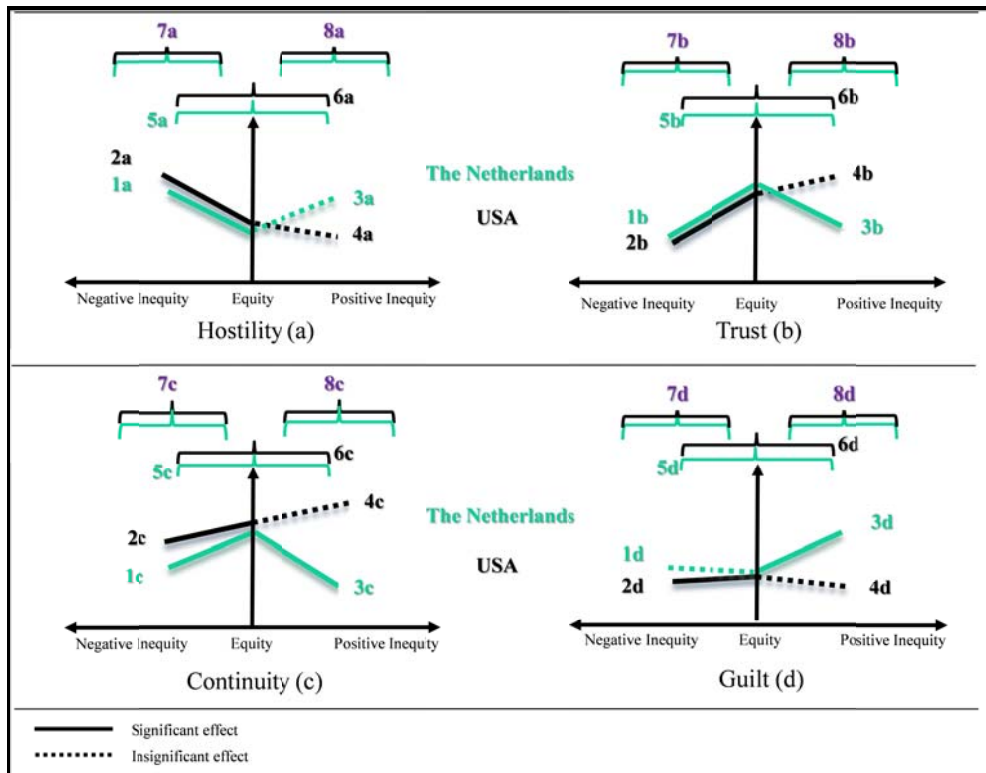
2.3. Culturally different inequity perception in interorganizational relationships

Lisa Scheer, Nirmalya Kumar and Jan-Benedict Steenkamp as a research team played a significant role in investigating fairness and equity. In 2003, they empirically tested Adams' equity theory in interorganization relationships, having taken into account cultural differences, as well. Their interpretation is influenced by the North American service marketing schools which investigate dyadic relationships strongly looking at the buyer's and the customer's point of views. They argue whether fairness and equity are equally important for organizations, especially in case of positive inequity. They examined relationships of car dealers with supplier evaluating the relationship quality from the dealer's point of view (Scheer et al 2003). The empirical research was fielded in the USA and the Netherlands. The cultural differences were captured by using Hofstede's cultural dimensions and measures, which supported the hypothesis development processes, as well. The equity interpretation was along with the part of Adams' equity theory, which refers to the comparison of one's output/input ration versus another when applying it to business entities. If there is an imbalance of the ratios, there will be either a positive or a negative inequity, depending on which party is in an advantageous or in a disadvantages position². Four relationship dimensions were chosen as dependent variable of the study based on their literature review (Figure 3).

The hostility quality dimension (Kahneman et al 1986) represented the frustrated emotions such as resentment toward the supplier. Besides, key dimensions such as trust, continuity and guilt were also separate, dependent variables. When choosing these dimensions, Scheer and her colleagues used social psychological studies such as *Hatfield, Utne* and *Traupmann's* work (1979) on equity perception of married couples and its impact of other emotions including guilt, as well.

² Spline regression was used as a statistical method for the analysis, in which inequity was an independent variable graphically displayed on the "x" axis. The "0" point was representing the equal ratios of the two parties as the point of equity (Hurley et al 2006, Scheer et al 2003).

Figure 3. Effects of negative and positive inequity



Source: Scheer et al (2003, p. 67.)

The study has 8x4 hypotheses, out of which 1, and 3 focuses on the Netherlands, while 2 and 4 on the USA. The result interpretation differentiates “a”, “b”, “c”, and “d” components for each country, referring to the 4 relationship quality dimensions. 1 and 2 specifically focuses on negative, while 3 and 4 on positive inequities. Hypothesis 5 and 6 compares the differences of positive and negative inequity cases in each country. Hypothesis 7 compares the negative inequities in the two countries, while number 8 focuses on the positive inequity perception comparison for each dependent variable.

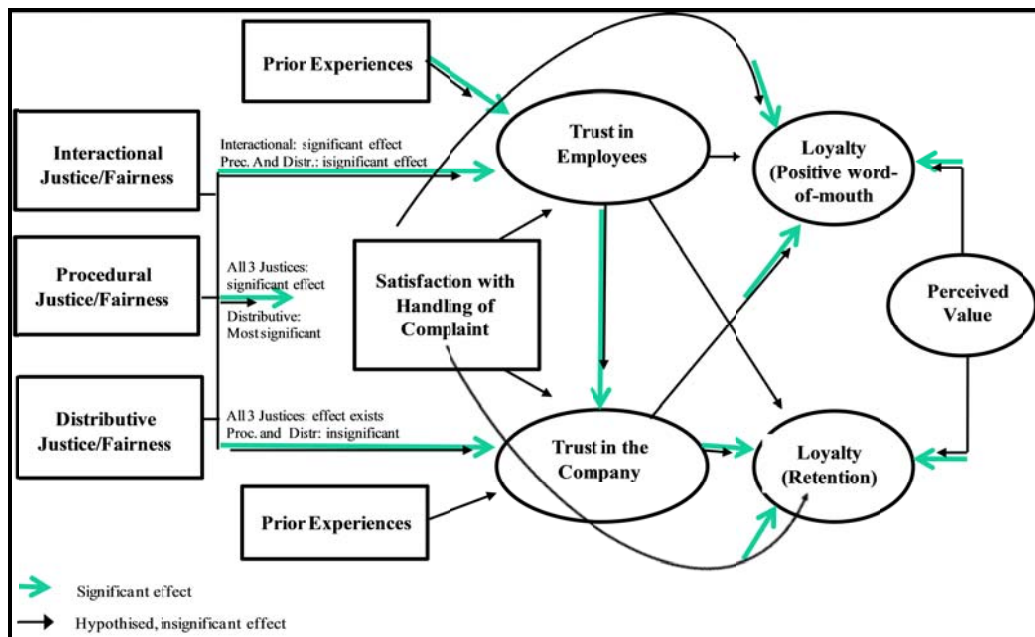
The results of the study conclude, that in both countries in case of negative inequity, buyers respond in a similar way in all examined quality dimension, which is well represented in Figure 3. When looking at the left side of each graphs, both countries show a similar pattern when responding to increasing negative inequity. However, in the case of positive inequity, there is a significant difference, as Dutch dealers responded in a completely different way compared to the US dealers in each dimension. The outcome is puzzling, but they reveal that cultural differences can influence whose inequities are perceived and responded to, and it raises the need for a future global study.

2.4. Antecedents and consequences of consumer trust in the context of service recovery

This model focuses on the B2C relationships in the service industry, examining the antecedents and consequences of customer trust. The Brazilian authors reached out to individuals who experience a service complaint incident and go through a complaint handling process 12 months prior to the study either with a bank or an airline company. After the complaint handling process, the model captures the impact of distributive, procedural and interpersonal justice on trust, and eventually also loyalty (Figure 4). In their terminology they used definitions from the organizational justice field applying them to B2C relations. In their interpretation fairness is considered to be a synonym of justice.

Distribution fairness builds on the second part of equity definition as Adams' (1965) work, in which there is an output/input comparison among the parties taking part in the interaction. Procedural fairness is defined as "policies and procedures used by companies during complaint processes and includes six sub-dimensions: flexibility, accessibility, process control, decision control, response speed and acceptance of responsibility" (Santos–Fernandes 2008, p. 228.). Interactional fairness is represented by the company employee's communication and treatment toward the consumer during the complaint handling process. This is specifically captured by how the consumer perceives the employee's "courtesy, honesty, offering explanations, empathy, endeavor, and offering apologies" (Santos–Fernandes 2008, p. 228.).

Figure 4. Theoretical model of the antecedents and consequences of consumer trust in the context of service recovery



Sources: Santos–Fernandes (2008, p. 231.)

The study examines the direct impact of fairness components on three main areas: satisfaction, trust in the employee and trust in the company. The article states, that the satisfaction with the complaint handling process is significantly influenced by all the three fairness items, out of which the distribution component is the dominant one. Based on that it is clear, that the most important goal from the consumer's point of view is obviously to get the complaint resolved. When determining trust in the employee, only the interaction fairness plays a significant role; the other two components have insignificant effects. When evaluating trust in the company, the effect of all three components is measurable, however, interactional trust has a significant impact. The authors draw the conclusion, that interactional fairness has a major role in building trust; however that is not the only component to focus on.

It is not a clearly indicated in the hypothesis whether satisfaction has a mediator role between the fairness components and the trust variables. Although, all three fairness components have a significant effect on satisfaction, it does not show significant impact on trust, either for the company or for the employee. In the alternative model, satisfaction is taken out of the model, which results in being able to show a significant direct effect between the fairness components and the trust components.

From the trust-loyalty analysis point of view, the two main components are the positive world-of-mouth and retention as key dependent variables of loyalty. Satisfaction has a

secondary, but significant role in impacting both components of loyalty. Further on, it becomes, that primary driver of loyalty impact is the trust to company variable.

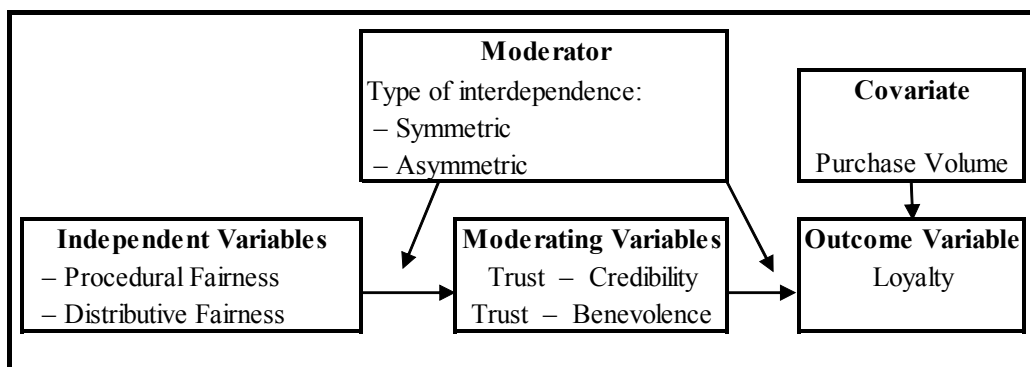
The authors are able to demonstrate a parallel impact. On the one hand, success of the complaint handling process, which is measured through satisfaction is influenced by all the tree components; there is a need for a balancing act among the three items when designing the process to make sure to put the priorities toward the component. On the other hand, the fairness components have an impact which points much further than satisfaction, as both trust and loyalty are influenced by them.

This model works with a set of specific characteristics of the specific industry and specific consumers chosen. We cannot apply these learning immediately for all B2C or B2B relations. However, it opens a new way of interpreting these relationship contents and dynamics, which were embraced by *Jambulingam, Kathuria and Nevin (2011)* in their studies applying them for B2B relations.

2.5. Fairness–trust–loyalty relationship under varying conditions of supplier–buyer interdependence

Jambulingam, Kathuria and Nevin’s (2011) fairness norm is an independent variable in their model. They study the conditions in which trust impacts loyalty on the long run in a buyer-seller relationship. Other research has indicated that there is a strong relationship between fairness and loyalty without studying the role of trust as a mediator between them (*Hetesi–Vilmányi 2011*). *Jambulingam* and his colleagues’ base assumption is that fairness through a number of forms impacts loyalty significantly. The authors consider that trust has a mediating between role fairness and loyalty, if fairness impacts loyalty significantly and directly in the base model. While in the alternate model with trust as a mediator fairness loses the significant effect to loyalty, but has a significant influence on trust and trust supports a significant impact on loyalty. In such a case trust takes over the fairness impact as a mediator to loyalty (Figure 5).

Figure 5. The moderated-mediation model of hypothesized relationships



Source: *Jambulingam et al (2011, p. 41.)*

In this study, fairness is categorized into two forms. Distributive fairness is stated from the buyer’s point of view considering the perception of business result and outcomes from the relationship building in *Kumar, Scheer and Steenkamp’s (1995a)* fairness definition assumes that the company compares the actual outcomes with the deserved outcomes when determining the perception of distributive fairness. The procedural fairness component is the perception of the processes and policies determining the relationship between the two parties. Trust also has two components: credibility and benevolence. The model was tested in pharmaceutical channels, where the buyers were the retail units, while the sellers were the

wholesalers. The model considers the relationship dependence as a moderating factor which can be symmetric, asymmetric, and the no interdependence as a separate case.

Symmetric is a cooperation in which the seller and the buyer depend on each other equally, which is a base condition for the long-term, stable, trust driven relationship (*Kumar et al 1995b*).

In an asymmetric relationship, one partner of the dyad depends on the other in a greater extent. Therefore, the dominant partner can have a large influence on the use and control of resources versus the other party which can influence the relationship strategy, the negotiation dynamics and each transaction between the partners. The weaker chain of the dyad could be concerned about the dominant parties' opportunist behavior, which can undermine the distributional and procedural fairness components resulting in obstacles to build trust with the increase of the asymmetry (*Kumar et al 1995b*). The model distinguishes the buyer versus the seller dominated cases.

The third type of dependency is the case when there is no perceived relationship dependency between the partners, which can occur during a spot transaction or at an early stage of a buyer-seller relationship. In such a case neither partner perceives a relation dependency and the cooperation itself is not a necessity of the transaction. Moreover, competitive relationship can describe such a case, as well (*Molm et al 2006*).

In the model based on the available data, three out of four dependencies were tested leaving out the buyer dominated case (Figure 5).

In case of symmetric relations, the authors find that both component of fairness have a significant impact on loyalty. When trust as a moderator is built into the model, the role of the fairness components becomes insignificant while the role of the trust components starts to effect loyalty significantly. This is the only case in which trust is confirmed to be a mediator between fairness and loyalty (Table 1).

When analyzing the asymmetric relationship dominated by the seller, the procedural fairness has a significant effect to loyalty, whether or not trust is a part of the model. In this case, the mediator role of trust cannot be confirmed.

In the third group of cases, when no interdependence exists, we can find similarities to the symmetric relations in a way that both components of fairness has a significant effect on loyalty assuming that trust is not in the model. When trust is included, the two fairness components still maintain their effects on loyalty. Out of the trust components, credibility effects loyalty significantly, however, in a moderat way compared to the fairness components. The authors conclude, in the case of interdependence does not exist between the partners, there is no influencing role of trust on loyalty.

Table 1. Fairness, trust and loyalty in case of different relationship dependencies

	Symmetric Dependence	Asymmetric dependence dominated by the seller	No perceived Interdependence	Asymmetric dependence dominated by the buyer
1) Significant direct effect of fairness on loyalty.				
Distributive Component	significant	not significant	significant	not measured
Procedural Component	significant	significant	significant	not measured
2) Insignificant direct or decreasing significance effect of fairness on loyalty, when trust is included in the model.				
Distributive Component	not significant	not significant	significant	not measured
Procedural Component	not significant	decreasing significance	significant	not measured
3) Significant direct effect of trust on loyalty, when trust is included in the model.				
Trust - credibility	significant	not significant	not significant	not measured
Trust - benevolence	significant	not significant	not significant	not measured
The mediator role of trust is	supported	not supported	not supported	

Source: Jambulingam et al (2011)

The research findings support the idea that in asymmetric relations loyalty is significantly affected by fairness, not by trust. When the wholesaler is the dominant player in the dyad, trust can be low or unperceived, while through procedural fairness level of loyalty can be built or influenced.

When interdependency is not perceived in the relationship, both distributive and procedural fairness influenced loyalty; trust has a secondary role along the credibility dimension.

In the study, the interactional component of fairness is missing, which is also stated by the authors. It is important especially as we saw that through the example in the previous model in B2C relations.

3. Summary and conclusion

Within the borders of an organization, fairness is not only a key factor for the employees' well-being, but also a consideration among the employees from the distributional, procedural and interactional point of view. When looking at interorganizational relationship, we experience that the relationship marketing is gaining foot in getting an insight on how companies interact and deal with each other on the short and long run in B2B and B2C context. In this study we reviewed models which built in fairness as an independent variable while describing the dynamics of the relationship.

Considering fairness, one of the key findings is that models describing B2B and B2C relationships, relate back to the theoretical roots of organizational fairness. We discovered that during describing fairness, studies relate to Adams' original equity theory. We can also point out that the 3 key forms of fairness such as distributive, procedural and interactional are used partially in the examined studies.

There are a number of key considerations to highlight. One is that the level of dependence between the partners will alter the importance of trust in the relationship. In asymmetric relations or in the case of no interdependence, trust has a lesser role of influencing long term relationship, while the importance of fairness element increases.

Secondly, we can recognize that loyalty as a dependent variable is considered to be one of the important relationship quality dimensions, which is strongly influenced by fairness.

Thirdly, we see that intercultural elements can influence how equity/fairness is perceived. Therefore, the cultural element can have a strong influence in B2B relationships on determining what is fair and what is not fair from each partner's point of view.

Therefore, we conclude that there is a research gap in considering fairness, dependence and loyalty variables together and examine them in different cultural environment in order to add to the B2B relationship research in the near future.

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Civil project management¹

ÁKOS MILICZ

The theme of my thesis is the achievements of the Hungarian domestic non-governmental organizations (foundations, associations, federations) of winning and realizing projects from the perspectives of tendering. Based on interviews I collected data at six, big tender consulting organizations, where I asked their opinion about the project management and the realization of the winning civil organizations. Their insight in this subject shows very well the readiness and knowledge of the organizations concerning gaining tendering funds and then utilizing them.

The research was built on the methodology of qualitative data collection and processing. The analysis of the interviews made it possible to compare the theoretical foundations of project management with the experience of today's Hungary, and we can do this all in a special organizational scale, the civil sector. It is especially interesting to examine the characteristics and the differences among the civil social organizations so as to see why and how they are different in their project management from the rest of this sector. The research results also direct attention to the gaps which should be eliminated for the later success of the non-governmental organizations, in implementing projects alone or in consortiums with the aim of improving social welfare.

Keywords: NGOs, non-profit organization, project management, cooperating organization, outsourcing

1. Introduction

In the preparation of this article and research I got a significant boost from the publication in whose preparation and writing I took a major role. The publication titled as "Civil Project Management" appeared in May of this year, and in its contents it tries to lay the foundations of the project management of these organizations (Milicz 2011).

The second Annex of the book shares 5 interviews, in which I asked organizations, involved in the realizations of the projects, about their experience in the project management of the NGOs. Moving forward I conducted the research, and here in this article I share the results.

2. Explanations

The words civil and non-profit will be often used in this article, so for better understanding these words need to be explained and defined. In the general perception of the professional literature the civil sector is the third after the actors of the government and the economy. The definitions generally mean 'not making profit', and the independence from the state (public sector) and the internal self-governance are the main characteristics of these organizations. In my perception civil is when they work not for business acquisition and not for profit, but to help achieving the needs of their members, sympathizers and customers independently, without the help of the government. In other words:

- NGOs are not consciously seeking for profits, their revenues and expenditures are roughly on the same level, their accounting results are around zero, and only they do

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subsidiary activities if they do not endanger their core activity. From this approach my opinion is that a non-profit company is not a civil organization because it was primarily set up for business purposes. In other words it is a company working in a competitive environment, which however, does not distribute its profit among the holders rather re-injects it or use it for operational purposes.

- Non-governmental organizations are independent from the state, which means that they are not under the influence of the government, the state administration and the municipalities. This means that they were not founded by a budget based authority, so in themselves NGOs are not budget bodies, either. In this sense we cannot call a public foundation, a public authority, a culture center or a government owned non-profit company an NGO.
- The NGOs have a well-defined range of stakeholders and they are working for their benefit and interest. An example of this circle of stakeholders can be the members of an association, the population of a village, a complainant visiting for advice, a person who is in need of food, or any other organization and citizen whose rights were violated. The Deed of Company Formation will appoint the geographical, sectoral and field limits within which the organization operates and organizes their activities.

Based on this I consider foundations, social organizations, associations, professional sports associations and employers' and employees' representative organizations as NGOs. In this article, and in my research as a whole I examine their (these NGOs') performance and project management.

The meaning of project management in the literature is also different. Based on the definitions, these are the common features: a new, probably not continuous, serious and large scale, careful planning, and an aim to achieve a concrete goal. In my understanding a project is a single, high profile series of actions which is going according to an exact time and resource management to achieve a single, set result.

So a project:

- appears in the life of the organization once as it seeks to create something new and ends when it is finished.
- is high-profile, meaning that it has a great influence on the life of the organization, and once it fails, it is menacing to the organization financially, legally and it will also harm its prestige.
- aims for a previously set result, so it is associated with well-defined ideas and expectations. This expresses the fact that in the end we will have to achieve the product of the project, which was previously planned and described. And this must be comparable and verifiable.
- is a series of action based on precise time and resource management; it has a beginning and an end, which sets the duration and the starting and ending date of the project, also it is associated with a budget and a budget plan, people, machines, tools that are lined with the plan (they make up the overall project plan) demonstrating that to achieve the goal who, when, by what means and with how much cost will be needed to operate.

2.1. About the civil sphere in brief

The NGOs typical projects contain organizational programs, events, actions organized for their members or for the general public. They are present in every aspect of life, they have a place in education, in protecting culture and traditions, in sports, science and the cultivation of upcoming talents...The Central Statistical Offices (CSO, in Hungarian: KSH) has 18

categories (sectors) for the NGOs based on their activities (*KSH 2009*). The law on non-profit organizations (1997. évi CLVI tv. 26.§ c) states 24 activities that falls into the category of public benefit organizations and these cover almost all aspects of life.

In 2007 there were 3.9 million NGO members in Hungary. Today the formally registered number of NGOs is over 62 thousand, however based on the assumptions of the CSOs around 10 to 20 thousand do not operate. 35,4 % of them are foundations/public foundations, 52,3% are social organizations and the rest, approximately 23%, is a non-profit company, a public foundation, a unions, et. 60% of the foundations can be linked to the 5 major areas of activity: education (32%), social services (16%), cultural activities (14%), health care (10%) and religion (6%). Among the foundations the two major areas are leisure (30%) and sports clubs (20%). In 2007 the revenue in this sector was over 1 billion Forints. (For comparisons: the sum of the government income tax revenue was twice as much in 2008) This sector employs approximately 78 thousand full-time employees on an annual basis, while the rest of them, around 35 thousand people work part time. In addition there were around 472 thousand volunteers in the non-profit sector.

In 2007 the awarded grant revenue of the non-governmental organizations exceeded 517 billion Forints. According to my estimations about eight to ten thousand organizations are actively involved in programs and the conduction of tenders in local or even international level each year. These NGOs carry out more than ten thousand projects every year and the numbers are showing a growing tendency.

Here are some project generating sources:

- In the NCA (the abbreviation for the Hungarian institution National Civil Fund) data warehouse there are more than 131 non-governmental project data since 2003, and the sum of the winning tender's value are over 65 billion Forints.
- Based on the NFT (the abbreviation for the Hungarian institution National Development Agency) and the UMFT (the abbreviation for the New Hungarian Development Plan) tender database, there were 3862+5612 project applications submitted and 1642+1974 became the winning non-governmental projects. To these projects 67,9+144,5 billion Forints was distributed as an aid, since 2004.
- The Norwegian NGO Fund between 2008 and 2010 supported 240 applications out of the 1914 received ones, with a value exceeding 1,58 billion Forints. The former MÁTRA projects had approximately the same amount of interest and success.
- Earlier approximately 200 applications under the PHARE Program won around 93,7 billion forints as a support between 1989 and 2006.

Furthermore, there were other project generating sources for NGOs in the past decades. Substantial funds arrived from the large distributional NGOs (Soros, Demnet, Ökotárs, Trust, DIA, etc.), from the ministries and their background institutions specializing in EU and community programs (EQUAL, Interreg, Youth), from public and other funds (OFA, GYIA, NORT, OTK, NKA, Disability for Ok, etc.), from budget authorities (HMS, KVFI, National Institute of Pharmacy, National Public Health, SA, etc.), from embassies (Canadian, American, Swiss, British), from patrons and other business companies (banks, telecom and IT companies, utility companies, cosmetic companies, tobacco companies, etc.), and also from local governments (local, metropolitan, district, sub-regional, etc.).

It can be concluded that hundreds of thousands of NGOs participated in developing projects since 1990. Their members are still working on future projects of the EU, NCA and other national applications. I projected that over 15 thousand civil projects are handed in every year in this sector. Therefore, it is extremely important for this sector to get to know the ways of managing a project, the tools, the philosophy and the hardships.

3. About the research in short

3.1. The research subjects

During my research I worked with organizations which looked after EU project funds, contracts and grants for conducting, the monitoring of the applications and tested the accounting parts of the projects. These are typically state-operated government agencies or public bodies, foundations or companies. The principle for entering them in my sample was their taking care of a significant amount of public and or community resources which they provide for the civil social organizations. Therefore, I excluded private foundations (that provide grants and scholarships), commercial companies (financial institutions, listed companies) and local governments (such as local communities, tender base districts, committees, etc.).

Organizations in the sample are as follows:

- Autonomy Foundation
- ESF Office
- VÁTI Office
- FH- Mobility National Youth Service – Youth in Action Programme Office
- Sándor Werkele Fund
- National Employment Foundation.

The sample can be considered as a nearly complete sample since, except for the National Cultural Fund, I contacted all the other big project management bodies. After contacting the president of the National Cultural Fund, he refused to take part in an interview, however, he informed me that most of their details can be found on their webpage. In the end I decided not to use their data in my evaluation, although there are parts that appear or ring back in the results.

It should be also noted that I went to the National Development Agency for information, but they are not managing actual projects, so they gave me the information of other management bodies to look up instead.

3.2. The subject of the research

The objective of the study was to find out how the applicants manage their projects, and what the institutions and organizations do to have an insight on what the applicants think about them. My hypothesis was that these organizations are able to have an external eye in the candidates project management through the materials submitted to them, also through the requests, information days on the presented accounts, and they will be able to shape an opinion – in some extent from their own experience – on the practical skills of project management of the NGOs. I wanted to get to know all parts of the project management process separately. The key research questions were:

- How clear is the meaning and the content of the project in the civil sector?
- How does the initial phase and the visualization of the project work out in the organization?
- What actual experience does the NGO have about managing a project?
- How does the realization of the project work, what are the usual problems and pitfalls?
- How do they close up and evaluate the projects? What experience did the organization gain through the maintenance period?

- Is there any other special features that would distinguish the NGO's project management from that of the others in its sector?

We have to make it clear that the words 'project' and 'bids' are not synonyms. The NGOs plan and manage a project and for that they may use money that they won through bids. So in our case the word 'project' is a far more reaching issue, and we can still talk about a 'project' if there are no 'bids' to fund in the background. On the other hand if there is a bid, than a project is surely connected to it (except for simple operation applications for reimbursement purposes), and the public will provide the rest of the money.

3.3. Research methods

We had an interview based research. I was the one who contacted all of the organizations and agreed on an interview time, and had a feedback about the interviews afterwards. Before the interview a previously prepared survey, with open questions, was sent out. Every question also contained a provocative, explanatory sentence. I recorded the summary of the content of the interview in a Word document, made some clarifications afterwards, and then sent it to the organizations for approval. Each question and answer can be found and read in the second Appendix of the civil management publication (*Milicz 2011, pp. 92–143.*). After the interviews, I was the one who evaluated and analyzed the interviews and deducted and categorized the main points. The overall methodology of the research is closer to a qualitative research, so it is not the statistics correlations, significance levels and time series correlations that will give the results of the research. Instead, it will be the answers given in the survey, in other words, the results will be the given opinions and the multitude of the reviews, and from them I found similarities and crystallized views on different issues.

Based on the methodology of the research we have to put restrictions on the validity and the results. On one hand, we only get to know the work and the project management of these organizations through state and community resources. It is entirely possible that we would have different results if we researched the local governmental sector, a business carried out by non-governmental organizational support. So we cannot extend all the findings and results to every project of all of the NGOs. The sample was intentionally not based on statistical questionnaires, so it cannot be representative in the fields of the scope of the activities, the age of the organizations, their legal form, etc. Because I used a qualitative methodology I will not use the words 'significance level', 'crombach alpha', 'correlations', 'v'ariables', but instead I will try to describe the opinions, thoughts that the employees of the organizations shared with me through the interview.

Since the applicant received a few explanatory, sometimes provocative sentences, there may be some accusations that I tried to mislead them in the interview. However, the responses and the text of the interviews show, that the interviewees did not let themselves misled by the sub-questions, or they closed the questions and did not answer those which did not apply to themselves or to their organization. Therefore, the explanatory sections did not influence the answers.

The results represented below are the ones that have been mentioned, drawn attention to, or have been commented by at least 3 interviewees. In this sense these answers are significant, since it was mentioned by several people, however, we cannot state that it is true for all of the organizations, or it would happen the same way for every project.

4. The most important result of the research

4.1. The way of thinking of the tender announcers

We can distinguish two types of tender announcers according to the fact that how broadly they define the candidates for the tender. One of them awaits the project applications with glad hands. They do not specify a minimum criteria for the organization size, registration date, the total of the balance sheet, achieved sales revenues, the number of employees or the number of successful tenders beforehand. These tenders are practically open for everyone who meets the formal requirements. Typical tenders are announced by the cooperation of the National Civil Fund program manager, the Sándor Werkele Fund, the Norwegian NGO Fund and the Youth Mobility Program-Youth Service, and lastly the National Cultural Fund program manager.

On the other hand the big tendering organizations try to narrow the range of possible candidates with objective criteria or quality indicators. In these tenders the applications have to pass several criteria (number of employees, income, the founding date of the organization) before they are considered as ready to be taken to the judges. Typically we can find these kinds of tenders in the EU related organizations, such as the ESF Ltd., Váti Ltd. and the National Employment Fund. Organizations mostly with a few, already successful tenders in their past, and the ones with big employee base are applying for the latter type of tenders.

It was important to make this clear before describing the results of the research, because the employees that took part in the interviews mostly saw either one or the other, based on who their employers are. Despite all of them gave their opinion about the other type of tendering and about the applying NGOs that they are used to.

5. Different types of applicant organizations

Based on the previous facts we can distinguish two types of applying organizations based on their motivations and the source of the searching strategy. There are some generally well-known high performance organizations that are called professional by my interviewees, and there are some big sized organizations which only go for tenders that can fund their core business, and are in the line of their strategic goals and financial situation.

On the other hand there is another layer (or group), where lots of “adventurer” organizations are trying to apply for the tenders. They are the ones that have a shoot at any tender that has at least a little – no matter how farfetched – connection is there to their core business. In several occasions their goal is purely self-serving or to simply gain some money for the personal needs of the head of the organization, only a few individual operate a single organization in these cases and so they have no civil goals to achieve at all.

I tried to make a difference between the characteristics of the two organizations based on the following criteria:

Table 1. The comparison of the professional and the amateur applicants

	“professional” organization	“adventurer” organization
Age and development	It is generally old, with sometimes more than 20 years of experience; its growing is continuous and it operates without any problems.	Mostly newly founded organizations, working in a hectic way, flaring up once and not working at all at another time; cyclical, they are seeking their paths.
Strategic awareness	There are written documents stating: the strategy, the vision and the mission, etc., and they use these on a daily basis.	There are usually no written documents, the ideas only exist in the founders’ mind, if they have written documents on the vision they do not use them.
Number and quality of employees	More and more paid employees with market aware salary, with conscious human resource strategy.	There are no employees or their employment is minimal and periodic. Mostly works with volunteers and enthusiastic amateurs.
Infrastructure, capital size, property	It has a permanent office with a huge total assets balance, with significant deposits, and property.	Has no office, minimal property, few and low valued assets. It has no significant deposits or savings.

Source: own construction

5.1. Lack of innovations

The contents of the tenders are usually following a routine of “operational purposes”. The organizations have been doing these activities for a long time. There are only a few innovative measures and attempts when applying for a tender. In this case we would call innovative the following: it has not been used in Hungary yet (but is a well-working process in other countries), pioneering (uses new methods to solve new type of problems), offers new solutions for problems, cooperates with other partners, adopts ideas from other sectors. Especially with higher value tenders, such as the EU support funds, the innovation is one of the most important criteria which gives up to 3-5 % of the total points that can be given for a tender application. The announcers of the tender programs are proposing the importance of the innovation for the civil organizations; however, they are not so keen on using this advice.

6. Non-governmental co-operations

NGOs are not cooperative with each other. If there is a partnership between them, it is typically interest based instead of being value or strategic based (or because it was compulsory to apply as a consortium). Larger organizations help each other with training programs, vehicles, capital funds or lend their employees to each other, etc. On the other hand they rarely help each other out if they are in a financial or tender situation. Although with the higher valued tenders it is also a criterion to have a strong and long time partnership with another organization. The arguments, the additional resources and the realized projects of such value and tradition based organizational cooperations are more successful than the interest based, ad hoc coalitions.

6.1. Hidden profit orientation

There are some NGOs that are profit oriented and appear as an economic operator in the market. They offer market type services and solutions for the market itself and apply for these kinds of tenders. Their profit orientation can be seen in their professional way of advertising, corporate identity elements and market protecting measures (threats against new organizations entering the market), product development issues, pricing habits and purchasing and licensing rights. They use all of these in their applications and projects since this is their natural

medium; however, the pursuit of public good, the will to act for others, the selfless involvement and the open sharing of the results are dying out from their projects.

7. The hardness of quantifying

NGOs do not like to quantify the extent, the size and the effects of their projects. They cannot or they do not dare to show the indicators, if they have to, they try to explain the differences later on as if they were not the ones committed them. There are several reasons for this: it is not in the culture and in the way of thinking that they can be accountable later on, because it is uncomfortable; they have to define the precise measurement, the evaluation and the tools and they have to support it with relevant documents, etc. Because of this the goals, the outcomes, the impacts and the processes are not quantified, and well-considered. Indicators are therefore poorly representing the organizations and later on they want to change it, because they have given unrealistic numbers, over or under measuring their real performance. Another problem is that they cannot make a difference between the project results and their long term effects. Even if they measure the results with some kind of indicators, they largely focus on the immediate outcomes and in very few cases they present the realistic, long term effects of the program of the organization.

7.1. Weak human resource planning

The projects take away resources from the life of the NGOs. Usually it is the same old group of volunteers that handle the new projects, even though they are still responsible to work with their original program on the same level they did so far. The result of this is: fatigue, mistakes, breaking down, slippage, in the worst cases they leave the organization, argue, search for internal enemies and even boycott the projects, etc. It would be worthwhile for the organization to plan the human resources of the projects beforehand, having in mind its culmination, congestion and dead ends.

7.2. Lack of experts

The NGOs cannot and do not want to ask professional outer experts to help in the project work. They should mostly ask: lawyers, accountants, technical inspectors, procurement experts, professional advisers, and PR professionals for help. However, they rather face the possibility of failure than let an outsider in the realization of their projects, or ask experienced experts for advice. Also there are times when they can simply just not afford to ask for help. In the end they misuse a share of the aid – unintentionally though – and they have to repay the amount, or the rest of the aid is withheld by the tender.

7.3. Two-sided publicity

The situation of the civil projects is uneven. From one side it is an opportunity for advertisement and information towards the population, local communities and the world. Therefore, organizations usually take the opportunity of it, so they post their logo, articles or links about their charity event. However, sometimes they do not succeed in choosing the most appropriate information channel for it. It occurs that they use the e-mailing system to reach such social layers, which do not even use computers; other times they would like to use a full-page advertisement or a prime time broadcasted news, whose costs largely exceed the realistic cost of achieving the target. On the other side there are problems with the internal communication within the organizations. Larger insight should be given into some specific contexts (eg.: who is the requested performer, how much does he earn, why exactly this

expert was delegated, did the project manager really travels that much, etc.), which the civil organizations do not tend to reveal at all, sometimes not even to the members of the project or to the member of the organizations. Therefore, it can occur that some projects take place in the life of the organization, although some of the management do not know about it; the supervisory board is subsequently informed about the problems, the inquisitive, away from the project members, is suspiciously monitored by the project member, trying to figure out why and what he is asking, what his aims are, etc.

8. Problematic sustainability

Sustainability can be hardly interpreted at the civil projects, as tenders are not about establishing equipments or investing into facilities, but a process going on in the project. When the project ends the activity ends, as well. The difficulty comes here because the achieved results (professional materials, training plans, etc.), trainings should be provided continuously, the office has to be maintained, fellow workers have to be employed invariably, so the subject and the result of the project should be made accessible even after the closing of the funding period, maybe up to 3 years. Most civil organizations are not prepared for these costs from their own revenue (if it exists) and are not able to finance these costs. There are the ones who really take the commitment, and there are those who mischievously take the commitment and declare about the fact that they can sustain the project, though there is only a few chance for it in reality. By the criticism of the content it can mean point losses, and in the sustainability period it can bring about financial sanctions.

9. Stable asset and equity

Civil organizations are under-capitalized, therefore, raising deductibles or advances of costs and sustaining liquidity result in problems even in the projects of professional social organizations. As civil organizations typically do not get loan from financial institutions, they cannot live on the given state guarantees and they can only count on their reserves or on occasional shareholder's loans. Therefore, even bigger organizations consider more thoroughly to hand in a tender in such a construction where the funding of the tender is insured by post-financing.

9.1. Weak financial reports

The weak point of the application reports is the financial report. In the case of most tenders it means corrections, refusal, arguing or partially holding back the supporting costs; which the civil organizations usually consider as unfair and disadvantaged for them. Often they feel that the project manager is captious, they are the heckler, the fault-finder one. However, on the other side the tenderer is bound to regulations by which they evaluate the financial reports.

10. The good financial manager

In a good tender project the financial manager is the stable point whilst it is imaginable that the project manager or the members of the staff may be exchanged. He is there from the beginning, he is involved in the elaboration of the budget, he clearly understands the documentary regulations and he can fulfill those, his opinion is requested by the accounting and the tendering questions, and they build on his knowledge on accounting, payroll, labor law, tax and employment policy. Finally, he will be the one who can provide a correct financial report synchronized with the professional one, underlined with attachments, documents, invoices. Where the financial leader is exchanged or is involved in the project,

usually "financial problems" (ie, liquidity problems, discards accounts, documentation deficiencies, unanswered questions, loss of coordination, etc.) arise during project implementation.

11. Solutions, researcher's suggestions for the future

In the final phase of the research the researcher summarizes his statements, concentrating on the main content, highlighting the major tendencies, consequences. Intrepid researchers undertake so as to stand up with ideas, development proposals at the end of their research report. I undertook these efforts, as describing only the facts and tendencies themselves will not result neither in real improvement nor in the situation to change. Therefore, I would like to demonstrate some thoughts, arguments, proposals considering the organizations and the tenderers, as well.

Proposals, ideas for the civil organizations

1. There is a need for a so called "tabula rasa" in the self-assessment and in the evaluation of the external and internal characteristic of the civil organizations. Organizations should examine more thoroughly and declare clearly why exactly they are a non-governmental organization, or they have to confess if they are not. So it has to be said if an NGO is not a real NGO, but a cover organization run by an interest group, or just a shadow organization. The question is who has to declare this. This can be done by the membership, the senior management, the board of trustees (if there is no conflict of interest), but the selecting can be made by the state itself (with less success).
2. Exercising, learning, teaching project management is absent from the younger generation. Therefore, it should be taught to them even at an early age. They should learn even at school how a little project works. Then it would be worth letting them try it in practice within the confines of a non-formal practice, so they could acquire the practice of it. There are several opportunities for this express purpose in childhood: school learning, activities in a class community association, activities of the student government at schools and at the universities, as well, unregistered local youth associations. The coordination of these activities is the object of the institutional syllabus or youth politics, as well.
3. NGOs should not entrust tender writing companies with carrying out their tender. These are specialized in business organizations, their prices are adjusted to the companies' bearing strength, neither they understand the conception of 'non-governmental' and its special characteristics (democratic internal membership, volunteers, lack of open source, non-profit orientation, etc.). Even if the material made by the tender writing company wins, they will leave the organization with the tender dossier. They usually do not take up the role of the project manager, or maybe at a very high price. If an NGO wants to entrust another party with writing the tender dossier anyway, it is wise to look for a helping hand from an NGO sector or to ask for help from a civil consulting company.
4. NGOs should become more open-minded and welcoming outwards, i. e. towards other sector's organizations, towards other NGOs in the area, towards external experts. It would be wise to visit county information and service centers more often where they are provided with trainings and professional advice (not only in project management topics), moreover, they should open towards the international best practice, which we could adapt later to our domestic market. Thereby the projects, programs could become more valuable.
5. It would be important for the project implementers to value themselves, their performance, and the achievement honestly at the closing period of a project. At this

part not only the achievement of the corporate indicators is unsure, but also revising the original aim is. Have we achieved it? If yes, at what price and with what amount have we deferred from our previous plans? Here we have the opportunity to evaluate the project from the aspect of finance, internal communication and cooperation. If we skip this part, if the membership of the organization cannot learn and cannot be proud of the achievement, then they will make mistakes again, which could be avoidable by the learning and self-assessment process.

6. The members of NGOs should not approach their own project on an emotional basis. It is needed to be handled rationally with the passion of understanding. No redeemer aims should be involved among the aims of the projects, just because of the presence of emotions. Carrying out a project is more effective if the people who are related to the target are realistic and have a sense of criticism.

Suggestions, ideas towards the tendering agent

7. Considering bigger volume tenders with major equity, the tender agencies should select the high level, worthy NGO tenders by the selections of two rounds. In the first round the weird, overcrowded, weak projects should fall out. The two-rounded assessment brings up the opportunity of observing the real operations. Therefore, it will be possible to visit the NGOs and its partners, asking for references from local associations, professionals from the sector, etc. In the second round not only the formal, written introductory document would be evaluated, but also the understanding of the real operation of the organizations would be explored. Therefore, at the final end of the process only the best organizations, only the best prepared tenders would earn the money.
8. Both the tender-announcing and the tender-handling organizations should come out of the shadow of the “official view” (which means I have the money so I decide, I ask for reports, corrections, etc.) and they should really practise the helper/service provider way of acting (helpful, available on the phone, information provider mailing system, internal forums, information days, open days, etc.) With this service provider approach – complying with the rules and regulations – the contributors could also cooperate with the NGOs easire than just sending warnings and sanctions to the members of the projects.

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Driving forces of development of society in a market economy

ELENA MONASTYRNAYA

Society is a set of individuals united by social and economic relations in the process of historical development. Needs are the main driving forces of its development. Aim of the research is an integrated study of the vital, social and economic needs as the main motivating factors of human activity. The well-known structure of vital and social human needs was proposed by the famous American scientist A. Maslow. In this paper the development of Maslow's ideas is presented. The needs of the human being with his different roles in society (as a consumer, customer, producer and seller of goods) were analyzed. Modern economics considers the movement of mass goods and financial flows which obey economic laws. Specific vital, social and economic needs of the individual are represented, usually indirectly, as the needs of economic players. In this paper the hierarchy of needs of producers as participants of market economy is developed. Complex research of motivating factors of human activity allowed us to develop the system of human needs.

Keywords: needs, Maslow's hierarchy of needs, socio-economic system, production

1. Introduction

Society is a set of people united by social and economic relations in the process of historical development. In order to understand the nature of these relations it is necessary to allocate permanent factors from diverse processes and phenomena that underline the existence of the human community.

Human beings, as biological creatures have a certain set of vital (life) needs, as members of a society social (information) needs, and at a certain stage of development economic needs are also formed. Meeting these needs is the main incentive of human activity, for an individual and for a community as a whole. The most important are the vital needs; without satisfying them human cannot exist as a biological creature. Economic relations are relationships between people which are based on the production, distribution, exchange and consumption of tangible and intangible benefits.

The objective of this paper is an integrated study of the vital, social and economic needs as the main motivating factor of human activity.

2. The concept of needs

The concept of needs is one of the most important interdisciplinary categories: it is widely used in sociological, psychological, economic and other sciences. Classical works of this topic are studies of famous American researchers – G. Murray and A. Maslow. (Murray 2007, Maslow 1943). Abraham Maslow, one of the founders of humanistic psychology, analyzed human needs, structured them and developed a hierarchy of needs, called *the Maslow's pyramid*. The well-known structure displays the full range of subjective (vital and social) needs of the individual from physiological needs to self-expression and self-actualization.

1. Physiological needs (food, cloth, etc.)
2. Safety (everyone needs to be safe)
3. Social needs (informational exchange, communications)
4. Esteem (social needs connected with the role in society)
5. Self-actualization (main principle – 'I Can', creativity)

But it is not enough, because a human is not only consuming any benefits, but also producing them. He is a producer and a consumer, a seller and a buyer. People interact in market conditions. Market is the mechanism of interaction of buyers and sellers on the basis of which the sales transactions are made. It is necessary to highlight some of the characteristic features of human behavior in society.

- Consumer is a market participant who satisfies his needs as well as having future needs which can be predicted or guessed.
- Producer is a market participant who produces goods or services to satisfy needs.
- Buyer – is a market participant who purchases goods and services to meet their current needs also having future needs which can be predicted or guessed.
- Seller – is a market participant who sells goods or services, also is able to guess or predict the future needs of buyers and consumers.

3. Needs of socio-economic system

To construct a structure of socio-economic needs it is necessary to analyze vital, social and economic aspects of humans' life, functions of people in the socio-economic system and the principles of their behavior in a market-oriented economy. *The hierarchy of biological, social, psychological and economic needs*, formed on the basis of the pyramid of Maslow, can be proposed at the following levels:

1. Basic human needs
2. Needs of social development
3. Needs of labor
4. Needs determined by the current preferences of consumers
5. Forecasted and formed needs

Level 1: Basic human needs are satisfied in every socio-economic system: food, information sharing, reproduction, sleep, safety. These basic needs can be correlated with the first three levels of Maslow's pyramid. This need belongs to the consumer. He cannot exist as a biological creature without satisfying them.

Level 2: At each stage of social development socio-economic needs have different materializations. Society sets rules and regularities which play the major role. But the person who rejects the rules can come back to the first level.

Level 3: The third level can be characterized as the human needs at work. Man is both a consumer and a producer. Since we consider man as a market participant (buyer – seller, producer – consumer), there are objective human needs at work - needs in the production of goods or services in order to sell them with personal benefits and subsequent satisfying own needs.

Level 4: At the next level is the desire to diversity. Preferences are given to producers, which better satisfies current interests. Particularly this need manifests itself after the basic needs are already met. The desire to diversity entails growing consumer interest in additional benefits and lets the increase of producer profits accordingly.

Level 5: Forecasted needs are the needs which become apparent in the process of social development, development of engineering and technology. The producer assures consumers of the need of production by assigning advantage to it. Each producer is largely interested in increasing profits. Another move – this is the formation of false needs, beliefs of the consumer – that goods are necessary. The stronger the belief of the buyer is, the greater is their profit.

4. Production needs

Maslow's pyramid and the pyramid of socio-economic needs characterize the human life and interaction between people in social and economic spheres. But this is not enough. Modern economics considers the movement of mass goods and financial flows which obey economic laws. Specific vital, social and economic needs of the individual represented, usually indirectly, as the needs of economic players (*North 1993*).

For the analysis of the totality of needs one more appearance must be marked – the needs of producers as participants of market economy. In order to highlight these needs and develop a system of hierarchy, it is necessary to analyze some economic laws and rules.

Analysis of the law of supply and demand helps to determine the following requirements:

1. Price of sales cannot be less than the costs of production. Therefore, there is a need of producing goods for sale at a price above its cost price.
2. The volume of output is limited by resources and production factors. With the increase of demand and sales the need of production increase appears.

A similar approach can be applied to analyze the theories of the highest level of generalization.

A famous American scientist Daniel Bell suggested the idea of forming a post-industrial society (*Bell 1973*). It is based on the hypothesis that at the present stage of development (which starts in the last third of the 20th century) science and knowledge is the main productive force.

At the post-industrial stage of development knowledge will determine the competitive advantages of national economies. Industrial production will lose its role. This theory is generally confirmed by the experience of the world economy over the past 30 years. The totality of the identified needs can be divided into several homogeneous groups.

The hypothesis about the structure of production requirements is:

1. Requirements of resources and factors of production, sufficient at least for a single production of a good or service.
2. Any producer requires demand on his product on the market.
3. After the demand for a good or service was identified, and possibility of its production was provided, depreciation of assets becomes the most important need.
4. Development of society, change of needs and increased demand make it essential to expand production ability.
5. In the conditions of forming of the modern post-industrial knowledge, the long-term competitive advantage of industries and national economies as a whole is determined. Therefore, the higher need is the production need for knowledge-based development.

Any human activity is aimed at achievement of certain results - satisfaction of certain needs. For the most successful solution to any problem a correct choice of motivation is required.

5. Conclusion

A producer and a seller who want to take their place at the market conditions of supply and demand, and to maximize profits, should consider basic human needs and take into account the desire of each buyer and consumer of self-actualization and esteem.

Any human activity is aimed at achievement of certain results - satisfaction of certain needs. For the most successful solution of any problem a correct choice of motivation is required.

The diversity of human needs can be represented as a set of socio-biological ('Maslow's pyramid') and socio-economic needs.

Study of needs as motivating factors of human activity and creating a system of incentives can be useful for most, successful achievement of certain goals.

- A system of vital, social and economic human needs is developed.
- A hierarchy of socio-economic human needs was grounded.

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„Who will (or should) inherit the earth?” The new challenge of Hungarian change and crisis management: issues of responsible succession of family businesses

ERZSÉBET NOSZKAY

According to EU statistics – an average figure in developed market economies – family entrepreneurs do not survive a generation shift. According to the French Chamber, in case of a seemingly planned and methodically executed company inheritance (from a retiring owner to another family member) every third company has not even survived the transfer after seven years. Also nearly 20% fall victim of the transfer process itself. This is certainly a serious loss of property with regard to the national wealth, and also a very serious financial loss to the affected families themselves, not to mention the emotional strain. The company inheritance’s pitfalls often appear as specific signs of crisis, thus crisis management experts are confronted by this problem in Hungary.

As the author is an expert in a specific field of consultancy, the present study does not scrutinise possible types of heredity (outputs), but rather its methodological aspects.

Keywords: family business, succession problems, responsible inheritance, inheritance as a process, pitfalls of inheritance, inheritance responsibility criteria

1. Introduction

This year’s report of the European Commission confirms that SMEs continue to constitute the spinal cord of the EU’s economy. In 2010 close to 20,8 million SME’s worked in the non-financial sector, 19,2 million of them were microenterprises that employed less than 10 people. The SMEs together covered more than the two third (87,5 million) of the total job opportunities in the EU’s private sector, as well as the 58,4% of the total gross value added (in contrast with the 43 000 large enterprises, that come out at only 0,2% of the EU’s enterprises)¹. Around 35% of the SME’s are specifically family businesses, naturally a bigger percent operates by including family members into the operation process². This is quite a considerable number to ascribe corresponding magnitude to family enterprises.

Unfortunately, we know only a little about the ratio of Hungarian family companies. According to the current state of the SMEs it is a fact, that 99% of the domestic enterprises form this sector. Small and medium enterprises produce 45% of the Hungarian GDP, while 60% of the domestic employees – more than 2 million people – are employed in this sector. Within the sector the so-called self-employer (with no other employees) or rather the rate of the so-called microenterprises, that make up the enterprises with 1-9 people is 95,1% of all of the active enterprises. (Possibly most of them are family companies).

We know also from the EU statistics, that – on average of the developed market economy – 30-35% of the family enterprises do not survive the generation shift. According to the French Chamber, in case of a seemingly planned and methodically executed company inheritance (from a retiring owner to another family member) every third company has not even survived the transfer after seven years. Also nearly 20% fall victim of the transfer process itself. This is certainly a serious loss of property with regard to the national wealth,

¹ For details see:

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1149&format=HTML&aged=0&language=HU&guiLanguage=en>, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

² For details see: http://ec.europa.eu/enterprise/policies/sme/files/craft/family_business/doc/familybusiness_study_en.pdf

and also a very serious financial loss to the affected families themselves, not to mention the emotional strain.

There are a plenty of background causes and difficulties of this huge "death toll", as a phenomenon, which arises in connection with the handover of family enterprises. One of the greatest problem is that this issue (would) require multilevel (financial, emotional and family dynamics) treatment. The difficulties of the handover often cause tension, because suddenly the company must be strengthened in such a way, that it intensifies family cohesion, to develop and boost company values of the management dynasty. They also have to be careful that the new 'head' of the family company (though (s)he surely has his or her own ideas) would be able to keep up – without any fault – with the success of the company. These difficulties often make the elderly company owner to stay on the top of the company for a longer time, than their age and/or their state of health would allow it.

It seems that we are going to meet more and more often with the issues of handover and heredity, concerning family enterprises (according to some guesses in Hungary this affects actually more than 150-200 thousand family enterprises), with more and more importance of two factors:

- Firstly, a big part of national enterprises (some of the most successful ones so far), get right now into the situation, that the company founders reach the pensioner age limit³.
- Secondly, in Hungary this issue only appears in contemporary literature only (*Filep–Szirmai* 2006), thus the appropriate competence does not exist or is not available. However in those countries, which are very well prepared in this topic and are supported by advisory network, family enterprises are probable to perish, despite of the previous preparation and planning.

The National Union of Fluctuation and Crisis Managers meets the problems of the heredity of family enterprises as producers of special crisis phenomena, and „getting into hot water” situations more often and often. As a matter of fact, this made us (the deputies of crisis handling profession) and personally me, not just as one of the deputies of this profession, but as a researcher and university tutor too, to study this issue a bit more profoundly.

In this study I take into account the difficulties and solution opportunities the problems of heredity in domestic family enterprises. I build upon the notes and experiments of collected partially by myself, partially by the 'VOE', and the experience of other specialists in other countries.

This study (after as a crisis manager I and the co-workers of the VOE met family companies in this situation) is concerned decisively with the problem situations of the heredity of family enterprises, their background factors, furthermore their possible solutions. I have to state, that my work contains in no way (cannot even contain) the completeness, though I try to collect the relative experiences for a while, building from the notes and experiments to reach the solution of my colleagues and of specialists of other countries. The cause of this decisively is that temporarily in Hungary the responsible heredity process of the family enterprises nowadays are not part of the entrepreneur culture unfortunately, the issue itself in our country – with its relative problems – is one of the least researched themes of all. Even entrepreneur culture did not want to solve the dilemmas of heredity. The company founder fathers (mothers) have just been facing these problems only in the past few years.

³ In time of the big company founder 'boom' of the regime change, one of the specialist magazines created the 'profile' of a typical Hungarian entrepreneur of those years: man, engineer, between 40-45. If this is true to most of the companies founded at that time, then it is just nowadays, that the problems concernint company transfers occur. Among the clients of VOE we have already met them, unfortunately for most of them transfer means an extremely serious crisis issue, especially because of the hasty, unplanned solutions.

2. What is family business and what makes a difference from „classical” businesses’ problems of the management of continuity

2.1. What is family business – what makes it a „family”?

First of all, it should be clear that a so-called "mature" concept in the determination of family businesses does not exist neither in Europe, nor elsewhere in the world. Yet, over the years, a criteria system was developed, which makes the attempt for a definition possible.

According to the definition of the European Commission of Enterprise and Industry, family business is a company in which one dominant factor is the property of ownership of the family, the active involvement of family members in the company's daily operation, and management is realized by an owner accepted/designated by the family⁴. Several generations of the family participate in the leadership as well as in the daily work. Furthermore - as the most important characteristic - the company's system of values are developed by the founding family member(s), and this value system (as it is adequate with the family's value system), becomes a stable, preserving and supportive factor for the company, as a leading tradition⁵.

Family businesses have many drawbacks, primarily that the three dimensions of material, emotional, and family dynamics are always present, and this should be managed by the one who is frequently not only the head of the family, but also that of the family business as well. In these three dimensions, it is certainly difficult to cope well, as business purposes (and interests arising there under) have to be reconciled with emotional adjustments, with paying attention to that neither the family as a unit, nor its system of relations should not be harmed.

Two issues may cause the biggest headache in particular one is that certain family members often prefer more consumption, while other family members prefer aggregation and the strengthening of the potential for development. This is sharpened when the family budget and the business budget is mixed. In these cases, instead of a family balance, instability (which even affects the company), distrust and "paranoid" manifestations (that spread to the company too) may appear. If such a situation appears, although the parent(s) (as often the founder(s) of the business), would require a proper succession, cannot achieve it, because it is not only hampered by the simple methodological mistakes of experience-transfer or errors in communication, but also by that there are missing elementary forms of cooperation, due to the "bad spirit". For this reason, sometimes it becomes impossible for the company to achieve the so-called economies of scale (Román 2002), and it is often forced to face the fact of inadequate production of income. Therefore, sooner or later, the company is not only difficult to transmit reasonably, but its possible sale makes it the victim of competitors, for whom the company's market value is more important than the company itself.

Of course, all this can be handled well, and in these cases we can be observers or – as members – beneficiaries of that the family firm basically has a very strong long-term view, related to sustainable development efforts. (In the long term goals, the intention to maintain the company to transmit it to the next generation(s) is involved as well.) Therefore, a strategic commitment and a strong organizational culture is consistently seen, which, as based on the family's accepted and practiced values - results in a stable financial position, with the transfer of knowledge between generations, the ability to react quickly to changes in market situations,

⁴ European Commission Enterprise and Industry 2009: Overview of Family–business–relevant issues: Research, networks, policy measures and Existing studies http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family_business_expert_group_report_en.pdf

⁵ Hamvas Béla says: "Tradition is not a system, but an order. Order may be recognized by constantly improving itself. System is organisation, system is an organism. The system crashes, when it proves to be faulty, and it is always so. . If somewhere in the system there is fault, it corrects itself. Tradition is not a system, but an order, in every form known to us, among the Chinese, the Hindus, the Hebrews, the Greeks. The system is not a closed and static building, but a direction and an open road." (Hamvas 2008, p. 182.)

lower administrative costs, lower levels of debt, good quality (because the family is interested in maintaining the reputation and customer satisfaction), etc. And last but not least, the performance is better than the accomplishment of non-family businesses, which is obviously related to the fact that family firms are more stable employers. (*Carlock–Ward 2006*).

2.2. *On the succession of family firms*

Because of these statements above, we may think that the lots of positive features of family businesses can provide a "protection" to a variety of problems! This is basically true in case of a "normal operation". Unfortunately, however, the situation can be easily reversed, as the question of inheritance comes to the fore. Why can it be?

In order to clearly understand this, it is worth briefly reviewing what basic types of succession, an advisor or researcher dealing with the problems of inheritance, may encounter. Reviewing the situation in Hungary, Judit Filep and Péter Szirmai (*Filep–Szirmai 2006*), states that first and foremost two basic types of family businesses should be distinguished, including:

- those in which there is a successor, to whom the company could be transmitted to;
- those in which there is no possible successor.

According the authors, the first type – in which there is a successor – can be further differentiated into subtypes existing in real life. In this case, the most basic and frequent situations are the following:

- a.) When the offspring has no intention to take over the company (this can be due to a number of reasons, and since they can vary greatly, we will not go into details).
- b.) When there are differences in views between the firm's head and a possible successor in connection with the various activities and continuation of the company, but it is also possible that the successor does not consider himself/herself appropriate for leadership.
- c.) When the leader of the company does not dare to pass the company to anyone, regardless of whether there is a suitable potential successor or not. The authors also mention it, and we, crisis managers more often meet the situation, so we underline, that there is a situation where the family firm's leader, noticing that it does not go to the "right direction" imagined by him, takes the control back. In fact, there is an even worse situation, when (s)he is actually forced to take back the company, as the company's market position and/or the continuation of its success is threatened.
- d.) When although there is a possible successor, but the current leader does not accept him/her as a candidate.

Without wishing to simplify things, we only consider the first two types as crisis generating situations:

- there is an offspring with adequate capacity and skills,
- the possible successor does not have adequate skills.

The question rightly arises, why do we not differentiate further these situations in depth? The explanation is twofold.

- First, a crisis manager will mostly encounter the problem of inheritance, if it causes a problem.

- Second, there is an interesting (though admittedly, there are not too many national cases) methodology-related issue. In particular, inheritance, independently from its background, goes along with virtually the same issues and complex problem solving in every cases, and the difference is only that in some firms - where those affected agree with each other – do it at a better rate, while others are finding it hard. (For this reason, it is important and necessary to start the process - in terms of the expected delivery time – several years earlier.) Therefore, according to our crisis management experience (and it appears that also according to more experienced ones in more developed countries, too), the transmission process – even in cases with seemingly relevant concepts and determined leaders – should be considered as a change management project close to crisis management. In Hungary the situation is exponentially true, as family firms having arrived to the need of transmission also have to cope with life cycle changes⁶.

The occurrence of the strictly considered change management process of the transmission – although not always handled consciously – is embedded with three additional “project” frameworks (Figure 1).

a.) Strengthening the family heritage. For the transmitters, perhaps one of the most serious issues is "justice". In other words in case there are several possible successors, transmission is intended to be done so, that it results in a fair division helping maturing to a dynasty. Even the honest efforts of the owner, unfortunately, very often results in the most brutal conflicts and serious injustices. Why?

On the one hand, because the company itself (thus family businesses as well) has its value as not primarily an asset, rather as a return-producing capital. So, the so-called ‘just splitting or trisecting it’ cannot be considered here, especially not if one (or more) of the children has a completely different career objective, poles apart from what the company could ever offer. On the other hand, the equitable distribution cannot be perfect even if all potential successors’ vision and career objectives may be tied to the company. In this case, creating fairness is facilitated, if the company has multi-profile business units. In an ideal situation (in which every successors are suitable for the role), units can be divided – but the question of the supreme leader still remains.

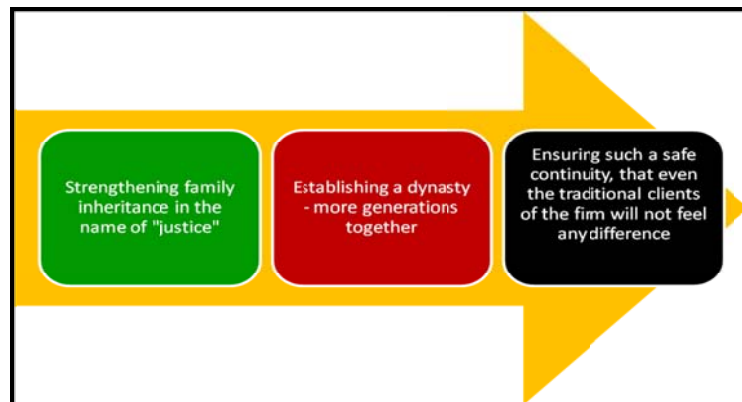
b) Establishing a "dynasty" (in developed market economies with multi-generational family businesses the goal is rather the strengthening of the existing dynasty). The foundations of dynasties very often provide possibility to acquire ownership or leadership in the company for not only close descendants, but also to a larger circle (e.g. cousins, or spouses, and their other relatives). This of course has more chance along further generations, and has its advantages (e.g. a talented but more distant relative’s involvement), but serious threats too.

c.) The company should consider the "security level" continuity despite the difficulties caused by the transfer in order to provide that even the most ‘insider’ clients do not perceive anything of the process. It is very difficult, because as seen in international statistics, there is no successor, who would not convert the company for some degree if taken over. The motivation for it is not primarily to make a differentiation from the transmitter (although sometimes it is a strong motivation), but in most cases the aim is to formulate his/her own management framework, to strengthen the conformity to the leader. Additionally, it is essentially true – in Hungary anyway – that the majority of family firms is about to reach the maturity of ‘manhood’, which may be the last chance

⁶ According to my earlier research (see eg. *Noszky* 1997), as well as my own and other consultants experience, companies established after the change of regime which has been "able to survive," after the years of the millennium reaches the point in its life cycle to transfer from the adolescent age into manhood (see *Adizes* 1992).

for the transfer to be successful. As often the important information of the business are (especially in the first generation ones) under the ‘manual control’ of the founder/ leader, sometimes in no more than handwriting or in personal notebooks. (My first project as a consultant in the process of a transmission included to solve the difficult situation in which one of my students had to take over the management of the family heritage company after the sudden death of his father. We were engaged with ‘seeing the clear picture’ in connection with the company (current orders, their jobs, the company's obligations, etc.) (for further details of this case, see *Noszkay 2009a* and *b*).

Figure 1. Factors embedded in the responsible succession process



Source: own construction

As the above problems should be treated simultaneously and equally well (otherwise it is threatened by not only the company's clients, but by the transfer act in itself), it is not surprising that often the it is difficult for the leader to end his/her active period at the same age in which people living from salaries are usually retired. This of course does not only often imply that elder leaders become more conservative, have difficulties in controlling and in making decisions, or do not initiate innovation, but unfortunately, sometimes with that transmission is omitted due to a serious illness or death. Of course, the question might arise, why would it be impossible to inherit in this case? It is actually possible, however, one or more parts of the inheritance process will be seriously impeded, and consequently it is the company's "family" nature at stake. (It is not a coincidence that the process is called transmission, and not inheritance as the latter is a single act.) These two situations resulting in radically different outcomes - although not the same – may bear the analogy of the difference between crisis and windup, implying that a crisis is hard to survive and to go through, but it is good that the company’s continuity is maintained. On the other hand, with the windup, even when the liquidation is successful (and for example, a similar organization with different ownership can be set up), it will not be the same company as it had been before.

3. The dilemmas of inheritance (responsible transmission) including the issues of solution

3.1. The basic question of inheritance, responsible transmission

The first serious dilemma of the issue of succession is the existence of an offspring. In this respect, although it makes a difference "subjectively" (from emotional aspects), but not objectively, whether the owner has a child or another relative who is appropriate for succession, but the owner does not intend to transfer the leadership to him/her (e.g. because the successor is not considered to be skilled, or due to fairness issues) or not. Owner exists in

the generation continuation of series of live children (or other relatives). In this case, selling the company is not the only option (although it is one of them). Thus, the company can be preserved in many ways:

- selling it;
- other forms of transfer (e.g. when the family's property is maintained, but no family member will lead the company, etc.).

This paper does not deal with the details of the sale, but when considering the transfer, independently from its form, it does matter how it happens. It is not a coincidence that in developed market economies, it is strongly recommended to the owners of companies to be transmitted to use the services of SME – specialized crisis management advisors (see e.g. *CCI de Bretagne* 2011).

3.2. Criteria of inheritance and responsible transmission

In the introduction, we have mentioned that in average, 30-35% of European family companies do not survive the change of generations. Our discussion above hopefully shed light on the factors that hinder the chances of survival of family businesses during the transfer and/or non-transfer. Probably the question of what can be the "secret" of those family businesses that are successful through generations is more intriguing now. Although, in Hungary, we are only at the beginning of this issue, since even those companies who make conscious preparation and undertake responsible transfer are at the beginning of this process (or have just get over it).

It is encouraging that the vice president of one of Hungary's family businesses interested in responsible transfer, Tamás Kürti has founded the Responsible Family Businesses Association of Hungary, which has 46 members representing family businesses. In other words, this means that despite the fact that in this country being an entrepreneur does not have a historic culture (because almost half a century of socialism has made it unknown for generations) – several companies that had only been 'tinkered' during the change of the political system have emerged into companies. Consequently, the future of companies that reached reputation on the market and a good brand with huge family sacrifices and innovation does matter, especially that they are also a part of the national wealth as well.

It is interesting to observe how a family company operated through several generations is becoming well known and very successful. What kinds of transfer techniques helped them, and how these were used?

Although – as only a little time has passed after the change of regime - we don't have too much experience about Hungarian family businesses, some examples provide the possibility to analyze them.

- On the one hand, there are a number of Hungarian family firms that were capable of rebuilding their capacities and regain their reputation interrupted by the war and socialism (although not always in the same form), the Zwack family being the most well known example. is.
- On the other hand, we can observe some of the known international family businesses – now regarded as multinationals – that started as very small companies, while today they are known all over the world being present in many countries. One of these – perhaps one of those with the most exciting 'fate' functional design – is Bosch, which was founded in 1886 by Robert Bosch at the age of 25, at that time employing only two people. Today, they have more than 300 subsidiaries and regional branch offices in 60 countries, 280 thousand employees worldwide, a trading partner network present in 150

countries with its products. The question arises, what is at the background of this seemingly continuous growth and success? It is not easy to find out the answer, as one of the characteristics of the company – as one of the testator's wishes as well – is a complete isolation from the general public. If you ask someone in the leadership of Bosch's success, the answer to just this: "... the secret of success lies in the continuity and humbleness."

Naturally, when trying to solve the secrets of family businesses like these, we can find several common characteristics.

Value systems that had been defined by the founders and are consistently carried forward.

Very interesting observations can be made in connection with the criteria for success when investigating the value systems and their changes or continuity at the really successful family businesses. What we can see is that they (e.g. Bosch, Zwack, Ford, etc.) do not or hardly change their professed value systems. Thus, almost all of these values become a tradition, that enforce and carry on organizational culture. We also observe that there are additional, so called 'incidental' values in these firms of which they do not speak about, but they are practiced (such as that of Bosch's standing off from media appearances, which obviously has its practical reasons). Nonetheless, sayings suggesting values are frequently suggestive, such as that of the relatively often quoted Robert Bosch as well: 'I don't pay good wages because I have a lot of money; I have a lot of money because I pay good wages'.

At least 3-5 years should be spent to deal with the change management project of the transfer.

This criterion is also one of the most important and acknowledged ones. It is likely, especially in Hungarian companies, that many owners consider this as a too long interval. However, on the basis of experiences from similar companies from developed market economies, if reconsidered, it is not at all an exaggeration. At least this time is needed to teach and coach the successor. On the one hand, in order to test the appropriateness of the candidate for the position, in particular from a values and ethics - moral point of view, on the other hand, it is needed to learn and practice, getting to know clients and suppliers, and being accepted by the members of the organization as well.

There is a need of an official (legally correct, deposited by a public notary) will - especially if the heir is not a member of the immediate family (e.g. not a child).

The legal arrangement is not the signal of distrust, but of the fact that the testator does not only have simple desires and dreams in his/her mind, but on the basis of organizing long years' experience, a system exists which can be carried forward. He/she believes that there is a system which has values and functions, that are stable and carries the factors for success, all of which are worthy of conservation and enhancement. The 'secret' of wills is not to be over-detailed and thus binding, but to provide a system of criteria and terms that carries the potential of a long term functioning. It is interesting to take a look at one of the details of Robert Bosch's testament having an eternal and moral content and carrying an indisputable responsibility 'I want to affect reducing all kinds of poverty, but also influence the moral, health and mental power of people'.

Legally ratified hard rules should be designed – particularly for the balance between the rights of ownership versus practicing decision making rights.

A company that is left behind in order, therefore properly institutionalized and capable of systematic operation (also supported by an appropriate will), is a kind of guarantee that it can be protected from the so-called high volatility. As often (especially if there had been several potential, self-proclaimed successors) it can protect the actual successor from the attempts of pressure of the dropped out ones. It is especially important even when although several heirs

participate in the governance of the company, but it is the responsibility of the new successor (new leader) to ensure that the company produces what clients expect and will not cease to be a good and reliable partner. This is not easy, because the new "king" is always exposed to new and often deliberate temptations and if a reliable operating system is inherited, it can serve as a long-term basis, relying on his/her leadership qualities and values left behind.

4. Summary –The most important steps of transfer

Transfer or inheritance – as mentioned above – is a longer process with responsible participants, it can even take 3–5 years to complete. Here I intend to summarise its most important steps on the basis of French professionals (*Les éditions des Chambres de Commerce et d'Industrie de Bretagne* (2010–2011), *Mellerio* 2011) relevant practical experience as well as our and colleagues' own experience. These are described as follows.

- Above all a basic and stable – relying on family traditions – value system should be determined, because this is one of the pillars of the transfer and will serve as a 'compass' to the successor.
- Transfer should be planned (to find and train the successor, to design the most profitable portfolio, to establish the long term and more stable financial situation, organizing participants into a team, etc.).
- Expertise should be found in due time (e.g. legal professionals or change management advisors experienced in family businesses) to help in developing and carrying out the plans.
- The company to be transferred should be hardened from a market-, legal-, financial- and human resource management point of view, and candidate(s) for the succession should be involved in this process. This is not simply needed in order to strengthen commitment, but also to get to know the company totally. As it is not a newly founded one, therefore, it has stable clients who expect continuity and a standard of reliability and quality, which they are used to.
- Everything should be done to strengthen those relationships that ensure healthy development – because this is the key to sustainable and innovative development. Successor(s) should be involved in this process and they need to understand that its importance so that they be prepared on a higher level of consciousness.
- And finally, some wise advice: after the entire transfer, the original owner should not participate in the affairs of the company (as the accustomed habits are the most difficult to change, otherwise it will be difficult not to interfere. Thus it is better to be engaged in a different kind of activity.

Figure 2. Most important steps of transfer



Source: own construction

4.1. Endnotes

According to the report of Price Waterhouse Coopers (*Price Waterhaus Coopers* 2011) in April, 2011, 67% of French executives share the opinion that their family business can get through the crisis easier. This is attributed to three main factors, including:

- Solidarity (protection and maintenance of organizational participants at all costs);
- Conservative leadership, avoiding very ambitious plans and hazards;
- Not enforcing the owners' interests at all costs.

The next example of a firm may serve as an instructive revealed during our research: The parents re-established a traditional handicraft company in 1990. (Even before World War II. the great-grandparents founded a company with the same profile, only it has been expropriated by the socialist state). The re-founders developed the firm, they combined traditional manual technology with excellent mechanical proprietary technologies, and the latter contributed significantly to the productivity, without compromising the specific character of the handicraft products. Although mechanization "rewrote" the descriptions of the technology of production but – being a food related company – the treasured old family recipes were saved. Thus was the old world flavour and forms have also been saved and again revealed. The company has been growing in popularity and became more valuable. (Finally they were exporting even to Germany.)

The parents led the company very well, and dreamed that one day the two children will carry on. The younger child has been interested in the firm since high school she spent all her free time in production. As time progressed, she did not only learned all the ins – and outs of the production she even made smaller technological innovations. The older child was not interested at all in the company and its technology. He almost tried to escape if the parents wanted to ask him for some minor tasks. (In the end – despite the parents will – secretly he applied for a university in another town in a completely different area of expertise, where he graduated from and started to work in this industry.) The parents were disappointed, because - being very conservative people are – they thought that the much older brother will take over from them the company leadership.

The parents though they found the younger sister suitable professionally - could not really be happy for her sake, they had little confidence in her leadership and management abilities. Yet in the end they have reluctantly accepted it, but were continuously delaying the transfer process. Unfortunately, the elderly head of the family suddenly became seriously ill. Then the elder brother began hinting that it would not be fair that just because he does not like the profession, the company, the only serious family fortune was inherited by his sister. The father agreed to it perfectly. Then the older brother asked appropriate professionals to define the value of the firm, and began demanding 50% of the legacy to pay him off, as he will not participate in business matters, but would like to start up another company in his line of business. The father - although based on emotional motives - promised it to him. The younger sister then was forced to look for loans. Unfortunately, banks did not give her a loan (if you think about it, there was not any warranty to give a loan on to), also a loan was not feasible either from family members or from friends. The father – though he felt sorry for the company – made a rapid, irresponsible and emotional decision for the sake of family peace. He sold the company to a customer – a really nice young couple – who promised to continue the company's operation, just where the old gentleman stopped (thus taking over the complete technology, etc) and even the younger girl can have a share in the company, in addition to working there and taking part in further development.

Unfortunately the father did not notice, that his strongest rival and competitor stood behind the couple, who soon took over the company (since the company meant nothing more

to him, than a 'market') immediately re-shaped it in accordance with his own technologies. Then he made the younger sister's position impossible, and when he offered her to buy-out her share of the company, she immediately jumped on the opportunity. The saddest of all is that the "irresponsible" father lived to see this sad outcome and was forced to face the consequences of his decision.

Very common is the fact that a large property has such an attraction for other family members, that internal "career" aspirations begin, which is very dangerous, because the interests appear in an emotional disguise, and may change family business decisions. Broadening the company's dynasty has specific management rules.

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Lessons from fish market sellers, cheese-seeking mice and moving penguins – building business short stories into management education

ÁRPÁD PAPP-VÁRY

Tales are short and business people have less and less time. Tales carry a universal moral, while managers look for basic principles. Tales are simple, and simplification is essential in business world. Good always wins in tales, while workers in the corporate world are success-oriented. In addition, the smallest one always wins in tales, and we all need such motivating examples. It is no wonder that an increasing number of short story business books (that also can be read during a short flight or train) has been published in the past decade.

Before we would sneer at the genre, it is worth seeing who the authors are – they include people with considerable scientific record such as Kotter–Rathgeber 2007, Blanchard–Johnson 2010, Johnson 2001, Lundin et al 2000.

Moreover, John P. Kotter, Professor at Harvard University has sold more of this book of his than any other. As he writes in the introduction of his book titled „Our Iceberg is Melting! – Changing and Succeeding Under Any Conditions”, a story of a penguin colony, short stories can be highly effective because they make serious, complicated and frightening ideas clear and comprehensible. Short stories are easy to remember, in spite of the vast amount of information we are bombarded with everyday – just to be forgotten by the next day. Short stories urge us to think, teach us important lessons, and stimulate everyone (young and old alike) to use the lessons drawn. If one thinks that an illustrated fun story is only for children, s/he will soon realize that this book is about real life problems which may concern almost everyone working in any sort of organization.

Therefore the present study argues that it would be important to incorporate short stories into management education since they possess advantages that classical study books and specialized textbooks do not. Short stories are short, exciting and easy to abstract, with advice that can be applied immediately. Furthermore, they are extremely inspiring.

Keywords: management education, short story, inspiration

1. Introduction

The present study summarizes the experiences of the most successful business short stories and a critical piece, a parody of one of them. (Blanchard–Johnson 1981, Brown 2000, Kotter–Rathgeber 2006, Lechter–Reid 2009, Lundin et al 2000, Johnson 1998).

Let us see these short stories, the provided management propositions, and the ways they can be built into education.

2. The formula of success

The majority of tales aim to explore universal morals. Such an example is „Three Feet from Gold”, a book by Sharon L. Lechter and Greg S. Reid. The title of the book is a reference to a story in „Think and Grow Rich”, a work by Napoleon Hill. Namely, this book does nothing else but copy what Napoleon Hill, a classic of motivation literature did just one hundred years ago; that is, it creates the formula of success from examples of successful people. Hill was twenty-five years old when he got the opportunity to make an interview with Andrew Carnegie, the richest American at the time. He provided Hill with a letter of recommendation

with which he could visit the five hundred most successful businessmen, politicians, scientists and clerical figures.

This time the protagonist of „Three Feet from Gold”, who incidentally had his own little marketing company according to the book, gets his letter of recommendation from the Napoleon Hill Foundation. The story features several successful people such as Truett Cathy, founder of the Chick-fil-A fast food chain, Mike Helton, president of the Nascar stock car races, boxing world champion Evander Holyfield, Frank Maguire, founder of Fedex Worldwide, Lauren Nelson, Miss America in 2007, Bob Proctor, author of „You Were Born Rich”, and so on. All of them give the character a great deal of advice, who then creates his formula of success accordingly:

„Success = ((P + T) x A x A) + F in which

P = Passion

T = Talent

A = Action

A = Association (that is, what is the field of your action)

F = Faith”.

3. Management in 1 minute

Two acknowledged experts with academic degrees, Spencer Johnson, PhD and Ken Blanchard, PhD are the authors of „The One Minute Manager”, which reached the number one spot of the New York Times bestseller list at the time. The book was regarded as the most unusual piece on the bestseller list, and it is no wonder because „The One Minute Manager” was published back in 1981, well before such books would have flooded the market.

Similarly to the book presented above, this story is about a young man looking for happiness. He hears about an outstanding manager from whom he could learn a lot. To his great surprise the manager always finds the time to see him – and this is a recurring motive in short stories as good people such as tutors always find the time.

When they first meet, the manager points out that he is the „one minute manager” who can bring forth significant results out of people within quite a little time. Then he gets the young man acquainted with five of his subordinates, who tell him about the methods of the manager that they themselves already use.

As it turns out, the three secrets of one-minute management are:

- one-minute goals
- one-minute praisings
- one-minute reprimands.

All of them certainly have their own rules, which are also summarized in the book, each in a page. In fact, we even see a flowchart, which lists exactly when and what a good manager should do.

4. Lessons from fish market sellers

Another story, a book titled „FISH!”, has become so popular that a whole business model was built around it, from seminars through speeches and films to special programmes.

Several managers may feel sympathy for the protagonist lady, Mary Jane Ramirez: she becomes a supervisor on the third floor, where her colleagues are lazy and pretentious zombies – slow, dull and repulsive. As Mary Jane explains, the energy level around her is equal to zero and she calls this a „toxic energy dump”.

For quite a while she does not even know how to deal with them, until she visits the market at Pike Place. To her shock in a positive sense, she sees a fish seller whose all workers do their job happily, and shoppers from the surrounding office buildings flock in great numbers.

Then the fish seller teaches her four rules:

1. The right attitude – We can always choose how we do our work, even if we often cannot choose the job itself.
2. Playfulness – Enjoy work which is boring and tiring for others.
3. Make the day – Involve our clients creatively.
4. Presence – We do not fantasize or make phone calls; we focus on the client completely.

The manager passes on the rules to his colleagues on the third floor, and he even prescribes them a compulsory visit to the fish market. Based on their experiences the colleagues then organize a special day, when they present how they can incorporate the ideas into their own work.

The inspiration of the story actually came from Pike Place Market, where one of the authors, John Cristensen recorded a short video, then wrote this Wall Street Journal Business bestseller with co-authors Harry Paul and Stephen C. Lundin, PhD.

5. The change management of penguins

Another bestseller, John P. Kotter's „Our Iceberg is Melting!“ is a book explaining change management through the story of a penguin colony. The Harvard Business School professor has also written several „classic“ textbooks, of which *Sense of Urgency* (Kotter 2009) and *Leading Change* (Kotter 1999) have also been published in Hungarian.

As a matter of fact, „Our Iceberg is Melting!“ provides an essence of these books in a shorter form, with plenty of pictures. But is not the only reason why it has become a bestseller: everyone can identify with the story of the penguins and notice his/her organization in it.

In the tale Fred notices that the iceberg where they have always lived may fall into pieces. But he is not in the situation to make any statement, or tell others what to do. He is not one of the colony leaders. However, he finds an ally in the Leadership Council and with her help changes start to take place in their home.

If the parallel with humans is not clear enough, it is reconfirmed from time to time in the story. The penguin called Professor is electrified and spends the whole morning preparing a PowerPoint presentation of about 97 slides, just to let Louis use it to present their prospects for the future. The penguins also create slogans that can be written on ice posters. The story points out that the culture in penguin colonies changes just as slowly as in human ones.

When Louis, the head penguin summarizes the story at the end of the book, we actually see a reoccurrence of the 8-step change management model already seen in Kotter's other titles: He explains how Fred has noticed that the iceberg was melting, then 1. how they have created a sense of danger in the colony, in order to tackle a difficult problem; 2. how they have formed a carefully selected group to manage change; 3. how they have found vision for the future that could be realized; 4. how they have communicated this vision to the others to make them understand and accept it; 5. how they have overcome as many obstacles as possible; 6. they have quickly achieved some sort of victory; 7. they have continued working until they managed to lay solid foundations for their new way of life; and finally 8. they have made sure that changes would not be overcome by stubborn, deeply ingrained traditions.

The head penguin also adds that the most important change of all is that so many colony members have become less and less worried about changes, learned the concrete steps that

were necessary to adapt to the new circumstances, and are now able to cooperate in order to move towards a better future.

It is obvious that the moral of the penguins' story is aimed at people. As Kotter and Rathgeber explains at the end of their book, short stories may be entertaining, but their power – just as in the penguin story – lies in the fact that they help us behave smarter: production is more effective, results are better, confusion is smaller, we see less stress, and the feeling that we keep things under control is stronger because we understand what is happening around us.

Some people have a way of thinking that enables them to process our tale about penguins automatically, notice the smart methods used by birds, re-think their personal experiences in the light of these methods, and see their opportunities regarding future. But everyone, even these people may profit more from the story if they reconsider and discuss it more consciously.

From software developers to managers, from housewives to clergymen, from high school students to pensioners many types of people have used the story of the penguins to more easily achieve what they want and what their companies or organizations need. The process can be successfully adapted to our own circumstances, too.

6. Cheese-seeking mice

However, if we are looking for the most successful business short story, it is probably not else but „Who Moved My Cheese?“ written by Spencer Johnson, mentioned above. The book was published in 1998, when all businessmen were occupied with change management, thus the subtitle „An Amazing Way to Deal with Change in Your Work and in Your Life“ hit the bull's eye. It soon made the New York Times bestseller list, and stayed there for five years! It was translated into 42 languages and sold in 23 million copies.

In the book we can follow the story of two mice, Sniff and Scurry, and two humans, Hem and Haw, who are looking for cheese in a maze. Of course the cheese is symbolic: it is the metaphor of all we can wish for in life, be it a job, a relationship, money, a nice house, freedom, health, acknowledgement, the peace of mind, or any kind of activity such as jogging or golf. The maze in the story symbolizes the space where we strive to achieve our aims most of the time.

The metaphorical story in brief: the two mice and two humans find a cheese in cheese storehouse S. The humans get lazy after a while, and when they find no cheese in the place, collapse. While Hem does not do anything, Haw, however slowly, gets himself together and starts to search for another cheese. Then he remembers the times when he had felt best in the maze – always when he progressed. From that moment he only concentrates on what he could win if he went ahead, and never on what he could lose. After he visualizes his aim, that is, to find a new cheese, he manages to get the cheese. However though, Haw does not manage to mobilize Hem, who explains that he does not believe he would like the taste of the New Cheese, because it is just not what he is used to. This symbolizes that most people stick to the status quo.

Nevertheless, Haw summarizes his most important experiences, which could be the favourite of change managers. For example: „Change happens. They keep moving the cheese.“ „Anticipate change. Get ready for the cheese to move“, and „Adapt to change quickly. The quicker you let go of old cheese, the sooner you can enjoy new cheese“.

Then, at the end of the book, the story-teller of the tale discusses with his friends this story of two mice and two humans, and draws further conclusions. He realizes that maybe it would be worth to change the way he works instead of changing his workplace, and an organization or a group of people is only able to change if a sufficient number of its members change.

Last but not least, the work has become the core of an entire „marketing machine”: they created a training programme based on it, it was put on film, and the author has also written versions for children and teenagers.

7. How seriously can they be taken?

As business short stories gained popularity, their critics have also appeared, arguing that the whole thing is humbug. „Who Moved My Cheese?” got its own parody titled „Who Cut the Cheese?, A Cutting-Edge Way of Surviving Change by Shifting the Blame”. In the latter book we can also follow a story of four characters (two rats: Whiff and Ditch, and two puny people: Duck and Cover) searching for cheese.

As the promotional description of the book explains, readers should learn from the uncrowned king of career advisors, whose slogan – all profitable jobs can be learned during a commercial break – has inspired millions of middle-level managers to make a fool of themselves during weekend business training programmes focusing on motivation. The motto of the author, Mason Brown, J.D, states that the 21st century revolution of organizational theory is how to avoid changes by shifting the blame on others. He also adds that fortunately, however big the problem is, one can always find someone to blame for it as dupes are always there.

8. Summary: incorporating business short stories into management education

No matter how much criticism we see, most of these books can be well incorporated into management education programmes. Experiences also show that students are grateful for it because educative short stories usually communicate the same information as textbooks, but in a much more interesting and compact form.

It is also much easier to make an abstract of such books. It is true that they are focused on only one or a couple of basic notions, and do not contain as much information as technical books or textbooks. However, the most important point is not the amount of knowledge, but the possibility that the morals of the books will become a part of the students’ way of thinking, and the stories will help them gain inspiration and motivation.

Of course this all can be seen and measured in the long term. It is for sure that the teachers of the Budapest College of Communication, Business and Arts (BKF) Marketing Institute do their best to be in the vanguard of applying new educational methods. Among others, this effort is also demonstrated by the following publications: (*Dér* 2010, *Kunsági–Varsányi* 2009, *Kunsági–Varsányi* 2011, *Papp–Váry* 2010, *Rekettye–Papp–Váry* 2010).

We hope that the present study will be a useful part of the series, and will hopefully serve as some inspiration for both students and instructors of management as a subject.

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The examination of managerial processes of civic organizations

ANITA PIEROG – GYÖRGY NORBERT SZABADOS

Management becomes more and more highlighted nowadays. It is a result of a dynamic development and now management science includes different kinds of analysis. A functional aspect is well-known in this discipline, and in its framework the Institute of Management and Labour Sciences at the the University of Debrecen has worked out its private research program, which is called “The functional examination of corporate management”. We have carried out diverse examinations in the framework, the authors of this article are mainly specialized in the study of the management of civic organizations. Researches were started in 2009. Currently 66 thousands of nonprofit organizations are registered nationally. We have focused on classic civic organizations from inside, these include foundations and associations, whose ratio among the nonprofit organization is about two third. Though their economic importance is undisputed, still little information is known about their managerial characteristics. Some organizations are really successful, others vegetate, and many organization only exist formally, without real operation. We have examined general managerial functions and within that we also have studied the field of managerial operations: planning, decision making, organization and control. The subject of the research was the operating of the civic organizations of Hajdú-Bihar county, we have taken sample of civic managers and carried out a questionnaire survey. Results show that many managerial functions are incompletely fulfilled, among which the most important managerial task was the subject of organization. According to managers, it is really hard to plan for more than a year in this sphere. Considering decision making, the managers examined mainly decide by their private experiences. Although organizing the managerial tasks equally influence all tasks, still the organization of corporate management was emphasized by managers. Examining the importance and the process of control, we have found that those set objectives which were defined and registered at the formation were primarily emphasized, and these are mainly attended by the managers.

Keywords: management, managerial tasks, functionalism, nonprofit, civic sphere, Hajdú-Bihar county

1. Introduction

“People have been dealing with the questions of management for thousands of years now, this is hardly understandable that we still know so little about the subject of which so many people have written” (Bennis–Handy 1985).

In the 21st century managers have to meet almost constantly changing conditions, which means great challenge for them. The job of the managers is really complicated and multiple, sometimes hard to fight with the challenges and it is quite frequently not possible alone. The composition and the definition of managerial task and its differentiation are important elements of the managerial science. Management is such an activity which is often hardly noticed in human work, everyday economic and social processes. For thousands and hundreds of years, questions of organization, direction of labour and productional activity were not separated from the specific technical knowledge of each profession. The view of management was mainly focused on the goverment and dominant affecting problems of the church, the army and the state. Managerial questions of the organization and the direction of human labour were only highlighted in the past decade (Berde 2005).

Managerial science was formed at the beginning of the 20th century. The first management related literature was the work of Frederick W. Taylor. His “Shop management – 1903” “The principles of scientific management – 1911” meant the establishment and development of a new science within economic sciences. After the works and experiences written by many practicing managers, management became a well-known and accepted discipline. Different managerial schools were established in America and in Europe, the continents’ typical development tendencies, forms are characterizing factors of all individual schools. Management also influenced many fields of life, and the rules revealed in the organization of operations were tried to be applied also to the fields of service, educational and health care sectors. After the examinations of the management of global, large scale organizations, more and more frequently small and middle enterprises and organizations are also studied from the point of view of functional examinations.

2. Functionalism in management

The definition of managerial tasks, the reveal of factors influencing task realization is the prime objective of the science of management. The task oriented thinking, the so called functionalism, is not a novel aspect of the scientific approaches. Functional approach also appeared in the first managerial literatures. The representatives of the classic school were the first to express and define the classification of tasks. This view also appeared later, in the 80s, repeatedly. This second period is called neofunctionalism by the scientists of sociology and psychology (*Andorka 2000*). Those approaches, which refer to the function of the phenomena at their explanation, are called functional approach in science. According to functional social researches, every aspect of a society (institutions, roles, norms, behaviour) serve a purpose (*Morel 2000*). This may also be referred to organizations, since function equally means operation, activity, task, position and role. *Torgersen–Weinstock (1979)* consider functionalism a managerial trend, the objective of which is to reveal and define the prime task of the managers. Followers of this theory suggest that managerial functions may be considered identical and constant in different types of organizations. Tasks may be considered permanent, still the ratio of the importance of diverse tasks differs according to the personality of the manager. This trend tries to describe and characterize the most important functions in their examples, and later also to reveal and to define how these functions may be administered successfully.

Bases of functionalism may be identified in the American managerial theories and thinking moreover, in the development characteristics. A typical organizational development cannot be identified in the American territories compared to the European conditions. As a result of the economic opportunities and the fast development trends in America, a considerably large corporate base, including large number and scale corporates, also meant many chances. Managers of these types of organizations did not participate personally in the operation of their corporates (*Marosi 1988*). Those employees were trusted by the owners to manage the organizational activities, the most important managerial tasks were the most effective and efficient operations. As a result, the managerial and the owner layers became separated, and owners did not care about the managerial skills and the potentials of their employees, but they only cared about the results (mainly from a financial aspect) of the corporate operation. Managerial education separated from the different vocational educations and soon became a private profession (*Bába–Berde 2010*). From the American way of thinking it is obvious that almost everyone has the chance to become a manager, who studies management as a profession. The democracy of this thinking is originated from the view that successful meeting of diverse task requires a different knowledge, preparation and skill. Almost everyone can perform some managerial tasks at a higher level, but it is really hard to find such a person who can meet all expectations without problems. This way of thinking,

which is a result of the American development, is called “functional democratism” (Berde 2007). Functional, since it defines expected managerial characteristics from the study of managerial tasks. It is also democratic, since the different types of managerial tasks do not mean that our suitability is determined by inborn personal skills and characteristics, and our chance to become a manager, but our knowledge and meeting professional expectations affluence that. Another way of thinking is also widespread in the science of management which denies this kind of suitability and conformity. It suggests that managerial skill is a talent which is inborn and it cannot be learnt.

Many people many times tried to define managerial tasks and functions. Dobák (1991) originates the functional approach from Fayol (1916). According to Fayol (1916), the prime compounds of management are the followings: planning, organizing, direct direction, coordination and control. Later, these functions were referred to as partial functions or managerial subfunctions in the management literatures. More and more novel functions are identified by later researchers. Some classifications are also identified, where 8–10 basic managerial functions are mentioned, and more than 100 different sub-functions are defined (Berde 2007). Others, beside the classic functions, highlight specific, further tasks such as reporting, performance appraisal, government practice, hazard and danger protection (Angyal 1999). The classification and the structure of tasks are also special managerial tasks (Berki–Berde 1999). Dienesné (2000) qualified the specific tasks of human resource management, such as evaluation of positions, planning, performance appraisal and human resource development, as basic managerial tasks.

Berde (2000) suggests the analysis of the functional managerial activities from 3 prime aspects: corporate management, human resource management and process management. In the framework of process management, he deals with planning, decision making, decision realization, provisions, organization, logistic management, control, quality management, time management and safety management. Processes may not be considered as real productional phases, but the logic sequence and the built up of managerial tasks, where this sequence must not be changed. This is also the way we interpret the management of processes. Of the mentioned functions, we have examined the processes of planning, decision making, organization and control at the examples of civic organizations.

3. Subject and method of the research

We have carried out our researches among managers of civic organizations of Hajdú-Bihar county. First, it is vital to define the term of civic organization. Nationally and internationally many approaches are known as definitions in the professional literature, equally for nonprofit and civic organizations. Unfortunately, there is not an obvious and integrated definition for the sphere. This is why we try to describe what we consider nonprofit and civic organization.

Nonprofit organizations may be divided into 3 types: classic civic organizations are associations and private foundations; advocacy organizations include public bodies and labour unions, professional employer interest bodies and unions, while other nonprofit organizations include public foundations and nonprofit ventures (Nagy–Sebestény 2009).

Civic society is not the same as nonprofit society, since there are not civic initiated nonprofit organizations either, such as governmentally founded and/or governmentally controlled nonprofit organizations. Legally classified, the nonprofit sector is constituted by certain organizations, such as foundations, associations, nonprofit organizations, public bodies and public foundations¹. Financial distributors, suppliers (such as application announcers) sometimes strictly define who they consider civic organizations among the nonprofit organizations.

¹ www.policy.hu/flora/miacivilszfera.htm.

The nonprofit category is wider, it is considered to be larger, it includes civic organizations, moreover, it also includes nonprofit ventures. This is further justified by the report of the Nonprofit Kutatócsoport Egyesület, where they declare that classic civic organizations are the most widespread forms, they are private foundations and associations and they represent 87 % of all the nonprofit organizations (Baranyi et al 2003). This is the reason why we have only focused only on these forms. The research field was Hajdú-Bihar county. 72 settlements of the county have registered civic organizations, the number of which exceed 3400². We started our researches in 2009, it included 2 surveys, and interviewed more than 100 managers of civic organizations about managerial characteristics. One research was carried out by the support of Magyary Zoltán Felsőoktatási Közalapítvány (Magyary Zoltán Higher Educational Public Foundation), the title of the applicational program was “The management of nonprofit organizations, managerial characteristics and the relationship between the professional technical direction and effectiveness”. The other includes researches of the TDK – Scientific Student Conference – dissertation, the title of which “The functional examination of decision making among civic organizations”.

We have carried our researches in the framework of the research program “The functional examination of corporate management”, which was developed by the Institute of Management and Labour Sciences at the University of Debrecen. At the development of the structure of the research program, managerial tasks, as subjects to be studied, were defined by the classification of Donnelly et al (1992).

Table 1. The functional examination of corporate management

1. Corporate management examinations	2. Human resource management examinations	3. Process management examinations
1.1. Organizational forms and managerial tasks	2.1. Motivation	3.1 Planning, as a managerial function
1.2. Organizational development	2.2. Conflict management	3.2. Decision making
1.3. Organizational communication	2.3. Human resource planning, organization	3.3. Decision realization, provisions
1.4. Information management	2.4. Labour selection	3.4. Organization
1.5. Corporate culture	2.5. Competence examinations	3.5. Logistic management
1.6. Group management	2.6. Performance appraisal	3.6. Control
1.7. Managerial structure and hierarchy examinations	2.7. Human resources development	3.7. Quality management
1.8. Change management	2.8. Carreer management	3.8. Time management
		3.9. Safety management

Source: Berde 2006.

Table 1 shows the structural built-up and moduls of the research program. Modular built-up is typical of this research program, which analyses the complex managerial tasks up to the level of each function. Changes of managerial problems examined may be defined in their processes. However, specific parts may be handled as private units, through the systematic framework of the whole. Structure may be extended, since all of its methods can be interpreted and applied to other territories. These subjects may be broken into further sub- and partial subjects according to the objectives, target groups and questions examined. This structure is also not suitable for the more concrete and deeper exploration, but it also enables the incorporation of research results into the results of sub- and partial subjects, which are structured in a hierarchy (Juhász 2004). Considering the subjects examined, not only this extension and precise focus are typical. Owing to the structure, this nature may also be interpreted horizontally (Dajnoki 2006).

² <http://www.birosag.hu/engine.aspx?page=tarsszervsearch>.

Of the research methods, this program mainly applies observation, questionnaire survey and deep interviews.

In this article we introduce the most important results of two larger examinations. In the framework of these we have carried out questionnaire survey among managers of civic organizations, its subjects marked in Table 1. We have selected the four managerial tasks, since we supposed that these may be interpreted and realized in this sphere by our experiences.

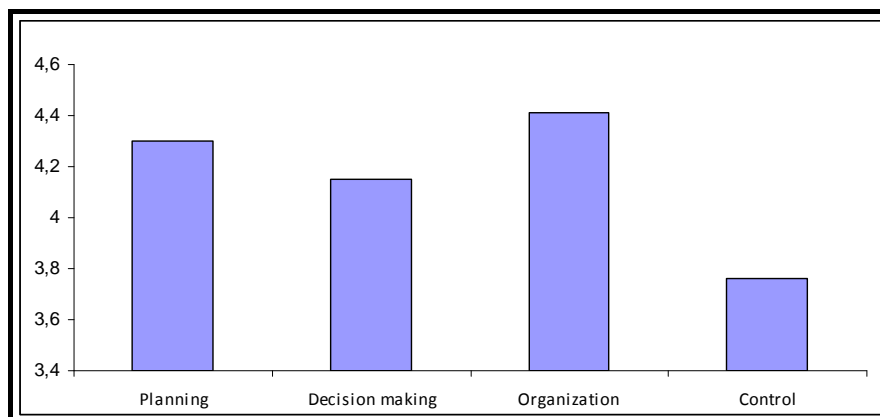
4. Results

During the researches many questions in relations with all managerial functions were asked. However, answers for the most important managerial questions of the two researches are introduced. This is why results are introduced only partially. Of the managerial process tasks of the institutional research program, planning, decision making, organization and the control were those fields which belong to the subject of the research. In the following we introduce by this logic sequence what results we have achieved by the survey.

4.1. Managerial tasks

First, we have made a comparative analysis of managerial tasks examined. Results are introduced in Figure 1.

Figure 1. The importance of managerial tasks



Source: own construction 2010.

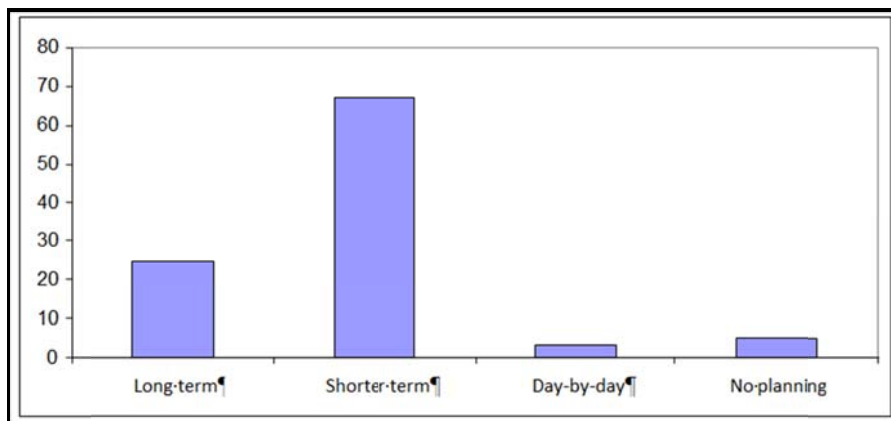
Answers indicate that managerial tasks examined are considered almost equally important by the respondents (Figure 1). The least important task is control (3,76), the most important task is organization (4,41). Decision making was qualified by 4,15, still planning received 4,29 points from the managers. Results of the comparative analysis suggest that differences are not so explicit, and overallly the most important process task is organization by the interviewed managers. Later, at the examination of organizational tasks, we will see that a dual evaluation and an explanation exist in the evaluation of the managers. Corporate organization and process realization related managerial tasks are summarized. This outstanding evaluation is obviously a result of that. Considering future examinations, this two managerial functions should be divided.

4.2. Planning

Planning means the selection of objectives, strategies and methods, moreover, the definition of programs and approaches to achieve overall or partial corporate objectives (Fayol 1984).

Corporate planning is one of the most fundamental managerial tasks. Its importance is further justified by the predictability and sustainability of the corporate operation. In the operation of civic organizations, similarly to the profit organizations, planning is also important. Considering current conditions quite often the question arises how long and for what period we can plan in the sphere. In this survey we have examined what managerial practice indicates in relations with the planning length during operation. Results are indicated in Figure 2. We have defined three intervals at the examination of the planning term. Long term planning means possibility for more than a year. Shorter term means a year or shorter period of planning. Planning as a daily activity is defined by day-by-day planning. No planning means that the managers of civic organizations react to changes spontaneously and organize tasks the same way.

Figure 2. The evaluation of planning terms



Source: own construction 2010.

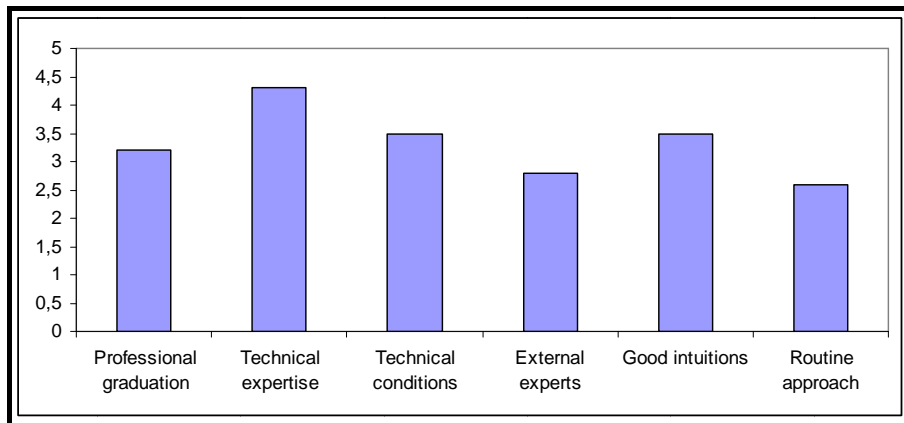
Of the results we may declare that managers examined consider planning to be executable only in shorter terms. Only one quarter of the respondents consider that it is possible to plan for a longer term (25%). Shorter term planning is more typical in the sector, approximately 67% of the respondents stated that they can plan for a one- year period, so the operation of the organization may be estimated for a year. Only few respondents marked a shorter term planning possibility and together with the few who indicated that planning is not possible in the sphere. Summarizing it all, we have revealed a tendency that civic managers mainly plan for a year or less period and calculate possibilities within.

4.3. Decision making

“Decision is the purposeful selection beside given circumstances of the actional possibilities, where variations to act are revealed as activity options in the decision preventive phase of decision processes.” (Kindler 1991).

Decision is a basic element of the managerial process and means the selection of realization alternatives. We have conducted the decisional process by professional literary suggestions. Decisional suitability usually includes many skills and competences, moreover, conditions, some are of human, others are of environmental, or of technical nature. In the survey we listed those answers to the questions, which were factors-defined by the professional literatures, and were the most fundamental ones at the decision making. (Figure 3).

Figure 3. Conditions for the decision making



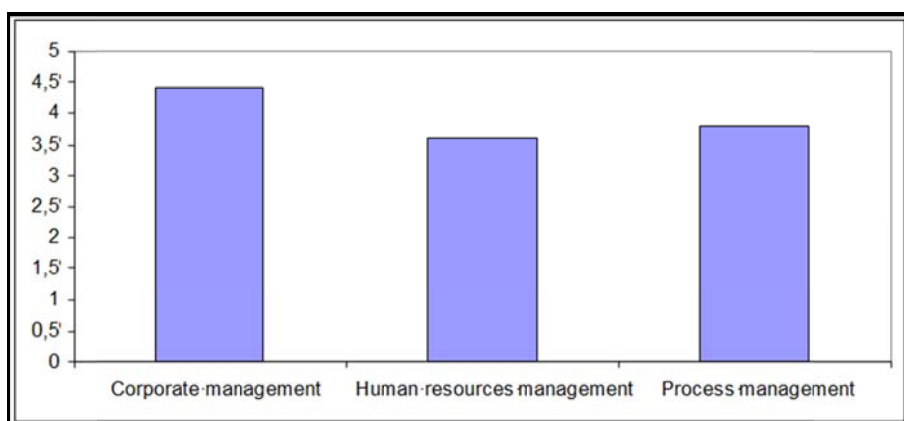
Source: own construction 2009.

By the results we found that the interviewed managers qualified that decision making is based primarily on expertise (4, 3). Most of the organizations were established years before, this is why they possess formed habits and practices. Graduation, technical conditions and good intuitions were qualified intermediately. The availability of external expertise seems to be neglected and ignored by practising managers. Decision making seems to be established on the experience of the managers. Evaluating the results we may draw the summarizing conclusion that decisions are characterized by professionalism, since respondents equally, highly evaluated the technical experience, the empiricism and the professional knowledge. These are followed by technical conditions and intuitions parallel with and intermediate with values of approximately 3,5.

4.4. Organization

Organization means the structure of the task to be realized to achieve corporate objectives, to rank tasks into labour positions, to develop teams, to work out internal information systems and the coordination of these activities (Fayol 1984). Organization is the supply of factors necessary for operation and the realization of processes. Organization first was related to basic managerial tasks, since observing cross functionally, all managerial tasks have organizational aspects. Accordingly we have examined, by the institutional structure, the organizational tasks related to the three main managerial fields. Results are illustrated in Figure 4.

Figure 4. The appearance of organizational aspects in managerial tasks



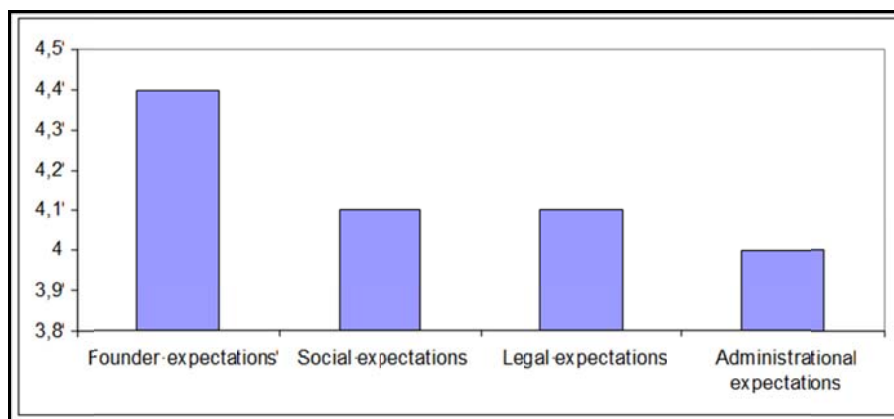
Source: own construction 2009.

Research results show that organization mainly appears among the corporate management tasks emphasized by the managers questioned (4, 4). Its appearance in process management is at intermediate level (3,8). Organization appear in human resources management the least (3,6). Summarizing it we may declare that organization is mainly connected to corporate management. Comparing organizational tasks related results with the supervising evaluations of Figure 1, we draw the conclusion that the base of high evaluation of organization is the importance of organizational tasks related to the organizational activity. Both received 4,4 evaluations. Before the examinations we supposed that we can indicate larger differences in the qualification of organizational tasks. Research results obviously indicate that the differences are not significant.

4.5. Control

Control is nothing else but the supervision and the measured tasks of individuals and groups, and it provides that performance should act by plans (Fayol 1984). Control is the last chapter of managerial activity, the feedback of the process. Control is an exclusive managerial task, it may be realized in different forms and ways. Of the control related questions we preferred the examination of managerial behaviour, according to the expectations, a corporate must face. We have examined how managers evaluate the corporate suitability to tasks defined at establishment, moreover, social expectations, legal expectations and administrative expectation. Research results are illustrated in Figure 5.

Figure 5. The suitability of the organization to different expectations



Source: own construction 2009.

Results allow us to conclude that managers questioned consider the organizational suitability to founder expectations the best (4,4). They can least meet the social expectations (4,1) and the legal expectations (4,1). Organizations are relatively poor at meeting administrative expectations. Qualification does not reach the expected level and we have to refer to deficiencies. Organizations mainly meet their private expectations and unfortunately, they can least meet environmental expectations.

5. Summary

Management is a dynamically developing discipline, it is further justified by many authors and numerous professional literatures, articles. An aspect of this science is the functional approach. Functionality originated from the American development and way of thinking. The Institute of Management and Labour Sciences at the University of Debrecen has worked out a private research program which provide a framework for the study of managerial activity.

Accordingly, we have carried out our researches in this research program where we have selected planning, decision making, organization and control to study in the civic sector. Research mainly included questionnaire survey, among the managers of the civic organizations of Hajdú-Bihar county. Of the managerial tasks, organization was considered to be the relatively most important factor, and control was the least important. Evaluating the functions in details we have revealed that managers usually plan for only a year, and only one fourth of them indicated predictability for more than that. Examining decision making, we wanted to know and identify factors affecting managerial decisions. Respondents revealed that decisions are made mainly by managerial experiences. Organization related examinations revealed that organization mainly appears in the field of corporate management. Finally, we have also examined control, where we have mainly studied the managerial view on organizational expectations. Results show that organizations mainly meet private expectations and it is more important that they relatively weak at meeting environmental expectations.

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Conception of an innovative school and its development opportunities in Latvia

DAVIS PLOTNIEKS

Purpose – Secondary education is seen as a fundamental component of lifelong learning system where individuals obtain specific skills, competences and values needed for everyday lives. Since that 21st century has changed the way individuals live and learn, education system and secondary education needs continues improvement and strategic innovation, to ensure successful results. The purpose of this paper is to compose a conception of innovative school for measurement of secondary schools and their adequacy for 21st century learning paradigm.

Design/methodology – This paper describes innovative conception of secondary education and provides criteria for measurement of an innovative school and opportunities to develop the innovative capacity for secondary education schools. This conception has been created by analysing case studies and approaches of leading innovative schools in the world.

Findings – Findings suggest that secondary education has several opportunities that can increase the learning capacity within a secondary school, drawing attention to use of information and communication technologies, learning environment within a school and process and content of the studies.

Practical implications – The innovative school conception and conclusions from measuring the adequacy of a secondary school for 21st century learning paradigm, can serve as a tool for basic evaluation of a secondary school, indicating its improvement opportunities for strategic innovation, to ensure successful and efficient study process results.

Originality/value – This model presents conception of an innovative school based on leading practices in the world and provides conclusions about its development opportunities within Latvia. The findings provide an alternative view about the development of secondary education system and serve a basis for further research.

Keywords: education, innovation, innovative school, lifelong learning, 21st century school, future school.

1. Introduction

Education and training is seen as the fundamental part not only of the economic growth, but also for the development of society with its values and living standards. Since that 21st century is seen as the paradigm shift from traditional human work and physical resources to more sophisticated ones, such as human capital and human intellect, necessary skills and competences for developing economy and society are under continuous change. The education and training thus in the 21st century need to provide the appropriate mix of basic skills and motivation to learn. This transition in society and economy emphasizes the need to constantly improve, change and adjust the education and training system for today's needs where creativity, innovation, entrepreneurship, use of modern digital technologies and active citizenship and sustainable development is seen as a competences that need to be provided by the education and training system. This view has been supported in the work of *OECD* (2000) and *EC* (2008a).

Secondary education is seen as a fundamental component of lifelong learning system where individuals obtain specific skills, competences and values needed for everyday lives. These skills, attitudes and knowledge are not only necessary in knowledge society, but also create basic values for each individual. In this context secondary education can be seen as the frontier after which individuals face adult life where problem-solving, teamwork, self-

direction, and the use of information and communication technologies (ICT) becomes a part of their lives. This view has been supported in the work of *ISTE* (2000), *Partnerships for 21st Century Skills* (2008), *Sawyer* (2006). The role of secondary education with its implication on society is growing, thus highlighting the questions about the quality and efficiency on how knowledge, attitudes and values are transferred to students in the age of secondary education.

Secondary education exists in constantly changing environment and the speed of change frequently is dictated by the information age. Students have more opportunities for their entertainment than ever before. Their attraction to information, social networks, web based and on-line entertainment, audio-visual materials and „digital life” are growing along with technological development. School equipment and study content don't have equivalent speed of change, thus student interest for education and training are affected and can be reduced by these information flows and activities that are not supporting the process of skill learning and obtainment of needed competences and values. Education scientists, education professionals and teachers and other secondary education system stakeholders are continuously searching for new and effective ways of learning, looking for innovative solutions.

According to scientific evidence – even by using modern technologies the problem of student attraction to learning cannot be solved. Much wider and deeper change in the whole education process is needed. This view has been supported in the work of *Dynarski et al* (2007). In this context innovation in the secondary education must be carried out and concept of innovative school need to be defined. The purpose of this paper is to compose a conception of innovative school analysing successful case studies of innovative schools all over the world, scientific research results and outcomes of innovative school approaches that can serve as a benchmark for measuring secondary schools and their adequacy for 21st century learning paradigm.

2. Secondary school education

Education in the secondary school is how young individuals gain basic knowledge, skills and competences and develop fundamental attitudes and values that they need throughout their life. Since secondary education is just a component of a larger system – lifelong learning system, throughout secondary education schools need to lay the foundations for new individuals to guide them on the path of lifelong learning. This means that students need to acquire how to take responsibility for their own learning and individual development since lifelong learning is an independently guided process. This view has been supported in the work of *EC* (2008a).

Latest researches declare that the process how young individuals learn, acquire knowledge and develop their personality are in continuous change. Teachers have the necessity to find new and creative approaches on how to attract students and provide the most efficient way for knowledge transfer. This view has been supported in the work of *Redecker* (2008) and *Simplicio* (2000). Besides the learning process the learning environment are changing very rapidly. Young individuals are surrounded by technology that gives them so far inexperienced opportunities, unlimited access to information and ways for entertainment. Video-games, mobile phones, digital media and social networks is just a part of the available resources that from one side gives students totally new opportunities while from other side distracts them from learning with interesting and attractive way on how to spend their time. These new technologies not only distract students with information overflow, but also bring new understanding of communication, information and meaning making. Information era creates a gap between student's individual environment and that one available in the school, since lot of schools cannot adjust their learning process and infrastructure with the one available for students individually. This view has been supported in the work of *Pedró* (2006), *Selinger et al* (2008).

Education system must be ready to meet new expectations as the style of living for students change and the competition conditions for education differ from time to time. The role of secondary school are changing as within emerging learning society some of the secondary school functions can be fulfilled by other actors of lifelong learning system, other institutions or forms of civic society. Unlike other spheres such as manufacturing, consumer electronics or medicine, education does not enjoy continuing innovation process and clear improvements due to organisational, financial and technical reasons. Even one of leading organisations evaluating policy experiences in their research admits that there is little scientific understanding of what goes on in schools. This view has been supported in the work of *OECD* (2000). This opinion encourages carrying out further research on how to improve the quality of education, schools, learning efficiency and innovation within all levels of education. This paper limits the scope of the research analysing skills needed for 21st century, case studies and approaches of leading innovative secondary schools.

3. Conception of innovative school

3.1. Skills and competencies for 21st century

There are many attributes defining innovative school, but in this research paper conception of the innovative school is determined taking into account already existing and tested new learning approach models that are functioning in secondary schools. Innovative school conception is based on conditions that in 21st century skills and competencies that need to be transferred from teachers to students have already been replaced by new ones compared with those in 20th century. When analysing education as a lifelong process (lifelong learning concept) basic or key competences needed in 21st century, at least on the European Union (EU) level, have been already predefined. The view that lifelong learning should be oriented towards learning key competences has been supported in the work of *EC* (2010) and these eight key competences are identified in the Table 1.

Table 1. European framework for key competences for lifelong learning

No	Key competence
1.	Communication in the mother tongue
2.	Communication in foreign languages
3.	Mathematical competence and basic competences in science and technology
4.	Digital competence
5.	Learning to learn
6.	Social and civic competences
7.	Sense of initiative and entrepreneurship
8.	Cultural awareness and expression

Source: *EC* (2010)

All of the above mentioned key competences should be supported by the initial education and training that equips all young people. While competences like mother tongue, foreign languages, mathematics and science are being taught emphasizing the “real-life application”, work towards successful teaching of other competences such as further learning, critical thinking and creativity are still in its development phase and is lacking systematic approach in schools. This view has been supported in the work of *EC* (2010). Arguments why innovative school must concentrate on more efficient learning methods are described previously in the article, while arguments where the competitive advantage of an innovative school is hidden still need to be discovered.

21st century skills are needed for everyone, since they cover the background of evolution for every individual. Everyone can acquire these skills and the limits of skill learning often can be related to learning methods not the individuals. As an example that potential to develop these skills is hidden in every individual are supported by scientific researches. For example creativity and innovation is seen as the skills that need to be developed within the lifelong learning process and these skills need to be enhanced and cultivated to respond to the development of knowledge society. This view has been supported in the work of *EC* (2008b), *EC* (2008c), *EC* (2008d). Scientific research indicates that all people are capable of creativity from early childhood onward and creative potential can be found in every child. These skills can be encouraged or inhibited and their development depends on the kind of training people receive. This view has been supported in the work of *Esquivel* (1995), *Runco* (2003), *Sharp* (2004), *Craft* (2005). This opinion supports the motion that skills and competencies of an innovative schools can be based on EC already predefined key competencies, but the efficiency of teaching these skills depends on the methods used in education process and learning environment created within the school.

3.2. Education development framework and school models

Solutions on how to improve education are within the responsibility of the each school. Developing school curricula more oriented towards the skills and attitudes necessary to apply in real life situations follows the focus on competences. High quality learning for students in constantly changing education environment can be reached by continues improvement of education quality for every student that includes individual approach for students that need specific support. As the most important within-school factor affecting student performance teacher quality can be mentioned. Educating teachers and providing them necessary skills and attitudes for 21st century learning can increase this. EC has provided an education development framework that schools in 21st century need to challenge:

- focus on competencies,
- high quality learning for students,
- teachers and school staff.

All these three main areas of actions for developing 21st century schools can be covered if schools cooperate, share best and most innovative teaching practices and adopt them. This view has been supported in the work of *EC* (2008e).

In the 21st century parents are not the only stakeholders for innovative schools. Since the new generation after education phase will enter the labour market large corporations are interested in highly skilled workforce. There are several high level initiatives when big corporations are donating money and knowledge to help the education system reach 21st century demands. This view has been supported in the work of *Partnerships for 21st Century Skills* (2008). One of these corporations supports the development of Innovative Schools Programme where schools all around the world can participate to transform their teaching and learning. Within this programme good practise from innovative schools are gathered to share their practise and compare different models and approaches of innovative education. This view has been supported in the work of the *Microsoft Innovative Schools Programme* (2010).

In this research paper framework for an innovative school has been modelled using EC defined areas of action for education development adjusting them to innovative school models, practices and case studies derived from schools within Microsoft Innovative Schools Programme. Since the purpose of this paper is to compose a conception of innovative school, the reforms of education system and school legislative environment are out of the research scope. This research is limited to the school level. Schools participating in Microsoft

Innovative Schools Programme have various legislative and regulation environments, thus two primary paths of within-school reform are followed. One – school have enough autonomy to foster whole – curricular reform, while other – reforms take place within the existing regulatory framework. In this research paper best practise models are combined from both types of schools and the level of autonomy is taken into account. School autonomy is divided into two groups – schools with high and low level of autonomy. This view has been supported in the work of the *Microsoft Innovative Schools Programme (2010)*.

3.3. Models of innovative schools

To analyse the models and methods used within the innovative schools in this research existing case studies, published materials, manuals, guidance papers and school communication was used. School models derived from schools participating in Microsoft Innovative Schools Programme and are listed in the Table 2. All of the practices that have been used in particular school was marked and added to the innovative school framework with the reference to the school listed in the Table 2. Reference number in the table shows in which school particular innovative methods approaches and technics are being used.

Table 2. Schools participating in Innovative Schools Programme

Ref. n.	Country	School for case study
1.	Brazil	Lumiar
2.	Germany	Ottobrunn
3.	Ireland	Dunshaughlin Community School
4.	Singapore	Crescent Girls School
5.	UK	Bowring Community Sports College
6.	UK	Broadclyst Primary School
7.	UK	New Line Learning Academy
8.	UK	Shireland Academy
9.	USA	Freedom Area High School
10.	USA	Plymouth Whitemarsh High School
11.	USA	Roads to Reform: Freedom Area High School
12.	USA	School of the Future
13.	USA	South Fayette High School

Source: *Microsoft Innovative Schools Programme (2010)*

Methodology for the research was established, consisting of three main areas that need to be challenged. These areas or fields of improvement consist of several components of development, containing the methods, approaches and practices used in innovative schools. These fields of improvement have been determined, components of development listed and methods, approaches and practices summarised. Methodology consists of three levels of minuteness, combining the most essential attributes for creating the conception of innovative school. Levels of the methodology are described in Table 3.

Table 3. Research methodology levels

1. level	2. level	3. level
Fields of improvement	Components of development	Methods, approaches and practices

Source: own construction

3.4. Innovative school analyses and criteria for measurement

Innovative schools listed in table 2 adopt various techniques, methods and approaches that increase their learning outcomes. The efficiency of these activities are measured and evaluated by education experts from the Microsoft Innovative Schools Programme. In this

research paper from these in school implemented activities innovative school conception by developing specific framework has been created. Activities performed by the innovative schools are listed and structured according to the methodology developed by the author and presented in Table 3.

On the first level there are three fields of improvement that establishes the basis of framework of the innovative school.

- Learning culture
- Learning process
- Learning environment

Table 4. Criteria for innovative learning culture

Fields of improvement	Components of development	Methods, approaches and practices	Ref. n.
Learning culture	Democratic and open education management	Open decision making process Teachers and scholars are involved in decision making process, school forum for discussions, “great gatherings”, everyone is welcome to comment, suggest or work on new initiatives.	4,7,9,10,11,12,13
		Teacher to teacher collaboration designing curricula Collaborative learning platforms. Teachers develop curricula in partnership (interdisciplinary approach – “chemistry meets economics and business”)	1,2,3,4,7,9,10,11,12,13
		Knowledge integration into students life Theoretical and practical knowledge gained in school are tested in practice – visits in local administration, museums, NGO’s, SME’s, student contests etc.	1,7,9,10,11,12,13
	Leadership and vision	School management supporting innovation Clear and specific vision determined. Individual meetings with staff. Teachers are being constantly inspired and supported to introduce new practices by school management.	1,5,7,9,10,11,12,13
	Internal communication	Strong internal communication system Strong communication of vision and its objectives. School management ensures regular discussion of programme goals at staff meetings.	1,3,4,7,8,9,10,11,12,13
	Learning communities	Sharing teacher experience Formed teacher groups sharing experience on student work analyses, teacher Peer observations, common topics of study, codeveloping curricula.	4,7,8,9,10,11,12,13
		Student, parent and other stakeholder involvement in learning community Special school meetings where students and parents can share their opinions on study content and topics. Contribution of individual skills to school is promoted. School is open for wider public sharing its vision, targets and actions ensuring continuous improvements gaining feedback from other stakeholders.	4,7,9,10,11,12,13
	Professional development practices	Teacher pedagogical skill enhancement Continues enhancement of teachers’ technology skills, project-based learning, technology integration in curricula and pedagogic skills.	4,7,9,10,11,12,13
		Integration of school vision and teachers skills Teachers’ professional developments are in line with school vision. Ability to test new skills including them in study programs, curricula. Regularity of professional development activities.	4,7,9,10,11,12,13

Source: Author analyses with reference to innovative schools

Schools like other human intellectual resources intensive organisations have particular culture. Scientific literature suggests that even if there are innovative bottom up initiatives, successful implementation of new learning techniques and revision of curricula have particularly better results if school has clear vision and strong leadership towards the new learning paradigm. This view has been supported in the work of *Harris (2002)*, *Sebring et al (2006)*. Criteria for clear vision, leadership and democratic education management are described in Table 4.

Introducing innovative learning culture within the school are the contributory factors for improvement of learning process. Criteria for improving learning process are described in Table 5.

Table 5. Criteria for innovative learning process

Fields of improvement	Components of development	Methods, approaches and practices	Ref. n.
Learning process	Learning 21 st century skills	Communication in mother tongue and foreign languages Group and individual presentations in native and foreign languages, problem discussions, private interaction with students that improves communication skills.	1,3,4, 5,6,7,8, 9,10,11 12,13
		Competencies in knowledge construction Using basic mathematical, science and technology and digital skills students perform activities (group works, research projects, joint assignments) that allow building knowledge new to them.	1,3,4, 5,6,7,8, 9,10,11 12,13
		Social and civic competencies Human to human communication skills developed through group works, presentation, joint projects, discussions and group assignments. Students work with each other, teachers and other actors of learning process.	1,3,4, 5,6,7,8, 9,10,11 12,13
		Problem solving, innovation and entrepreneurship Students seek for solutions on problem solving without previously known procedure, risk awareness and initiative to take risks are learned.	1,3,4, 5,6,7,8, 9,10,11 12,13
		Learning to learn and self organisation Knowledge on effective learning, individual and group assignments to address problems without predefined answer, multiple stage assignments with criteria for self-evaluation.	1,3,4, 5,6,7,8, 9,10,11 12,13
		Cultural awareness and global perspective Learning to work in different cultural environments using wide range of knowledge and resources, addressing global problems without predefined answers.	1,3,4, 5,6,7,8, 9,10,11 12,13
		Inter-disciplinary approach	Project Principle Project principle integrated in curricula, e.g. project days combining knowledge use from different subjects for solving student-defined problems.
	Collaboration with other education actors Study process includes cooperating with students and teachers from other schools, non-school actors like local public authorities, NGO and others particularly within project days, special assignments, student contests and initiatives.		1,3,4, 5,6,7,8, 9,12,13
	Organisation of study process	Student choice on subjects and tools used Students can choose some of their subjects and tools used for study process.	7,9,10,11, 12, 13
		Feedback opportunities and self assessment Students can generate feedback about particular subject, teacher, methods used.	7,9,10,11, 12, 13

Source: Author analyses with reference to innovative schools

Innovative learning process consist of different components of development including restructuration of classes to interdisciplinary blocks where instead of learning particular subjects learning process is oriented towards student-centred learning and include use of project-based and collaborative learning. Methods for learning 21st century skills can differ from one school to another, while common feature is skill acquirement not fact learning and remembering. Innovative learning process can be significantly improved if along with innovative learning culture, innovative learning environment is established. Innovative learning environment are described in Table 6.

These three fields of improvement establishes the basis of framework of the innovative school that allows to define the frame for the second and third level of the conception, respectively components of development and methods, approaches and practices for innovative school.

Table 6. Criteria for innovative learning environment

Fields of improvement	Components of development	Methods, approaches and practices	Ref. n.
Learning environment	Physical learning environment	Flexible learning environments Flexible school space that can be transformed for changing needs – innovative pedagogy and better ICT integration, e.g. removing classroom walls and furniture.	2, 4,6, 7,12
	Integrated information and communication technologies (ICT)	School web portal Interactive web portal, external and internal part allowing teachers, students and other stakeholder to ensure continues connection with school despite their location. Social network integration with school web portal and study process.	1,2,3, 4,5,6, 7,8,9, 10,11, 12,13
		Technology as everyday part of learning process Technology are integrated in curricula. ICT is used in different parts of learning process - home works, projects and group works etc.	2,4,6, 7,12
		Availability of modern technologies in school Computer labs, laptops, wireless internet, interactive whiteboards, digital cameras etc.	1,2,3, 4,5,6, 7,8,9, 10,11, 12,13
	Availability of learning environment	Learning environment - available for students Study environment and infrastructure are available for students after the school time for individual and homework development, individual and non-school projects that creates new knowledge.	2,7,12

Source: Author analyses with reference to innovative schools

This analyses shows that best practice models and approaches designing innovative school, at least within Microsoft Innovative Schools Programme, have significant overlapping, indicating that it is possible to create scientifically justified conception or model of innovative school. While the question on how to assess the level of particular school's innovation capacity or readiness still exist. School can be evaluated as non-innovative, partly innovative, moderate innovators, innovation adaptors or innovation leaders. Using the framework of innovative school, regular secondary education institution can be measured. But leading a non-innovative school does not mean that student results will be particularly lower than for the innovative one. Since this question on how to assess student results and future perspectives in labour market and society is out of the research scope it will be addressed in further research.

4. Innovative school development opportunities in Latvia

To evaluate the attitudes towards innovative school development opportunities and reforming secondary education system in Latvia, data from research performed by *Laboratory of analytical and strategic studies* (2010) were used. Survey with 1002 respondents serve as a reliable source of information on public opinion towards education system reforms. Data from previously conducted research shows that the significant amount of inhabitants of Latvia 73% supports the reforms in secondary schools. Only 3% of respondents deny and 17% of respondents are saying rather no to reforms in secondary education. When asked when students should have to acquire new technologies, 81% of respondents have pointed out the need to start acquiring this knowledge from 1st to 5th grade. From all respondents 84% admitted that they fully agree or partly agree that new technology would increase the learning outcomes. Opinion that in creation of study curricula parents and entrepreneurs should participate strongly or partly supports respectively 68% and 71% of respondents. From these data it is seen that public opinion is oriented towards school development, in particular using innovative methods, such as raising ICT integration in study process, establishing learning

communities and reforms in education system. This serves as a contributory argument for reforms rebuilding traditional secondary school models to more innovative ones.

Detailed survey of secondary schools, evaluating their readiness to become an innovative school has not been performed in Latvia. Only a small separately made three-school assessment has been performed. Results show that schools are using regular ICT such as computers and projectors in various study subjects, while the integration of the ICT in study process are only in its initial phase. Lack of digital materials for various subjects are one of the key aspects why students don't have a lot study content provided using ICT. Collaboration for teachers on sharing best practise and experience on new study methods, practices and integration of ICT in study process has not been widespread. The ICT available in schools have been physically and morally dilapidated. Teachers have mixed feeling about ICT integration in student work supporting the use of technology in student everyday life, from other side they are criticizing the use of the technology, since students distracts their attention from regular study process. This view has been supported by *Laboratory of analytical and strategic studies* (2010).

Analytical data shows that situation in secondary schools is rather convenient for developing innovative school models instead of maintaining existing old ones. Significant part of general public are in favour of reforms and secondary schools will meet declining amount of students from one side, but growing public interest in reforms and labour market requirements for 21st century skills from other side. Current status on how innovative each secondary school in Latvia is, has not been valued, while this conception of innovative school and framework for evaluation gives new possibilities not only to assess particular schools, but also to raise their innovative capacity by implementing new techniques in structured manner.

5. Conclusions

To determine the most effective ways for educating secondary school students' scientific evidence has still to be found out. It is clear that only by using the potential of modern technology best education results cannot be obtained – appropriate learning culture, learning process and learning environment need to be promoted. Since innovation is a process of change and continues improvement, this conception provides only the methodology for assessing and perhaps restructuring traditional secondary school to more innovative one. This methodology of innovative school cannot be completed and alike models of innovative schools are in constant rebuilding, continues improvement and strategic innovation to ensure successful results in educating students. Learning of 21st century skills, promoting interdisciplinary approach and creating learning communities are just parts of the framework within which the innovative schools operate. For detailed understanding of the conception of innovative school and implementing new, jet unknown fields of improvement, components of development, methods, approaches and practices best practise models from schools located all around the globe need to be studied.

Restructuring old model secondary school to innovative one learning culture need to have strong vision and regular discussions amid education stakeholders who respects and cultivates the vision and values of innovative school. Open and democratic environment need to be established to promote innovation and feedback for teachers and students, while enhancing and inspiring teachers to raise qualification, acquire and use new teaching methods, seek for innovative problem solutions and new knowledge creation. Within the learning process acquirement of 21st century skills need to be emphasised, continues improvements in regular discussions (revisions) of study content, teaching methods and organisation of study process emphasizing the practical implication of knowledge gained in the school and interdisciplinary approach need to be promoted. Changing the supporting learning environment with integration of ICT in study process, providing flexible physical

infrastructure and expanding the availability of learning environment to students is an essential part of innovative school model. Innovative learning environment serves for attracting student attention with modern and up to date infrastructure, thus the school not only follows, but also provides an access for every student to the latest development in technology and infrastructure.



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The cafeteria system in Hungary: past, present and future

JÓZSEF POÓR – KATALIN ÓHEGYI

Cafeteria is a unique form of flexible benefits systems which emerged as a consequence of particular regulations of tax- and social security contributions in Hungary. The system was invented when tax reliefs were provided for certain benefit provisions to serve economic and social goals. From the beginning of next year significant changes are expected to take effect related to the taxation of benefits. This will require employers and benefit providers to adjust their strategy and update their policies. The coming change prompted the analysis of the evolution of the cafeteria system from 1996 until today, especially the drivers of the key changes and the facts how the key players (employers and providers) adapted to the changes. We also look into the expected direction next year and its impact on the benefit policies of employers, and also offer some alternatives to consider as a response to the challenges of the changing environment.

Keywords: flexible benefits, compensation, taxation of benefits, Hungary

1. Introduction

Cafeteria systems appeared in Hungary in the 90's and since then they became widespread, the majority of the employers offers them as part of their compensation package.

It is important to the employers that the cafeteria system contributes to the competitiveness of the compensation package, thus increasing the commitment and satisfaction of their employees. Another important factor is the cost effectiveness of the system versus other compensation elements, such as cash compensation. Therefore, employers keep adopting their packages to optimize to the regulatory environment at any given time.

Despite all efforts on designing and communicating total compensation packages, Hungarian employees still focus on cash compensation, especially on the guaranteed elements. However, the cafeteria systems are popular, the limited usage and the time constraint of use still makes people focus on cash.

The government also influences the preference of benefit provisions through tax- and social security regulations in order to support macroeconomic and social purposes, changing the regulations each year. In 2012 further changes are expected to transform the cafeteria system.

Despite the taxes and the constant changes it could be still feasible to maintain the cafeteria system for employers as long as they can optimize the prevalence of HR goals and cost effectiveness in the ever changing environment.

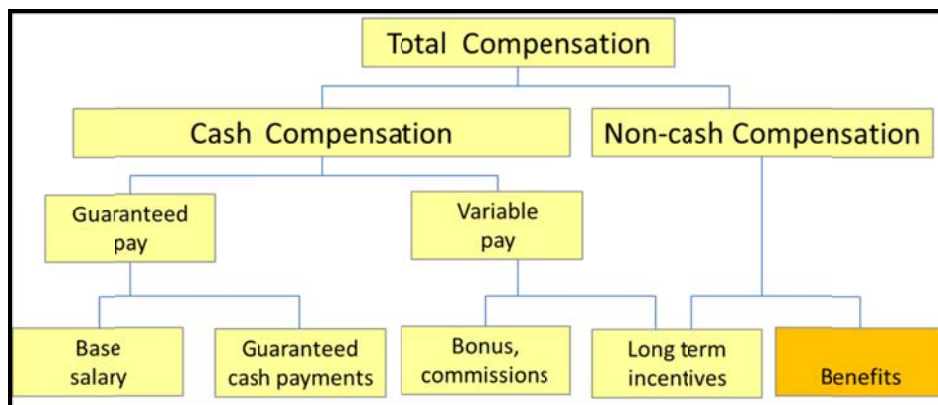
In this study we look back to the history of cafeteria system in Hungary from the early 1990's until today. We also introduce a recent research on how employers provide cafeteria benefits in Hungary today and how they perceive the future of cafeteria. Finally, we look into the expected directions next year and its impact on the benefit policies of the employers.

2. Cafeteria benefits

2.1. Origin of flexible benefit plans

Benefits are only one part of the total compensation. A broader definition sees benefits as “part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments” (Milkovich et al 2011). There are some key characteristics which differentiate the benefits from other compensation elements: it is a non-cash, not linked to individual performance, aimed to increase employee satisfaction and commitment and the improvement of competitiveness of the compensation package.

Figure 1. Benefits in the total compensation structure



Source: Mercer (2004)

According to the flexible approach (cafeteria benefits systems) some compensation elements were invented in the US where it widely spread in the 70's and 80's, especially in the area of benefits. It means that there is a “menu” of possible benefit provisions and related costs, and employees can choose the elements they prefer within the available allowance. This allows employees to optimize the benefit package to their lifestyle and preferences (Fragner 1975). This way the perceived value of benefits may be maximized. These systems became very popular among employees however, it also required additional admin efforts and costs by the employer.

Advantages of such flexible systems included the possibility of individualizing the benefits package by employees, which became an important consideration as the war for talent became fiercer, and the attraction and the retention of the employees put more emphasis on the individual. Outside this there were other advantages, such as improved cost control by the employer or the ease of harmonisation, e.g. in the case of integration of two organisations (e.g. during M&As).

These plans were implemented in the UK in the early 80's to address the changing workforce, such as the presence of more women, minorities, single parents or part time workers (Meyer 2000), and became widespread in the 90's, especially in the UK and Ireland. Later the flex systems became widely used in Europe (Poór 2007). Although it started to gain presence in Asia, it still has large potentials as the employment trends are changing there, as well (Chow 2011). In the US there is a wider range of flexible elements, including salaries and equity provisions (Haltermann 2000), whilst in Europe due to the different regulations and state provisions flexible plans are structured differently (Culbreth et al 2009).

2.2. The evolution of benefit plans in Hungary

Prior to the market economy, employers in Hungary provided wide range of benefits. These were mainly social provision, such as usage of the company's holiday facilities, subsidised meals in the company's canteen, health & safety related provisions or company products).

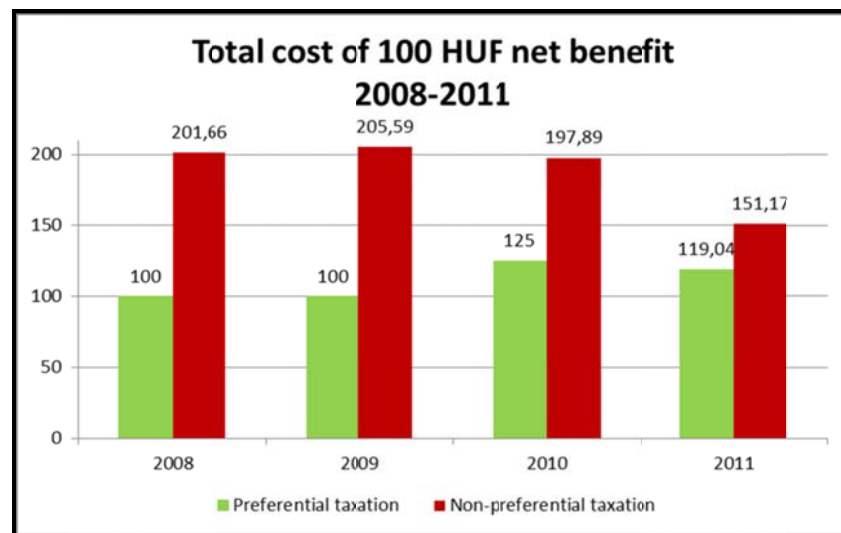
After the introduction of the personal income tax in 1988 the wages were grossed up, but the benefit provisions remained tax free, providing a clear cost advantage for these benefits.

During the privatization of companies, especially those with foreign ownership, the role of benefits was re-evaluated in the total compensation package. International companies attempted to implement their compensation philosophy regarding base pay, incentives, as well as benefits – they adopted their approach in the Hungarian regulatory environment. The range of provisions was still based on the heritage of the pre-market economy era.

Later vouchers appeared instead of direct subsidising (e.g. meal vouchers, vacation vouchers). In parallel with this, providers of benefit services entered the market offering not only the vouchers themselves, but also professional advice, infrastructure and administration services.

Government influence on benefit choices also became prevalent. The government limited the tax exemption to a defined range of benefits which were supported, and imposed high tax to the rest of in kind provisions. Later each year the range and the maximum tax-free amount of benefits were slightly changed. In 2010 a preferential tax rate was introduced to all benefits which were not required by the law and previously were tax-free. Figure 2 shows the changes of the total cost of benefits between 2008 and 2011 as the tax and the contribution rates were changing each year.

Figure 2. Tax impact on net benefits 2008-2011



Source: own construction

There is rationale why employers implemented benefits packages variously. One end of the spectrum (typically employers in highly cost sensitive industries or with lower paid employee base) wanted to maximize the tax advantages, some even offered benefits in lieu of salary increases. Others aimed to implement a strategic compensation approach (often stemmed from the mother company) with main focus to attract and retain the best people on the market – cost considerations were also important in these cases.

Flexible plans were adopted early in the privatisation era in the 90's, not only by international companies, but large state-owned employers also introduced such benefit packages. Gradually cafeteria benefits were widely spread in Hungary.

Several variations came into practice. Most companies kept a fixed provision, i.e. provided the same fixed benefit elements to the same employee groups. Others defined a range of core benefits and provided flex choice to the larger part of the allowance, or gave a fully flexible allowance to employees.

3. The research

3.1. Background

The Management and HR Research Centre at Szent István University and Larskol Consultants carried out a research where they looked into the effect of the economic crisis and the changes in tax and social security regulations on the cafeteria policies of the employers.

Participation in the research was voluntary and free of charge, and data were handled with appropriate confidentiality and security. The technique of the data collection was web-survey.

The research is based on a questionnaire with 10 sections:

- basic data of the participating firm,
- the descriptive features of the firm,
- the benefit systems applied at the firm,
- guaranteed benefits,
- flexible benefits,
- considerations related to operating the cafeteria systems,
- cafeteria allowances,
- cafeteria systems after the changed tax environment in 2011,
- willingness to implement a flexible system where it is not available,
- future of the benefits in kind.

In the study the conclusions were based on descriptive statistical features such as averages, frequencies and distributions.

Out of the 221 completed questionnaires, there were 176 validated. The research was benchmark type, which intends to provide basis for comparison for future research. In addition, it intended to get a snapshot on how companies perceive the role of benefits in the current environment.

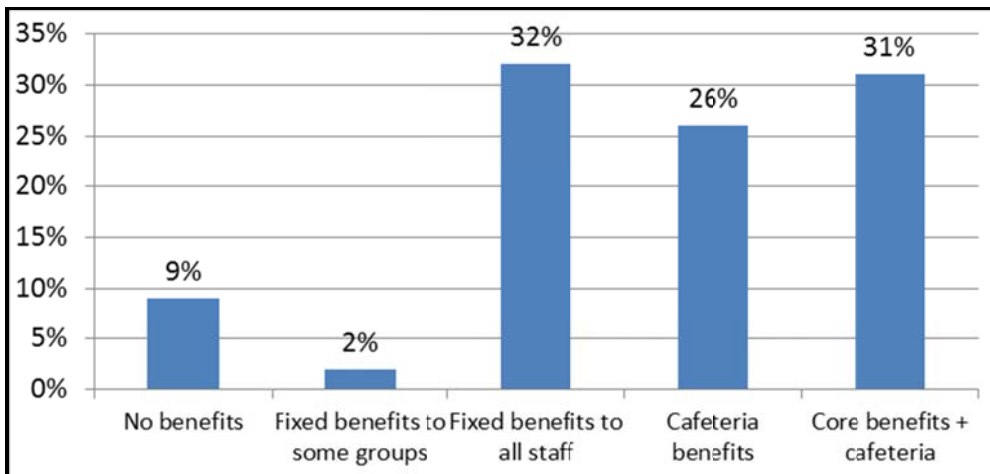
Although the sample is not fully representing the Hungarian employers, the list of the participants includes some major or leading organizations, and also a variety of sectors and sizes are represented, therefore, the results illustrate the tendencies in benefits policies.

3.2. Key findings

In this section we introduce the most important findings from the detailed analysis of the data.

92% of the respondents offer some kind of benefits outside the wages. However, only 57% of them provide the possibility of flexible choice to their employees, either with a core + flex or in a full flex package.

Figure 3. Distribution of typical benefit structures

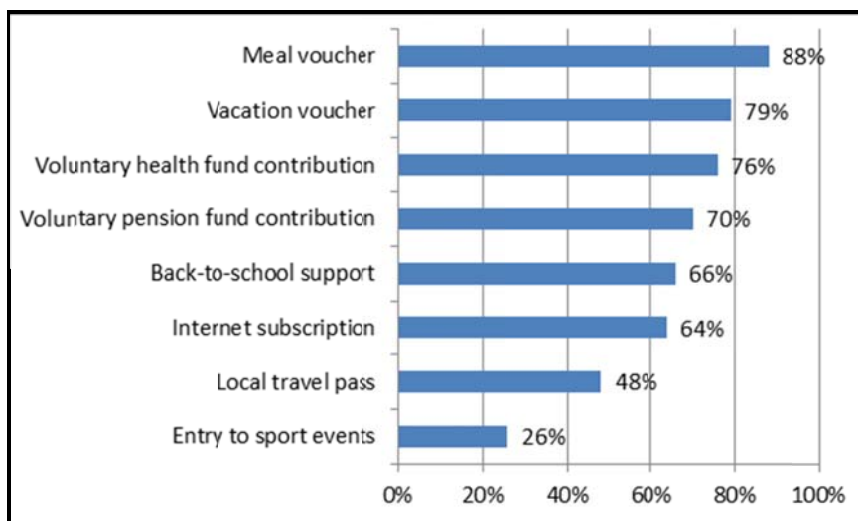


Source: own construction

There is a connection between the size of the organisation and the offering of flexible choice. 70% of the companies which employ more than 1000 people do have cafeteria in place, and only 20% of those companies which employ 10 or less people.

The most popular cafeteria elements are the benefits with the preferential tax rate. There is one new item on the list: entry to sport event, which is not yet widely offered despite it has tax free status, and it did not appear among the most popular guaranteed elements, either.

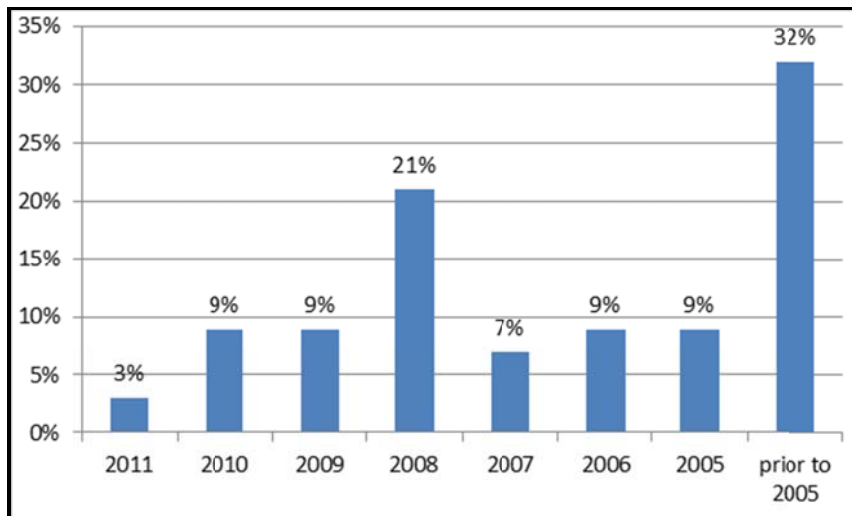
Figure 4. Most popular cafeteria elements



Source: own construction

Regarding the year of implementation, more than three quarter of those respondents who already introduced cafeteria introduced the system before 2009.

Figure 5. Cafeteria implementation year

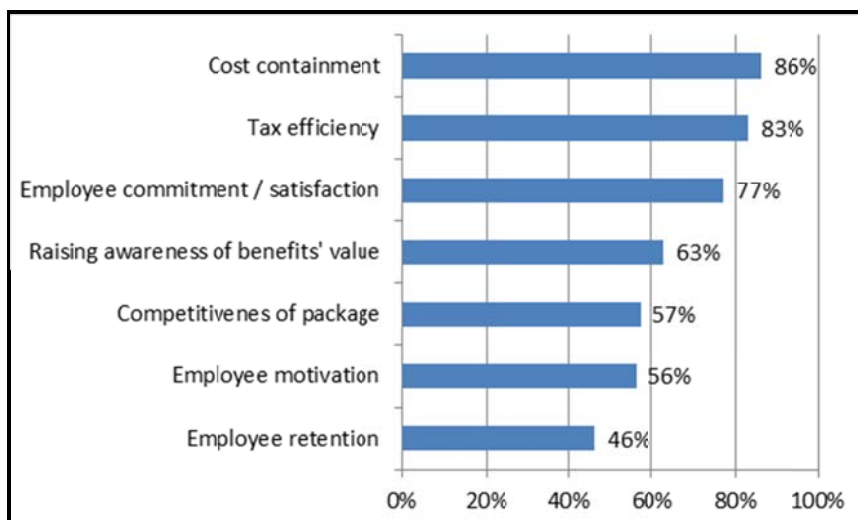


Source: own construction

In the last three years the cafeteria gained presence in the public sector, this was the main driver during the implementations post 2008. Only 11 organisations implemented cafeteria after ceasing the tax exemption on benefits. 45% of these operate in the public sector.

Another interesting point is the main purpose why organisations introduced cafeteria systems. The ability to plan the costs and using the advantages of the tax exemptions are among the leading reasons. The early adopters of cafeteria put far more emphasis on the employee commitment and retention, as well as the employer's reputation, although the cost considerations were also important to them. In the latest implementations the cost related motivation was dominating among the organisations.

Figure 6. Reasons to implement cafeteria



Source: own construction

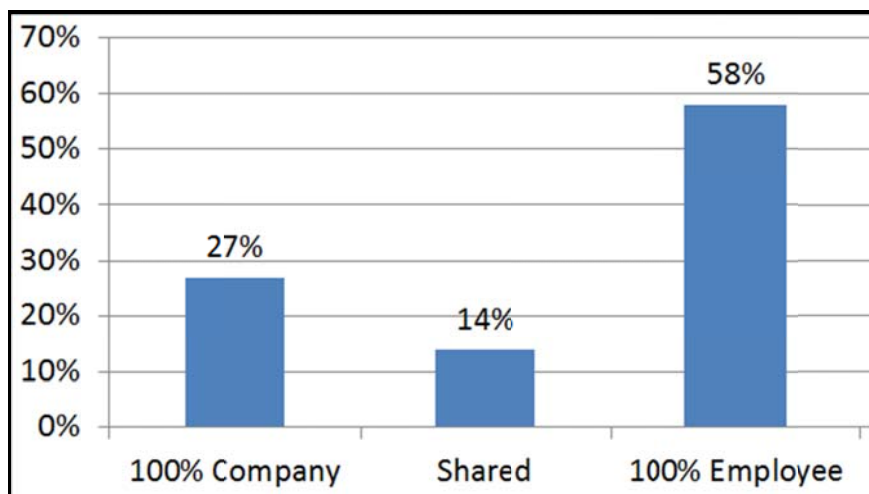
Another surprising finding is that 39% of the respondents never evaluate the effectiveness of the cafeteria system, 42% look at it occasionally, and only 19% of the employers carry out a regular review among which 77% of these companies are large organisations.

As far as the administration is concerned, 87% of the companies operate the system with in-house administration. Outsourcing the whole or a part of the administration is more typical among the large organisations, as well. The most typical administration tools are spreadsheets (38%) and cafeteria solutions integrated into the payroll systems (34%). Only 9% of the companies administer the systems on paper.

3.3. Cafeteria and taxation

Before 2010 a range of benefits up to a limit enjoyed tax exemption. In 2010 tax was imposed on these benefits, as well. However, the tax rate was preferential and social security contributions were also not implemented, still leaving considerable cost advantage among those provisions which did not qualify for the preferential tax rate. The tax should be paid and declared by the employer but there is a possibility to pass on the tax burden to the employees. We were interested to see how the companies in our sample reacted to the tax implementation.

Figure 7. Tax payment on cafeteria



Source: own construction

We have found that the majority of the companies passed on the tax burden fully (58%) or partly (14%) to the employees. Only 27% of the companies undertook the additional costs resulting from the taxes.

In 2011 the cost of the preferential tax slightly reduced from 25% to 19,4%. In parallel, 30% increased the available annual amount. However, the majority of companies (57%) kept the allowance of the previous year, and 12% changed it. Our assumption is that all of these reactions could result at least to maintain, in some cases to increase, the net value of benefits to the employees. If the company works on gross allowance basis and passing on the full tax to the employees and the allowance is unchanged, then the employees benefit from the tax reduction. If the company offers benefits on a net basis to the employees (i.e. the company takes all the tax charges), then there is a room for slight increase of the allowance and still maintaining the same costs as in 2010.

4. The future of cafeteria benefits in Hungary

Our research supports our hypothesis: 79% of the respondents still think that the provision of the cafeteria benefits is still a compelling proposition due to the savings allowed by the

preferential taxes. 21% of the respondents argued that the cost advantages of cafeteria benefits diminished over time and it is less appealing for them to provide it. The latter view is more typical among the small and medium-sized companies which pay less attention to the potential advantages of providing cafeteria plan.

In 2012 significant changes are expected to the range and the use of benefits with preferential taxation. Although at the date of writing this article the tax laws for next year are not yet known, we anticipated the government's intentions based on a ministry proposal and a related draft governmental resolution (*National Ministry of Economic Affairs* 2011). The key theme of the proposal is to align the tax preferences with the macroeconomic policies: to drive consumption in specific sectors (e.g. tourism), to support social purposes, and to incentivise self-provision (e.g. pension and health care savings).

It is also expected that the total provision as well as the provision of the individual elements with preferential taxation will be limited to a specific amount.

The so called Széchenyi card (SZÉP card) is proposed to be linked to 3 different accounts: one will be the same as the current provision. Most likely there will be a meal account, as well as a recreational account. In parallel with these changes there is an intention to scale out the vouchers from the system, although this may take several years, as the infrastructure for the card usage need to be expanded countrywide. Therefore, we anticipate that the vouchers will remain in place for some period of time in parallel with the SZÉP card. However, based on the proposal, it is expected that in the longer term the state would like to take more control of issuing vouchers or cards representing preferential benefits.

To Incentivise self-provisioning, especially on the area of health care and pensions it is a declared governmental objective. Therefore, the voluntary health funds and voluntary pension funds will remain in the preferential tax category. There are overlapping services between the SZÉP card and the voluntary health fund. It is recommended for consideration to separate the usage of these two benefits, i.e. the recreational part will be taken over by the SZÉP card, and the voluntary health funds may be used only for medical products and services.

The local travel passes will remain in the preferential tax rate. This serves not only social purposes, but also aims to increase the mobility of the workforce. It is also likely that there will be no change related to the "back to school" voucher, and the sport entry tickets will remain tax-free up to a limited amount.

The internet usage will not only lose its preferential status, but it is also likely that it no longer will be qualified as "benefit in kind" for tax purposes, i.e. from taxation point of view it will be equivalent to cash compensation.

An important element for the employers is the cost containment. Organisations control the total compensation costs within which cafeteria is only one segment. However, it is easier to change it than the salaries, which are guaranteed. Therefore, under governmental pressure on employers to compensate the disadvantages of the tax changes through wage increases, in certain employee groups it could lead to reduction of other compensation elements which are above the statutory requirements, such as variable pay or benefits. The reaction to the complex tax regulation changes and its impact on benefits need to be researched once companies re-assessed their strategy in light of all the changes.

Administration costs are other factors to be considered. If the admin burdens require too much effort and costs (e.g. re-configuration of systems, training of benefit admin staff, re-negotiation or conclusion of new supplier contracts, etc.) this could work against the flexible systems. If the administration could be simplified, it could incentivise more employers to consider the implementation of the flexible choice.

5. Conclusions

Cafeteria benefits are attractive elements of the reward packages. The flexible choice is valued by the employees. The growth of cafeteria systems in Hungary is continuous since the 90', especially due to the influence of international firms, as well as due to tax advantages.

Cost efficiency is one of the most important criteria employers consider when implementing or reconfiguring their flexible benefit system. Therefore, elements with preferred tax rates prevail. The government expresses its influence on the preferred elements through preferential tax rates for certain elements. In the past years the gap between the preferential and non-preferential tax rates on benefits narrowed, however, there is still tangible difference which makes it feasible for companies to continue the provision of the benefits in the future. However, the regulatory environment goes through a variety of changes in the area of tax, social security, labour law, etc., which requires companies to review their practices through an integrated approach.

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Leveraging marketing performance through information technology use

BALÁZS RÉVÉSZ – MÁRIA TÖRŐCSIK

The effect of Information Technology (IT) on marketing processes has been widely acknowledged in the last two decades (Leverick et al 1998). Technological development has reached most areas of marketing. Popular business press first promulgated the limitless rise of business performance enhanced by IT, then, after the bursting of the dot-com bubble (Szabó 2002) technology was completely disgraced. IT development and its effects on business activities have been in the forefront of scientific thinking in the last two-three decades (Castells 2005, Glazer 1991, Salo et al 2005). According to Brady et al (2002) IT brings elementary changes in marketing. What's more, not only the marketing activities, the used methods or processes could change. Technical competencies will have a central role in the marketing practice (Webster 1992), since the ability to handle technology will become one of the success factors of marketing professionals.

Companies using IT solutions have to analyze which is greater: the benefits of IT usage and automation, or the advantages of personal interactions and direct customer relationships (De Wulf et al 2001, Fellenz–Brady 2006, Rebolledo et al 2005). Many customers choose automated services because they have had bad experiences in interactions with frontline employees and in contrast the infusion of technology may not be embraced by all customers (Bitner et al 2000).

Research results are not consistent yet, there are many fields that still have to be examined. In this research we have analyzed the IT use of 179 Hungarian companies in their marketing activities. The middle and top management of the companies were surveyed in the winter of 2010. As we hypothesized the results are mixed but give us important insights into the topic in question.

Keywords: information technology, relationship marketing, CRM, automation

1. Information technology use in marketing

Managers most often decide on the introduction of information technology in the pursuit of one of three goals (Zuboff 1985). In the early days of the spread of information technology developments, the basic motivation was *automation*. Companies expected financial and time benefits from the introduction of new technology, as automated systems are operated by less human labour and consequently fewer errors and in a constant quality that is, eliminating a significant percentage of potential errors. Such systems, even though they demand substantial investment, can be operated more cheaply and even continuously by using their maximum capacity; thus higher level results are achieved faster (Dewett–Jones 2001). The application of technology also greatly enhances the practice of *information creation*. Information technology, even if it had originally been installed with the purpose of automation, continually provides information about the manufacturing process, often along with information which had not previously existed. According to the saying, “information is power”, which is equally true for the course of business, production processes and marketing activities. The information provided by the technology makes it possible to gain deeper knowledge of the processes, thereby the changes aimed at increasing efficiency are able to reinforce the company's competitive position. Insofar as the information necessary for

decision making and operation is available, the company's aim can be to *transform* the activities and *the business performance* and to take the opportunities becoming available by the usage of information technology (Brady et al 2002).

The effect of technological development touches upon most areas of marketing. Studying the literature reveals that besides information gathering, market segmentation and targeting, (mass) customization, customer relationship management (Rust–Espinoza 2006), and client interaction (communication and sales), further areas of the marketing mix (Brady 2003) have equally benefited from the development of information technology.

Technological development is becoming an increasingly important element of the company-client interaction. Moreover, some authors regard these technology based interactions as the key to long-term success (Coviello et al 2001). Ever newer ways of communication and sales are appearing, which involve customers more and more in the value creation process. During the sale of products (goods and services), companies are faced with customers using multiple channels as a result of technological development. Customers today take the opportunity of using multiple channels during their purchases and it may even happen that they realize the activities or elements of the purchase process on different channels (Törőcsik 2007). In the formation of multi-channel sales, the adaptation of technological solutions plays an important role in the selling process. Clients more and more often meet the opportunity for self-service; in the case of certain transactions, there is no other way than to choose the self-service mechanism in the virtual space. Whereas there are experts who attribute a very important future role to self-service technologies (Schultze–Orlikowski 2004), a part of the research holds these very technologies responsible for the dissatisfaction and the dropping out of clients (Brady et al 2002a). For the time being, the research results of this topic are not unified. For instance, in comparing interpersonal and audio-based (e.g. telephone) communication, researchers have found that during audio-contact, the communication between the participants became psychologically more distant and less personal, the participants experienced the activity as task-solving and they behaved in less spontaneous and cooperative ways (Leek et al 2003). However, the company's aim with automation is precisely to change an activity requiring personal interaction into a simple, routine task, thus speeding up their service and decreasing their costs. Companies applying such solution must examine whether the benefits resulting from automation or those stemming from personal interactions and direct client relations are greater (De Wulf et al 2001). According to Bitner et al (2000), for example, many customers prefer using information-communication (ICT) based services because they had been disappointed with the standard of human service.

The research of Leek and Turnbull (2004) has shown that the functions realized during the interaction between the seller and the buyer (e.g. generating ideas, information exchange, problem solving, evaluation, negotiation, crisis-intervention, social role and self-reinforcement) may work with different levels of efficiency by the use of different communication channels and solutions. The benefits of personal relationships may, in certain cases, be outweighed by the usefulness of ICT solutions.

Corporate databases and the ever more popular customer relationship management (CRM) solutions also provide a lot of topics for researchers. Information technology also plays an outstanding role in the building of the company's knowledge base (Rebolledo et al 2005). It is apparent from all this that IT is totally intertwined with the area of marketing (Papastathopoulou et al 2007), but most companies operate separate or partially linked information systems, some of which is not even directly linked to the marketing department.

Especially in the world of services, but also in the manufacture and sale of goods, personal interaction, the building of trust and direct relationships play an important role. However, nowadays, old foundations seem to be changing. New groups of buyers more and more often and more and more enthusiastically use solutions offered by modern technological achievements and keep in contact with their business partners and service providers with the help of technology-based systems. Info-communication devices, CRM, collaborative filtering (Riedl et al 2004) and other techniques of recommendation provide today's modern consumer, the mobile or online generation, with individual treatment and personal effect even if direct, face-to-face meeting does not take place between the seller and the buyer (Majó et al 2004). According to Spero and Stone (2004), young people live in the digital world: this is where they join communities, approach those whom they admire and, of course, play and learn at the same time. It is estimated that in Britain, one in four 7–16 year-olds browses the internet instead of watching TV.

Therefore, the influence of information technology in the development of marketing is unquestionable. The results of information technology development have been closely intertwined with the development of marketing theory, so today the names of the different marketing activities supported by information technology mean the technology itself the marketing approach at the same time.

On the basis of the above, we can claim *that the use of IT solutions enhances marketing if it generates information and thus creates value for both participants of the relationship, that is, for the seller as well as the buyer.*

2. Contemporary marketing practices, the CMP model

During the study of marketing activity, more and more researchers turn to the viewpoint of relationship marketing. Whereas traditional marketing takes the approach of competition and self-interest, according to the relationship-based approach, co-operation and interdependence tend to become the motivations of value creation. The followers of the latter approach see those as a much more effective and efficient tool in the process of value creation (Veres 2003). The participants of services marketing and generally of the B2B market have long been aware of the importance of co-operation, however, practical application is not always so successful, most often due to personal features or bureaucratic and legal regulations. The recent past has brought about the appreciation of relationships also on the market of consumer goods (Töröcsik 2007), which resulted in the acceleration of research and the development of modern management techniques. Consequently, in the process of value creation, the co-operation of several participants take place.

Accordingly, the basic principle of marketing activity means much rather the building of a relationship with customers and other stakeholders than conducting a series of separate transactions (Grönroos 1999).

The examination of the marketing role of transactions has brought about the concept created by Nicole Coviello and followed by Contemporary Marketing Practices Group (Coviello et al 1997), which says that transactional and relationship marketing has several different types, from which companies select to pursue their marketing activities. Companies can even use the different types parallelly, as the relationship of the buyer and the seller is mostly determined by the market participants' sensation of the given market situation and only to a lesser extent by the field or market that the company operates on (Pels et al 2000).

Coviello et al chose as their research subject Contemporary Marketing Practices – CMP. Their research resulted in identifying five marketing types used by companies today (Brodie et al 2008):

- transactional marketing (TM)
- database marketing (DM)
- e-marketing (EM)
- interaction marketing (IM)
- network marketing (NM)

The company using *transactional marketing* applies marketing-mix tools to attract and serve their customers by conducting individual business transactions. Although the individual transactions may be repeated, the company treats them separately. Companies using this type of marketing use mass marketing tools to approach their market, identify their target group and to create their product according to the expectations of the group.

Database marketing can be identified as a type of relationship-oriented marketing. Companies using this type of marketing still focus rather on the conducting of the transaction, but information exchange also appears besides business exchange. The aim of the user is to keep their identified clients, although the marketing and the communication activity within it is still directed at the consumers rather than being realized with their cooperation.

E-marketing means an activity during which the communication (dialogue) between the company and its specified customers is supported by the internet and other interactive technologies, which serve as the basis for mass customization and personalized online marketing. By using information technology, companies are enabled to treat their customers individually and to build relationships. Several authors call this type of contact approach one to-one marketing (*Peppers–Rogers 2004*) or interactive marketing (*Barwise–Farley 2005*).

Interaction marketing means the type of marketing in which personal contacts become the centre of the business model and where face-to-face interaction between individuals is the most important building block (as opposed to database marketing, where the relationship, although built on personal data, is still distant). The relationships of individuals and their partners and their interactions supported by information technology devices, together create the organisational dimension of the seller-buyer relationship. In the use of interaction marketing, both parties make an effort to build and maintain the relationship. The seller-buyer relationship often takes the form of a partnership.

The analysis of the seller-buyer dyad helps to understand only a part of the relationships. In the centre of *network marketing*, there is the network of corporate relationships and included in that the relationship of these relationships to each other. The company maintains individual, yet connected, tight (personal) or looser (impersonal) relationships with its customers, suppliers, partners or distributors, not to mention indirect relationships. The business network is constituted by the collection of relationships related to each other. Marketing, in this sense, focuses on the creation, utilization and maintenance of the network.

In order to ensure their long-term business success, companies apply one of the marketing types introduced above, depending on the characteristics of their businesses. These marketing types do not exclude each other, but a company may use the transactional type parallelly with database or interaction marketing in its different branches. That is what makes it possible for instance, that Coca-Cola, whilst trying to influence individual consumers by using promotional tools based on mass and group communication and databases, communicates and keeps in touch with its retailers through its sales representatives and product managers on the level of interaction.

All in all, the significance of relationships in business life is acknowledged more and more widely and companies make more and more efforts to maintain their relationships with customers, suppliers and other business partners in the long run to ensure long-term profit. Nowadays, companies alternate between the marketing tools and approaches they use, depending on the characteristics of their product and the market to be served. As for the personal nature (personal or impersonal) or the frequency (daily or occasional) of the relationship, companies aim to create a close or distant relationship according to the demands of the customer to be served.

3. Empirical research

We used an *online questionnaire survey* technique for data collection. We sent a request to fill in the questionnaires to graduates of the University of Szeged Faculty of Economics and Business Administration. 712 graduates of the faculty received the request in the autumn of 2010. We asked the former students to participate in the survey if they were working in a marketing position or to forward the questionnaire to their marketing manager colleague. During our research, 179 questionnaires were filled in.

3.1. Hypotheses

H1: Higher levels of marketing are associated with higher levels of information technology use.

As nowadays the pursuit of marketing activities – regardless of the company’s dominant marketing practice – is increasingly built on solutions using information technology, we can suppose that a higher level of marketing, that is, a higher average value of a given marketing activity is associated with a more intensive use of information technology. As our research endeavours to study five different types of marketing, this hypothesis is divided into five sub-hypotheses, according to the marketing types.

H1a: a higher level of transactional marketing (TM) is associated with a higher level of information technology use.

H1b: a higher level of database marketing (DM) is associated with a higher level of information technology use.

H1c: a higher level of e- marketing (EM) is associated with a higher level of information technology use.

H1d: a higher level of interaction marketing (IM) is associated with a higher level of information technology use.

H1e: a higher level of network marketing (NM) is associated with a higher level of information technology use.

H2: A higher level of information technology use is associated with a higher level of performance compared to previous expectations.

According to most literature sources, the ultimate motivation of information technology use is to improve the company’s performance (e.g. Szabó–Hámori 2006). Orlikowski (2000) determines the three possible roles of information technology use in accordance with Zuboff’s (1985) model. Information technology *reinforces and preserves the status quo* (supports business performance), or *enhances the status quo* (increases business performance) or

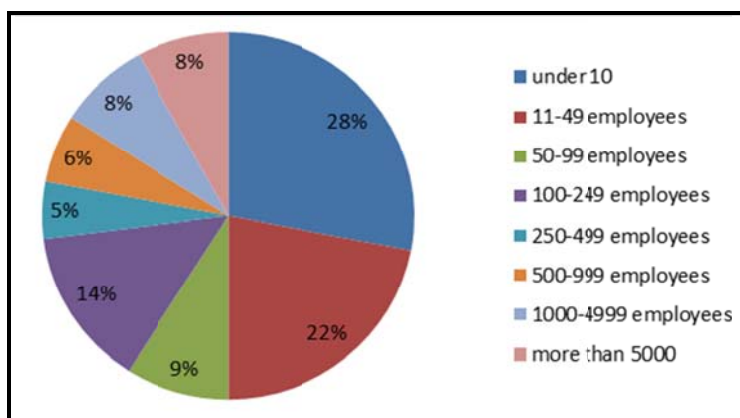
transforms the status quo (IT goes beyond previous performance and changes the business model). Our study aims to reveal whether there is a link between the role of IT and company performance in Hungary, as shown by Orlikowski's model.

3.2. Introducing the sample and the respondents

179 respondents filled in the questionnaire. The gender-distribution of the questionnaires analysed was balanced: 49% men and 51% women answered. The average age of the respondents was 35 years; the youngest being 20 and the oldest 56. 53% of the respondents have been working for their company for at least 4 years, and only less than 10% have worked in their job for less than 2 years.

According to the number of staff, small- and medium sized companies (SMEs) were in the majority (Figure 1). 73% of the companies filling in the questionnaire employ fewer than 250 people, with only the remaining 48 companies employing more than that.

Figure 1. The distribution of companies according to the number of employees (N=179)



Source: own construction

The distribution of companies taking part in the study according to revenue is shown in Table 1. The question referring to company revenue was answered only by 95 respondents. The table shows that on the basis of revenue, 83% of respondents belong to small or medium-sized companies.

Table 1. The distribution of company revenue for 2009 (N=95)

	Frequency (N)	Relative frequency (%)	Cumulative relative frequency (%)
under 10 million HUF	12	12,6	12,6
10–49 million HUF	11	11,6	24,2
50–99 million HUF	9	9,5	33,7
100–499 million HUF	21	22,1	55,8
0,5–2,4 billion HUF	15	15,8	71,6
2,5–12,4 billion HUF	11	11,6	83,2
12,5–19,9 billion HUF	4	4,2	87,4
20–100 billion HUF	5	5,3	92,6
több mint 100 billion HUF	7	7,4	100,0
total	95	100,0	

Source: own construction

During our research, in order to examine the changes in revenue, taking the effects of economic crisis into consideration, the category of decreasing revenue was differentiated by more than one answers. 42% of respondents experienced a decrease in revenue in 2009 and 52% an increase of some degree. It can be established that more than half (56%) of the companies taking part in the study has less than 500 million HUF annual revenue.

With respect to the markets served, 38% of respondents are active on the organizational or B2B market, whereas the remaining 62% on the consumers' or B2C market.

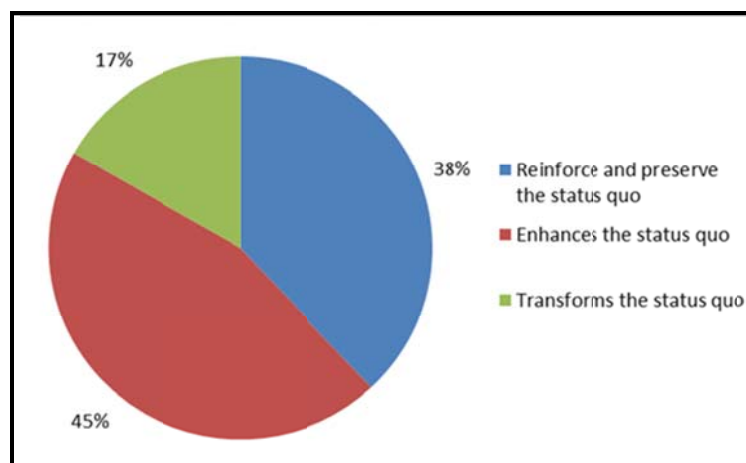
The ratio of production and service companies in the sample is 30%-70% that is, manufacturers constitute less than one third of the sample.

3.3. The evaluation of information technology use on the basis of the research results

On the basis of *Orlikowski's* (2000) model about the role of information technology for the company, it can be established that in the case of 38% of the sample, the embeddedness level of information technology is low; in the case of 45%, the role of IT is to increase or improve business performance and in the case of only 17% can the changing or transformation of business performance be observed (Figure 2).

We also examined the role of information technology in the case of clusters created on the basis of marketing practice. It can be established that 64% of the members of the average relationship-oriented cluster make use of the performance enhancing role of IT and the supporting role, meaning the lowest level of integration, can be identified only in the case of 21%. From this point of view, the transactional cluster seems mixed. Although in the case of 40% of companies, integration is at a low level, this cluster shows one of the highest ratio of the performance transforming role of IT (21%). The members of the relationship-oriented plural cluster are characterized by the performance-enhancing (54%) and the performance transforming (38%) role, whereas the interaction cluster features the supporting (54%) and the performance enhancing (38%) role of IT. The members of the anti-marketing cluster tend to use information technology in their business procedures on a low level (8 times out of 10).

Figure 2. The role of information technology (N=179)



Source: own construction

In order to study the relationship between the level of marketing use and the role of information technology in the company, the Somers d index was applied (Table 2).

Table 2. The relationship between the marketing type levels and the role of information technology (N=142)

		Somers'd Symmetric	Somers'd marketing type dependent	Somers'd IT dependent
TM level and the role of IT	value	-0,007	-0,007	-0,008
	sig.	0,925	0,925	0,925
DM level and the role of IT	value	0,229	0,226	0,233
	sig.	0,001	0,001	0,001
EM level and the role of IT	value	0,277	0,242	0,325
	sig.	0,000	0,000	0,000
IM level and the role of IT	value	0,033	0,034	0,032
	sig.	0,667	0,667	0,667
NM level and the role of IT	value	0,161	0,153	0,171
	sig.	0,030	0,030	0,030

Source: own construction

Looking at the significance levels of the Somers d index, it can be established that with 1% significance level, there is a positive correlation between the DM and EM levels and the role of IT. With a 5% significance level, a weak positive correlation exists between the level of NM and the role of IT. The index has the highest value in the case of the relationship between the level of EM and the role of IT, but even so there is only a weak correlation.

Examining the statements of our first hypothesis on the basis of the above results, we can conclude the following: If in the cases of hypotheses H1a and H1d, a significant correlation could not be shown, we reject those. However, hypotheses H1b, H1c and H1e have been proven and we can claim that there is a relationship between the levels of DM, EM and NM and information technology use.

The values of the significance level and the values of the Somers d index used for examining the relationship between the level of information technology use and the level of success compared to previous expectations are contained in Table 3.

Table 3. The relationship between the role of IT and the level of success compared to expectations (N=125)

		Somers'd Symmetric	Somers'd IT dependent	Somers'd Success dependent
the role of IT and success level	value	0,019	0,019	0,019
	sig.	0,811	0,811	0,811

Source: own construction

On the basis of the results of Table 3, with a 5% significance level, no relationship can be visible between the role of information technology and the success of the company that is, the extent of their performance compared to previous expectations, therefore we reject hypothesis H2.

4. Summary

Today, there is no doubt that information technology must be used in marketing. Of course, it does not mean that each company uses technological solutions to an equal extent. The research of *Brady et al* (2002) proved that relationship-oriented companies use IT solutions to a greater extent than transaction-oriented ones. This is in an interesting contradiction with the common approach, as in the literature, that services and sales supported by IT solutions tend

to be regarded as transactional rather than relationship (Fellenz–Brady 2006). This precisely stems from the fact that usually automation is considered the primary purpose of the introduction of information (and communication) technology, whereas today, solutions much rather serve the purpose of creating information and transforming business performance by making it possible to treat clients individually, ensuring the planning of client life cycle and the calculation of the value of client relationships. The research of Meuter et al (2000) proves that self service technologies are becoming more and more popular with both sellers and buyers, especially if the purpose of technology use is indeed client support and not only cost reduction.

However, the results of our survey involving 179 Hungarian companies do not clearly prove the widespread and high level use of information technology for marketing purposes as, according to over one third of the companies, information technology only plays a supportive role in business activities.

A significant correlation between the use of different types of marketing and information technology was shown only in three cases: in database marketing, e-marketing and network marketing, which is not surprising at all. Similarly, it is not an unexpected result that there was no significant correlation in the case of interaction marketing, which builds on maintaining personal relationships.

Although the effect of information technology in the enhancement of general business performance has not been clearly supported by our research, the relationship between marketing activities and IT use is well illustrated by the data relating to the level of IT use of the clusters created by marketing activities of the companies. It is apparent that the higher level the marketing activity of a given company, the more typical it is that information technology plays a role of enhancing or even transforming their business performance.

On the basis of our research, even though the effect of information technology on the enhancement of marketing performance could not be clearly supported, it can be established that in the case of three out of five marketing types, there is positive correlation between marketing and the role of information technology in the company.

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Faculty of Business and Economics, University of Pécs graduates on the labor market

NORBERT SIPOS

The topic of the study is the human resource management regarding the different areas of job finding questions of the newly entrants to the market, precisely the graduates, particularly those of the University of Pécs, Faculty of Business and Economics (UP FBE). The Graduate Follow-Up System can be mentioned among the labor-market fit related researches, which is an obligatory task for the higher education institutes.

In the analysis I use the research data of the last two years conducted at the University of Pécs. I identify peculiarities, to which we can obtain such cluster groups that allow the creation of an effective support system. The focused energy and resource investment is more effective if it is based on specific training and education packages offered within the Alumni framework. It can increase the results of an even more successful Alma Mater service; furthermore it can improve the self-identification of the institution.

From the several motivation-theories, I evaluate the results of the labor-related scores with the findings of Herzberg's two-factor model. I hypothesized that in general the motivator and hygiene factors can be shown as well, and within the motivator-guided graduates, we can observe an advantage comparing to the hygiene-guided ones. The sample is representative which allows to deduce some findings about the main characteristics of the graduates of the Faculty of Business and Economics. Due to the Bologna Process a new higher education system is raising and formulating which pushes the students to face new challenges, and to create different types of expectations about the goals of their studies.

The study on the one hand is a guide for future students who can have a first-hand experience from the graduates working on the labor market, on the other hand the researches can observe the sample of 'Pécsiközgáz' graduates.

Keywords: Graduate Follow-Up System, labor market fit, higher education, talent management

1. Introduction

The University of Pécs joined the nationwide Graduate Follow-Up System (GFS) research programme (Garai 2010, Kuráth et al 2011a, 2011b) in 2010 to fulfill its obligation formulated in the Higher Education Act: "(6) The higher education institution shall, on the basis of voluntary data provision, perform career monitoring tasks, whereby it shall follow up the labor market position of ex-students having been awarded a certificate or diploma by the institution." (Ministry of Education and culture of the Republic of Hungary 2008, 34. § (6)). This includes indirectly the improvement of student services, which can be placed in the list of the supporting activities of the main purpose of a higher education (HE) institution: the education.

The UP in the framework of graduate tracking tasks of the graduated and present students conducts a dual approach survey. On the one hand it monitors the labor market status of the graduates, collects information about the completed courses, the future plans, the social conditions, and the income situation. This is part of the after graduation feedback of the institutional service improvement. On the other hand, by reaching the students participating in the current education process with these questionnaires, it can assure the quality of the

services, the continuous perfection of the relevance-satisfaction indicators, which is essential for the maintaining of the Hungarian HE institutions' competitiveness. It can be observed as a multi-level competition, an objective measure of success is the labor market placement – and no doubt the placement in the graduate-related profession – ratio of the students. Furthermore the rankings of an institution, faculty and formation based on the quality of the students on the input side, absolute and relative metrics determine the success within the borders of Hungary. On the international level only small special areas are demanded, the competition is mostly nationwide, not international (*Barakonyi* 2010). Every ranking system build on several variables trying to ensure the even possible homogeneity and through this the objective comparison of the HE institutions (*Felvi.hu* 2011, *CEMI* 2011). Because on these are ranked the HE institutions it is obvious that not all of them are satisfied with the methodology due to their unique situation (not all of the variables are taken in account) and so it is naturally a critical approach of the HE leaders. It is therefore important for the researchers to explore more and more tools to use on the available data as widely accepted methods, however, they should meet the professional needs and, at the same time same time the governmental information source expectations, namely the creation of the Higher Education Information System (HEI).

The Graduate Follow-Up System is currently managed by the Educatio Kht., providing professional and infrastructural support for HE institutions. In the starting phase of GFS designing the primary criteria was that not to create any type of ranking methodology so the institutions could have an open-minded attitude toward this initiative. It is not used for a direct ranking, but as the HEI concept states in the Higher Education Act, 53. §, (6): “(6) The Government shall set the quota for newly admitted students annually, ... with labour market forecasts, the data of the career monitoring system, and the assessment of the number of unemployed professionals...” So, indirectly, a ranking is realized from the financial side. Despite the potential threats, I think that a decision based on very complex and structured questionnaires can bring to a more realistic and acceptable result.

In my study I use the GFS data to examine the Frederick Herzberg two-factor model findings at the University of Pécs, Faculty of Business and Economics (UP FBE, Pécsiközgáz). With the two factors generated by this model I analyze the characteristics and the labor market fit of the Pécsiközgáz graduates, focusing on their formation program and social situation.

2. Methodology

The researches carried out in 2010 and 2011 (*Kuráth et al* 2011a, 2011b) at the UP within the framework of Graduate Follow-Up System consist of the pre-degree students of 2007 and 2009 then of 2008 and 2010. From the UP FBE 1714 graduates formed the database who had an e-mail contact. The access rate is above 90%, so the basic population inquiry is almost complete. In the sample there are 384 graduates, which is a good, 22.4% access rate. This is well above the initial expectations despite the fact that a personal survey was not carried out; only the online platform was used. Based on arguments of GFS professionals at several GFS-related conference it is a well-known doubt regarding the quality of the data, that what is the main factor examining the question about the majority of the respondents: there are over weighted those fully satisfied, unsatisfied, or totally neutral. This question is to be discussed in a further study, in this paper I consider fully representative the sample of the research, because all the issues of the oral survey were conducted in the autumn of 2010 (within the framework of GFS every three years is required to carry out an oral survey to ensure the validation of the online surveys) and the relevant questions of the professional practice

oriented researches of the UP FBE (Farkasné et al 2011a, 2011b) fully support the results of the online questionnaire. Besides the basic examination of the sample representativeness it is also important to emphasize that the data was weighted according to the theoretical distribution of the full dataset considered the variables of sex, course type and faculties.

Frederick Herzberg published first in 1959 (Herzberg 1959) the results of a two-factor model based on deep interviews with 203 accountants and engineers from Pittsburgh. Apart from this limiting fact it can be well-used in the case of the GFS. Herzberg determined two variables group from this dataset: hygiene and motivator factors. He found that the former does not ensure the satisfaction but the lack of dissatisfaction, the latter can increase and result job satisfaction. His research shows that the lack of the satisfaction factors do not generate dissatisfaction, just simply non-satisfaction regarding the context of the job, and vice versa, the factors eliminating the dissatisfaction of the job do not provide satisfaction, but the non-dissatisfaction of the job. So it is important to pay attention to both groups, the most important variables within the individual factors are:

- Hygiene factors: company policy, supervision, relationship with boss, work conditions, salary, relationship with peers, security.
- Motivator factors: achievement, recognition, work itself, responsibility, advancement, growth (Herzberg 1987).

It should be noted that I examined the data not only within the entire university performed factor analysis, but the only FBE graduates factor analysis, so I searched for significant differences of the above mentioned variables of the FBE graduates compared not to the own average, but to the full four-year dataset. If there was a relevant difference, I indicated the use of the UP valid factors; otherwise the findings of the Herzberg two-factors model are valid for the sample consisting of 286 people of FBE (since from Pécsiközgáz I received this number of fully completed answers regarding the related 6 questions). I divided the sample into two groups based on the factors formed from these questions: motivator- and hygiene-guided graduates. This division – because of the small size of the sample, made with simplification – is based on the simple comparison of the different factors' scores: if the motivator factor scored greater than the hygiene factor, it was labeled motivator-guided, otherwise hygiene-guided. In this case – taking into account the methodology of the factor analysis – the two factors' mathematical mean is 0, so the positive or negative difference from the average (i.e., negative or positive range) counted from the scores of the graduates of the sample can be ignored, the relative comparison of each other is enough to categorize the individual cases into two groups. A further research – by increasing the sample size – probably will be a more detailed classification, resulting a deeper analysis (e.g. with the methodology of multidimensional scaling of the independent factors or by creating four groups based on the weighting of the six factors' scores).

In the crosstab analysis, significant difference was determined by taking the three criteria of the significance expectation into account: chi-square score less than 0.05; the minimum expected count is equal to or greater than 1 and the ratio of the cells with expected count is maximum 20% (Sajtos–Mitev 2007). A further difficulty of the research is that in the surveys of 2010 and 2011 several questions were changed by the Educatio Kht., so in several cases the analysis is valid only for two grades. In these cases the sample size is indicated.

3. The results of the analysis

In the job-related evaluations of DPR researches, a block consisting of six questions assessed the satisfaction of graduates. Table 1 shows the six basic factors and the weights of factors originating from the basic ones. Hygiene and motivator factors can be separated well, and the explanatory power of the model (R²) is 73.6%, n=288.

Factor analysis of full-time students strengthens this division, too, with the similar power (R²=76.3%, n=189). Hereafter, I will treat statements concerning full-time students separately from others only if any difference can be discovered between the results. The two subdivisions categorized students with a common coverage similarly, there were differences only in 21% of the cases. This, as a result of the methodology of the analysis, equalized the distribution of motivator- and hygiene-guided graduates in the sample.

Table 1. Herzberg two-factors model at the UP FBE

FACTORS	THE JOB CHARACTERISTICS	FACTOR WEIGHTS
Motivators	The professional content of the job	0.844
	The professional development, career	0.833
	Professional prestige	0.842
Hygiene factors	Income, bonuses	0.626
	Personal circumstances	0.804
	Physical environment	0.879

Source: authors' research

Nearly two-thirds of the graduates graduated in the traditional education system, 27.4% in the BA/BSc system and only 11.3% studied in the MA/MSc system. The rate of students taking part in full-time education is 66.2%, while the proportion of state-financed students is 64.8%. 74.1% of them are younger than 30, and the ratio of men in the sample is 37.0%. However, in neither case can we detect significant difference concerning Herzberg's factors.

We can see no difference in educational achievements of students concerning the applied subdivisions, the average is 3.7 (n=173) if using the traditional scale of marks. However, these students think that they had a little bit better results in comparison with their classmates (n=175). The knowledge of foreign languages is similar, too – members of the sample speak 2.2 foreign languages on average (n=174), mainly the English and German languages. Approximately 15.5% (n=174) of them studied abroad. In connection with study-related work experience, there can be no difference found between the two factors – 34.5% (n=172) had worked before starting their studies and 72.8% (n=173) worked during their studies. Foreign work experience is not significant (10.3%, n=175). Among those who was working when they graduated, a difference can be showed: 57.4% of motivator-guided students were working while only 39.5% of hygiene-guided students were doing so (n=176). It can be considered positive that the nature of work almost entirely corresponded to the students' own field (in 87.8% of the cases), thereby enforcing professional development. Reasonable conclusions cannot be drawn from the question relating to job search after graduating, but it is interesting that motivator-guided graduates tried to find job 10% more often. The questionnaire is unable to find the reasons, so it can only be presumed that they needed a bigger list of jobs to find the most appropriate work. This is also supported by the

fact that they attended job interviews to a similar extent and concerning the time interval, the difference is quite little in favor of the motivator-guided ones who looked for job for 3.8 months on average. The others motivated by hygiene factors looked for job for 4.6 months on average. It must be mentioned according to the results of the factor analysis that – concerning full-time students of the whole database – the motivator-guided graduates of FBE could all find jobs in their own fields.

There exists a significant difference between full-time jobs after graduation. Motivator-guided graduates had 1.6 jobs on average, and the hygiene-guided had 1.3. In a more detailed examination, we can see that 60% of the motivator-guided graduates had 1 job, 12.7% of them had 3 or more – against the percentages 72.3 and 5.2 of the hygiene-guided ones. So, those driven by motivator factors at work changed their working places more often. It is worth examining this statement in the light of wages, to conclude, how payments develop with this attitude. When speaking about unemployment, it can be seen that only 22.4% of motivator-guided graduates experienced this, while the value is 27.8% in case of the hygiene-guided ones (n=175). We have to emphasize that these values are not so high, mainly if considering the fact that – thanks to the position of the question in the questionnaire – lots of graduates calculated the job search period here. It is supported by the length of the period which is less than 6 months in 82% of the cases.

Concerning current labor market status, there is no difference between the two groups, which is very positive (only 3.5% of them are unemployed). The other answers show that the proportion of employment status is 88.5%. When investigating the sectoral division of jobs, it turns out that hygiene-guided people are market oriented in a bigger ratio, and motivator factors direct people rather to the state sector. As Table 2 shows, the result of the factor analysis is not significant only when concerning the Faculty of Economics but, however the tendency mentioned above can be discovered. Difference can be shown statistically when seeing the filtered values of the factor analysis – carried out on university students and full-time university students – to Pécsiközgáz. It is exciting that 55.9% of motivator-guided persons work for large companies (more than 250 employees), while 57.9% of hygiene-guided work for SME-s (n=175). It is likely that large companies involve large state-owned enterprises as well as budgetary organs in the study. Thereby, it increases the significance of state sector in case of motivator-guided people.

Table 2. Job sector of graduates by 3 factor analysis approaches

Factor analysis base	Herzberg factors	Private sector	Public sector	Total
Faculty of Business and Economics n=278 p=0.158	Motivator-guided	60.7%	39.3%	100%
	Hygiene-guided	69.0%	31.0%	100%
	Total	65.8%	34.2%	100%
University of Pécs n=278 p=0.006	Motivator-guided	56.5%	43.5%	100%
	Hygiene-guided	72.4%	27.6%	100%
	Total	65.8%	34.2%	100%
University of Pécs, full-time course n=183 p=0.024	Motivator-guided	59.5%	40.5%	100%
	Hygiene-guided	75.2%	24.8%	100%
	Total	68.9%	31.1%	100%

Source: authors' research

There is no difference between the two factors even if concerning the career-related question. 21.1% of them are leaders, which is a little bit bigger in case of motivator-guided persons (23.5%) and, among these the proportion of non-graduate employment is smaller (7.8%) than among graduates led by hygiene factors (9.0%). The rest is the value which relates to the proportion of graduates doing graduate jobs. The difference is not significant concerning the number of months spent in the current position, but people led by motivator factors have an average of 23.3 months, compared with the average of 19.5 months of the hygiene-guided ones. Moreover, the formers have been working for the same employer for a longer period (27.9 months vs. 24.5 months). The difference between the average values is due to the outstanding values but we must take it into consideration that 50% of the graduates have been working in their positions for 8 months or less and they have been working for their employers for 11 months or less.

Values coming from the answers given to the question of applying professional knowledge in practice and the connection between used knowledge and the profession support the rightness of the subdivision of motivator-guided graduates. They rated the connection 3.4 (5-degree Likert-scale, in which 5 is equal to 'fully apply the knowledge in practice'), while the others – led by hygiene factors – gave just 3.1 on average. In 92.5% of the cases can we see connection if investigating the graduates led by motivator factors. When hygiene factors lead the persons, the proportion is 84.6% (n=175). Tendentiousness during the choice of work in case of motivator-guided graduates is supported by the fact that in 60.6% of the cases MA/MSc diploma is needed to fulfill the position, and in 27.3% College/BA/BSc-level knowledge is needed – only 12.1% said that they did not need any paper from higher education. In 20.6% of the cases diploma is unnecessary concerning former students led by hygiene factors. Only 31.4% of them needed MA/MSc-level degree (n=168). The difference is very big, mainly when taking into consideration that in the crosstab analysis according to the form of education, the ratio of motivator- and hygiene-guided persons were the same. To prove the statistical connection, I investigated the results filtered to 2011, too – since the question relating to the needs in connection with education form was asked in the questionnaire of 2011. In this case, the proportion of BA/BSc qualifications statistically significantly grows at the expense of the traditional university education, but there was no significant difference between the two groups led by Herzberg's two different groups of factors.

The income gap is significant according to the 2011 survey; the average net income of motivator-guided graduates was 171.8 thousand HUF and only 146.4 thousands in case of graduates led by hygiene factors (n=168). This gap also exists when we examine the incomes from other aspects – but the difference is not so significant. The probable cause why we cannot conclude a significant difference concerning the total could be that the two surveys have different methodology. However, the average income is 191.1 thousand HUF, compared with the persons led by hygiene factors, having 20 thousand HUF less on average. Table 3 shows the detailed subdivision and the average incomes if considering the sector of the job and the teaching schedule.

There is no significant difference between men and women concerning the incomes but, however, the average is 18-20 thousand HUF higher in case of men (168.1 thousand HUF). If investigating Herzberg's factors, we can see neither statistical, nor mathematical difference in the average incomes but, in case of women, we can see that women guided by motivator factors earn 176.5 thousand HUF, while women led by hygiene factors earn 137.6 thousands – which is a significant difference statistically, too. So, in case of women, motivation reflects in the amount of incomes, too.

If we divide the base population (n=175) into 4 groups according to their ages, we can see that 74.4% of them are younger than 31. The income gap appears under the age of 31 between the graduates led by motivator factors and the others guided by hygiene factors, in favor of the former ones, who earn 175.8 thousand HUF on average, while the other group got 137.2 thousand HUF. In the year of 31 and above it, the difference is not significant. Moreover, the relation is just the opposite, in favor of the graduates led by hygiene factors (they earn 186.4 thousand HUF, while the others led by motivator factors earn 165.4 thousands on average). A further subdivision of the first group (younger than 31) shows that some difference can be seen among the 20-25 year olds (motivator: 144.2 thousand HUF, hygiene: 115.74 thousand HUF), but it is not significant statistically – so the significant difference must appear in the second age group (26-30 year olds). Among them, the ones led by motivator factors the average income is 19.7 thousand HUF (hygiene: 157.7 thousand HUF). So, the younger students who enter the labor market as graduates gain the bigger incomes. Moreover, motivator factors are advantageous in comparison with hygiene ones.

Table 3. Net job income of graduates by 3 way filtering and by the job sector and by the course type

Sector	Filtering base	Motivator-guided		Hygiene-guided		Total	
		Mean in thousands of HUF	Count (n)	Mean in thousands of HUF	Count (n)	Mean in thousands of HUF	Count (n)
Private sector	Graduates of 2008 and 2010	184.6	47	152.9	77	163.4	124
	Graduates of 2007-2010	208.8	64	181.5	109	191.4	173
	Graduates of 2007-2010, without the second job income	195.9	64	171.2	109	180.3	173
Public sector	Graduates of 2008 and 2010	139.1	17	127.6	27	132.3	44
	Graduates of 2007-2010	167.8	38	153.6	53	159.9	91
	Graduates of 2007-2010, without the second job income	167.0	38	146.8	52	155.8	90
Full-time course	Graduates of 2008 and 2010	169.0	38	139.0	68	148.3	106
	Graduates of 2007-2010	191.1	71	160.0	108	167.8	179
	Graduates of 2007-2010, without the second job income	185.6	71	159.4	107	165.3	178
Part-time course	Graduates of 2008 and 2010	175.2	26	158.2	36	165.3	62
	Graduates of 2007-2010	191.1	31	194.1	54	189.9	85
	Graduates of 2007-2010, without the second job income	178.8	31	170.2	54	170.8	85
Total	Graduates of 2008 and 2010	171.8	64	146.4	104	155.3	168
	Graduates of 2007-2010	191.1	102	172.2	162	175.2	264
	Graduates of 2007-2010, without the second job income	183.3	102	163.2	161	167.2	263

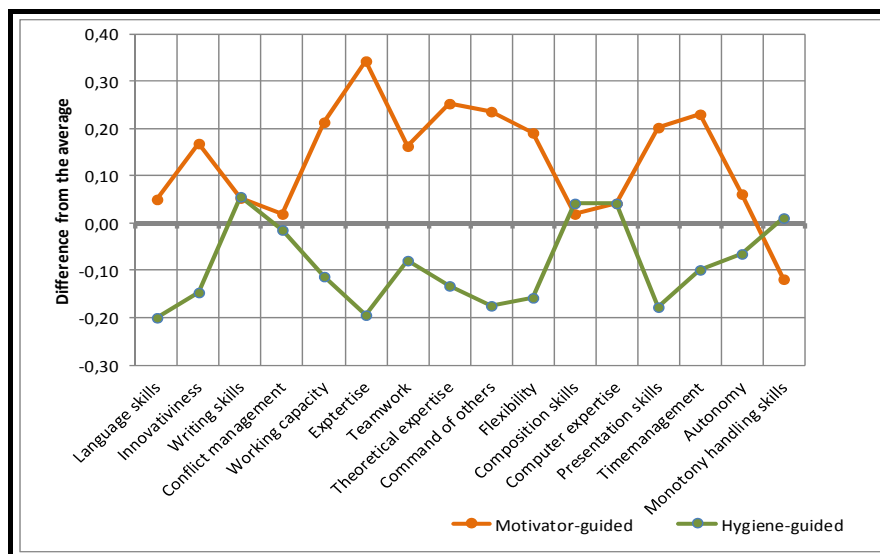
Source: authors' research

It is worth emphasizing that 17.2% have child/children under the age of 18 (n=174). We can find an interesting relation when investigating them: the ones led by motivator factors earn 151.1 thousand HUF on average, while the average income concerning the others (led by hygiene factors) is 164.0 thousand HUF – however, the difference is not significant. But in case of childless, motivator factors give a statistically significant advantage with an average

salary of 177.9 thousand HUF (hygiene: 146.5 thousand HUF). We cannot state that the leading factor changes when a child is born but we can suspect this phenomena.

A kind of expression concerning the connection with the institution is to keep contact with Alumni (membership, later on, financial support). We can see difference only in case of full-time Pécsiközgáz students; motivator-guided students are members of Alumni in a big proportion (34.2%), which means 60.5% of the total. As a result, it is very important to recognize the presence of motivator factors because students guided by them show a much greater propensity in keeping contact with the alma mater.

Figure 1. Competences difference from the average



Source: authors' research

It is important to examine, what types of abilities, skills and knowledge are needed to perform the given work – a block of 14 questions helped to measure this. Figure 1 shows the rate of deviation in case of each factor from the average. Differences are significant except in cases of writing ability, conflict management skills, formulation skills, IT knowledge, autonomy and monotony tolerance. It can be seen that in case of motivator-guided persons these abilities are much more needed to have bigger values. So, these persons have to focus more on the competencies needed in their profession during their studies. The most important abilities are autonomy (4.61), high workload, persistence (4.49), IT knowledge (4.42), conflict management skills (4.42) and good organization of work, time management (4.36). The less needed are the command of others (3.15), monotony tolerance (3.50), knowledge of foreign language (3.57), theoretical knowledge (3.82) and good presentation skills (3.85).

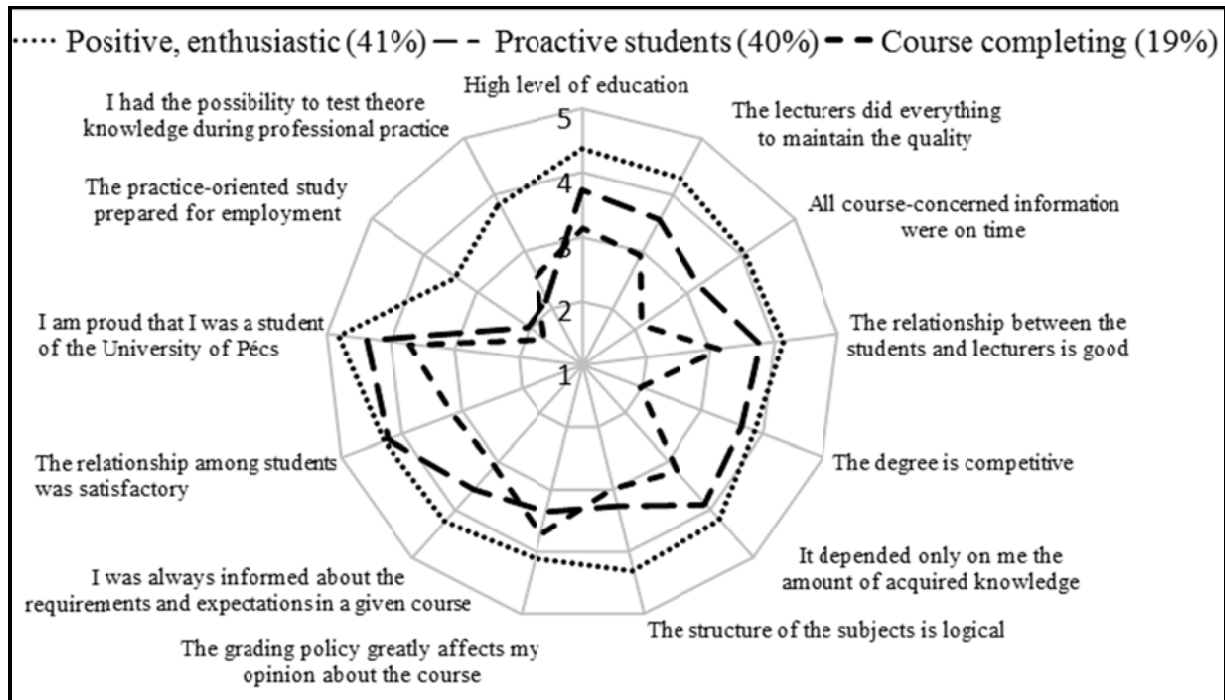
For a deeper examination I formed 3 homogeneous graduate groups by K-Means Cluster analysis.

The characteristics of the delineated groups are (see Figure 2):

- Positive and enthusiastic (41.0%): essentially agree with each issue, the perceived value of the practice-oriented education compared to the other two groups.
- Proactive students (40.2%): they strive to acquire usable knowledge and want to receive all qualification-related information, although they do not think that their education is practice-oriented. In addition, environmental factors and good and positive relationships both with the lectures and the students are important.

- Course-completing (18.8%): the least satisfied group, they gave a low evaluation to the questions in almost every area. Those completing the course-related questions which depend on individual performance are relatively high, but the objective values, especially course-related information are low. They do not want to achieve high skills, but only to complete the course and to take a degree.

Figure 2. The clusters based on the education's characteristics



Source: authors' research

I also looked for relationships between some of the groups other variables, for example the average net income. Based on the results of the research of 2011 I found that the average wage of the less satisfied with the University is 135.2 thousands HUF, the positive, enthusiastic has an average of 157.4 thousands HUF with minimal difference from proactive students (n=153). By examining the full data (n=267) I could not explain why the average salary (196.5 thousands HUF) of those less satisfied with is 30 thousands HUF more than that of the positive, enthusiastic group. For a complete picture I decomposed the results to full-time and correspondent students, and we found that there is an increasing difference among full-time students, but positive, enthusiastic correspondent students have a significantly higher average salary (279.1 thousands HUF) – probably due to the fact that they had been already working before they started their theoretical training. Although, until this point none of the differences were significant.

Matching the above clusters with the Herzberg factors, the proactive students correlate with the motivators and the course-completing and positive, enthusiastic students correlate with the hygiene factors. It is easy to understand if we consider the findings concerning the correspondent students, since graduating has a relationship with higher salary.

When examining the competencies necessary for the job, I found that employers expect greater autonomy from graduates after their university careers, although these often makes conflict situations and, due to their many responsibilities, they need a high working capacity. It is interesting that, among job skills, language knowledge ranks relatively low compared to

its value among the recommendations. It may be the case that a language certificate is required to enter most organisations although not used during everyday work.

Table 4. Net job income of graduates by 3 way filtering and by the clusters

Filtering base	Graduates clusters	Motivator-guided		Hygiene guided		Total	
		Mean in thousands of HUF	Count (n)	Mean in thousands of HUF	Count (n)	Mean in thousands of HUF	Count (n)
Graduates of 2008 and 2010	Course completing	143.6	9	127.9	10	135.1	20
	Positive, enthusiastic	178.4	26	146.0	42	156.7	68
	Proactive students	177.5	21	156.1	42	163.3	63
	Total	172.2	57	148.5	95	157.4	151
Graduates of 2007-2010	Course completing	176.2	16	239.8	22	196.5	38
	Positive, enthusiastic	184.1	45	153.6	66	166.1	112
	Proactive students	204.3	35	162.5	67	172.3	102
	Total	190.0	97	169.8	155	175.2	252
Graduates of 2007-2010, without the second job income	Course completing	135.7	16	231.7	22	177.3	38
	Positive, enthusiastic	182.9	45	141.3	66	158.4	112
	Proactive students	201.9	35	159.3	67	169.5	102
	Total	181.8	97	162.0	155	167.2	252

Source: authors' research

4. Conclusion

Because of the little size of the sample, further subdivision is impossible. Hopefully, this barrier will not exist in the future and we can make deeper analysis. It can be stated that the labor market position of the persons led by motivator factors is better. Not only do they use their theoretical knowledge more often in their positions, but they have bigger salaries in comparison with hygiene-guided persons guided. Members of the former group work in the state sphere in a bigger proportion but spatial differences cannot be shown. The proportion is a little bit bigger in smaller settlements. Their possibilities are different in their stages of life, but it can be seen that in the first period of their active years (between 26–30) they have a better position concerning the income. They do satisfactory jobs, adequate to their professional knowledge.

Generally, based on this it can be argued that, during professional practice, students were able to develop self-knowledge and to understand labor market expectations or not. It is not by chance that 'Pécsiközzgáz' students are aware of the advantages of professional practice and its related benefits. We see from the general GFS report of the University's Faculty of Business and Economics that a high level of significance and importance was accorded to the CCO by the graduates of 2007, 2009. Whilst the other Faculties of the University (10 in total,

including FBE) showed an average of 3.7% of contacts maintained with the CCO, at FBE this figure was 12.5%.

From the point of view of the institution, we have to emphasize that they keep in contact with the higher education institution in a bigger proportion, which is very important to the institution in the long run to fulfill its service development efforts. The number of motivator-guided people is bigger in the positive, enthusiastic and proactive groups, identified by the cluster analysis. It is worth developing a service pack to these people within Alumni, by which they can seize and further develop their competencies needed in their professions. I think that it is a positive step to start trainings after the analysis of needs. Experiences are good in connection with these, and graduates are interested in them. (PTE Alumni homepage) The essence of the system is that members get 60–70% discount to participate in the training which means a total sum of less than 10,000 HUF. This is acceptable for most employers for a one-day training.

Universities have an important role in students' 'well-being', and in this context in the achievement and maintenance of students' commitment, satisfaction and motivation. The appropriate learning form for individuals and a practice-oriented knowledge creation process allow students to develop their potential, to become more motivated and satisfied. If they feel well – and in this context much of the responsibilities are their own – they will be active, ready for different relations, willing to learn, and they will be strongly success-oriented compared to graduates who are part of 'the herd'.

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Employee engagement: how business goals can be achieved through employee well-being

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*„...man is treated as an instrument of production, where as he – he alone, independently of the work he does – ought to be treated as the effective subject of work and its true maker and creator”
(John Paul II. 1981)*

The aim of this article is to provide an answer to a question – is it possible to have great business results and flourishing workforce at the same time? Many organizations are facing the dilemma of satisfying different stakeholders demands – shareholders expect increasing profits, society wants responsible business. These seem to be opposite goals, but as they say – opposites attract – especially when it comes to employee engagement.

Employee engagement is a state that has numerous beneficial outcomes for both the workforce and the employer. Engaged employees are passionate about their jobs, are fulfilling their potential and have enhanced well-being (satisfaction with life, health), feelings of purpose and meaning (Salanova et al 2010, Schaufeli et al 2008). Greater performance is possible without exploiting the workforce.

Review of engagement theory and practice in this presentation will let us see that the transfer from “scientific management” to Positive Organizational Scholarship is possible.

Keywords: employee engagement, well-being, satisfaction with life, performance, business results

1. Introduction

Many organizations are facing the dilemma of satisfying different stakeholders’ demands – shareholders expect increasing profits, the society wants responsible business. Growing global competition and socio-economic climate force organizations to „do more with less”. Increasing evidence of social, cultural and environmental costs of economic growth makes organizations adopt the view of the sustainable development – “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987). Therefore it is important that managers focus on making their employees flourish rather than exploiting them. However for many managers the well-being of their employees and business results seem to be opposite goals, while for psychologist or HR specialist quite contradictory – how is it possible?

First of all, entrepreneurs try to achieve constantly increasing profit and some assumptions and rules that underlay scientific management theory may be compelling to them, hence they practice some of the ideas introduced in 1911 by Taylor (2003), like the need to:

- develop a science for each element of a man's work,
- select and then train, teach, and develop the workmen,
- cooperate with the men so as to insure all of the work being done in accordance with the principles of the science which has been developed,
- take over all work for which they are better fitted by management.

Most importantly – Taylor has highlighted the importance of paying for performance, which allows to control behavior and makes people strive for better results. Taking these elements into account, managers use performance management tools and measures which makes it possible to summarize all organizational behavior by fierce KPI – making the human factor redundant.

Unfortunately, what was most important to Taylor, has faded away. In the first chapter of his book in which he underlays the principles of scientific management, he states that “the principal object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for each employee” (Taylor 2003, p. 9.). Further he explains that prosperity of employer means “development of every branch of the business to its highest state of excellence” and prosperity of employee: “development of each man to his state of maximum efficiency, so that he may be able to do, generally speaking, the highest grade of work for which his natural abilities fit him, and it further means giving him, when possible, this class of work to do”. Taylor also notices that although it would be natural to assume these ideas as leading objectives of management, the reality is different: these seem to be antagonistic perspectives. This observation remains true – as Easterlin (1996) noted – paradoxically the explosion of goods and services as well as rise of aspirations that came with industrial revolution made it even more difficult to experience well-being.

What can now be observed is the turn to the idea of sustainable development – the need that was foreseen by Taylor 100 years ago (Jaros 2005, WCED 1987).

This is also related with the fact that nowadays more and more psychological research is contributed to finding out how we can make it easier for people to experience well-being – and this is the main aim of positive psychology. Positive psychology shifts managers’ attention from negative states (like depression or stress) to positive states (engagement, feeling good). As Seligman and Csikszentmihalyi (2000, p. 5.) noted, until now the research focused too much on pathology and repairing, instead of concentrating on building positive qualities and enhancing „fulfilled individual and thriving community”.

Summing up, from economists’ point of view for success in management the need is to focus on the economic indicators of profitability of an organization (i.e. high profits, cost reduction). Psychologists hold an opposite point of view that the indicator of business success is well-being of workers. What we know from previous research is that a) engagement is the one of the most important well-being indicators (Csikszentmihalyi 1990), b) employee engagement predicts employee turnover and customer loyalty (Harter et al 2002), c) psychological well-being of workers predicts, to some extent, their productivity (Donald et al 2005).

Hence, the aim of this paper is to discuss the necessity to focus on employee engagement in successful and profitable business management today.

In this paper we give a short review of the following: the concept of well-being, engagement as a component of well-being, reasons for increasing work/ employee engagement and next we move on to discuss the importance of employee engagement in business profitability.

2. Well-being through employee engagement

2.1. What is well-being?

Positive psychology and the study of well-being originally focused on happiness (subjective well-being) assuming that it was enough if positive emotions outweighed the negative ones

and people were satisfied with the key domains of life (Diener et al 1985). For example, Veenhoven (1996) indicated in his research that happiness is linked with the income level and GDP level. However, determining well-being only from hedonistic perspective is not enough, as Csikszentmihalyi (1999) asks in one of his articles – „If we are so rich, why aren't we happy?“. It was found out, that it is not the economic conditions themselves that make people happy (Howell–Howell 2008), but what they can do, the goals they have.

Currently, positive psychology research is shifting to eudaimonistic perspective – where happiness means experiencing the meaning of life or having a purpose in life. For example, self-determination theory (SDT), (Deci–Ryan 2000) presumes that if people are given a chance to fulfill their basic needs, such as: competence, relatedness and autonomy, they will experience well-being. In Kasser's aspiration model well-being is linked with pursuit of intrinsic goals in life like self-acceptance, affiliation, community feeling and physical health (Kasser–Ryan 1996). Another model of well-being – PERMA (Seligman 2011) includes five determinants of well-being: positive emotions, engagement, relationships, meaning and accomplishment/achievement. The research shows that well-being is provided by daily activities that allow one to satisfy one's basic needs (Reis et al 2010). As Diener and Seligman (2004) summarized, well being is conditioned by having resources to meet needs, having supportive friends and family, having rewarding and engaging work as well as adequate income, being healthy, having important goals related to one's values and having feelings of meaning.

2.2. Well-being at work: employee engagement link

As work is an everyday activity that on average fulfills about 77 000 hours of an adult person's life, and also can be viewed as a resource to satisfy other basic needs - it has substantial influence on well-being. As Warr (1987) suggested, certain factors of the work environment can be perceived as „vitamins“ that enhance well-being – these include for example: skill variety, clarity, physical security, autonomy and control, social support and interpersonal contact. Hence positive psychology research has also spread to work and organizational environment – researchers claim that organizational studies should focus on strengths and positive organizational behavior instead on pathology (Schaufeli–Bakker 2008).

Employee/work engagement is strongly associated with both psychological and physical indicators of thriving and that is why it can be perceived as work-related well-being seen from the eudaimonistic perspective (Schaufeli–Salanova 2010). Firstly, highly engaged employees have greater satisfaction with life (Wefald 2008, Szabowska-Walszczyk et al 2011a). A study by *Engagement Barometer* (2011)¹ for example shows that the most engaged employees can experience even 50% higher levels of subjective well-being than the least engaged ones. Also Rath and Harter (2010) show evidence that highly engaged employees are twice as likely to be thriving – high on well-being. Engagement has been also found to be associated with feelings of psychological meaningfulness (Van Zyl et al 2010).

Engagement is also associated with experiencing positive emotions more often, which according to “broaden and build” theory by Fredrickson (2001) allows people to perform better, as they become more out-going and effective. These findings can be also associated with flow – an autotelic experience, that occurs when activity is so enjoyable, it is worth doing just for itself (Csikszentmihalyi 1990).

¹ *Engagement Barometer* (Barometr Zaangażowania) – a consulting company providing employee engagement research and advisory services, located in Poland: <http://barometrzaangazowania.com>.

Another important engagement related outcome are self-efficacy beliefs (*Bandura* 1970) – person feels competent, able to achieve goals and accomplish success in what he or she is doing – which can be easily associated with fulfilling basic needs (*Salanova* et al 2010). Longitudinal studies conducted by *Hakanen* et al (2008), *Salanova* et al (2006) and *Xanthopoulou* et al (2009) prove the existence of a “spiral of positive gains” – an engaged employee makes better use of available personal and job resources and hence is more effective and receives positive feedback, which in turn enhances engagement.

Further well-being contribution is the positive relationship between employee engagement and greater self-reported health. Evidence supporting this thesis can be found in several studies: *Hakanen* et al (2006), *Schaufeli* et al (2008), *Schaufeli* et al (2006). More specifically, engaged employees report less headaches, cardiovascular problems or stomach aches (*Schaufeli–Bakker* 2004). *Agrawal–Harter* (2009) have also found that disengaged employees are twice as likely to be diagnosed depression, have higher stress levels and also have greater risk for heart disease.

Strong evidence supporting the existence of a positive relationship between engagement and well-being (both psychological and physical) as opposed to ill-being can be found in research regarding the difference between work engagement and workaholism. Although both seem similar work-related states when we consider such elements as: excessive hours worked or dedication to work, these states differ substantially. *Schaufeli* et al (2008) have shown that workaholics feel somewhat forced to work (drive) which results in lack of enjoyment of work and greater health problems, while engagement leads to better health and enthusiasm. Similarly in a study by *Schaufeli* et al (2006) high levels of engagement indicated greater satisfaction with life while workaholism quite the opposite.

3. How to increase employee engagement?

3.1. Capturing employee engagement

In the past decade employee engagement has gained attention of both: academia and practitioners. This is because engagement connotes: high levels of energy, being absorbed with tasks, innovativeness, dedication to goals etc. – and these qualities make it an interesting concept for consulting companies and academic researchers, as it is beneficial for organization and the employee.

The broadest perspective is “employee engagement” – which indicates the relationship between a person and performed work including the organizational context (*Schaufeli–Bakker* 2010). The assumption that engagement can be defined in an organizational context agrees with what *Macey* and *Schneider* (2008) have concluded in their meta-analytic review, as well as with the evidence concerning the importance of self-efficacy beliefs, which are associated with performance, that can be evaluated only when work environment is taken into account.

An example of this perspective is a definition introduced by *Engagement Barometer* (2011), see also *Szabowska-Walaszczyk* et al 2011b) that follows: employee engagement is a positive state that results in behavior beneficial for the employer, where positive state means: enjoying work and optimism towards tasks, giving the best of yourself and treating working for the organization as an important part of life. More specifically these elements connote being engrossed with one’s work cognitively, physically and emotionally as the person: likes performed work, uses full potential as in an autotelic experience (i.e. flow); enjoys intense work and is energetic, feels as if the time flew by; feels the work is meaningful and relates oneself to the success of the organization as a whole. Employee engagement is both: job and

organizational engagement (*Saks* 2006). What follows engagement are specific behaviors and attitudes (loyalty), that accumulated in time and number lead to business related outcomes.

Some researchers focus only on work engagement itself, for example *Schaufeli* and *Bakker* (2004) define it as a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption. However *Bakker* and *Demerouti* (2008) also suggest that work engagement research is a part of positive organizational behavior (POB) paradigm, defined as “study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today’s workplace” (*Luthans* 2002, p. 59.), that also relates to the organizational context, hence the term work and employee engagement are used interchangeably in this article.

What is common for either of perspectives is that engagement is perceived as a positive work-related state that:

- is characterised by enjoyment of work, high levels of energy, as well as cognitive and emotional dedication to work,
- is relatively stable across time,
- is measurable and is influenced by performed work and work environment (functioning of an organization and co-workers),
- has positive results for the person itself and the employer.

3.2. Drivers of engagement

Other important issue is the necessity to differentiate engagement from its antecedents (drivers) and direct or indirect results, which allows it to be measurable – this was noted by *Saks* (2006), *Macey* and *Schneider* (2008) and *Szabowska-Walaszczyk* (2010). *Macey* and *Schneider* (2008) specifically refer to “engagement scales” that in fact measure drivers of engagement or focus mostly on results, such as particular behaviour. Such an approach makes it impossible to measure engagement itself, not to mention suggesting what can be done to enhance it.

What is also crucial, is the fact that employee engagement is a state distinguishable from other positive work related states such as job satisfaction or organizational commitment (*Macey* and *Schneider* 2008). The main difference is that engagement consist of energy-activation component and satisfaction is more a satiation-like state that connotes contentment with conditions of work, furthermore organizational commitment is a binding force between a person and the employer, and doesn’t have to include the relationship with ones work (*Schaufeli–Bakker* 2010). It should also be noted that commitment, especially if defined as in three component model by *Meyer* and *Allen* (1991): with affective, continuance and normative commitment, doesn’t necessarily have positive connotation as it can be a “binding force” not enjoyment of work (*Bańka* et al 2002). Also studies by *Hallberg* and *Schaufeli* (2006) have provided empirical evidence that work engagement cannot be equalled with either organizational commitment or job involvement.

If engagement is defined as a distinct and unique state it can be measured and managed through enhancing the qualities of work and organizational environment that drive engagement - “job resources” (*Bakker* 2011). In the academic literature following antecedents of employee/work engagement have been found: social support from colleagues and supervisors, performance feedback, skill variety, autonomy, and learning opportunities (*Bakker–Demerouti* 2007), information and innovative climate (*Hakanen* et al 2006), rewards

and recognition (*Koyuncu et al 2006*), work-life balance (*Sonnetag 2003*), procedural justice and job characteristics (*Saks 2006*). At the same time lack of job resources and presence of job demands – difficult conditions could evoke burn-out – through excessive workload, emotional demands, time pressure, difficult physical conditions (*Bakker 2011*).

One of the most important elements is the leadership style or the quality of management that is presented by the immediate manager. Wefald has proved that what fosters high levels of engagement is transformational leadership (*Wefald 2008*), this relationship was also confirmed by *Zhu et al (2008)* – with correlation reaching $r=0,58$ ($p<0,01$). Similarly *Szabowska-Walaszczyk and Zawadzka (2011)* have studied this mechanism more carefully – it seems that when employees rate their supervisor lower as far as the quality of management is concerned, they also perceive their organization as functioning worse. This concerns especially such dimensions as: internal communication, change management, empowerment and participation, opportunity to learn and use skills, employment policy. Furthermore, this was related to lower levels of engagement and more limited scope of positive organizational behaviors.

Research also shows that that some personal characteristics (“personal resources”) such as: self-efficacy, organization-based self-esteem, optimism, locus of control are positively related to engagement, or can even be treated as its predictors (*Albrecht 2010*). Employees possessing these qualities are more likely to approach more demanding goals, even in presence of job demands and make better use of available resources (*Salanova et al 2010*).

4. Employee engagement and business results

The link between employee engagement and positive business results has been confirmed in several studies – for overview see *MacLeod and Clarke (2009)*, *Bakker (2011)*. As *Arnold Bakker (2011)* has summarized, four reasons can be found why engaged employees perform better:

- positive emotions caused by engagement allow greater thought-action repertoire,
- better health means that all resources and skills can be dedicated to work,
- feelings of self-efficacy allow creation and better use of job and personal resources,
- high levels of engagement of one person positively influences whole teams and evokes greater collaborative effort.

What is most important engagement leads to “going an extra mile”, which in literature is defined by concepts such as: discretionary effort, extra-role behavior or organizational citizenship behavior (*Macey–Schneider 2008*, *Xanthopoulou et al 2009*). More specifically engagement is connoted with pursuit of better performance, persistence in achievement of goals, seeking innovative methods of work, praising the company (products and as employer), being loyal and working more as well as more intensively – see *Szabowska-Walaszczyk et al (2011b)* for details. These behaviors lead to business results such as: enhanced quality of external and internal customer service, effective key organizational processes, lessened absence, decreased fluctuation, greater productivity and improved financial results (see Table 1).

Table 1. How employee engagement drives success

DRIVERS OF ENGAGEMENT	EMPLOYEE ENGAGEMENT	EMPLOYEE ENGAGEMENT	EMPLOYEE ENGAGEMENT
Key areas: 1. Performed work 2. Immediate manager 3. Rewards and recognition 4. Practices and climate 5. Development and knowledge 6. Perception of the Leaders and employment politics	Positive state that results in behavior beneficial for the employer	1. Pursuit of better performance 2. Persistence in achievement of goals 3. Seeking innovative methods of work 4. Praising the company 5. Being loyal 6. Working more 7. Working more intensively	1. Enhanced quality of external customer service 2. Enhanced quality of internal customer service 3. Effective key processes 4. Lessened absence 5. Decreased fluctuation 6. Greater productivity 7. Improved financial results

Source: Engagement Barometer (2011)

For example a diary study conducted by *Xanthopoulou et al (2009)* on employees from several fast-food restaurants has shown that daily levels of employee engagement were significant predictors of financial returns. An important factor that influenced engagement was supportive behavior of the manager, that had coached the employee. In another diary study (*Xanthopoulou et al 2008*) the level of engagement had positive influence on extra-role (helping company overall image, helping coworkers) and in-role performance (fulfilling job requirements and objectives).

Similarly *Salanova et al (2005)* has analyzed the influence of work engagement among customer service employees: sample consisted of over hundred units: 58 hotel receptions and 56 restaurants. The results show that employees that had resources such as: autonomy, training and technology (tools) had greater levels of engagement and this had positive influence on service climate. As a result customers perceived these front-desk employees as providing great service (high levels of performance): putting themselves into customer's place, doing more than usual and surprising them with excellent quality, being empathic towards needs – all that has positively influenced levels of customer loyalty. Engagement level was also proved to have positive influence on unit innovativeness as was shown in a study by *Hakanen et al (2008)*.

Apart from maximizing profits and performance, organizations try to minimize fluctuation as hiring new employees is costly: team performance is temporarily decreased and very often so valuable “know-how” is lost. Research shows that high engagement means loyalty and associating ones future with current employer – negative correlation between engagement and intention to quit is rather strong, for example $r=-0,475$, $p<0,01$ (*Wefald 2008*). Similarly *Saks (2006)* has shown that high engagement significantly lessened intentions to quit – standardized β coefficients in multiple regression analyses equaled $\beta=0,33$ ($p<0,01$).

As mentioned before employee engagement also correlates with better health – from organizational perspective this is an important outcome that can help decrease absence and costs of sicknesses – highly engaged employees are reported to take even up to 2,5 times less sick days than those low on engagement (*Engagement Barometer 2011*). Similar results were reported by *Schaufeli et al (2009)* – engagement was negatively correlated with voluntary absence (frequency of taking days off), and burn out (as a state of ill-being) predicted the duration of absence.

Several studies have also been done by the Gallup Organization in order to provide evidence of positive relationship between employee engagement and business outcomes. As *Harter et al* (2003) state, the correlation between engagement and performance is between $r=0,26$ (within companies) and $r=0,33$ (across companies). When standard deviations of performance are taken into account, the dependence is such, that business units with employee engagement level above the median achieve results 0,5 above standard deviation of accepted performance units. A meta-analytic review involving 8000 business units (*Harter et al* 2002) has shown that when comparing high and low engagement teams, following average differences can be found: 10%-29% less turnover, 1,9%-4,4% greater customer satisfaction, 80 000-120.000 \$ higher revenue (sale) per month. Additionally, *Rath and Harter* (2010), state that the annual cost of lost productivity due to sick days can differ substantially depending on employee well-being: for those who are low on well-being estimated cost reaches \$28 800, while for people high on well-being – \$840. In other words, these researchers have found a significant relationship between employee well-being (understood as work engagement) and customer satisfaction, business productivity and profitability.

5. Conclusions

Joseph Stiglits, the Nobel prize winner in economy, said, “What you measure affects what you do. If you don’t measure the right thing, you don’t do the right thing” (*Goodman* 2009). All studies reviewed above show that employee engagement, resulting from well-being at workplace, can have a substantial influence on the competitive advantage of companies, which proves, in turn, that the approach of sustainable growth has extensive grounds. Organizations have to change their views on how to lead successful business nowadays. It is time to shift from focus on primacy of capital and profit increase to focus on components of well-being in organization – on work/employee engagement. The engagement theorists, *Schufeli and Salanova* (2010), suggest that enhancement of engagement is a very important issue that should receive constant attention from managers. Hence, they suggest that the term “amplition” should be used for management of engagement, meaning continuous improvement of work and work environment quality, instead of interventions.

There are some additional arguments indicating the necessity to shift from money/capital increase to engagement/ human account. There is a great amount of research on the negative effects of focusing on money. When people focus on money they are more competitive, greedy and antisocial (*Vohs et al* 2008) which could influence negatively team work and organizational climate. We also have to be aware of growing consumer force on business management – consumers want to make sure that organizations have “a human face”, that is related with Corporate Social Responsibility politics introduced more and more often worldwide. There are some well-known cases of business problems in which workers suffered from ill-being (bad work conditions, breaking human rights, *Klein* 2004, *Zawadzka* 2010) which resulted in consumer boycott of their products.

Summing up, in the XXI century when the world economy should follow the idea of sustainable development and successful business needs to have “a human face” to develop and exist. We have to reconsider again the *Maslow* (1968) idea that humanitarian and wise management policy focus on social capital can return in profit. It is rightful to state that a paradigm of “economics of well-being” (*Rath–Harter* 2010) or “economy of well-being” (*Diener–Seligman* 2004) should be considered as a focal point of strategy planning and research.

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Responsible corporate behaviour at Szerencsejáték Zrt.¹

JUDIT TESSÉNYI

The GRI frame system determines exactly in which thematic group and with what content a company "should work"², the one that would designate itself as a responsible company. Nevertheless, this documentum does not contain special supplementing indicators, definitions elaborated for the gambling game industry. Responsible game standards within the general indicator categories can be mostly classified within the product responsibility category.

The European Lotteries Responsible Game Organising Standards conceptualize expectations related to responsible game organization, divided into ten larger thematic spheres, but indicator protocols were not prepared even in this case. One piece of data was enumerated among the topics of responsible game organization - the sum spent on the prevention problems with gambling games. However, there is much more than that.

The possible indicators of a responsible game organization are determinable and can be extrapolated from the Responsible Game Standard certifying frame system, and on the basis of the indicating numbers applied by lottery companies that have overcome the qualification. Within the frames of the present paper, the introduction of indicators dealing with problematic players, the analysis of the company's such activities and a glimpse on these research results is possible.

Key words: gambling game, addiction, gambling problem, addiction, responsible corporate behaviour, CSR, responsible game standard

1. Introduction

Since most of the companies try to achieve the increase of their revenue and their profit, it is an interesting question how all this could be realized with a product that can be quasi-classified as harmful, like gambling games. The increase of sales should not happen to the harm of the receiving or the purchasing sphere, but in the way how the company could realize the responsible game organization besides its basic sales objectives.

Gambling games "rhymes well" with addictions: they offer an experience for the players, financial return for the organizers, and in the meantime state financing – due to the influent tax income – for the whole state sector. Nevertheless, this system rests on a more and more shaky foundation, since Poker Mania or the incredible success of Euromillions is dangerous from every possible aspect. One can bet on a football match virtually anytime, at night, or during the day, or in the middle of a match.

Which are the main historical challenges in this strongly regulated gambling game market? What is the proper extent of limiting the spread of gambling games? What kind of relations are there between money laundering and corruption? What other problems can arise with relation to gambling games? What tendencies can we experience from the perspective of liberalization and internationalization? How do market opportunities and interests/the involvement of interested parties change? A great number of questions can be asked regarding the problems of gambling game organization.

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² Nevertheless, the concrete content is not determined by it since the reporting depth and not the performance of the company is the basis of individual classification. It does not criticise or evaluate, but it "remunerates" transparency.

2. CSR definitions

"The method of the companies' social responsibility (CSR) taking is the way how the business sphere regards the company's economic, social, environmental effects of operation, how it the company maximalizes the results and how it minimalizes the negative consequences. This is a voluntary activity which goes beyond regulating expectations, fulfilling standards related to the company's growth and from the part of wider segment of the society" (*International Business Leaders Forum 2011*).

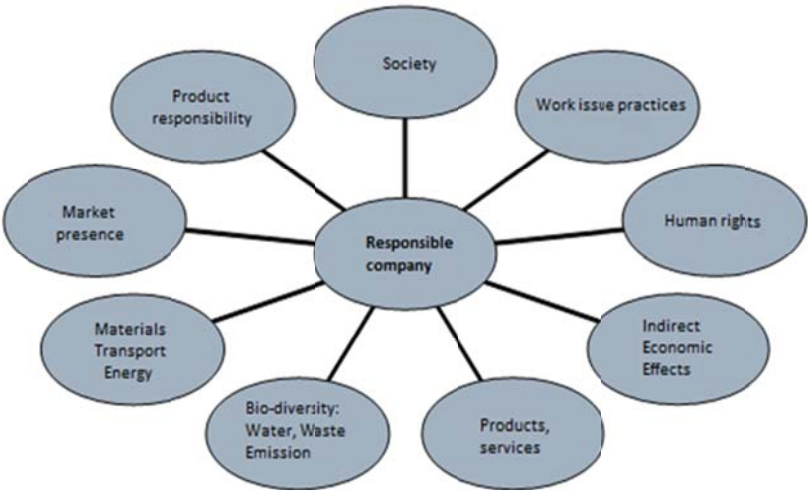
The possible designations, definitions of responsible corporate behaviour converge to the infinite. Nowadays it is easier to determine what is not CSR and which activities of those company demonstrate the CSR behaviour. It is quite offensive if a company's sponsoring activities, its charity work or its team building events are used to be promoted as – *Responsible corporate behaviour*.

Nowadays we can hear more and more about those professional discussions which directly question if a company's CSR can be used as a promotion. The clear seclusion would be a large mistake and a hypocritical marketing catch: those company advantages which arise in the long-term, which can be just pushed on CSR-consciously on a strategic level, cannot be formed without a proper communication. We can think of the role of inner communication with regards to encouraging loyalty.

On the other hand, if there is nothing else but a spectacular business catch, the company can cause more harm to itself since its stakeholder and mostly its customers would not accept if they were not "regarded as adults". The recommendation, developed under the auspices of the UN, and the *Global Reporting Initiative (GRI)* was born in order to make presentations about responsible performance comparable and transparent. "On the basis of Sustainability Reports, by the GRI Frame System, the organisation's commitment towards sustainable development can be proved. It helps the temporal comparison of organisational performance and this performance can be measured with regards to laws, norms, standards and voluntary initiatives" (*Benefits of GRI reporting 2011*). The significance of GRI can be emphasized mostly in international awareness and in widescale applicability. The indicators may offer strong points in which territories could deepen, what measures, actions could be realized.

But it serves ponderability. "...it helps the standardized approach of sustainability reports – it is beneficial for organizations which have reporting duties and for the users of reports, too" (*Benefits of GRI reporting 2011*).

Figure 1. The territories of the GRI



Source: own construction

3. Previous investigations

At the beginning of 2010, Ipsos Zrt – based on the order of Szerencsejáték Zrt – performed a countrywide representative research, in which 10,000 people participated, attempting to explore the Hungarian situation of gambling game addiction and the influence of certain games. According to the *Gambling addiction and responsible game organization study*, 1.2% of the 18-year-old and older Hungarian population is gambling game-addict, which means that around 100,000 people are involved. 3.8% is in the moderate risk factor category, and further 5.7% is in the low risk factor gambling player category.

The survey has shown that the public opinion on gambling addiction is that it is a chronic addiction and it compares it to alcoholism and drug addiction. Most of the polled people were aware of the basic characteristics of game addiction and its consequences. The research has stated that problematic gambling players like those games the most which would offer a quick-paced, immediate winning and would ensure a continually renewing challenge for the player. The slot machines, the casinos and most of the online games are such games so these are extremely dangerous to the players. Gambling addicts however, do not sample too much, essentially any accessible game would be acceptable for them.

The survey which applied gambling habits from the previous year as the basis of its study found that 94% of the players, who play gambling games as entertainment, have chosen the games of Szerencsejáték Zrt., 24% of gambling game addicts play only at the Company, and 69% of them place bets everywhere – but primarily at the competitors' – mostly in casinos, slot machines. Online gambling games are chosen by 48% of the addicts. It can be known that among the non-problematic gambling players only 11% played as an underaged, but among addicts 31% are underaged. (*Ipsos 2010*).

Before its Responsible Game Standards campaign, Szerencsejáték Zrt. started a research among its consumers by Kutatópont Kft. During the analysis of the results related to responsible game standards gathered by the research, the most important basic data, which would refer to the players, is that 95% of them never invested more money into gambling games than the amount they could afford. In unison with this every fifth answerer has experienced material problems in their own narrower environment because of gambling games.

This problem was mostly sensed by the citizens of county towns, among whom 30% have already experienced such situation. 81% of the participants have already met family feuds which was related to gambling games (*Kutatópont 2010*).

64% of the people think that gambling is not a harmless entertainment. Addiction, according to 80% of the participants, is a general characteristic of the Hungarian people. According to the people promotions have a negative roles (63%) regarding the formation of the addiction, while the positive, retentive power of them is only entrusted by every second person. According to a decisive majority of the participants gambling game addiction is a disease (92%).

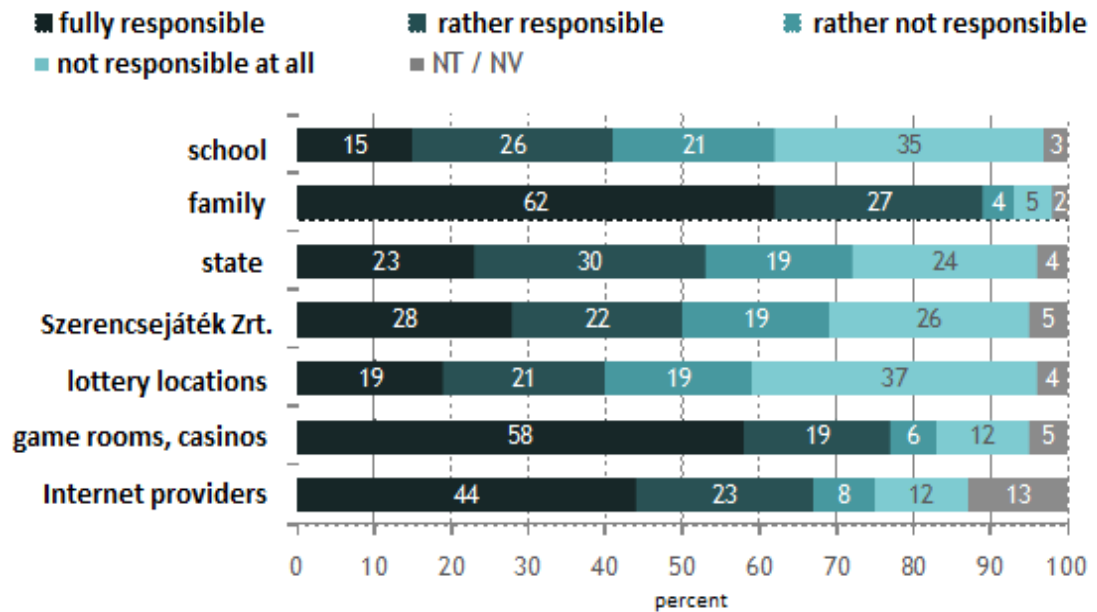
According to the answerers, Szerencsejáték Zrt. feels that helping is its own quest, because it is written by the law (25% of respondents), it would improve the judgment of the company (22%) and it reduces the feeling of guilt (18%). They believe, that *Szerencsejáték Zrt. should mostly emphasize informative campaigns and self-tests (48%)*.

67% of the people think that informative brochures are important, but *it is a serious limitation that 80% of the people never even paid attention to them*.

In the practice of underaged people, the family has the greatest responsibility (89%) but the influence of game rooms, casinos (77%) and Internet service providers is emphasized, as well (67%). Every second person thinks that the state and Szerencsejáték Zrt. are responsible for the gambling game practice of children and underaged people, while the most important

mediator of secondary socialization the school and also the locations of the lottery are responsible to a smaller extent (41 or 40%).

Figure 2. The responsibility of effected people in the limitation of the formation of gambling games according to public opinion



Note: What is the extent of responsibility of the below mentioned agents with regards to underage people playing gambling games? (related to all questioned people; n=1000)

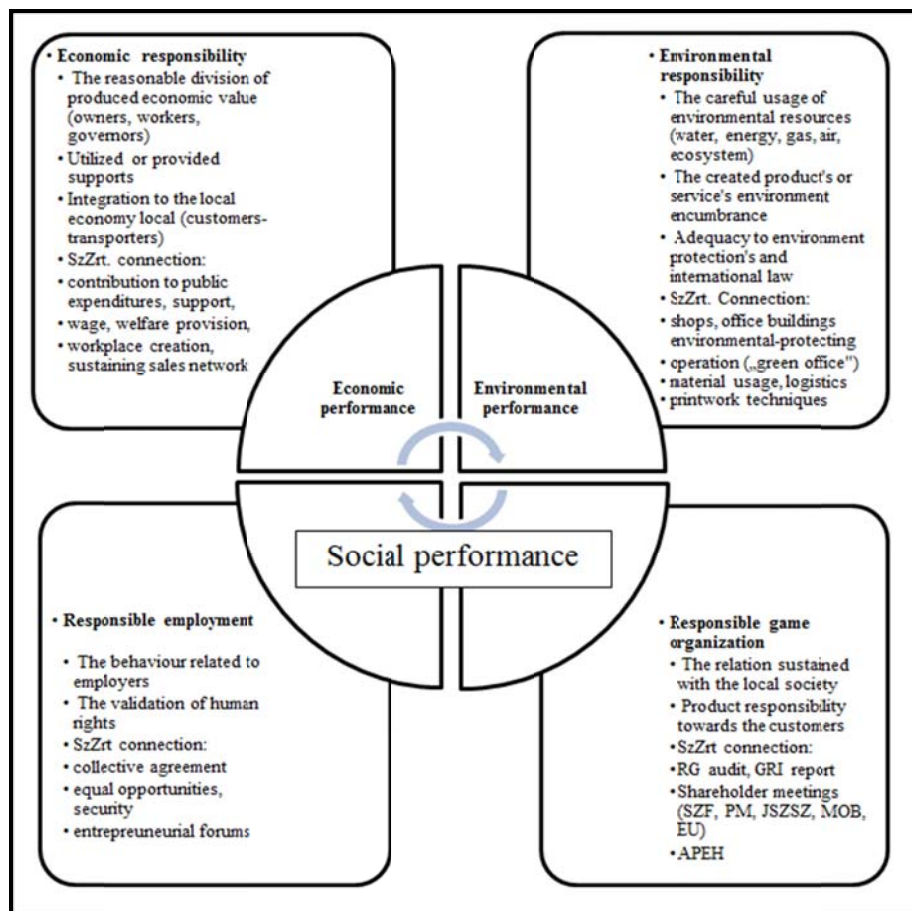
Source: Kutatópont (2010, p. 27.)

It is the company's social responsibility taking where we should see most vividly the care for the problematic players, or the ones that are becoming problematic, along with prevention, filtering, financing investigations and sharing information. By analysing the CSR reports of foreign lottery companies it can be declared that problematic players' treatment is the central element of responsible game organisation.

The modifications of this can be diversified, but would not limit itself to the given game organizing individual products. The formation of game addiction is influenced by winning chance, accessibility and the speed of the game (outcome, temporal consequences of the prize) (Shaffer–Hall 1999, Shaffer et al 2004).

The Figure 3 demonstrates the division of a responsible game organisation within the company responsibility taking with which we do not have to agree by all means. Keeping contact with local communities is the task of each responsible company, regardless of the questions of game organization. Considering the concrete content of Figure 3, we may find practical examples which can be related to this partial territory. We should have a look at the self-helping groups consisting anonymous gambling players in each town, or the institutions which were created to handle regional social problems (e.g. Drugfree Island, drug centers, clinical expert divisions). However, it is the game organizer's responsibility, during the development of the products, prior to their market introduction, to measure what risks the new game could have for the addicted and the endangered. GAM-GaRD is the most well-known measuring method, but the German system, which is a little bit more complex, but mathematically more established, is also worth to be mentioned (Peren 2011).

Figure 3. A possible relation between the CSR and a responsible game organization



Source: Szerencsejáték Zrt.'s own material

4. The indicators of responsible game standards

The European Lotteries Responsible Game Organising Standards conceptualize expectations related to responsible game standards which is summarized below. The application of the Standards is not of compulsory nature, but most of European lottery companies have undertaken it to fully satisfy the requirements prescribed in the Standards, and to expose themselves to an external verification to certify their readiness to the definitions of the below mentioned points:

1. Research
2. Training employees
3. Sales agent programs
4. Game planning
5. Remote gambling channels
6. Promotion and marketing
7. Treatment, orientation
8. Preparing the players
9. Including the involved parties (stakeholders)
10. Report, measuring and certifying

Several concrete data can be classified within the thematics of responsible game standards, for example the sum spent on the prevention of the problems related to gambling

games or to the related investigations. But there is much more to it than this. In the Appendix, the attached table describes the indicators of caretaking regarding problematic players. We can see below (Table 3) with what concrete data and indicators we can concretize these thematics (Responsible Gaming Standards). Being aware of the international experiences or the general GRI indicators, Hungarian game organizers' (state or private) general responsibility is to make steps in the below mentioned territories. All the above mentioned could be more simple if they had a professional association or cooperation.

Table 3. Indicators of dealing with problematic players (recommendation)

Designation	Editing
Finding the problematic players	Sums paid for financing the research
Institutional relations	Which of the institutes that are dealing with problematic players are in connection with the company?
Informing	Forums, events, Internet surfaces
Involving experts	Number of consultations, publications
Prevention	Informative brochures, tests (publishing surfaces, numbers)

Source: own construction

The GRI frame system does not contain special supplementing indicators that are elaborated for the gambling industry. A responsible game organisation within the general categories belongs to the product responsibility category.

The European Lotteries Responsible Game Organising Standards, which is divided into ten larger thematics, conceptualize the expectations related to responsible game organizations, but indicator protocols have not been prepared, yet. The European Lotteries (EL), from 2006, collect the comparing data of member lottery companies in a new structure. The clear price profit, the budget inpayment, the data related to direct support, which is in the report, show basically the economic aspect of lottery companies' social responsibility. One piece of data can be classified within the thematics of responsible game organisation, and that is the sum spent on the prevention of problems regarding gambling games.

It can be extrapolated from the certification frame system on the basis of indicator numbers applied by the lottery companies which are qualified. The possible relevant indicators of a responsible game organisation, with the preparation of the Sustainability Report, must be highlighted:

- The sum spent on the support of investigations dealing with the social influences of gambling games and the prevention of gambling problems.
- The number of products qualified from the perspective of social risk, the formation of measured risk indicators.
- The number of development programs, projects qualified from the perspective of social risk.
- The number measuring development indicates the social judgment acceptance of the products of the lottery company.
- The number of participants in the training programs which contain the principles of responsible game organisation.
- The development of acceptance among the employees of a responsible game organisation.
- The partial proportion of sanctions due to the number of test purchases and the violations of age limit rules.
- The number of resellers achieved responsible game organisation qualifications.
- The number of problematic players related to personal products.

- The number of employees thinking positively about working for a responsible game organisation.
- The amount of completing criteria referring to the remote gambling games by the European Lotteries Responsible Game Organising Standards.
- The development of the number of registered players.
- The number of players who use the possibility of self-seclusion.
- The proportion of unwithdrawn prizes compared to the income.
- The number of supervision processes initiated against the lottery company.
- The number of complaints received because of the violation of the personal rules of advertising ethics of lottery companies.
- The support given to institutions dealing with the treatment of problematic players.
- The location and the theme of the dialogue carried out with the stakeholders.
- The majority of these indicators cannot be extracted from traditional entrepreneurial information systems. The adequacy to the European Lotteries Responsible Game Organising Standards and its audit, however, may offer a great start. It is not necessary to authenticate the Report by an external auditor, but this is characteristic of the external practice.

5. Summary and conclusions

The conclusion of our above mentioned hypothesis is that responsible game standards are in some way different from responsible corporate behaviour in itself.

As a member of the European Union, it is unavoidable to pay attention to the international standards and to adapt them in order to form the game organizing activity proper to the Hungarian market specifications. Related to the responsible corporate behaviour, it is a general question how business profit and return relate to the investments of such types and to any possible self-limitations. In gambling game standards procedures this general question is supplemented with the suggestion because of the damaging qualities of the products, or their occasional consequences how they can be harmonized with responsible corporate behaviour. If all of this would not be a necessarily complex research question, we could add political attitude in the case of the state game organizer and the specifications deriving from the state ownership and other anomalies. The discussion of any following questions would belong to another paper.

The dimension of time is essential in responsible game standards which arises regarding the question of continuity and continual management, and also regarding scalability. Not only with the international game organizers can one compare the responsibility of the Hungarian game organizers, with the help of exact indicating numbers, but also compare them with each other, as well. If we deal with these qualifications, with standardized and constant indicating numbers, then the tendencies of different elements regarding responsible gaming standards can be measured in time, as well.

It is important to mention in our paper that responsible gaming standards and responsible corporate behaviour is not a promotion and they cannot be the topic or tool of a promotion, but at the same time, communication of them is an important element of the CSR. It is an essential insight that responsible gaming standards must be managed on a strategic level like everything else within the CSR theme, not only as an action program, but also as a necessity, as well.

Game organizing responsibility has at least three directions. One is towards the society and the stakeholders, related to the above outlined references, another is within the organization towards its employees, and the third one – and maybe this is the most important direction – is towards the customers due to the responsibility towards the players.

6. Appendix

Requirements	Key questions	Evaluation (the condition of acquiring accreditation is reaching the minimum of 75%)
<p>1. The members have to actively cooperate with the organisations dealing with gambling problems, treatment centers and/or with medical experts, for a better understanding. Also how does the problematic gambling player's attitude would influence the social effects of the products of lottery companies', or the situation of these players with promotion related to products?</p> <p>2. Where in the given legal system do the treatment services exist? How do the members (if the law does not designate another organization) have to provide the players and sales agents with the proper information, and have to cooperate with the services regarding the opportunities secured for the problematic gambling players. The implied information (details about making a contact, helpline-numbers) must be made accessible in a printed form and must be installed visibly in the gambling game rooms, betting offices and must be published on Internet sites of the members, as well.</p>	<p>a) How treatment centers and problematic gambling organizations are effected by the law?</p> <p>b) Out of them, which ones are affected by the lottery company? How does it take care of them and what are the results?</p> <p>c) Are there any people to whom the lottery company does not pay attention? And if there are, why?</p> <p>d) With what information does the lotter company or other organisation supply the players and the sales agents as a reference to the treatment services?</p> <p>e) How can the information referring to treatment services be accessed?</p> <p>f) Does the lottery company fulfill its duties either with securing the mentioned pieces of information or with a cooperation of a company which provides such information?</p> <p>g) Independently of the provider, are the contacts of the treatment services visible on game surfaces?</p> <p>h) How frequently and how strictly does the lottery company evaluate the properness of the treatment services? Does it seek for the methods of development?</p>	<p>The active and committed cooperation with organizations, dealing with gambling problems, with treatment centers and/or with medical experts, is proven, which has the objective of getting to know the problematic gambling perspectives, games, and paying attention to the influence of related promotion activities (30 points).</p> <p>The selection of such treatment services which offer remote help for the players has been taken place (30 points).</p> <p>The communication of the chosen treatment services has been realized and it is accessible:</p> <ul style="list-style-type: none"> – for the players (20 points), – for sales agents (5 points). <p>The treatment services and their communication is yearly reexamined (15 points)</p> <p>TOTAL= 100 POINTS THRESHOLD= 75 points</p>

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Taylor and after: paradigms in the history of management¹

BALÁZS VASZKUN

This paper seeks to answer the question “Why and how management practices and ideas changed over time?” We assume that the history of management can be defined by several “paradigms” and the study of their evolution can provide an answer.

The history of management in the US from 1900 to 2000 can be defined as a set of different paradigms with different managerial dilemmas, solutions and main advocates for each. We refer to these management paradigms as “Scientific Management”, “Human Relations”, “Structural Revolution” and “Global Competition”, this last one being proposed by the author. Their evolution coincides with the development of the practice of management in corporations. These paradigms followed each other but did not “die” when the next emerged, only faded somewhat, so the author assumes it is normal that practices, ideas and tools from each still prevail today. As a synthesized teaching of management history, the author identifies two main types of paradigm which can help the readers to evaluate the development and the national states of management system of different industrialized countries. Thus, the general framework of this paper can serve as a means to better understand management both in theory and in practice.

Keywords: taylorism, scientific management, management paradigms

1. Introduction

This paper shortly reviews management theories from the 1910s to the present day. Our objective is to place Taylor in a historical perspective in order to better grasp his contribution to the management studies. Based on his Scientific Management theory, other “management paradigms” will be identified which followed his era. In this introduction, we will look at how the first large enterprises were created, able to develop a conscious management and scientific practices in production, and define what we understand under management paradigm.

The birth of modern factories is greatly due to the railway constructions which brought the “revolution” of transportation, bigger markets, separating ownership and management (as few were being able to finance alone a complete railway line), and growing companies with more hierarchical levels. For the governance problems caused by professional managers, like differences in personal goals or performance information, the development of agency theory was to give a solution.

By the Civil War, the interchangeability of parts in production (first in weaponry) could be established, and so standardization with less skilled labor became reality. In addition, from the 1870s, a growing number of continuous-process machinery were introduced in American factories in order to increase the volume of production (Locke 1996). The industrializing world entered in an era dominated by the power of economies of scale, where the first priority of the firms was growth². The steam power made mechanized production cheaper, so prices could be lowered as well. Lower prices meant higher demand which pushed factories to employ more workers, buy more machines; and this race could be won only by those who achieved the cheapest prices by larger-scale production. By the 1900s, the aspect of scale turned to be a great advantage on the yet relatively more developed Western-European economies. As argued by Litterer (1961), technical skills and innovation in America was not used to make products, as in Europe, but to make production lines. To sum up, the key drivers

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² Skaggs and Leicht (2005) call this period (1860-1910) Entrepreneurialism.

behind the rise of Big Business in the late 1880s were technology, management, mass markets, and economies of scale and scope (Koehn 2009).

However, management of those ever growing companies presented a serious challenge, because their owners were lacking professional training or any kind of education about how to organize and coordinate the work of so many at the same time. In addition, an important part of workers were illiterate or, due to the immigration, could not even speak English.

In those early times management faced multiple problems. The most serious were recruitment, especially that of skilled labor, training of the uneducated, unmotivated workers, and keeping discipline (Wren 1994). The given responses included using “stick” (punishment), “carrot” (rewards, bonuses) and building a sort of “factory ethos”, often linked to religious morals and values, in order to stabilize hierarchy.

People were learning from their co-workers, production did not have standardized methods, and innovation was often blocked or resisted by labor. Employers promoted low wages because when a worker got enough money to survive for a few days, he or she simply did not return to work for that time. Workers did not make long term plans, or saved money; and management also operated in the same, ad-hoc way, without serious experience-transfer or conscious methods. It was believed that a good manager is merely made by the personality and owners recruited mainly family members in managerial positions, simply as a matter of trust.

Standardized mass-production required a more professional management, different of the previous manufacturing systems supervised by family owners. Large firms reached a size where their owners could not directly supervise work and train workers by themselves. This new management style emerged under the name of “Scientific Management”, which we will examine as our first paradigm.

When speaking about the term “paradigm”, we do not want to enter into full details described by Kuhn in 1962. This perspective would mean paradigms with distinct sets of ideas for each, in their own language, which would make them “incommensurable” with each other. Yet, what we need is to compare greatly different ideas and management patterns within this same framework. For that, we will admit that a “paradigm” in management is a set of ideas, questions and answers, which form the dominant business practices and thinking for a certain period of time and geographical area. Guillén (1994a) who also used this term noted that paradigms ought to have a normative approach, complete arguments and impact in more than one country. In this thesis we will describe paradigms by answering the following questions: What kind of business and social environment characterized the specific era? What were the main managerial questions and challenges? What were the answers and solutions and how were they diffused? We will make a difference between “paradigms” and the management practices of any specific company which are only a sort of mirror or layout of the actually dominant paradigm.

2. Scientific management: the engineered production

Management literature abounds in confirming Taylor’s Scientific Management from the 1910s to be the first management “model” or “paradigm” (Pindur et al 1995)³. The difference compared to previously described practices was that a systematic, conscious and planned approach appeared in management. Why then, and why there? Were the 1900s clearly different for the working population than was the 19th century? We can argue that they were, first because factories grew much larger than ever before⁴. Size can be an advantage in terms of scale economy on one hand, but on the other, it represented a big challenge for the

³ See also in other works: (Guillén 1994a), (Wren 1994), (Waring 1991), or (Levie 1993).

⁴ As an example, Ford employed 53,000 workers by 1919 (Wren 1994).

managerial society which was still lacking professional training. Organizing the work of such masses often turned into violence and created clear tension between blue and white-collars. In addition, those masses were generally uneducated, which hindered seriously the complex work with machines.

Also, the 20th century was clearly different for the workers because a new professional group appeared in the more and more complex American companies: the engineers. Breaking the European dominance, the US became number one in number of engineers in 1900 – with Germany as second (*Guillén* 1994a). Familiar with numbers, they quickly became the business elite, often combining the professions of businessman and engineer. Both skills were important, as there was an urging need for methods dealing with labor unrest, with growing complexity in factories, and helping managers to gain further economies of scale (productivity).

Charles Babbage (1791–1871), an English mathematician and engineer was among the firsts in Europe developing a rational, systematic approach to management, but his voice did not reach very far. *Guillén* (1994a) states that both in leading business literature and in practitioners' writings, issues specific for Scientific Management appeared in the 1880s, and became dominant mainly in the 1910s and the early 1920s. Parallel to publications, techniques and ideas of the Scientific Management were taught in the curriculum of leading business schools as Wharton, Harvard, Dartmouth. Although the authors of those articles and books were numerous, the one with most of the fame, apostle of scientific approach in management was Frederick Winslow Taylor (1856–1915). In spite of government investigations due to strikes in military factories⁵, and a general resistance from blue-collars, by 1915 his main ideas were introduced or at least tried in 140 establishments totaling 63.000 workers. The original appeal was important: Taylor proposed a system which could use unskilled workers instead of unionized, expensive and rare skilled workers, raise productivity and reduce organized resistance through pay rise.

Taylor did not have any management background and after his apprenticeship, he started to work as a common laborer in 1878, and earned his scientific degree (mechanical engineering) in 1883, in a home study course while he was still working full time at Midvale Steel (*Wren* 1994). Although as a gentleman's son, he had this unique experience of working with blue-collars. Taylor developed certain empathy for the workers' point of view and his field experience helped him to understand the managerial problems of his era, like workers' restriction of output, or the lack of management methods for proper job design and incentives. The pay system at that time in factories was often based on the daily or hourly wage, which did not encourage hard work. Piece-rate systems, even if introduced, proved to be a failure as standards were often poorly set, and management would have cut rates if workers earned too much. When he became a supervisor, Taylor was looking for a new industrial scheme to prevent the hitherto common, bitter labor-management encounters. *Gabor* (2000) wrote on this experience: "The combination of the technical complexity of Midvale's military contracts and the surge in demand that followed the depression of the mid-1870s furnished much of the impetus for Taylor's most innovative work at the company" (*Gabor* 2000, p. 12.).

At Midvale, Taylor was looking for new standards, new industrial practices which led to time study, and he worked on a new incentive system where workers and employers could benefit together from the increased level of production. Since this pay system required accurate cost calculation, Taylor also pioneered standard cost accounting (to replace historical cost) and budgeting techniques, as better ways to measure performance. He established a new, scientific approach in management.

⁵ Taylor had several hearings from 1911 to 1912, especially due to strikes in the Watertown Arsenal.

Was he the only creator of these new ideas? Certainly not. James Watt and Matthew Robinson Boulton from Soho Engineering Foundry, Great Britain, introduced systematic and planned management techniques as early as in the late 1790s (*Pindur et al 1995*). We already mentioned the name of Babbage, who also established a systematic approach in Britain. But they were lacking the power of economies of scale to raise production to a weight high enough. During railway construction, McCallum created some system and designed the first org-charts to help organizing large companies. But still, the New World was waiting for a scientific man from large-scale industrial production who could create universally applicable managerial methods, solving all major labor-problems of that time. It happened to be Taylor, with his Scientific Management, which gave appropriate answer on how to deal with uneducated labor, workers' resistance towards piece-rate pay, underperformance, and tensed manager-worker communication at the same time. He called it scientific because, for the first time, he calculated piece-rates by precise measurements: their base became facts instead of whims, estimation, or even past performance. Also, he designed the proper and sustainable way of performing each task through time study and calculation. His management philosophy was new, because he wanted to recognize and pay "first-class" workers instead of positions. As the result of several years of experiment, Taylor designed a system based on time study, performance standards, selection of workers, careful assignment to the right job, separation of planning from performance, task management and functional foremen (*Taylor 1911*).

Taylor's concept as a whole apparently failed in widespread practice as managerial tasks proved to be too complex for uneducated clerks (*Wren 1994*). Also, organized labor caused much trouble. His system ensured total and objective control both on workers and on clerks for the first time – he certainly gained enemies. That was in spite of his widely read books⁶ and the effectiveness of his system⁷, on which he was giving classes at Harvard from 1909. Statistical evidence also shown that manufacturing output per working hour counted as 100 in 1958 went from 21.2 in 1890 up to 52.0 in 1929 (*U.S. Dept. of Commerce, Bureau of the Census 1975*)⁸.

Taylor's work was finally continued, polished and spread worldwide by his followers: Gantt, Barth, the Gilbreths, Brandeis, Le Chatelier, Emerson, and others. Especially Henry Laurence Gantt (1861–1919) was successful in this quest as one of the first management consultants and lecturer at numerous universities, with over 150 titles published, and more than a dozen inventions patented. As an example, the basis for the Soviet central planners to control their five-year plans was Gant's work: his famous chart designed for project planning (*Wren 1994*). Also, Frank and Lillian Gilbreth improved the methodology of time-and-motion studies and Emerson made further clarification on efficiency (*Luthans 1969*). Due to these improvements, more and more managers and engineers accepted Scientific Management. World War I and the resource-efficiency promoted by Roosevelt played also an important role in its popularization. Beyond that, the biggest effect made by one single person may be the one of Brandeis in the Eastern Rate Case, who successfully proposed that Scientific Management can help the railways to gain efficiency, and cut cost without raising fare prices (*Aldrich 2010*). New disciplines as industrial psychology with Hugo Münsterberg, Social Gospel or industrial sociology also supported the efficiency movement, although already paving the way for more "human" solutions (*Wren 1994*).

Going further with the practical impact, we must also mention the name of Ford and Bedaux. Henry Ford (1863–1947) made extensive use of Scientific Management techniques

⁶ Taylor's most famous writings are his book 'Shop Management' from 1903, and 'The Principles of Scientific Management' from 1911.

⁷ After Midvale, Taylor worked as a consultant for several companies where he could achieve spectacular raises in performance for lower labor cost.

⁸ Cited by *Wren (1994)*.

and improved its production process with gravity slides, automatic and endless-chain conveyors and other technological innovations. While speeding up the production line, Ford also increased the pay of his workers as Taylor proposed, although he disagreed with a few of Taylor's ideas. Charles Eugene Bedaux (1887–1944) played also an important role due to his popularity as business consultant. He was working for raising efficiency with Scientific Management methods, for instance through the standardization of the time to spend on a specific task. Between 1918 and 1942, over 700 American companies with 675.000 workers were advised by Bedaux (*Guillén* 1994a).

The era of Scientific Management marked not only companies but also other big organizations: Max *Weber's* work (1947) contributed to the development of bureaucratic structures in general (for instance, in the state administration) serving as a basis for following organization theories, and Morris Cooke extended its main principles to educational and municipal organizations (*Luthans* 1969).

At the same time, organized protest of workers nearly caused a civil war: in the US it reached higher level and was more savage than in any other industrialized country, especially between 1900 and 1920. Not only companies but also government and the courts were becoming increasingly hostile to unionism and accordingly, their membership declined from around 5 million in 1920 to 3.5 million in 1921 (*Wren* 1994). Blacklisting, strikebreaking, physical violence were common practices and employers attempted to attenuate tension by different ideologies like Social Darwinism or New Thought, justifying the subordination of employees. Critics also highlighted that some research data described by Taylor were simply not true, that he caused exploitation, ignored human nature of workers, and some observers even questioned to what extent Scientific Management was scientific (*Marosi* 1983). The shift to the HR movement could be considered as a failure of the paradigm, though both ideas and practices of Scientific Management survived the era (as did the Taylor Society), and can be found even today.

3. Human relations: the “awakening” employee

In the previous point we already listed some problems caused by the rise of large-scale industry; labor unrest appears to be on the top of that list. Scientific Management attempted though to give a technical solution to “soldiering” by increasing the size of the pie which could be divided between the owner and the workers. But wage appeal itself proved to be insufficient as strikes worsened and endangered profit. Continuous problems made shift general attention from the technical to the social-psychological aspects of work: that's how a new paradigm arose from the uncooperative, individualistic background of the Scientific Management based on American Puritanism, Social Darwinism, and New Thought⁹.

What was different in the 1920s, compared to thirty or twenty years earlier? The slower immigration, the electrification of the industry, and urbanization certainly had an important effect on society (*Guillén* 1994a). American labor prospered, too, witnessing real wages to double between 1865 and 1890, and once more from 1890 to 1921. In parallel increased life expectancy, and the average industrial work week decreased from 60 hours in 1890 to 55 hours in 1910, and then to 50 hours in 1920 (*Wren* 1994). In addition to these better conditions, Scientific Management apparently generated a need for greater welfare and better cooperation with unions in companies, some care that workers would have appreciated as human beings.

Psychology gained broader acceptance as early as during the Scientific Management era for its role in supporting selection at workplace. Also, corporate care on personnel was not a new idea: before industrialization business was more family-sized with paternalistic

⁹ For more details, see *Wren* 1994.

management. Early factory owners, such as Robert Owen (1771–1858) or Benjamin Seebohm Rowntree (1871–1954) provided a large scale of company benefits to the workers like meals, housing, education, health care, recreation, or dancing lessons. Owen also set up cheap company stores and raised the minimum age for working children (*Pindur et al 1995*).

Welfare services were developed in large companies from the 1900s, and here women played an increasing role: it can be that they had managerial career opportunities for the first time in business. In the 1910s, the term “welfare work” was replaced by “employment management” and the first professional organizations for personnel staff specialists were born. One of the model organizations of the Taylor system, Plimpton Press, created its employment department and named the first employment manager in 1910 (*Wren 1994*).

The somewhat symbolic beginning of the Human Relations paradigm is usually associated with the Hawthorne studies, although Hawthorne was not initiated as a breakthrough research. It began as a Scientific Management-inspired experiment in 1924, conducted by a professor of electrical engineering from MIT, who was looking for enhanced productivity while bettering light conditions (*Gillespie 1991*). As during the research performance tended to rise regardless to lighting, the illumination tests were abandoned in 1927 concluding that there were too many variables, among which “the most important could be the psychology of the human individual” (*Wren 1994*, p. 236.). That’s how the management of Hawthorne plant (Western Electric) decided that the experiments should continue. Two new researchers took on further studies and to test new hypotheses, a control group was also added to the experiment.

One researcher came from MIT (Clair E. Turner), looking at fatigue and mental attitudes. The second was the Harvard professor George Elton Mayo (1880–1949). It was known that dealing with the problems of workers, Mayo does not try to explain the situation by one factor but looks at the whole context from a mainly psychological perspective (Mayo, 1923)¹⁰. One of his greatest merits was certainly the new methods introduced in 1929 for interviewing the subjects of the research, which made the interviews more conversational: their average length went from 30 to 90 minutes. As a result of the study on one hand, it became clear that the simple action of being listened to made the workers feel better about their conditions, even if this improvement was only a false impression. On the other hand, workers’ complaints during the interviews often proved to be irrelevant to facts, unveiling hidden personal problems from the private life of workers¹¹. Interviewers step-by-step separated a manifest and a latent side of each phenomena. Then, after another comparative experiment in 1931, researchers finally concluded that management must “take into account sentiments along with the logic of efficiency. This position resulted in the admonition to management to view every organization as a social system” (*Wren 1994*, p. 246.)¹².

The Hawthorne research made it clear that pure technical skills were not enough for successfully managing people. There was a need for a good sense of diagnosis to understand human behavior, and interpersonal skills to be able to motivate, engage, lead and communicate with workers, or somehow deal with the shock of the 1929 stock market crash and the following economic depression¹³. But first-line supervisors with both technical-economic and human relation skills were rather rare in the early 1930s...

¹⁰ Cited by *Wren 1994*.

¹¹ For instance, complaints on the air pollution were found irrelevant to the facts but the interviewee’s brother happened to be recently died of pneumonia.

¹² The findings of the experiment are written down more in details by William J. Dickson, chief of employee relations research department at Hawthorne, and Fritz J. Roethlisberger, also from Harvard, who joined the research project after Mayo (*Roethlisberger–Dickson 1939*).

¹³ Unemployment rate rose to about 25% and the Norris-La Guardia Act of 1932 protected unions and supported the unionization of workers (*Skaggs–Leicht 2005*).

The new paradigm, called HR (Human Relations) movement, emerged as a response to this need in two waves (from the 30s to the mid-40s on one hand, and from the late-1940s on the other), with ambassadors mainly from social and psychological sciences. Those sciences apparently developed as a means to give more scientific basis to practical ideas, like Lawrence J. Henderson with Paretian sociology, or Elton Mayo with Hawthorne. For *Levie* (1993), the first true representative of the first wave, in the 1920s, was Mary Parker Follett, followed by Mayo and Roethlisberger. Wren adds Chester I. Barnard, Jacob L. Moreno and Henderson to the list.

Effectiveness and productivity remained first target for the HR advocates, like it was for the Scientific Management, only their ways of achieving it differed. When McGregor wrote about it first, he could only hope that a more positive attitude towards workers (the “Y-view”) would be developed and would improve management, although the reality of the late 50s was still not that bright (*McGregor* 1960). Mayo’s toolbox for managerial problems was more about listening, using group pressure for at least standard performance and initiating worker participation. Using the metaphor of Scientific Management, we can call the early stage of HR a closed system, where workers perform predefined tasks, and call the latter phase an opening system, where people have the skills to solve problems, in connection to their work environment, and not only perform tasks (*Bakacsi* 2011).

The above mentioned second wave of the HR movement started in the late 1940s¹⁴. Its leading scientists were Chris Argyris, F. L. W. Richardson, Jr., C. R. Walker, Arthur N. Turner, or Rensis Likert, Kurt Z. Lewin, Abraham H. Maslow, Frederick I. Herzberg, Douglas McGregor, Alex F. Osborn, Robert R. Blake and Jane Mouton¹⁵. Reaching the 40s, HR interest went more towards job enlargement and enrichment, work design, rotation, motivation, leadership, group dynamics, participative management. Finally in the late 1950s, Keith Davis redefined HR and wrote an important book with a modern approach of it, differentiating the terms “organizational behavior” for the understanding of human behavior, and “human relations” for the application of this understanding to operational situations (*Davis* 1957)¹⁶. Equipped with more knowledge on motivation, the second wave of HR went further in transforming jobs and interpersonal relations. Organizational Behavior and decision making theories delegated more power to the employees, henceforth decision makers, than before, while employees got also better educated (skilled) and better socialized at work (motivated) from the 1950s. Yet, up to this point, two of the main authors of the Human Relations paradigm have been ignored because of a difficulty to categorize them as either the first or the second wave. Considered as transitional figures, their work created a link between the two waves in a sense. Yet regardless to their category, Barnard and Simon merit our special attention.

Scholar from Harvard¹⁷ but first of all management practitioner, Chester Barnard (1886–1961) made great theoretical contributions to the field of management study. He is credited as the creator of numerous theories, including acceptance theory of authority, the role of informal organization, the functional and dysfunctional aspects of status systems, the importance of and nature of decision processes, or the role of the executive organization as a communications system. Denying the validity of economic models on the rationality of human beings, and as a contrary to the transaction cost theory, he stated that organizations come into existence simply when there are people who are able to communicate with each other, they are willing to contribute to action, and they do this for a common purpose. This system, called organization, can be maintained when equilibrium is created between the

¹⁴ That is also when the HR finally found its ways into the management mainstream.

¹⁵ For more information on the first vs. second HR waves, see *Waring* (1991).

¹⁶ Cited in *Wren* 1994.

¹⁷ He actually did not finish his degree when he left Harvard in 1909 (*Witzel* 2005).

system and its external environment on one hand, and within the system itself on the other (*Witzel* 2005). Another breakthrough theory from Barnard deals with the acceptance of authority based on free will and outside forces: he identified a “level of acceptance” under which employees would accept orders from managers automatically, without any questioning process. This level is set by non-written norms and understanding of cooperation and trust, and accordingly, the employee would accept a directive if he understood it, was able to follow it, and he believed it was appropriate regarding the organizational goals, at least as the employee understood them (*Barnard* 1938). Under this new light, managers were not giving orders anymore but gaining the cooperation of their employees (more and more capable to make decisions by themselves which is further developed by Simon). But Barnard not only redefined theories on authority, cooperation and communication: he was also able to develop a wider perspective of organizations, wider than their formal structures, and identify them by their investors, suppliers, customers, or other contributors as well (*Barnard* 1948).

Herbert A. Simon (1916–2001) was greatly influenced by Barnard in developing his theory about “bounded rationality”. In his classic *Administrative Behavior*, he criticized that management would be based on principles, as in the work of Gulick, Urwick, or even Fayol, and called for a new theoretical framework able to deal with the real causes of bureaucratic disease, not only symptoms. As a key to this new framework, he described the psychology of decision making in organizations. He stated that rationally behaving individuals do not optimize their situation but make decisions, based on the environmental constraints, which are good enough rather than optimal (*Simon* 1947). This emphasis on “open system” (in connection with the environment), acquired with his colleague James March, will be mentioned in the next point.

Contrary to previous studies, like the one of *Bendix* (1974) which claimed HR was merely an ideology, *Guillén* (1994a) affirms that there was an important practical impact of HR techniques. Adoption of HR techniques was often associated with the creation of personnel departments but also concrete techniques have been implemented into corporate practices. New institutes and research groups have been formed, especially in the US and the UK. Their basis was often Gestalt psychology and Social Gospel. The work of Jacob L. Moreno (1892–1974) must be highlighted as he developed sociometry, an analytical technique for representing interpersonal relationships on a so-called sociogram, but also psychodrama and sociodrama, serving rather therapeutic purposes (*Moreno* 1953). Another important construct for analyzing behavior was group dynamics, credited generally to Kurt *Lewin* (1890–1947) and his famous leadership studies. For the benefit of forthcoming company practices, Lewin also found that changes in behavior were more easily induced through group participation and involvement than through simple orders (*Lewin* 1948). According to *Wren* (1994), this also led to his unfreezing-refreezing theory on change. Other techniques from this era included human relations training or sensitivity training (increasing interpersonal awareness), suggestion systems, magazines & newspapers directed to employees for better communication, brainstorming and group discussion methods, job enlargement and enrichment, psychological testing of personality traits, morale survey, etc. Knowing themselves better in relationship to others apparently fostered the workers’ emotional and moral well-being, essential to group cohesion (*Locke* 1996).

Accordingly, teamwork, leadership and trained managers became highly emphasized during and after World War II. “Founded on the Mayoists’ call for socially skilled supervisors, enhanced by the ideas and techniques of Moreno and Lewin, and carried out in research centers and associations, human relations training reached its apogee in the 1950s” (*Wren* 1994, p. 281.). Also, individual incentives promoted by Taylor gradually faded compared to group incentives. In 1945, research directed by Rensis Likert (University of Michigan) shown that employee orientation rather than production orientation in leadership

led to higher productivity and less turnover. At the same time in the Ohio State University, instead of identifying a single style which leads to the best results, researchers differentiated more dimensions in every situation as in the contingency theory. With his research done in the restaurant industry, William Foote Whyte gave important contribution to the meaning of “status” as a motivator at the workplace (*Whyte 1948*)¹⁸.

For a complete picture of the Human Relations paradigm, we must also look at its ambiguous impact on the labor soldiering problem. Needless to neglect, HR was not made to represent workers, but at least it did not attack unions directly. Mayoists looked at the worker from the management’s perspective and accepted the need for “using” them as a means to higher productivity and lower costs. Also they didn’t bring any alternative to solve industrial conflict (e.g., collective bargaining). Briefly, they didn’t really take unions into account for building social solidarity. Moreover, unions’ voice raised when techniques like “moral surveys” were introduced, creating direct communication between workers and management and contouring labor leaders (*Guillén 1994a*). These strong lines of “power games” can make some of the reasons to usually neglect unions in developing main management ideas. Labor seemed to gain substantial power through legislation in the 30s (i.e. the Norris-La Guardia Act of 1932), which made resistance actually worse than it was in the 20s. However, from the mid-1930s, strikes and tension decreased again and organized labor caused henceforth less trouble for companies. Other critics of HR state that rather than defining a new ideology, it was just a revival of earlier humanist thinking driven by the prestige of Harvard and MIT to build a “conflict-free dream” although conflicts are necessary (*Wren 1994*). Authors also question the credibility of Mayo as evidences prove that his will was to show that material incentives play only a secondary role in productivity.

To sum up, the HR paradigm, with all of its merits and valuable contributions, was not wrong: it just became “too big”, exaggerated, compared to its scientific content. At least, from the 1950s, it could not bring appropriate answers anymore for several new managerial challenges. By that time companies were massively internationalizing which still needed good communication, interpersonal and intercultural skills. However, only skills were not enough as bad structures were often blocking further growth and international development. As summarized by *Wren (1994)*: “after World War II, the search for general management theory would emerge as a solution to the complexities of managing in the modern era” (*Wren 1994*, p. 342.).

4. Structural revolution and open systems

The United States enjoyed nearly unlimited markets until the 1950s when arrived to a point of saturation. In parallel, the international environment had only limited impact on the development of American capitalism, except for the two wars (*Guillén 1994a*). Then, the Marshall Plan and the postwar period brought new international opportunities for the hitherto stagnating USA: the end World War II meant economic recovery due to new markets, new products, and new technologies. This opening also brought a greater need for coordinating product development, manufacturing, and marketing on a world scale with adequate corporate structures. Management had to shift from the prewar production oriented practices to a new, “top-management” viewpoint coping with the increasing need for coordination, the larger-scale enterprises and markets, and the better-educated workforce. From a specialized standpoint, managers had to grow into generalists able to manage specialists. A new era came with business expansion and diversification.

The 50s and 60s are the era of “organization men” with tremendous opportunities for management careers in internationalizing companies. While increasing size, becoming more

¹⁸ Cited by *Wren (1994, p. 289.)*.

complex and decentralized, corporations massively adopted M-form structures and therefore expanded middle-management ranks. By the mid-1950s half of the largest American manufacturing firms were operating under multidivisional structure (*Fruin* 1992). Chandler in 1962 and Palmer et al. in 1987 claimed that the multidivisional form replaced the unitary (functional) form as the prevalent administrative structure among large American corporations. Palmer et al. introduce the M-form structure as a practical way to “regulate the nature and extent of territorial growth both within and between nations” (Palmer et al 1987, p. 25.). Also in the early 1950s, a new system theory was developed by Bertalanffy, followed by the development of the contingency theory as described in the previous chapter. Herbert Simon, with his colleague James March, stated that the classical principles of organization were incompatible with their actual contexts and therefore projected the birth of new ideas, new frameworks, or perhaps a new paradigm.

As noted by *Locke* (1996), a “single-product, single-function” enterprise, like railways, had to be managed at two levels: day-to-day operations and central decisions. The “single-product multi-function” firm, integrating forward and backward, needed administration also for elaborate marketing and raw material procurement. But the “multi-product multi-function” firms with even more layers could not organize their operation in the old, functional structure anymore. They had to split management into divisions with a full set of functional departments for each¹⁹. The diversification of firms, as the M&A, also increased the role of controllers and financial experts, who could provide accurate information on the performance of different parts²⁰. With the development of the contingency theory, authors sought to identify all valid elements of the environment and build a model leading towards “organizational fit” or a better match between their structure and the environment. Examples are works from *Chandler* (1962), *Galbraith and Nathanson* (1978) or from *Mintzberg* (1981).

Obviously, there are not many managers who wouldn’t manage according to the situation or circumstances. But we must not underestimate the power of focus on the environment in management research, consulting and education, in a world where the business elite used to seek to enhance performance by mainly looking into the organization (production process, employee welfare, etc.). Parallel to its impact on organizational structure, the situational approach gained terrain also in leadership (*Fiedler et al*)²¹, or in Strategic Management developing in the 1970s (e.g. SWOT analysis). Thus, in this quest for organizational fit, a robust organization theory had to be developed as to provide a framework for researchers.

Thus, management education developed based on Henri Fayol and later theorists such a William H. Newman, George Terry, Harold Koontz, Peter Drucker or Cyril O’Donnell (*Wren* 1994). The number of undergraduates studying management grew each year after the 1950s; being already 370,000 in 1950 (nearly double the ones in engineering). A real breakthrough was brought by the graduate business schools and the MBA programs: 4,814 graduates in 1960, 23,400 in 1970, 49,000 in 1980, 70,000 in 1990 (*Locke* 1996).

The framework of the internationalizing and bureaucratizing firms with the increased care for general theories on management and organizational structure was named “Structural Analysis” by *Guillén* (1994a). In this paper, we named it Structural Revolution to highlight its impact on organizational structures and management education. Completing the work of Henri Fayol and Max Weber, the forerunners of the Structural Revolution paradigm felt that efficient structures and operation of organizations were an alternative to the Mayoist school to solve the misery of the economic holocaust of 1929. They attempted to develop the “right” management functions and structures, stressing these as means to both employee satisfaction

¹⁹ Of course not entirely new, the multidivisional structure was used already in the eighteenth century by the French military.

²⁰ Mainly through ROI (Return-On-Investment) and other similar indicators.

²¹ For more information, see *Bakacsi* (1996).

and productivity. In a sense, especially compared to HR ideas, the toolbox of the Structural Revolution meant a return to the “hard” side of management. We count among these early advocates for example, James D. Mooney (a General Motors executive), C. Canby Balderston, Charles L. Jamison and William N. Mitchell (professors who initiated the founding of the Academy of Management), Luther Gulick and Lyndall F. Urwick, or Ralph C. Davis²².

We do not have precise measurements or any representative survey indicating to what extent managers took into account these authors, but the practical impact of the Structural Revolution paradigm is hard to overestimate mainly due to the rise of the consultancy business. Consultants and the mainstream literature all popularized the contingency approach. It was logical, easy to understand, close to the needs of internationalizing companies, so managers just followed the wave. McKinsey; Robert Heller & Associates; Cresap; McCormick and Paget; Booz, Allen and Hamilton; A. T. Kearney and others assisted to countless structural reorganizations in the US, seeking for a more adapted, better fit organization (Guillén 1994a).

Structural Revolution, with the context of open systems certainly shown the way and originated many new thought, although it had its critics as well. Several researchers in social sciences deplored, on one hand, the analogy with plants and animals. They claimed that success in human organizations was more complex than adaptation and survival and that congruency or fit theories could help to explain the past but not to “predict what fits will lead to high performance in the future” (Wren 1994, p. 392.). Indeed, compared to the Scientific Management and HR movements which promised a better world in a utopian way, the paradigm of Structural Revolution remained rather vague about the future. On the other hand, we still remember the debate on contingency determinism, described in Chapter 1. Criticisms from the 1970s denied what the early findings suggested: that a change in contingency would directly cause a move within the organization in order to reset the best possible fit. These debates attenuated however, and the contingency theory of organizational structure, basic theory of the Structural Revolution, continues to be a mainstream theory for organizations.

5. Strategies for the global competition

Management and organizational theories massively emerged from the 1950s to help managers’ education, but some had their doubts on how well these theories were implemented in the practice of management. The modest (1.5–4%) rate of growth of American companies was later shadowed by the spectacular rise of other countries. Whereas in 1950, the US provided half of the world’s industrial output, this became only 21 percent by the mid-1980s. And the same figure went up to 19 percent for a new competitor challenging the US hegemony: Japan (Locke 1996). Moreover, for the first time in the history of developed nations, the trade balance of the US and then many other Western countries had been broken by this “developing” country. This trade deficit kept growing even after the Plaza accord and reached in 1986, despite the dollar’s plunge, a record 148 billion dollar; in contrast to the Japanese 56 billion trade surplus with the US (Tsurumi 1987). This emerging, new “competition” had huge impacts on the status quo of developed countries: both on economy and on society as a whole.

In the 1980s, the US (Carter and Reagan) initiated a huge deregulation campaign to free the economy. The strength of unions declined seriously with a constantly falling private-sector membership. Interest rates escalated high along with the reinforcing international competition which led to job losses, loose labor market and decreasing power of the HR departments. From the 70s, strategic planning and forecasting emerged as a new-old corporate

²² For more details on these authors, see Wren (1994, pp. 295–313.)

function in order to help companies to improve competitiveness. Thus, parallel to deregulation, the 70s and 80s opened up an enlarged, global competition for the American firms, never experienced before. This competition made the business sector rethink efficiency, productivity, and competitiveness. New functions were needed in order to find ways to survive and to compete, and real strategic thinking which simple strategic planning could not provide (Mintzberg 1994). New, instant solutions had to be found. Theorists and practitioners tended to look abroad for best practices in order to find remedies for the lost productivity. This research led to Japan and made her a management example not only for the US, but to the whole industrialized world.

Prominent books soon appeared on the managers' bookshelves on the rising Japan, especially from *Vogel* (1979), *Pascale-Athos* (1981), *Ouchi* (1981), or *Ohmae* (1982). This list can be topped by the broadcast (24 June 1980) of the NBC White Paper (If Japan Can, Why Can't We), the 1980 Special Issue of *Business Week* (The Reindustrialization of America), or the countless articles throughout the 1980s in the *Quality Progress*, *The Harvard Business Review*, the *Fortune* and other specialized journals. Deming Societies were founded in every region; the Association for Manufacturing Excellence was created... to name only a few events highlighting the theoretical impact of the new competition. "For the first time, beginning in the late 1970s, American management found itself singled out for its shortcomings in terms of efficiency among capitalists forms of management" (Locke 1996, p. 5.). This entire echo gave to the Japan focus a huge theoretical impact, fueled by the Nippon economic success. After a content analysis of *California Management Review*, Locke (1996) confirmed that during the decade of the 80s the topic of Japan rose in a spectacular way, leading to 1985–86 when the journal indexed Japan as a "special" category. In parallel, the popular business weekly, *Fortune*, granted 2.4 percent of its article content to the Japanese business and manufacturing, or American subjects related to the Japanese challenge, in 1980. The same figure rose to 9–15 percent for the following years. To sum up, the theoretical impact of Japan rising and redesigning global competition was doubtlessly heavy in the USA. Beyond that however, we must understand its general significance for the American management history and the paradigm-framework of this thesis.

One of the most important concepts of the 1970s and 80s was called "Lean Management" which, among other factors, led to a redefinition of management in general: it characterized indeed the era's management philosophy and practices. *Guillén* (1994b) mentioned two "great managerial trends" for the late 80s: lean production and total quality management, which leads us to the practical impact of the paradigm. *Guillén* calls them trends; they are indeed not simply production-line techniques but methods with impact on the services sector and the general organization of work as well. Their impact is such an important one that it seems to be adequate to reformulate them into a more general, philosophical setting.

Our first main point with this period is the emergence of strategy and strategic thinking in business. In Darwinian competition (even in trade and commerce) random chance is the major factor. As Henderson pointed out: "In fact, business and biological competition would follow the same pattern of gradual evolutionary change except for one thing" –which was for him the strategy (Henderson, 1989, p. 140.). Peter Drucker stated in 1954, that decisions that really matter were "strategic". *Chandler* described strategy as influencing organizational structure of firms (1962). From issues concerning planning and forecasting in the 1960s and 70s, strategy evolved in common American business press as well²³. Concluding previous thoughts, and based on the ideas of Drucker and Chandler, *Igor Ansoff* (1918–2002) formulated his book on corporate strategy (1965) and built a comprehensive framework for

²³ As observed during the content analysis of Harvard Business Review articles.

further contributions. The contribution of Ansoff, also called the father of strategic management, cannot be overestimated: his strategic product-market matrix, his contingency view of strategic management or the strategic decision making are taught and known worldwide. Even the term strategic management can be credited to him: what he previously described, he renamed later the action of formulating objectives and plans on an analysis of the environment as “strategic management” (*Ansoff* 1976).

The other important element leading to the new paradigm was globalization, the extreme widening of the competitive area. According to the findings of *Gause and Witt* (1935)²⁴ from the University of Moscow, two small living creatures could survive and persist together, given a certain amount of food in a bottle if different species, but two of the same species could not. When competing for the same essential resource or food, one of the two, sooner or later displaced the other. The bottle in this experiment gives us the area of competition whereas the food is the living basis (income) of firms. According to the example taken from biology²⁵, companies which are “perfectly” identical, making their livings in the same way, cannot coexist in the long run in the same area of competition. Thus, through globalization and the development of information and transportation technologies, this competition area is widened nearly to the whole planet! The widening arena became a matter of fact with the rising Japan and other emerging economies from Asia, while the economies of Latin-America or Africa will soon take their stakes as well.

We may conclude from the biological experience that only competitive strengths, unique skills can ensure for a living entity or firm a unique advantage in getting resources it requires, and therefore maintaining certain equilibrium in the area of competition. The same conclusion led Porter to write his famous book series on competitive advantage²⁶. The idea that strategies like product differentiation or focus on niche are necessary alternatives to cost leadership for companies, in order to successfully compete and survive, became a key for the American business to recover from the competitive crisis of the 1970s and early 80s. “Each must be different enough to have a unique advantage”, argued *Henderson* (1989, p.140.), and they can survive. This idea proved to be true even with the cheaper Asian competitors and, as just one example, saved Harley Davidson after its bankruptcy (*Porter et al* 2000). Moreover, with Japan becoming number two economy in terms of GDP, more than before, American companies needed to differentiate themselves from their competitors, and create a stronger sense of belonging through corporate culture: a clearer identification of “us vs. our competitors”. The force of difference or culture encouraged employees to give more effort for the same price, and customers to pay more for nearly the same product closer to their “heart”.

One is tempted to conclude that the Japanese success was indeed the main cause leading to the rise of strategic management. However, the argument of this thesis is that the Global Competition paradigm is far beyond Japan’s influence. It is true that the answers and tools for the competitiveness challenge came basically from there in the 1980s. But if Japan didn’t exist, the same wave would have arrived a few years later from China or Korea. Thus, we believe that the practical impact is credited more to the competition with emerging economies than merely to the uniqueness of the Japanese production systems. Beyond real success stories in some cases, the adoption itself of these techniques, the difficulties of transplantation and cooperation with the Japanese managers, the cultural differences caused in fact heavy troubles in many American corporations. By Japanese standards, workers in the US lacked loyalty to the company, had too high salary claims, and were still commanded in a bad, Taylorist sense.

²⁴ Cited by *Henderson* (1989).

²⁵ The example is obviously an exaggeration as we have seen with the critics of Structural Revolution, but serves as a good illustration on the globalizing competition in business.

²⁶ His most famous ideas are the five forces of profitability or the “diamond model”; the value chain of firms; or the generic strategies cited above (low cost, product differentiation, and focus). For more details, see *Porter* (1980 or 1985).

Japanese typically criticized American managers for their lack of commitment, and abuse of power, whereas Americans resisted assimilation and sometime cooperation (*Locke* 1996). As a possible solution, Ouchi was for long time looking for a hybrid type of organization, combining advantages from both the American and the Japanese side, but with limited proven impact on practice (*Ouchi-Jaeger* 1978).

Partly due to the cultural differences previously mentioned, the Global Competition paradigm had also its critics. Like Scientific Management, the lean production concept could not be implemented as a whole in different organizations. As Dohse, Jürgens, and Malsch argued: “The contemporary Japanese management works within a system of industrial relations that limits the articulation of collective interests by employees. The Japanese organization of the labor process is, therefore, not easily transferable; it is at best possible to adopt some of its elements” (*Guillén* 1994b, pp. 82–83.). Strategic planning also received wide critics as for many authors strategy is not about plans but about “insights”. That is at least the point for *Campbell* and *Alexander* (1997) who argue that “strategy development is the process of discovering and understanding insights and should not be confused with planning, which is about turning insights into action” (p. 42.). The message that firms should separate strategy development from implementation is also confirmed by *Mintzberg* (1994). Others even added that the future could not be predicted anyway and so completely new ways were needed to think about strategy in uncertainty (*Courtney et al* 1997).

These critics don’t mean, however, that strategic management would not have brought appropriate answers to the challenge set by Japan and newly emerging countries. In the early 1990s, the US could finally march towards the 21st century with stronger, more reactive firms and better economic figures. As a sign of good corporate performance, in the late 90s, the US had the lowest unemployment rate since the 60s; and the forthcoming lost of the hegemonic status quo did not harm much its regained competitiveness. At the same time, the US also became much more shareholder-oriented than before (see the next part on finances), firms have been following typically short-term financial goals based on stock market information. Even since then, as *Jacoby* (2007) pointed out, except for employee ownership cases, full stakeholder view in the US remains extremely rare.

6. Conclusions

Writers can basically attempt to approach management history in five different ways. These different approaches are: (1) discussing management developments of a given time period; (2) using the “schools” way; (3) the institutional approach with focus on events; (4) the biography-based study of famous people; and (5) the combining of ideas and biographies (*Gibson et al* 1999). In this paper we basically used a time-based model, but our theoretical framework made it possible to use this time-line approach to define paradigms, categorize schools, and to better understand the life of management gurus or events at the same time.

The aim of this paper was to identify typical managerial dilemmas, philosophy and practices characterizing each period of time since mass production has been in use. These paradigms were certainly adequate for the socio-economic circumstances of each given period, but the solutions proposed by a paradigm did not stop with a new paradigm emerging. Scientific Management was resurrected as automation, management science, operations research, or management information systems, described as quantitative management movement by *Pindur et al* (1995) or as mathematical school by *Koontz* (1961 or 1980). Human Relations covers also latter organization behavior, personnel management, human resources management, empowerment, etc.; or the Human behavior (*Koontz*) or Behavioral schools (*Luthans*). Structural Revolution was based first on contingency theory of structure, but initiated also general management theories and management education, theories of international firms, the study of matrix and virtual structures, and so on. Accordingly, it

contains references to the Management process school, and even to the Empirical school (Koontz 1961), or the System approach (Pindur et al 1995). Global Competition stands for the study of Japanese business but also for competition in general, strategic planning or strategic management, and corresponds to the strategic management and Japanese-style management and even the excellence approaches described by Pindur et al. Thus, our summary of management paradigms ought to help management thinkers to place techniques or practices in their original context. But beyond that historical contribution, this review of paradigms gives us another, more pragmatic idea as well.

After the industrial revolution, the United States could emerge and defeat the European economies on their markets due to the mass-production and the resulting cheaper prices, despite expensive labor and transportation. Early paradigms reflected the rule of scale economy. The big change occurred in the 80s when the US nearly lost its hegemony against the high quality goods produced by cheaper labor in emerging industrialized economies. The new paradigm found new ways to compete beside scale economies and price: differentiation, communication of values, and the establishment of an emotional-driven consumer behavior. Global competition makes this new model, what we can paraphrase as Paradigm 2.0, a must for other economies as well (Porter et al 2000). Curiously, Japan, formerly the main competitor, takes longer time than expected to adopt a “2.0 paradigm” and other scale-oriented economies face the same problem. The teaching of the Global Competition paradigm may show the way of sustainability for those economies.

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“Students today, workers tomorrow”. An analysis of undergraduates’ attitudes towards corporate social responsibility

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The principal aim of this study is to analyze the internal and external Corporate Social Responsibility (CSR) functions attributed by university students to enterprises in their habitual economic activity, just as the influence of academic background in such subjective perceptions. Justification of that undergraduate focus is twofold. First, at a time when adaptation of professional profiles to new socioeconomic needs has become a priority for the new structure of university studies in the European Higher Education Area (EHEA), it seems pertinent to analyze the concept of CSR held by students with different academic background. Second, as consumers, undergraduates’ expectations of social responsibilities to be fulfilled by enterprises is useful as a guidance to improve adaptation of CSR decisions to the demands of specific segments of such an objective public by academic area. Self-reported data was collected through a structured questionnaire from a total sample of 400 Spanish undergraduates. Descriptive and multivariate analysis revealed a generalized awareness of the relevance of socially responsible criteria, particularly when concerned to relationships with employees and consumers. Moreover, students in Experimental and Technical fields showed higher expectations of enterprises’ social responsibilities than those within Social, Health and Humanities.

Keywords: Corporate Social Responsibility (CSR), attitudes, undergraduate students, European Higher Education Area (EHEA), academic background, Spain

1. Introduction

As a consequence of the increasing dynamism of current marketplaces and global economic activity in general, all kind of organizations around the world are nowadays concerned for maintaining their reputation and making it clear their involvement with social demands and changes, in order to send a signal to the various stakeholders with whom they interact. Even private enterprises –as organizational paradigms of “selfish” search for their own benefit– are aware of the need of satisfying the expectations of objective publics other than investors and clients. This entire have resulted in the substitution of a shareholders theory for a stakeholders theory, based on a wider and much more integrated concept of organizational activity.

In words of *Baker* (2006, pp. 197–198), “distinction between success and failure in competitive markets may be reduced to two basic issues, first, an understanding of marketing needs, and, second, the ability to deliver added value”. From this viewpoint, widely accepted among academics and experts, it is assumed that consumers’ demands and expectancies have to be satisfied, beyond what concerned to the specific product destined to satisfy the need which originated the relationship with the enterprise.

In this respect, issues such as collaboration with social causes, guarantee of fair work relationships with employees, suppliers and distributors, fair trade, environmental awareness and sustainable development, work insertion of marginal collectives, and health and safety at work are, among others, new expectations of consumers to be fulfilled by enterprises. At the same time, enterprises are more and more convinced that improvement of social settings through their own activity has a great potential to contribute to the objectives pursued. Hence, Corporate Social Responsibility (CSR) practices are becoming a new way to manage quality in organizations.

From this setting, this paper is aimed to analyze the CSR functions attributed by university students within different academic areas to enterprises in their habitual economic activity. Justification of such an undergraduate focus is twofold. First, at a time when adaptation of professional profiles to new socioeconomic needs has become a priority for the new structure of university studies in the European Higher Education Area (EHEA), it seems pertinent to analyze the concept of CSR held by students with different academic background. Second, as consumers, undergraduates' expectations of social responsibilities to be fulfilled by enterprises is useful as a guidance to improve adaptation of CSR decisions to the demands of specific segments of such an objective public by academic area.

At the same time, while several attempts have been oriented to discuss whether CSR contents should be imparted throughout business curricula (*Granz-Hayes 1988, Hathaway 1990, Ibrahim et al 2006*) or to compare business students with practicing managers (*Stevens 1984, Smith et al 1999, Ibrahim et al 2006*), very few studies have analyzed CSR conceptions of students in the various academic fields and discuss its implications for their future professional role as professionals.

Based on these arguments, this paper is organized as follows. First, we review the concept of CSR and the dimensions attributed to it in specialized literature and European policy. Second, we present some results from a study aimed to analyze the CSR functions attributed by a sample of Spanish university students to enterprises in their habitual economic activity. Finally, implications of results for improving corporate governance and CSR are discussed.

2. Dimensions of sustainability and responsibility in organizations

Earlier references to CSR in occidental literature date from the 1950s (e.g., *Drucker 1954, Eells 1956, Heald 1957, Selekman 1959*), when *Bowen (1953)* –known as the “father” of CSR concept– stressed the idea that larger companies are power centers whose decisions and activities affect people's lives in different ways, concluding that it seems reasonable to expect that managers assume some kind of responsibility on the matter.

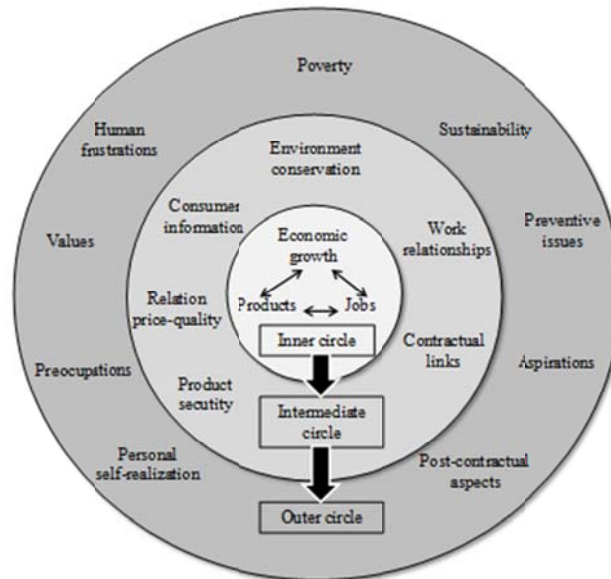
Afterwards, in 1960s and 1970s decades, it took place a conjoint stage of formalization and consolidation of the construct, with contributions of many authors from different fields (e.g., *Davis 1960, 1967; McGuire 1963, Heald 1970, Johnson 1971, Eells-Walton 1974, Sethi 1975, Preston 1978*).

Most speeches in these years were aimed to back up the premises that economy's production means should be employed in a way that production and distribution could reach total socioeconomic welfare (*Frederick 1960*) and that relationships between corporations and society should be taken into account by high-tech directives when considering the common objectives of all the enterprise's stakeholders (*Walton 1967*).

In this context, the Committee for Economic Development (*CED 1971*) in United States gave the first explicit official support to CSR postulates, providing a definition of the construct articulated around three concentric circles (Figure 1):

- The inner circle includes basic economic functions – growth, products, and jobs.
- The intermediate circle suggests that the economic functions must be exercised with a sensitive awareness of changing social values and priorities.
- The outer circle outlines newly emerging and still amorphous responsibilities that business should assume to become more actively involved in improving the social environment.

Figure 1. The three concentric circles in the definition of CSR according to CED



Source: Adapted from CED (1971)

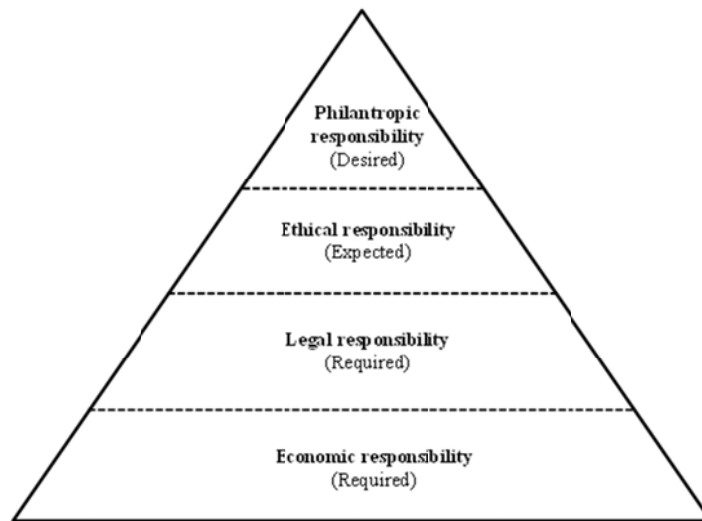
Summarizing the previous, at the beginning of the 1970s it was clearly perceived the explicit character of the social dimension in a business approach that stressed the design and implementation of efficient management methods, what stimulated the exploration of new and novel relationships between entrepreneurs, government and all kind of social collectives, these being or not recipients of the productive offer.

This new concept of enterprises' functions and missions led to a new concept of "social marketing" or "cause related marketing", with pioneering experiences such as the Nirodh Program for control of birthrate established in 1968 in India, or the *National High Blood Pressure Education Program* (NHBPEP) established in 1972 in United States.

Implications of this new concept of business missions for quality management were evident. In words of Davis (1973, pp. 312–313), CSR "refers to the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm. It is the firm's obligation to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks."

In this context, Carroll (1979) shaped one of the first models for CSR decision-making and management, starting from the base that managers should be provided with: 1) a clear concept of CSR, ii) a list of reasons justifying its existence (or an account of those stakeholders towards which the enterprise has a responsibility, relationship or dependence); and iii) an specification of the responsibility's philosophy towards corresponding topics. From this view, CSR is understood as an adaptive construct, considering that social expectations can be different for different temporal periods.

Figure 2. Carroll's pyramid of CSR



Source: Adapted from Carroll (1991)

From these contributions, in the 1980s and 1990s it was initiated a new stage of consolidation and specialization of CSR as research topic, with an increasing proliferation of both conceptual and empirical works (e.g., Jones 1980, Dalton–Cosier 1982, Carroll 1983, Drucker 1984, Epstein 1987, Wood 1991). In this framework, the new Carroll's CSR concept was based on four responsibility components or levels represented in the form of a pyramid (Carroll 1991), as shown in Figure 2. According to this vision of CRS, it encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.

Since 2001 there has been a “new gold age” in CSR research, at a time when its encouragement is currently at the heart of host of requirements and public standards in different countries around the globe. In Europe, governmental awareness of the importance of this topic began to be explicit in the Lisbon European Council, celebrated in 2000. It made a special appeal to companies' sense of social responsibility regarding best practices for lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development (European Commission 2000).

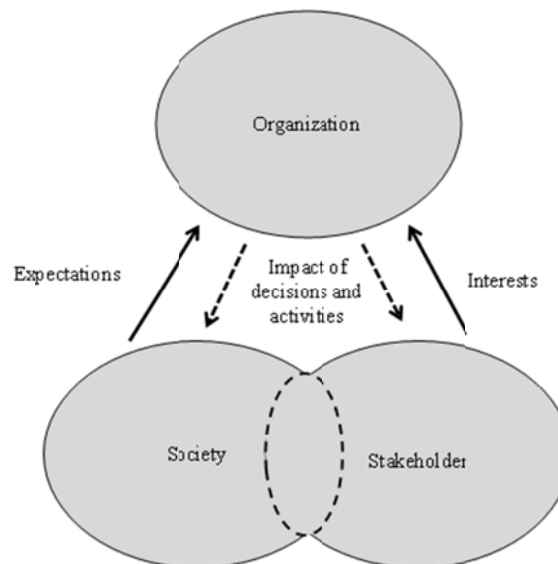
Afterwards, the Green Paper for promoting a European Framework for CSR described it as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission 2001, p. 6.). The document identifies two distinct dimensions, internal and external, of CSR. From this view, within the company, socially responsible practices primarily involve employees and relate to issues such as investing in human capital, health and safety, and managing change, while environmentally responsible practices relate mainly to the management of natural resources used in the production. On the other hand, CSR extends beyond the doors of the company into the local community and involves a wide range of stakeholders, including business partners and suppliers, customers, public authorities, and NGOs representing local communities, as well as the environment.

This vision of CSR fits with the one endorsed by the norm ISO 26000, launched by the International Organization for Standardization (ISO) in October 2010 for giving guidance on social responsibility in organizations. It is intended for use by organizations of all types, in both public and private sectors, in developed and developing countries, as well as in economies in transition. ISO 2600 contains guidance, not requirements, and therefore is not for use as a certification standard. This norm conceives CSR as the result of reciprocal

relationships between organizations and society and stakeholders, it being understood that enterprises should base their decision and activities on the satisfaction of society's expectations and stakeholders' interests (Figure 3). From this appreciation, seven dimensions are attributed to CSR: organizational governance, human rights, work practices, environment, fair game practices, consumer-related issues, and involvement with community and development (ISO 26000, 2010).

From this literature and political review, it follows that CSR practices are becoming a powerful tool for enterprises, in order to maintain their reputation, send a signal to the various stakeholders with whom they interact and, at the end, generate added value for society. In this context, CSR expectations of future university graduates, as both new labour force and potential consumers, might be a fruitful guidance for decision-making about quality management in organizations. Next, we present some results from a study aimed to analyze the CSR functions attributed by a sample of undergraduates within different academic areas to enterprises in their habitual economic activity.

Figure 3. Relationships between organizations, society and stakeholders (ISO 26000)



Source: ISO 26000 (2010)

3. Method and result

3.1. Sample and procedure

Self-report data was collected through a structured questionnaire from a total sample of 400 students at the University of León, ensuring a representative 95% (being $e = \pm 5\%$; $p = q = 0.50$).

Participants were selected through a procedure of stratified sampling, in accordance with the real distribution of students by field of study. Based on this procedure, 45% of respondents indicated a main academic background on Social & Legal disciplines, 25% on Technical & Engineering, 13.5% on Health, 11.8% on Experimental sciences, and 4.8% on Humanities. Among the total, 216 were females (54%) and 184 males (46%), aged 18 to 36 years old, the mean age being 21.95 (SD = 2.00).

Participants were asked about their perceptions of expected responsibilities to be assumed by enterprises with regard to eight internal (e.g., health and safety at work, professional development and lifelong learning, responsible relationships with shareholders,

etc.) and nine external (e.g., quality products adapted to consumers' expectations, ethical commitment to suppliers and distributors, fair play in the relationships with competitors, respect for the environment, etc) CSR activities according to the Green Paper (European Commission 2001). Respondents had to assess every statement on a five-point Likert-type scale ranging from 1 ("not important at all") to 5 ("very important").

Descriptive and multivariate analyses were performed to identify the CSR activities more frequently assigned by undergraduates to companies, and the effect of academic area on the expectations of individuals.

3.2. Results

Table 1 shows response percentages of perceived importance for the eight internal and nine external CSR activities, just as mean values (last column) as a measure for global current perceived importance of every item. Mean scores are also displayed in Figure 4.

According to results, CSR practices more expected by respondents corresponded to internal activities related to work conditions of employees, with average scores over 4 in most items. Exceptions were "*balance between work, family and leisure*", "*volunteering activities for employees*" and "*better information throughout the company*" (scoring average values of 3.97, 3.28 and 3.88 on the 1 to 5 scale).

While high, perceived importance was lower for external CSR practices, with average scores under 4 in most items, except "*quality products adapted to consumers' expectations*" (M = 4.21) and "*useful and truthful information about products*" (M = 4.18), and "*respect for the environment*" (M = 4.14).

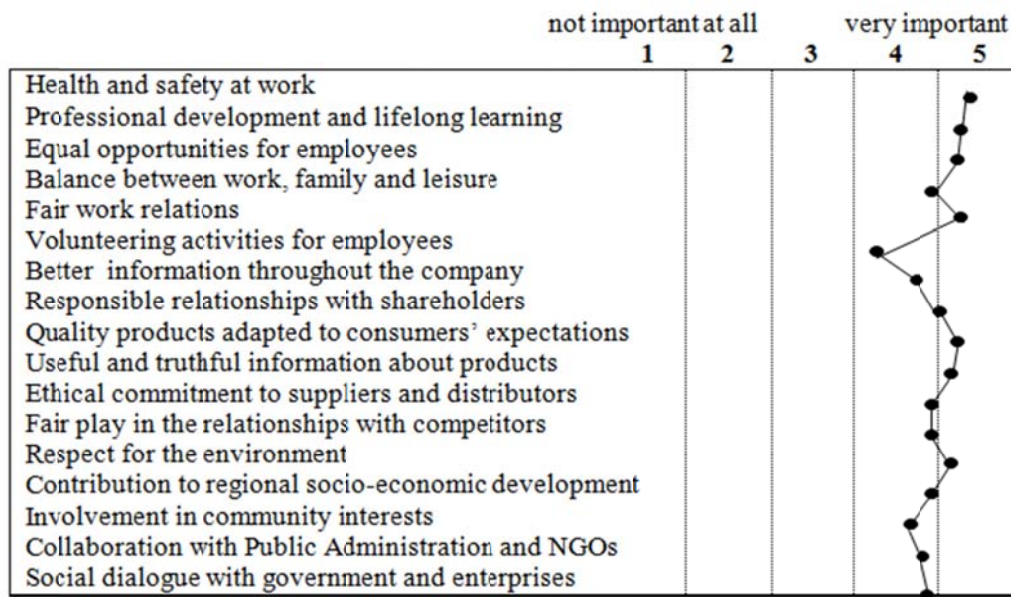
Therefore, participants' expectations concentrated mainly on organizational practices directed towards employees, consumers and the environment, whereas the remaining practices were perceived important but less central in the set of social functions attributed to enterprises.

Table 1. Perceived importance of CSR practices

	1	2	3	4	5	Mean (SD)
Health and safety at work	0.8%	4.0%	10.3%	25.8%	59.3%	4.39 (0.88)
Professional development and lifelong learning	0.5%	3.0%	12.8%	36.5%	47.3%	4.27 (0.83)
Equal opportunities for employees	1.3%	4.8%	14.3%	31.8%	47.9%	4.20 (0.94)
Balance between work, family and leisure	2.5%	6.3%	22.3%	29.6%	39.3%	3.97 (1.05)
Fair work relations	1.3%	4.0%	12.5%	27.5%	54.8%	4.31(0.92)
Volunteering activities for employees	6.8%	15.9%	36.5%	24.4%	16.4%	3.28 (1.12)
Better information throughout the company	1.3%	6.8%	25.0%	36.5%	30.5%	3.88 (0.96)
Responsible relationships with shareholders	1.3%	4.8%	17.3%	41.3%	35.5%	4.05 (0.91)
Quality products adapted to consumers' expectations	1.0%	2.0%	18.0%	33.3%	45.6%	4.21 (0.88)
Useful and truthful information about products	0.3%	3.5%	17.3%	36.1%	42.9%	4.18 (0.86)
Ethical commitment to suppliers and distributors	1.3%	5.5%	22.4%	38.7%	32.2%	3.95 (0.94)
Fair play in the relationships with competitors	2.8%	6.0%	19.8%	36.9%	34.4%	3.94 (1.02)
Respect for the environment	1.5%	5.3%	14.0%	36.3%	43.0%	4.14 (0.95)
Contribution to regional socio-economic development	1.8%	4.0%	22.1%	38.4%	33.7%	3.98 (0.94)
Involvement in community interests	3.0%	6.5%	32.8%	33.1%	24.6%	3.70 (1.01)
Collaboration with Public Administration and NGOs	1.5%	9.0%	23.0%	39.8%	26.8%	3.81 (0.98)
Social dialogue with government and enterprises	1.5%	6.3%	25.0%	37.4%	29.8%	3.88 (0.96)

Source: own construction

Figure 4. Mean scores in perceived importance of CSR practices



Source: own construction

Based on these preliminary descriptive results, we performed a one-way between-groups multivariate analysis of variance (MANOVA) to investigate the effect of academic area (independent variable) on the two sets of items regarding consumers' expectations of external and internal CSR practices (dependent variables).

Results showed a statistically significant difference between undergraduates with different academic background on the combined dependent variables: $F(68, 1431) = 1.77, p < .001$; Wilks' Lambda = .729; partial eta squared = .076 (Table 2).

Table 2. Results from MANOVA

	Wilks' Lambda	F	Partial Eta Squared	F	Partial Eta Squared
Health and safety at work	.729	1.77***	.076	4.43**	.045
Professional development and lifelong learning				5.46**	.054
Equal opportunities for employees				1.64	.017
Balance between work, family and leisure				0.83	.009
Fair work relations				3.35*	.034
Volunteering activities for employees				1.40	.014
Better information throughout the company				0.88	.009
Responsible relationships with shareholders				2.04	.021
Quality products adapted to consumers' expectations				3.10*	.032
Useful and truthful information about products				4.68**	.047
Ethical commitment to suppliers and distributors				4.57**	.046
Fair play in the relationships with competitors				0.39	.004
Respect for the environment				0.57	.006
Contribution to regional socio-economic development				1.99	.021
Involvement in community interests				3.21*	.033
Collaboration with Public Administration and NGOs				1.01	.011
Social dialogue with government and enterprises				3.90*	.039

Note: * $p < .05$; ** $p < .0029$ (Bonferroni's adjusted alpha level); *** $p < .001$

Source: own construction

When results were considered separately for each dependent variable, four practices reached statistical significance using a Bonferroni adjusted alpha level of .0029 (.05/17). These were “*health and safety at work*” (F (4, 380) = 4.43; partial eta squared = .045), “*professional development and lifelong learning*” (F (4, 380) = 5.46; partial eta squared = .054), “*useful and truthful information about products*” (F (4, 380) = 4.68; partial eta squared = .047), and “*ethical commitment to suppliers and distributors*” (F (4, 380) = 4.57; partial eta squared = .046).

While not significant at a restrictive alpha level based on Bonferroni criteria, other four marginal differences were significant at a $p < .05$ level: “*fair work relations*” (F (4, 380) = 3.35; partial eta squared = .034), “*quality products adapted to consumers’ expectations*” (F (4, 380) = 3.10; partial eta squared = .032), “*involvement in community interests*” (F (4, 380) = 3.21; partial eta squared = .033), and “*social dialogue with government and enterprises*” (F (4, 380) = 3.90; partial eta squared = .039).

HSD pos hoc tests were performed to analyze differences between academic areas more in deep. Differences statistically significant using an alpha level of .05 are shown in Table 3.

Briefly, students within Experimental areas reported higher CSR expectations than students within other academic areas in most facets considered.

Also, Technical students were specially aware of the importance of sustainability in organizations when compared to undergraduates within Social sciences, Health sciences and Humanities, in dimensions like “*professional development and lifelong learning*”, “*fair work relations*”, “*involvement in community interests*”, and “*social dialogue with government and enterprises*”.

Finally, students in Social and Legal fields displayed higher mean scores than Health students in the dimension concerning “*ethical commitment to suppliers and distributors*” ($M = 4.01 > M = 3.61$).

Table 3. HSD pos hoc tests

Dependent variable	Independent variable		Mean dif. (I-J)	Std. Error	Sig.
	Academic area (I)	Academic area (J)			
Health and safety at work	Experimental (4.71)	Social & Legal (4.26)	0.46	.146	.016
		Health (4.22)	0.50	.179	.046
Professional development and lifelong learning	Experimental (4.56)	Health (3.96)	0.59	.164	.003
		Humanities (4.06)	0.67	.224	.025
	Technical (4.42)	Health (3.96)	0.48	.139	.006
Fair work relations	Experimental (4.53)	Humanities (3.72)	0.81	.250	.011
	Technical (4.45)	Humanities (3.72)	0.73	.230	.014
Quality products adapted to consumers’ expectations	Experimental (4.51)	Humanities (3.78)	0.73	.239	.019
Useful and truthful information about products	Experimental (4.60)	Social & Legal (4.09)	0.51	.141	.003
		Health (4.12)	0.48	.173	.044
		Humanities (3.72)	0.88	.236	.002
Ethical commitment to suppliers and distributors	Experimental (4.22)	Health (3.61)	0.61	.189	.011
		Humanities (3.39)	0.83	.257	.011
	Social & Legal (4.01)	Health (3.61)	0.40	.147	.049
Involvement in community interests	Technical (3.88)	Social & Legal (5.52)	0.36	.126	.035
Social dialogue with government and enterprises	Experimental (4.20)	Health (3.59)	0.61	.193	.014
	Technical (4.06)	Health (3.59)	0.47	.164	.032

Source: own construction

4. Conclusions

Nowadays, CSR practices are becoming a powerful tool for enterprises, in order to maintain their reputation, send a signal to the various stakeholders with whom they interact and, at the end, generate added value for society. In this context, this paper has been concerned to CSR expectations of university undergraduates, given their status as future work force and consumers.

Results stated that awareness of the importance of CSR practices in private enterprises is notably widespread among university students, what reaffirms the idea that socially responsible activities contributes to firms' ability to deliver added value for their stakeholders.

Particularly, respondents' expectations were mainly concentrated in issues concerned to the work conditions of employees at an internal level, and relationships with consumers and the environment at an external level. Remained practices were perceived important but less central in the set of social functions attributed to enterprises.

Interpretation of this pattern of results points to the conclusion that roles assumed by participants in the study as future employees and consumers may have led them to attribute to these groups of stakeholders the most important social responsibilities of enterprises. Nevertheless, further research is needed to clarify this premise from a more in-deep analysis of the roles assumed for respondents in their personal and professional lives.

On the other hand, findings obtained confirmed some differences between university graduates within different academic areas, concluding that students in Experimental and Technical fields show a greater awareness of the social responsibilities of enterprises than those within Social, Health and Humanities.

This pattern of results suggest the influence of higher education on the prevalent concept of CSR hold by students, thus pointing the need of incorporating further transversal training on the mater according to the future work demands of undergraduates. Likewise, differences between groups of students by academic area reaffirm the importance of incorporating segmentation criteria in corporate decision-making about CSR, fitting the demands of objective publics.

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The impact of cooperation closeness on cooperation effectiveness in university-industry R&D collaborations

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The effectiveness and manageability of collaborations among universities and companies are extremely intense in the period when cooperative R&D projects enjoy increased support. University-corporate relationships may present lots of advantages that can yield significant potential added value for all participants. This added value can materialise in contribution to human resource development, access to additional resources, learning impacts, other social gains, or the sum of the synergies of all these benefits. The success precondition of these unique business-nonbusiness collaborations is the management of projects implemented within the framework of cooperation, as well as the management of the entire cooperation.

Keywords: relationship management, university-industry relationships, relationship values

1. Introduction

Our study focuses on this latter issue. Using the tools of relationship marketing we are trying to evaluate whether (governmental, regional, institution or other) programmes designed to enhance the closeness of cooperation improve the effectiveness of university-corporate collaborations in economic terms.

As a starting point of our analysis we conducted a pilot research on the relationship portfolio of the University of Szeged during 2007. During the analysis we applied a parallel approach. The relationship between the effectiveness and the closeness of the cooperation was studied not only from either the corporate or the university perspective, but also from both points of view in parallel. In addition, this paper pays special attention to the study of the possible gains of university-corporate cooperation, the components of effective cooperation, and the interpretability of cooperation closeness in relation to these two sectors as well as.

2. Economic effectiveness of university-industry R&D partnerships in the light of relationship closeness

If we want to analyse the economic effectiveness of R&D collaborations, we face an issue with difficulties to manage. Earlier we conceded that in course of R&D collaborations (especially in the case of vertical partnerships), the term of relationship between the service supplier and the service user can be interpreted. However, in case we wish to examine this term in a business to nonbusiness relationship, significantly different interests and expectations can be identified (Hetesi 2009), which make it difficult to evaluate the cooperation effectiveness.

University-based, academic research traditionally aims to create and deepen the basic knowledge, which is to be integrated into the general education programme. The academic sector primarily focuses on new, uncovered scientific fields that are useful in providing long-term perspectives in basic and applied research topics. It also serves as a basis for training future scientists, experts and researchers (Santoro 2000). On the nonbusiness side the expectations towards cooperation can be summarised as revenue generation, political base expansion, prestige maximisation, research and education spillovers, reference and reputation enhancement, acquisition and enhanced utilisation of human resource capacities, and assets procurement (Slaughter–Leslie 1999, Barakonyi 2004).

In contrast, the market partners are mostly interested in the sale of research outcomes, and the problem solving applications that can maximise the profitability and the stakeholders' assets, that can decrease risks, increase market share and sales revenues or that can improve the economy of scales (*Katz–Ordover 1990, Hagedorn et al 2000, Santoro 2000, Barnes et al 2002, Turánszky 1984, Tijssen 2001, Okamuro 2007, Harabi 2002*).

Therefore, the cooperating partners have significantly different expectations from each other, which can be accompanied by divergent perceptions of the outcomes. All above makes the manageability of the cooperation questionable. Yet, despite these conflicts, numerous successful university-industry collaborative partnerships exist. It is worth mentioning here that 70% of university-industry R&D projects implemented under the Jedlik Ányos Programme –replaced the National Research and Development Programme supporting long-term strategic research projects while serving corporate interests – were realised in the framework of cooperation as defined above. In addition, cluster programmes that are widespread in Europe, and are about to start in Hungary, can also be mentioned as examples. The often cited successes of these programmes are the proofs of the existence of the university and corporate partnerships.

Möller and Törrönen (2003) underline the role of relationship closeness as a basic precondition for the collaborative project success. They visualise the possible implementation of a vertical relationship along a spectrum. They start from the fact that the relationship success depends on the level of complexity of cooperation. In relationships with extremely low complexity (transaction-oriented relationships) the parties can be characterised with short term orientation. The adaptation in the relationship is minimum, while the participants strive for maximum utilisation of the existing resources and technologies. The focus is on exploitation of the relationship impact during the course of exchange activities. As the complexity of the relationship increases, mutual adaptation and relationship specific investments turn the cooperation into a value generating process. At this cooperation level, the processes of the individual parties start to match, which influences both the exploitation of exchange activities and the development of the relationship portfolio. In the case of extremely complex collaborations the parties approximate their activities to a degree that provides an opportunity for radical innovations.

If we start out from this context, the closeness of a relationship creates a cooperative atmosphere which is accompanied by enhanced cooperative effectiveness. However, in the case of university-corporate R&D collaborative projects this issue is far from being obvious in the light of the literature. Certain studies come to the conclusion that such types of collaborations enhance the productivity of the participating organisations (see for instance *Belderbos et al (2004)*), while others find that university-firm collaborations clearly deteriorate the economic performance of companies (*Okamuro 2007*). Others, like *Miotti and Sachwald (2003)* came to conflicting conclusions in this issue.

This study shows that university-corporate collaborations are not homogeneous: the basic correlations of relationship marketing can and should be applied in this field, too. Despite the significantly different interests, strategically managed partnerships are more effective, and are therefore able to produce economic added value. In other words, university-corporate interactions by themselves – even if the project defined within the framework of such interaction was successfully completed – are not necessarily economically fruitful for the parties. However, by making the relationship closer, the economic effectiveness of these relationships – taken in the broad sense – can be enhanced. Yet, in order to operationalize the problem, it is necessary to define what we mean by the effectiveness and closeness of university-industry R&D collaborations.

3. Operationalization of the economic effectiveness and closeness of university-industry partnerships

3.1. The closeness of university-industry R&D collaborations

During the definition of the closeness of collaborations, the studies of the classic supplier-buyer collaborations by Joseph et al (1995) and the study published by Brinkerhoff on university-corporate collaborations (2002) were used as a starting point. In relation to university-industry R&D collaborations Brinkerhoff (2002) describes the closeness of cooperation by using the term partnership, according to which partnership is a dynamic relationship among diverse actors, based on mutually agreed objectives, pursued through the most rational division of labour based on the respective comparative advantages of each partner. “Partnership encompasses mutual influence, with a careful balance between synergy and respective autonomy, which incorporates mutual respect, equal participation in decision-making, mutual accountability, and transparency” (Brinkerhoff 2002, p. 216.). During the empirical study of the closeness of relationship, Joseph et al came to the conclusion that partnerships are more profitable and have greater management efficiency than other relationships, however it must be noted that they are more management-intensive and time-consuming. In the case of partnerships – as Brinkerhoff (2002) also claims – a higher relationship performance, i.e. higher relationship effectiveness and efficiency can be predicted.

Based on Brinkerhoff’s (2002) study, the closeness of cooperation can be modelled with six variables: mutuality and equality in partnership; partner representation and participation in the cooperation; the transparency of partnership; mutual respect; interest in maintaining the partnership; the relationship between cooperation and organisation identity. (The individual variables are presented in detail in Table 1.).

Table 1. Definition of the variables applied for the evaluation of the closeness of cooperation

Applied variable	Definition of variable
Mutuality and equality in partnership	This variable implies that the activities pursued in cooperation, as well as the processes applied in the partnership are defined and shaped jointly, on the basis of consensus by the parties.
Partner representation and participation in the cooperation	This variable implies the active participation of the parties in the completion of projects implemented within the framework of partnerships, in the regular monitoring thereof, as well as in the formulation of changes.
Transparency of partnership	The partnership is transparent for the parties, as a result of regular and open communication they obtain information about all issues relevant to the partnership.
Mutual respect	The parties to a partnership mutually respect each other’s objectives, needs and interests.
Interest in maintaining the relationship	The parties to a partnership view their cooperation in the long perspective, since they are convinced that it significantly determines the quality of their core activities.
The relationship between partnership and organisation identity	The parties to a partnership regard the management of the given partnership as part of the everyday processes; the development of the partnership also determines how the organisation’s image of itself changes.

Source: own compilation

4. Presentation of the subjects and methodology of the study

The basic subject of the study, i.e. the relationship between the closeness and effectiveness of university-industry R&D collaborations, can be formulated along two subquestions:

- How do the university and corporate actors perceive the effectiveness of cooperation?
- Is the parties' perception of effectiveness influenced by the closeness of cooperation?

During the study of the first question, the effectiveness of partnerships was the starting point. Although we modified the components to this end, and although their value increases in case they are managed, it is not at all sure that this increase in the perceived effectiveness will be identical for both parties. The parties to the partnership may perceive the effectiveness of the relationship differently. During the consideration of this assumption it is worth taking into account the works by McIntyre et al (2004), as well as Young et al (1996), according to which effectiveness is a perceived phenomenon, and may take different values depending on the original and changing intentions of the individual organisations, and therefore it must be interpreted in the light of the initial figures. Since the parties to a partnership compare effectiveness against their expectations, effectiveness will be perceived differently by the supplier and the buyer. Starting out from these results we have all the right to assume that

H1: Relationship effectiveness means something different for the service supplier and the service user.

All this means that in case relationship effectiveness can be expressed with different factors for university and corporate actors, the above statement can be justified. However if relationship effectiveness can be expressed with identical factors, the above statement can be rejected.

In order to answer the second question we need to study two further subquestions. On the one hand, can increased relationship closeness modify the difference in perception? The question seems logical, since if we start out from Möller's and Törrönen's (2003) chain of thoughts, relationship closeness can be increased through adaptation (matching of processes, relationship specific investments). Adaptation implies the approximation of expectations against and interests in the relationship, which may trigger the convergence of expectations towards the relationship, and hence the convergence of the perception of relationship effectiveness.

H2: As the closeness of cooperation increases, the difference in the perception of effectiveness decreases.

It is worth dissecting this topic from another aspect, too, since the difference in the perception of effectiveness is only one side of the coin. The other side shows the correlation – already concluded by Brinkerhoff, too – whether, independent of the different perception, the outcome perceived by the cooperating partners enhances as the cooperation becomes closer. We assume yes, i.e.:

H3: The greater the closeness of cooperation, the greater the outcome perceived by the actors involved.

This assumption also promises success, since in a closer partnership the parties have a better understanding of each other's possibilities and limitations, as a result of which the expected outcomes of cooperation are more realistic, while conflicts or even the coordination costs decrease. Therefore, if we accept the value generating effect of a relationship based on mutual investments and adaptation, the relationship should lead to better outcomes, too.

The completion of the tasks defined as research objectives required the elaboration of a system of indicators through which the variables of the studied correlations become measurable, and it becomes possible to statistically analyse the behaviour of such variables.

For the development of a system of indicators that would serve as a basis for testing, a questionnaire was compiled for the measurement of the variables of the effectiveness and

closeness of relationship. The questionnaire was forwarded to the respondents via e-mail. Data recording lasted from September through November 2007.

The questionnaire contained statements on the relationship effectiveness and relationship closeness variables in the form of tables (matrixes). The respondents who were involved in the research had to form opinion on the given statements on the six-point Likert-scale.

The test population was identified on the basis of the cooperative research contracts and the electronic proposal register of the University of Szeged. In the first step university-industry R&D collaborations were selected from these relationships. We considered all live contracts or series of contracts between a unit of the University of Szeged and a corporate partner that contained at least two projects, one of which had already been closed, and whose starting dates were different. We applied the narrowing method, since during the selection of the population those partnerships were not taken into account in the framework of which no contract based task performance was carried out at the time of the test, or the relationship between the university and the corporate partner was not specified in contract during the cooperation. Narrowing was justifiable, since responses, in the case of which cooperation could not be proven with certainty, could have significantly distorted the test results. As a second step for the identification of the test population, vertical partnerships (45) were selected from the previously mentioned relationships. The questionnaire was sent out to the contact persons of both parties in each of the 45 identified partnerships. Altogether 62 completed questionnaires were returned (as a result of which a responding ration of 69% was achieved). Out of the returned questionnaires 28 were completed by corporate contact persons, and 34 were completed by university contact persons.

In the sample available for analysis (Table 2), the opinions of the contact persons of collaborations in the field of natural sciences were over-represented, while those of medical and pharmaceutical collaborations were under-represented. In the case of scientific and medical collaborations corporate and university responses had a relatively equal weight, while in the case of pharmaceutical collaborations opinions by the university partners prevailed.

Table 2. Characteristics of the sample available during the analysis

	Questionnaires returned by corporate respondents*	Questionnaires returned by university respondents*	Total questionnaires returned*
In the case of collaborations in the field of natural sciences	80.00%	95.00%	87.50%
In the case of collaborations in the field of medicine	57.89%	47.37%	52.63%
In the case of collaborations in the field of pharmacy	16.67%	100.00%	58.33%
In the case of all surveyed collaborations	62.22%	75.56%	68.89%

Note: *= as a percentage of the distributed questionnaires

Source: own compilation

During the test the methods of main component analysis, correlation calculation and regression analysis were used.

Questions that pertained to the different perception of relationship effectiveness were tested by means of the main component analysis. In case the variable pertaining to relationship effectiveness can be expressed along the same main components, then the

perception of effectiveness can be regarded identical, while in the case of discrepancies the mechanism of outcome perception is different. During the application of the main component analysis variables were managed in a standardised form (where the expected value was 0, and scatter was 1), while the threshold value of the information content described by the main components was determined to be 60%.

Correlation calculation was used during testing the correlations between relationship closeness and relationship effectiveness, while regression analysis was used to evaluate the relationship between relationship closeness and relationship effectiveness.

5. Test results

The hypotheses that expressed the research objective were tested in three steps. In the first step it was necessary to test whether the identified factors (such as financial effectiveness, technical/technological effectiveness) really covered the targeted variables. After that the different perceptions of relationship effectiveness were tested, and then the correlation between relationship effectiveness and relationship closeness was clarified. In this paper we show only the third step, which is about the results of the research in aspect of closeness.

5.1. The correlation between relationship closeness and relationship effectiveness

In the third stage of the study the correlation between relationship closeness and relationship effectiveness was brought into focus. The different perception of relationship effectiveness by the corporate and university actors raised various questions. Since in case we highlight those features of cooperation that yield economic benefits for both parties, how can it be that these benefits are perceived so differently by the parties, especially in a partnership that is shaped by the parties jointly, and in which the parties consciously participate? The correlation of relationship closeness may give an answer to this question. The parties are very much likely to judge the usefulness of partnership similarly, if they view the partnership in the long perspective, if both parties are actively involved in shaping the partnership, while they understand and respect each other's interests, and through all this partnership becomes part of the organisation identity.

Turning this logic into a research question we can ask whether the perception of relationship effectiveness by the participants converges as the closeness of cooperation increases.

In order to study the issue, symmetric relationships, i.e. collaborations in which evaluation by the university and corporate partners alike was recorded, were deleted from the sample analysed during the quantitative research. With this solution a sub-sample consisting of 19 relationships was created. Within this sub-sample we generated the difference between the perception of the characteristics of relationship effectiveness by the university and the corporate partners in an absolute value, where 0 indicates that a feature is perceived identically, and 5 indicates that it is perceived in an extremely different manner. The closeness of partnership was expressed as a sum starting out from the logic that the closer the parties perceive cooperation separately, the closer it will be in reality. Therefore, in order to express the closeness of cooperation a new variable was created for each variable expressing the closeness of cooperation, the value of which ranged on a scale of 2 to 12. The main objective was to clarify the co-movement between the new variables of relationship closeness and the values expressing the different perception of relationship effectiveness. However, during the application of this method a serious problem was caused by the missing values (unanswered questions): if these values are replaced with 0, we face a problem of content, since we assume a perception that did not occur in reality. On the other hand, if we replace this value with the average 3.5 points, it may significantly influence the outcome of the study.

For this reason, difference or sum values in the case of which perception by either party could not be identified had to be excluded from the study. We resolved this problem by visualising relationship effectiveness for each relationship with indicators derived from the former values, by taking their mean. The same process was followed in the case of the closeness of cooperation, too. Therefore, if the perception of a value was missing, the difference or sum derived from that value was not taken into account during the calculation of the mean. As a result of this method, we obtained an effectiveness discrepancy indicator and a closeness sum indicator for each (symmetrical) relationship studied.

In order to clarify the correlation between the indicators we applied correlation calculation, the result of which is presented in Table 3.

Table 3. The correlation among the closeness of cooperation, the performance of cooperation and the network effect

		Effectiveness discrepancy indicator	Closeness sum indicator
Effectiveness discrepancy indicator	Correlation coefficient	1	-.568(*)
	Significance (bilateral)		.022
	N	19	16
Closeness sum indicator	Correlation coefficient	-.568(*)	1
	Significance (bilateral)	.022	
	N	16	16

*Note:**= Correlation at a significant, 0.5% significance level (bilateral), **=Correlation at a significant, 1% significance level (bilateral)

Source: own compilation

It can be understood from the correlation calculation that the closeness of cooperation and relationship effectiveness have significant negative correlation. All this means that the closer the cooperation, the lower the difference between university and corporate perception of the variables of these viewpoints. At the same time it also means that the closer the cooperation between the participants of university-industry R&D partnerships, the truer it is that the parties will perceive the effectiveness of the relationship along the same factors. Based on the above, the second hypothesis specified by the study also turned out to be correct.

Based on the results, the difference of the perception of cooperation closeness and relationship effectiveness is in inverse relation. However, during the study of the closeness of cooperation another question was raised: does the closeness of cooperation influence the perceived level of relationship effectiveness? The problem raises an exciting issue, since if we can answer yes to the question, in the case of higher-level relationship closeness not only the economic effectiveness from cooperation will be perceived at a relatively equal level, but effectiveness will also be valued higher.

The test aiming to answer this question was carried out on a joint sample, by the collective consideration of the users' and service suppliers' viewpoints, since in this case the subject of the test was not the difference in the perception of relationship effectiveness or relationship closeness, but rather the correlation between these two characteristic features of university-industry R&D collaborations. In order to answer the question, in the first step we performed another correlation calculation, the results of which are presented in Table 4.

Table 4. The correlation between the closeness of cooperation and the performance of cooperation by the collective consideration of the users' and service suppliers' viewpoints

		Mutuality and equality in cooperation	Partners' participation in the cooperation	Transparency of cooperation	Mutual respect	Interest in maintaining the relationship	The relationship between cooperation and organisation identity
Financial effectiveness of cooperation	Correlation coefficient	.550(**)	.509(**)	.594(**)	.611(**)	.710(**)	.493(**)
	Significance (bilateral)	.000	.000	.000	.000	.000	.000
	N	62	62	62	62	62	62
Technical/ technological effectiveness of cooperation	Correlation coefficient	.492(**)	.631(**)	.716(**)	.626(**)	.698(**)	.365(**)
	Significance (bilateral)	.000	.000	.000	.000	.000	.003
	N	62	62	62	62	62	62

Note: *= Correlation at a significant, 0.5% significance level (bilateral), **=Correlation at a significant, 1% significance level (bilateral)

Source: own compilation

It can be concluded from the analysis that there is positive and significant correlation among all variables of the closeness of cooperation and the factors of relationship effectiveness, which indicates the verification of the third hypothesis by itself. On the other hand, though, the clarification of the relationship between the closeness and effectiveness of cooperation requires the conduct of a regression analysis.

For the unanimous expression of the closeness of cooperation we described the individual components with a single factor. For this operation we resorted to the previously applied main component analysis. The conducted main component analysis showed that the components applied for the description of relationship closeness can be expressed with a single main component as a factor. The factor preserves nearly 63% of the original information content of the variables (which we find acceptable on the basis of the applied criterion), and the co-movement of the components and the factor is extremely strong (Table 5, Table 6).

Table 5. Preservation of the information content during the testing of the closeness of cooperation factor by the collective consideration of the service supplier's viewpoints

Preserved information content						
Component	Own values			Sum of square of loading variables		
	Total	As a percentage of variance	Cumulated percentage	Total	As a percentage of variance	Cumulated percentage
1	3.764	62.737	62.737	3.764	62.737	62.737
2	.744	12.406	75.144			
3	.621	10.351	85.494			
4	.396	6.596	92.090			
5	.304	5.062	97.152			
6	.171	2.848	100.000			

Note: Applied method: Main component analysis

Source: own compilation

Table 6. Results of the main component analysis of the components describing the closeness of cooperation, by the separate consideration of the service suppliers' and the users' viewpoints

Co-movement of the components describing the closeness of cooperation	
	Component
	Closeness of cooperation
Mutuality and equality in cooperation	.718
Partners' participation in the cooperation	.842
Transparency of cooperation	.838
Mutual respect	.843
Interest in maintaining the relationship	.854
The relationship between partnership and organisation identity	.628

Note: Applied method: Main component analysis

Source: own compilation

After expressing relationship closeness in this manner, we studied the regression relationship between the closeness and effectiveness of cooperation by studying separately the relationship between the two factors expressing the effectiveness of cooperation and the 'closeness of cooperation' factor. The test results indicate that relationship closeness significantly influences both the financial effectiveness of cooperation ($R=0,731$; $R^2=0,534$), and the technical/technological effectiveness of cooperation ($R=0,756$; $R^2=0,571$) (Table 7; Table 8).

Table 7. Regression parameters during the testing of the correlation between the financial effectiveness and closeness of cooperation

Regression parameters								
Model		Non-standardised parameters		Standardised parameters	t	Sig.	Tolerance	VIF
		B	Scatter	Beta				
1	Constant	-.024	.091		-.258	.797		
	Closeness of cooperation	.742	.092	.731	8.081	.000	.731	.731

Note: Dependent variable: financial effectiveness of cooperation

Source: own compilation

Table 8. Regression parameters during the testing of the correlation between the technical/technological effectiveness and closeness of cooperation

Regression parameters								
Model		Non-standardised parameters		Standardised parameters	t	Sig.	Tolerance	VIF
		B	Scatter	Beta				
1	Constant	-.027	.088		-.304	.762		
	Closeness of cooperation	.769	.088	.756	8.707	.000	.756	.756

Note: Dependent variable: financial effectiveness of cooperation

Source: own compilation

Based on the above, the third hypothesis can be considered verified, too, since by increasing the closeness of cooperation both the perceived financial effectiveness and the perceived technical/technological effectiveness change in the positive direction.

6. Research limitations

Although the test results confirmed our expectations, we must emphasise the limitations of our pilot research project, which emerge due to the complexity of the correlations addressed, the explanatory power of the presented regression relationships, the small size of the sample used in the research, and the time series used.

The discovered correlations can be rightly criticised for the fact that apart from relationship closeness they did not involve parameters such as trust, satisfaction or commitment that would probably significantly influence relationship effectiveness. The correlations detected between relationship closeness and the effectiveness of cooperation let us conclude that the classic factors of relationship marketing have an influencing power here, too. This is also confirmed by the regression relationship discovered between the two correlations addressed, the explanatory power of which indicates that relationship closeness is only partly responsible for relationship effectiveness. However, at this stage the analysis of these missing correlations was beyond the objectives of our study. As referred to in the section that presented the subject of our study, at the current stage our primary objective was to reveal whether in these nonbusiness-business interactions, which are laden with significant conflicts of interests and often conflicts of approaches, relationship behaviour produces added value for the parties, or not. Our results show that it does produce added value, on the basis of which relationship-specific behaviour is unanimously recommended for the parties to such partnerships.

However, at this point we must draw attention to the pilot nature of the study, the limitations of which suggest prudence in the generalisation of the results. Although the concluded results are promising, testing of the revealed correlations on a larger sample represents a further task.

In addition to involving further factors and enlarging the sample, the research conducted can also be expanded by performing longitudinal tests, which allow for studying the depth of the correlations among the not yet fully explored characteristics of this field.

7. Summary

In this study we examined the correlations between the economic effectiveness and closeness of university-industry R&D collaborations. The actuality of the topic is underlined by the fact that in the past decades these partnerships have become the focus of interest of both the economic development actors and the knowledge-based industries, and the successful management of the partnerships has become a central issue for these sectors. On the other hand, though, the successful management of university-industry partnerships is far from being evident, since the actors' expectations towards these business-nonbusiness relationships are so different that they can radically undermine the success of these partnerships.

In the course of our study we started out from the correlation according to which in closer collaborations the relationship-specific investments made by the parties, and the approximation of the processes yield common interests and expectations, as a result of which the parties' perception of the effectiveness of cooperation can be converged.

In order to explore the problem, we studied three fundamental questions: how can the effectiveness of university-industry R&D collaborations be described; how is this effectiveness perceived by the parties involved in the relationship; how can the perceived relationship effectiveness be influenced by the closeness of cooperation?

Our research concluded that the economic effectiveness of university-industry R&D collaborations can be expressed in terms of financial effectiveness on one hand, and technical/technological effectiveness on the other. Financial effectiveness means all those financially interpretable benefits that the parties gain by cooperating with each other, while

technical/technological effectiveness includes all those economic benefits that the parties gain during or as a result of cooperation, which cannot or can only hardly be expressed financially. Through the detailed study of the financial and technical/technological effectiveness we concluded that it is perceived differently by the buyer (corporate partner) and the supplier (university partner). At the same time we proved that the closer the relationship, the greater the perceived relationship effectiveness, and closer cooperation also induces similar perception of the relationship effectiveness by the parties.

Our research can be regarded a pilot project – primarily due to the size of the sample tested – and the promising correlations revealed in the research project encourage us to repeat the test on a larger sample.

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Cross-fertilization between sport psychology and business coaching

SZÁVA ZSIGMOND

Many researchers have gained on the issues of a successful leader in a handful way of ways. Referring to my last researches – which were evidenced by literature – I came to the conclusion that it is not enough to born to be a leader, as well as becoming a top manager is impossible itself, with a conclusion, that the way of being successful in business life is between them. Those, who want to have the role of a successful leader, have to learn and improve beyond their innate abilities. One known method of the leadership and personality development is coaching.

Representatives of each management science think that coaching comes from sport – this is also called American School – while the name of the other trend is the so-called father of coaching the German psychodrama method; the Gestalt. In my paper I deal with the American or Anglo–Saxon School in details. I also introduce the connection and relationship between sport psychology and coaching, the similarities and differences, the interoperability of each methodological features and areas. Moreover I discuss both territorial application of the so-called “Wheel of Excellence”. All these are evidenced by own experience and in-depth interviews.

Keywords: Cross – fertilization, business coaching, sport psychology, Wheel of Experience

1. Introduction – Why is the topic actual?

Even the activity of coaching itself is as old as mankind and dates back to the ancient Olympic Games, while the sophisticated version of it just appeared a few decades ago. As I mentioned in the abstract, the origin of coaching shows two directions.

The so-called Anglo-Saxon School originates from the U.S.A and is based on sport. As John Whitmore (*Whitmore 1999*) defined the concept, the most formidable rival on the tennis courts comes not from the other side of the net; it is inside the player. The European School, which nourishes from psychology and psychodrama, based on Gestalt drift, delivers from Germany.

My preconception and hypothesis was, that there should be a common point in them, because both of them operate well in its own circumstances. To justify this hypothesis, I made both theoretical and practical researches, which results would be present below.

As the secondary research showed, both fields are successful in their own ways. In Hungary and in other Central–Eastern European countries as well the European School is in use and is the accepted method. In the following paragraphs I would also like to present how is it possible combine the methods and tools in a successful way.

2. Similarities and differences between sport psychology and business coaching

To justify my preconception I tried to collect the aspect of the cross-fertilization from as many sources as possible. The international literature of the topic is insufficient and it is an absolutely undetected area in Hungary, so I made some complementary primary researches (interviews) to get the proper idea of the possibilities. In the following introduction, I mostly use the results of the interviews.

2.1. The similarities

Similarities can be found in the circumstances, in aspects and also in the used tools. I will introduce these ones shortly below. Afterwards, I would also like to present a method – the Wheel of Excellence –, which is able to describe the cross-fertilization possibilities.

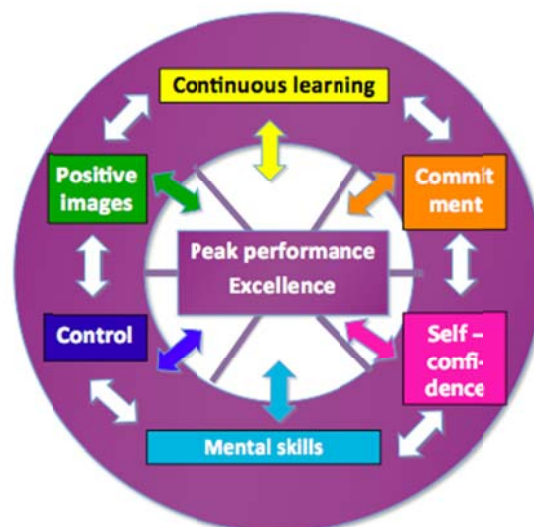
Both sportsmen and business representatives are strongly motivated by performance. They could be described as the ‘United athletes’. (Loehr–Schwartz 2003, p. 102.) The circumstances are different, as is the task too, but the representatives of both fields should focus peak performance. Another common field in the circumstances is the so-called sporty attitude, the endurance and willpower (Ievleva–Terry 2008).

There are also similarities in the aspects of sport psychology and business coaching. These are the importance of self-awareness, flexibility and the development of vision. (Gordon 2007, p. 172.) Between the tools we can also identify some similarities. Similar tools and models will be introduced in the next chapter. Not only the tools, but also some of the the reasons are similar: the use of identification and the verifiable/controllable activities, thoughts and aspects, coping with pressure and stress, the recognition management of negative thoughts and beliefs.

2.2. The wheel of excellence

The Wheel of Excellence (Orlick 1996) is one of those implementations, which have been evolving during the last few years. It is nothing else, but the summary of the similarities between sport psychology and business coaching. With its help the experiences and methods from sport can be used by appropriate efficiency and effectiveness in business coaching, too. The model does not show anything else, just the possible movement for the chance of psychology model of compliance from the world of sport to business life. The Wheel of Excellence has six parts in focus of the peak power, which are presented on the following Figure 1.

Figure 1. The Wheel of Experience



Source: Orlick (1996)

Central to all performance is the capacity to focus. As the hub of the wheel, this is both the metaphorical bull's eye for which all those in pursuit of excellence should aim, and the central characteristic around which all the other components of the wheel revolve and are

designed to enhance (*Ievleva–Terry* 2008). The different parts of the model have their own meanings.

Commitment means the first step to peak performance, which means the beginning with making a choice to succeed, something that is completely within personal control. (*Ievleva–Terry* 2008). Self-confidence is the second element, which is delivered from a Henry Ford saying. Accordingly, we should go through a six step model, which is shown on the following Figure 2. (*Orlick* 2008).

Figure 2. The six step model of self-confidence



Source: *Orlick* (2008)

Representatives in business life are highly educated, while sportsmen are well trained. The difference between good and peak performance will appear because of the different handling of the situation (*Ievleva–Terry* 2008). As Einstein said ‘Imagination is more important than knowledge.’ According to this – as I will introduce in my own experiences – it is a double-edged weapon. Its power is undeniable, but the use of it means appropriate care. (*Ievleva–Stillwell* 1996).

According to Hutchinson Low, any kind of appearance demands divided attention. To keep focused and stay on the proper way could be done with the use of the control, as a similar was in the two fields (*Bloch* 1985). Continuous learning is also important because of the developing process. Feedback and reflections are needed, because high achievers are often hungry for critical feedback. (*Johnes–Spooner* 2006) These are the sources for future development.

2.3. Differences

Not only similarities, but also differences appear between the two fields. These differences don’t mean, that they appear as a barrier in the process of cross-fertilization. They show that some kind of modification is necessary before implementation.

As my in-depth interviews show the mean difference is in the performance indicators. While in sport the feedback comes immediately after performance and they are measurable by exact metrics; in business life feedback comes only after a longer period of time – which even could be counted in months, quarters or years – and sometimes they are not even measurable by numbers.

Another difference can appear in the goals-setting process and in the regulation of the process. While sports are strictly regulated and these regulations are written, in business life rules are not set beforehand and loopholes can be easy to find.

There is also a difference in the general timescale. The carrier perspectives for sportsmen are much shorter than of people working in business life. While in sports it is mostly under a decade, in business life it could be as much as 50 years. The issues of training

and performance are the opposite in the two disciplines. In sport trainings are much longer than the performance itself, while in business life training period is rather short, people find themselves in the middle of right away and performance is in the focus.

Last, but not least, the focus of the two fields complement each other. Psychology is interested in the past and focuses on the personality, while coaching is involved in the present and the future and concentrates on the learning process and the development. This last issue will be one of the main reasons which will represents, that the combination of the two could improve the final results of the process.

3. Experiences

After overviewing the theoretical issues of cross-fertilization between sport psychology and business coaching I would like to introduce the practical side. The chapter could be divided into two parts. First I demonstrate the aspect of professionals, secondly my experiences from my sport- and business coach carrier.

3.1. Cross-fertilization in practice according to professionals

To get to know how interoperability works between the two fields, I made two in-depth interviews.

The first interviewee was a teacher of University of Miskolc Faculty of Arts who is not only a teacher, but also a criminal- and sport psychologist, moreover a practicing coach. She has confirmed me, that the main connection between sport psychology and business coaching is the peak performance.

The second interviewee, who studied psychology at Semmelweis University in Budapest, has coach-qualification, but now works in business life at a telecommunication-company. According to him, the most relevant appearance of the connection is in the entrepreneurship and in experimentation. To be able to draw the whole picture I also participated at several business meetings to get a short look of the aspects of professional coaches. Below I introduce the most important issues.

According to the interviews, I got the conclusion, that the kick-off point is that there exists a clear and two-way relationship between the two fields. According to the interviewees, there are overlaps in the aspect, tools and instruments, but even in the difficulties.

Interoperability between goals and reasons is one of the aspects, which means that the goal setting methods are mutually usable in both fields. Regularity and sporty attitudes were also appointed as key points. In sport, you can get results if you prepare and train yourselves continuously, from time to time. It is also valid for business life, because without stepping back sometimes, without doing self-evaluation and getting reflection from others, without participating regularly in some kind of helping and supporting activity, the arch of development will not bottom up as high as in case of bringing regularity into business life.

The third pillar is the adaptation of sporty attitude into business life. It means that endurance and willpower should play an everyday role also in the life of business leaders. All sportsmen know, that there are no desperate situations, only situations with joyful challenges, which could be solved with observation and a lot of work.

As for the instruments there are several ways of interoperability. First of all mental trainings and relaxation techniques could be useful on both sides, as well as imagination and visualization. In the meantime the latter, is a double-edged weapon, because, if there are not used in a proper way – allow negative thoughts into it –, it can cause more damage than what can be gained. Exploration, action plan development and implementation, even recreation could be the possible ways of cross-fertilization. I will introduce the importance of recreation later.

Of course cross-fertilization works not only in a positive way, but also in a negative one. The trap of it could be to find out, how is it possible and avoidable to make an elephant out of a flea. It means, that in both cases the participant in the helpers' role – coach, physiologist – should try to find a balance between involving into the topic and staying outside of it, which also means that it is not allowed in any way to project the coach's own problems and challenges into the process.

3.2. My own experiences of cross-fertilization

In my sport and business coaching work I just started to apply the elements of the Wheel of Experience in the past months. However it is not a long time and is still quite far from being representative, I think my observations are relevant to the topic.

The success of the process depends already on the start. If the client does the first step, give his vote to participate in coaching, already showed commitment to a previously set goal and started to move towards it. If this first step is done under pressure – for example just because somebody (the boss) told him, that he should participate in it – the own commitment would be lacking during the whole period and for this reason the results would be never as visible as in the first case.

On the other hand we all know, that peak performances are expectations in both fields and require both mental and physical preparations from the client. According to my experiences there is generally no problem with theoretical preparation, because leaders are well educated, sportsmen know the rules of the games and the proper movement elements. The question is how they can perform under pressure. Mentally the solution of it can be done by implementation of rituals and habits. For example in business life focus and self-confidence could come from retie of necktie or get a coffee before important meetings. In sport it is much more easier, like how they get nutrition, start to warm up etc.

The other important issue of mental skills is the importance of recreation and regeneration. While in pursuing sport, our body gives continuous feedback and marks how it feels – like tiredness, pain –, it is not so obvious in business life. Exploitation of the body couldn't be done without sacrifice. After success – finishing a project, getting an appointment – recreation is as important in business life as it is in sport.

Positive images can help to set goals and see them visible. The adaptation of them into business life has an effect, which is similar to the effect of a lighthouse. They are visible far away, give the main direction and the navigation point towards achieving the goals.

In both fields continuous learning is a must. It means that from time to time self-examination and reflection should be done. While in sport, sportsmen get continuous feedback from their results at competitions and trainers, and even have time in off-season period for review; it is not as obvious in business life. The main reason is, that nobody wants to get a mirror in front of him and facing with – sometimes really negative and destroying – feedback. The other reason for the lack of reflection is the time. Leaders and managers have no possibility to do regular self-evaluation and get full feedback. This point is something, which should be transferred without fail into business life.

My work with business coaches – even with the experienced ones – showed that they are really open and interested in new methods and tools, which can be quite inspiring in the transfer process.

4. Conclusion

The basic statement of my essay could be the quotation of Voltaire, that says that the perfection is the enemy of success and good. This short sentence gives us a clear picture, why helping-, supporting and developing methods – like coaching – are effective and profitable. It

says nothing else, just that perfect does not exist in this form, there is always a way how we could be more effective, more successful, doing it in a better way. And according to my surveys the cross-fertilization of sport psychology and business coaching could be something, which bring us forward on this road.

In my opinion there is a common future for the two disciplines. Sooner or later, but they will open towards each other. Because of the opening, changes are expected, which direction is clear, but the magnitude is currently unpredictable. The increased interdisciplinary could also help to improve the performance of both sides. For the opening, network building and contacts are needed. As it is a relatively unknown, untouched area I would like to guide my research in this direction.

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